China LotSynergy Holdings Limited
華彩控股有限公司*
(Incorporated in Bermuda with limited liability)
(Stock code: 1371)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL RESULTS (AUDITED)

The board of directors (the "Board" or the "Directors") of China LotSynergy Holdings Limited (the "Company") hereby presents the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017, as follows:

* *For identification purposes only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	3	**183,927**	237,852
Costs of sales and services			
— Depreciation of lottery terminals		**(35,661)**	(28,560)
— Others		**(52,325)**	(91,794)
		(87,986)	(120,354)
Gross profit		**95,941**	117,498
Other income	4	**39,840**	13,661
Other gains/(losses) — net	5	**13,819**	(24,894)
Net impairment losses on financial assets		**(66,062)**	–
General and administrative expenses		**(185,083)**	(211,674)
Share option expenses		**(13,237)**	(10,174)
Operating loss	6	**(114,782)**	(115,583)
Finance costs	7	**(33,396)**	(40,367)
Share of losses of associates		**(4,022)**	–
Share of loss of a joint venture		**(1,660)**	(23,408)
Loss before income tax		**(153,860)**	(179,358)
Income tax expense	8	**(8,861)**	(15,741)
Loss for the year		**(162,721)**	(195,099)
(Loss)/Profit attributable to:			
Owners of the Company		**(169,468)**	(192,568)
Non-controlling interests		**6,747**	(2,531)
		(162,721)	(195,099)
Loss per share attributable to owners of the Company during the year			
— basic	9	**(1.80) HK cents**	(2.25) HK cents
— diluted	9	**(1.80) HK cents**	(2.25) HK cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
Loss for the year	**(162,721)**	(195,099)
Other comprehensive (expense)/income:		
Items that may be reclassified to profit or loss		
Fair value gain on available-for-sale financial assets	**–**	260
Release of currency translation reserve upon disposal of subsidiaries	**(54)**	–
Currency translation differences	**(36,254)**	49,698
Share of other comprehensive (expense)/income of associates and joint venture	**(502)**	2,264
Other comprehensive (expense)/income for the year	**(36,810)**	52,222
Total comprehensive expense for the year	**(199,531)**	(142,877)
Attributable to:		
Owners of the Company	**(191,095)**	(159,372)
Non-controlling interests	**(8,436)**	16,495
Total comprehensive expense for the year	**(199,531)**	(142,877)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	**2018** **HK$'000**	2017 *HK$'000*
Non-current assets			
Property, plant and equipment		**279,358**	329,839
Intangible assets		**455,217**	466,573
Interests in associates		**35,572**	4,797
Investment in a joint venture		**4,675**	6,634
Financial assets at fair value through profit or loss		**8,561**	–
Available-for-sale financial assets		**–**	7,316
Deferred income tax assets		**5,607**	5,298
		788,990	820,457
Current assets			
Inventories		**18,850**	19,091
Accounts receivable	*10*	**83,574**	96,522
Prepayments, deposits and other receivables		**584,369**	557,213
Cash and bank balances		**146,021**	193,478
		832,814	866,304
Total assets		**1,621,804**	1,686,761
Current liabilities			
Accounts payable	*11*	**456**	5,348
Accruals and other payables		**49,910**	39,546
Contract liabilities		**3,043**	–
Amount due to a joint venture		**7,550**	6,634
Tax payable		**7,043**	7,752
Bank borrowings		**262,274**	163,699
Convertible bonds		**172,480**	276,630
		502,756	499,609

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Cont'd)*

At 31 December 2018

	Note	**2018** *HK$'000*	2017 *HK$'000*
Net current assets		**330,058**	366,695
Total assets less current liabilities		**1,119,048**	1,187,152
Non-current liabilities			
Deferred income tax liabilities		**46,854**	48,070
Net assets		**1,072,194**	1,139,082
Equity attributable to owners of the Company			
Share capital	*12*	**24,399**	21,388
Reserves		**1,375,614**	1,307,874
Accumulated losses		**(667,311)**	(538,777)
		732,702	790,485
Non-controlling interests		**339,492**	348,597
Total equity		**1,072,194**	1,139,082

Notes:

1. GENERAL INFORMATION

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

The Company and its subsidiaries (collectively referred to as the "Group") are technology and operation service providers of lottery systems, terminal equipment and gaming products mainly in the China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game and KENO-type lottery to new media lottery.

The Company's shares are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost basis, except for certain financial assets and financial liabilities (including derivative instruments) that are measured at fair value.

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the financial year beginning on 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The Group had to change its accounting policies and make certain retrospective adjustments following the adoption of HKFRS 9 and HKFRS 15 without restating the comparative information. Most of the other amendments listed above did not have any impact on the amounts recognised in prior period and are not expected to significantly affect the current or future periods.

Set out below is the impact of adoption of HKFRS 9 and HKFRS 15 on the Group's consolidated financial statements.

2. BASIS OF PREPARATION *(Cont'd)*

New and amended standards adopted by the Group (Cont'd)

HKFRS 9 *Financial Instruments*

HKFRS 9 replaces the provisions of HKAS 39 *Financial Instruments: Recognition and Measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated. Adjustments arising from the reclassification and new impairment rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the opening statement of financial position on 1 January 2018.

The total impact on the Group's accumulated losses and non-controlling interests as at 1 January 2018 is as follows:

	Notes	Accumulated losses *HK$'000*	Non-controlling interests *HK$'000*
Closing balance at 31 December 2017 — HKAS 39		(538,777)	348,597
Reclassify investments from available-for-sale financial assets to financial assets at fair value through profit or loss	*(i)*	260	–
Increase in impairment for loan receivables under expected credit loss model	*(ii)*	(29,363)	(669)
Adjustment to accumulated losses and non-controlling interests from adoption of HKFRS 9 on 1 January 2018		(29,103)	(669)
Opening balance at 1 January 2018 — HKFRS 9		(567,880)	(347,928)

2. BASIS OF PREPARATION *(Cont'd)*

New and amended standards adopted by the Group (Cont'd)

HKFRS 9 ***Financial Instruments*** *(Cont'd)*

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

	Note	Financial assets at fair value through profit or loss *HK$'000*	Available-for-sale financial assets *HK$'000*
Closing balance at 31 December 2017 — HKAS 39		–	7,316
Reclassify investments from available-for-sale financial assets to financial assets at fair value through profit or loss	*(a)*	7,316	(7,316)
Opening balance at 1 January 2018 — HKFRS 9		7,316	–

The impact of these changes in classification of financial assets on the Group's equity is as follows:

	Note	Revaluation reserve *HK$'000*	Accumulated losses *HK$'000*
Closing balance at 31 December 2017 – HKAS 39		260	(538,777)
Reclassify investments from available-for-sale financial assets to financial assets at fair value through profit or loss	*(a)*	(260)	260
Opening balance at 1 January 2018 – HKFRS 9*		–	(538,517)

* Before adjustment for impairment. See note (ii) below.

2. BASIS OF PREPARATION *(Cont'd)*

New and amended standards adopted by the Group (Cont'd)

HKFRS 9 *Financial Instruments* *(Cont'd)*

(i) Classification and measurement *(Cont'd)*

Note:

(a) At the date of initial application of HKFRS 9, the Group's investment in funds of approximately HK$7,316,000 were reclassified from available-for-sale financial assets to financial assets at fair value through profit or loss. The fair value gain of approximately HK$260,000 relating to those investments previously carried at fair value were transferred from revaluation reserve to accumulated losses.

(ii) Impairment of financial assets

The Group has two main types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- Accounts receivable; and
- Loan receivables included in deposits and other receivables

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

(a) Accounts receivable

Accounts receivable include trade receivables and lease receivables.

The Group applies HKFRS 9's simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables and lease receivables. The impact of the change in impairment methodology on trade receivables and lease receivables was immaterial.

2. BASIS OF PREPARATION *(Cont'd)*

New and amended standards adopted by the Group (Cont'd)

HKFRS 9 ***Financial Instruments*** *(Cont'd)*

(ii) Impairment of financial assets *(Cont'd)*

(b) Loan receivables included in deposits and other receivables

The Group applies the general approach under HKFRS 9 to measure expected credit losses for loan receivables. Loss allowance is measured as either 12-months expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. When there has been a significant increase in credit risk since initial recognition, the loss allowance is measured as lifetime expected credit losses. Applying the expected credit loss model resulted in the recognition of a loss allowance of approximately HK$30,032,000 on 1 January 2018 for loan receivables and a further increase in the allowance recognised in the consolidated statement of profit or loss of approximately HK$66,062,000 in the current reporting period.

HKFRS 15 ***Revenue from Contracts with Customers***

HKFRS 15 superseded HKAS 18 *Revenue* which covers contracts for goods and services, HKAS 11 *Construction Contracts* which covers construction contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018, without restating the comparative information. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative figures have not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018.

The transition of HKFRS 15 has no significant impact on accumulated losses at 1 January 2018.

At 1 January 2018, deposits of approximately HK$351,000 received from customers in advance which were previously included in accruals and other payables were reclassified to contract liabilities.

3. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the year is as follows:

	2018	2017
	HK$'000	*HK$'000*
Sales of lottery-related equipment	**52,347**	107,943
Provision of maintenance services	**7,687**	795
Revenue from contracts with customers (within the scope of HKFRS 15)	**60,034**	108,738
Lease income from lottery terminals and systems	**123,893**	129,114
Total revenue	**183,927**	237,852

Segment information

The Group's revenue and contribution to loss were mainly derived from the provision of technology and operation service for lottery systems, terminal equipment and gaming products in the China's lottery market, which is regarded as a single operating and 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.

Geographical information

(a) Revenue from external customers

	2018	2017
	HK$'000	*HK$'000*
People's Republic of China ("PRC")	**176,494**	227,690
Others	**7,433**	10,162
	183,927	237,852

The revenue information above is based on the locations of the customers.

3. REVENUE AND SEGMENT INFORMATION *(Cont'd)*

Geographical information *(Cont'd)*

(b) Non-current assets

	2018		2017	
	Total non-current assets	**Additions to non-current assets**	Total non-current assets	Additions to non-current assets
	HK$'000	***HK$'000***	*HK$'000*	*HK'000*
PRC	**582,521**	**14,488**	642,524	35,750
Hong Kong	**188,739**	**35,135**	160,150	108
Others	**3,562**	**271**	5,169	383
	774,822	**49,894**	807,843	36,241

The non-current assets information above is based on the locations of the assets and excludes financial instruments and deferred income tax assets.

Information about major customers

Revenue from major customers of which amounted to 10% or more of the total revenue, is set out below:

	2018	2017
	HK$'000	*HK$'000*
Customer A	**N/A[1]**	34,638
Customer B	**92,490**	81,369
Customer C	**22,003**	N/A[1]

[1] The corresponding revenue did not contribute over 10% of the total revenue of the Group for that year.

4. OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
Interest income from bank deposits and loan receivables	**39,840**	13,661

5. OTHER GAINS/(LOSSES) — NET

	2018	2017
	HK$'000	*HK$'000*
Fair value gain on financial assets at fair value through profit or loss	**1,245**	1,294
Fair value gain on embedded derivatives of convertible bonds	**2,404**	7,056
Gain on remeasurement of convertible bonds	**8,350**	–
Loss on extinguishment and redemption of convertible bonds	**–**	(25,221)
Loss on disposal of property, plant and equipment	**(32)**	(27)
Loss on disposal of subsidiaries	**(94)**	–
Loss on disposal of intangible assets	**–**	(4,576)
Foreign exchange gains/(losses)	**1,946**	(3,420)
	13,819	(24,894)

6. OPERATING LOSS

The Group's operating loss is arrived at after charging:

	2018	2017
	HK$'000	*HK$'000*
Costs of sales and services		
— Depreciation of lottery terminals	**35,661**	28,560
— Amortisation of intangible assets	**10,903**	10,842
— Business tax	**1,865**	1,451
— Cost of inventories recognised as expense	**31,673**	75,233
— Repairs and maintenance	**2,576**	1,783
— Commission and handling charges	**–**	610
— Others	**5,308**	1,875
	87,986	120,354
Operating lease rentals in respect of land and buildings	**15,319**	16,133
Auditors' remuneration	**1,380**	980
Depreciation of other items of property, plant and equipment	**10,477**	11,654

7. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest expenses on bank borrowings	**7,687**	3,919
Interest expenses on convertible bonds	**25,709**	36,448
	33,396	40,367

8. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year. No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2018 and 2017 as the Group had no assessable profits arising in or derived from Hong Kong for both years.

The applicable enterprise income tax rate for PRC subsidiaries is 25% (2017: 25%) except for subsidiaries which are qualified as High and New Technology Enterprises and would be entitled to enjoy a beneficial tax rate of 15% (2017: 15%).

	2018	2017
	HK$'000	*HK$'000*
Current tax		
— PRC Enterprise Income Tax	**9,721**	13,616
— PRC Withholding Tax	**–**	10,961
— Adjustments in respect of prior years	**(1,585)**	(6,609)
Total current tax	**8,136**	17,968
Deferred tax		
— Origination and reversal of temporary differences	**725**	(2,227)
Income tax expense	**8,861**	15,741

9. LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of 9,405,923,771 (2017: 8,555,307,333) ordinary shares in issue during the year.

The computation of diluted loss per share for the years ended 31 December 2018 and 2017 did not assume the conversion of the convertible bonds and the exercise of share options since their assumed conversion and exercise would result in a decrease in loss per share.

10. ACCOUNTS RECEIVABLE

	2018	2017
	HK$'000	*HK$'000*
Lease receivables	**81,466**	91,666
Trade receivables — goods and services	**2,108**	4,856
	83,574	96,522

10. ACCOUNTS RECEIVABLE *(Cont'd)*

Lease income from lottery terminals and systems is billed on a monthly basis and is due 15 to 30 days after month-end. Revenue from sales of lottery-related equipment is billed upon the delivery of products and with credit periods ranging from 30 to 180 days. Revenue from provision of maintenance services is billed on a half-yearly or yearly basis and is due 30 days after the invoice date. The ageing analysis of the accounts receivable at the end of the reporting period, based on invoice date, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Less than three months	**13,542**	20,406
Over three months but less than one year	**5,782**	8,652
Over one year	**64,250**	67,464
	83,574	96,522

11. ACCOUNTS PAYABLE

The ageing analysis of the accounts payable at the end of the reporting period, based on invoice date, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Less than three months	**174**	3,653
Over three months but less than one year	**15**	1,015
Over one year	**267**	680
	456	5,348

12. SHARE CAPITAL

	Authorised ordinary shares of HK$0.0025 each	
	Number of shares	*HK$'000*
At 1 January 2017, 31 December 2017 and 31 December 2018	**16,000,000,000**	**40,000**

	Issued and fully paid ordinary shares of HK$0.0025 each	
	Number of shares	*HK$'000*
At 1 January 2017 and 31 December 2017	8,555,307,333	21,388
Share options exercised	**170,000,000**	**425**
Placing of new shares	**1,034,500,000**	**2,586**
At 31 December 2018	**9,759,807,333**	**24,399**

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged in the provision of technology and operation services for lottery systems, terminal equipment and gaming products in the 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. The Group has gradually built up the dual-wheel drivers at domestic and international levels by making great efforts to open up international markets over the past years.

China's Lottery Market

Lottery sales in mainland China attained all-time high in 2018 with total sales rose 19.9% year-on-year ("YOY) to about RMB511.47 billion, pursuant to the sales data released by the Ministry of Finance ("MOF"). Welfare Lottery sales grew 3.5% YOY to RMB224.56 billion, while Sports Lottery sales soared 36.8% YOY to RMB286.92 billion. Lotto, which is the industry's main source of revenue, saw a 5.0% YOY rise in its sales, accounting for 53.9% of total lottery sales. Single Match Games ("SMG") sales ballooned 78.2% YOY, accounting for 32.3% of total lottery sales. VLT sales climbed 2.7% YOY, accounting for 9.3% of total lottery sales. Paper-based Scratch Card sales and KENO sales dropped by 8.5% YOY and 28.9% YOY, accounting for 4.4% and 0.1% of total lottery sales respectively. Sports Lottery sales shot up by the FIFA World Cup which spurred sales growth in Jing Cai ("競彩"), with annual sales exceeding Welfare Lottery's. It is the first time that Sports Lottery sales topped the Welfare Lottery sales for the last 15 years, since 2004. SMG saw the highest growth out of all lottery types in 2018 boosted by the Jing Cai's strong performance. Over the last 32 years from the initial issuance to the end of 2018, China's Welfare Lottery has raised more than RMB600 billion lottery funds, while Sports Lottery has raised more than RMB430 billion. The lottery has made outstanding contributions to the development of various public works projects undertaken in China. China's lottery market posted further reinforcement in the public welfare attribute of lottery and the concept of responsibility lottery in 2018 while the funds raised broke new ground, guiding Chinese lottery players with rational purchase. 2018 was an important year for building a responsible, reliable and sustainable national public lottery. Along with the implementation of relevant policies, China's lottery will face challenges and at the same time will find new opportunities under a refreshed environment.

BUSINESS REVIEW AND OUTLOOK

Video Lottery Business

China Welfare Lottery Video Lottery ("Welfare VLT") Business

As a technology-rich product, Welfare VLT plays a vital role in China's lottery industry. The Group is the exclusive terminal equipment provider for Welfare VLT. Welfare VLT was one of the driving forces of nationwide Welfare Lottery, with sales rose 2.7% YOY to RMB47.43 billion, and accounted for 9.3% of the nation's total lottery sales in 2018.

Dongguan Tianyi Electronic Company Limited ("DGTY"), a subsidiary of the Group, has been the supplier of Welfare VLT terminal for 15 years since 2003. The terminal developed and manufactured by DGTY is the only Welfare VLT terminal approved and confirmed by all three ministries including the MOF, the Ministry of Public Security and the Ministry of Civil Affairs. DGTY has made three generations of Welfare VLT terminal replacements and upgrades in the last 15 years, supplying a total number of over 70,000 units of terminals. For the year ended 31 December 2018, approximately 41,500 units of the third-generation terminals have been placed in over 2,000 Welfare VLT halls across 28 provinces, cities, autonomous regions and municipalities in China, supporting the entire Welfare VLT sales nationwide.

DGTY's Welfare VLT supply contract expired on 28 June 2015. According to the supply contract agreed by both parties, DGTY has the full ownership of the approximately 41,500 units of terminals generating all the sales of Welfare VLT. Estimably, sales of Welfare VLT has continued its upward climb and achieved satisfactory performance on the back of the superb quality of DGTY's third generation terminals, notwithstanding the absence of new terminal over the last four years. DGTY was well recognized by the market thanks to its strong technological prowess and integrated service capabilities

According to legally binding documents that the Group sent to China Welfare Lottery Issurance and Administration Centre ("CWLC") and Beijing China Lottery Online Technology Company Limited ("CLO") along with unanimous accreditation reached by domestic civil law experts, the Group shall be paid for the provision of these terminals for Welfare VLT's continued use after the expiry of the supply contract. In order to protect the Group's lawful rights and interests, DGTY has filed a civil action with the People's High Court of Beijing, claiming the compensation from CLO for the continued use of terminals after the expiry of the supply contract. "The Civil Judgement" No. 65 (2016) of the People's High Court of Beijing was delivered on 10 August 2018, which supported the majority of DGTY's claims and ruled that CLO is required to pay DGTY cooperation remuneration amounted to RMB1.36 billion and partial interest. CLO appealed to the Supreme People's Court. The Supreme People's Court accepted the case and that an outcome is awaited.

CWLC is now actively realigning its business plan, smoothing out the partnerships, implementing policies and strengthening the market management. The Group believes that the Welfare VLT, a flagship lottery type of Welfare Lottery, will get back into robust growth mode under the management of CWLC. The Group will deliver the newest product that brings together the latest technology tracked from the international video terminals markets over the past years and specific market needs in China, proactively assists CWLC and provincial sales institutions, delivering better product and service to Welfare VLT, bolstering its steady, sustainable and rapid development, and making the greatest contribution to the China's lottery business.

CTG Business

On the Welfare Lottery CTG side, Guangdong Province, which is served by the Group for 15 years, remained the largest provincial Welfare Lottery market in China with sales reached approximately RMB15 billion in 2018. In addition, Chongqing Welfare Lottery CTG and Shanghai Welfare Lottery CTG, both are served by the Group, recorded sales of approximately RMB3.22 billion and RMB4.0 billion respectively. The Group was unanimously endorsed and recognized by a wide range of clients.

The Group won bids for the Sports Lottery CTG terminal procurement programmes of Guangxi, Hunan, Guizhou, Jiangsu, Heilongjiang, Henan, Shanxi and other provinces, posting a steady rise in its Sports Lottery CTG terminal business in 2018. With six years of operation since it has engaged the China's Sports Lottery market in 2013, the Group's products, technologies and service capabilities have gained high recognition in the market. Currently, the Group is providing Sports Lottery terminals and services to 18 provinces with multiple bids won in 14 of these provinces, maintaining its industry leading position in terms of market share. The Group will leverage its technologies and product advantages to ensure business from more provinces in 2019. Meanwhile, the Group will continue to maintain its collaboration with domestic and international terminal manufacturers to offer leading products, including lottery terminals, printers and scanners etc.

The Group's internationalized strategy witnessed steady progress in 2018. The Group's Cambodian CTG business, in collaboration with Khmer Pool Welfare Lottery Co., Ltd, recorded stable growth. The system was successfully upgraded to carry out cross-platform terminal services, made accessible to both standard and handheld terminals, bringing the Cambodian players more convenient betting service jointly with the mobile lottery platform launched at the end of 2018. The CTG system, developed by the Group for Cambodian Sports Lottery, is running smoothly with rising sales. The two Cambodian lottery companies, both are served with the Group's quality standards, have become the leading lottery participants in Cambodia. Their technologies, products and sales have become the industry benchmarks, deeming to be the targets and standards for the late-comers to follow suit. The Group made inroads into African lottery market extensively in 2018, its Ghana National Lottery business has been moving to a stage of system construction and deployment in the second half of 2018, with 10,000 units of terminals rolling out in April 2019. Adding to that, the Group has taken positive steps in its preparation for Kenya National Lottery business, and it is expected to start selling in the latter half of 2019. Riding on the successful experience in Cambodia and Africa, the Group will eye on changes with advancement in 2019 and explore other overseas markets steadily.

New Media Lottery Business (New Retail, AI, Internationalized Mobile Scratch Card, Payments)

New Retail, AI

China's lottery industry is undergoing developmental revolution in terms of channel realignment and innovation. The traditional lottery sales channel already cannot meet the purchasing needs of its diversified customer base and the need for digitalized and integrated lottery retail channel is gradually arising, resulting from the rise of electronic payments and artificial intelligence. In response to these development opportunities, the Group has taken the lead to introduce the notion of new lottery retail, taking advantage of the prevalent industry development trend by product and channel innovations and making vigorous efforts to open up new ideas of lottery business expansion. The Group has stepped up its R&D efforts in artificial intelligence for lottery and others, and fully used of innovative technologies such as intelligent hardware, the Internet of Things and big data etc. across the lottery retail channels, namely operation, management, marketing and others, providing lottery authorities and retail channels with total solutions in a move to optimize and eliminate the industry sticking points as well as expand and shake up the sales channel. In terms of intellectualization of lottery sales, the Group has been constantly expanding new product line and developing total solutions for cloud AI-based smart lottery outlets, as well as intelligent hardware and application management system for lottery authorities and point of sale, including a full range of intelligent terminal products, intelligent storefront management system, intelligent lottery payment system, lottery marketing and sales platform, smart lottery big data service system and others.

The Group successfully entered into a strategic cooperation framework agreement with Inner Mongolia Autonomous Region Sports Lottery Administration Centre ("IMSLAC") in July 2018. Under the framework agreement, the Group will leverage on its operating and marketing experiences in online and offline channels, strengths in big data collection and new proprietary intelligent lottery equipment, so as to actively assist Inner Mongolia to explore new lottery sales channels, offer lottery players enhanced betting experience and expand customer base. Meanwhile, the Group will also assist IMSLAC on new development of pilot lottery sales, triggering and tapping lottery players' purchasing needs, harnessing its services advantage and several new technology resources such as artificial intelligence.

Traditional lottery outlets that characterized the micro physical stores in China, and those will be integrated into a wider range of areas by the Group's intensified research and development of AI and penetration of new lottery retail.

Internationalization of Mobile Scratch Card

At the same time, the Group continues to press ahead the internationalized strategy, bringing mobile scratch card to the markets in Southeast Asia and Africa. Lottery industry in Africa has been experiencing explosive growth in recent years, which was the fastest growth market in the region in 2016 with sales growth of 26.3% and again took the top spot worldwide with growth rate of 5.6% in the first half of 2017. At the same time, mobile phone penetration in Africa has exceeded 70%, and that ratio is increasing. Mobile payments have become very popular in Ghana and Kenya, with more than two-thirds transactions are from mobile payments. The Group will bring the products and technologies of mobile and internet lottery, such as superior mobile scratch card, to market on an international scale in the context of favorable market conditions. Based on the domestic market condition, the Group has carried out customized R&D of lottery mobile applications and a number of mobile scratch card games with bold attempts and innovations. Relevant products are expected to be launched in Ghana and Kenya in mid-2019, the Group will become the first Chinese internet lottery company successfully landing in Africa.

Payments

In November 2018, China LotSynergy Enterprises Limited, an indirect wholly owned subsidiary of the Company, officially entered into a strategic cooperation agreement with 寧波軟銀天宏創業投資管理合伙企業(有限合伙), a corporation controlled by SB China Capital ("SBCVC") and 中城智慧科技有限公司, a company invested by SBCVC. The Group believes that the close cooperation with focus on lottery, authentication technology and financial payments technology application among the parties will lead Africa and Southeast Asia entering into a new era of digital, intelligent and mobility application. The parties will cooperate actively to open up further overseas markets apart from the markets of Africa and Southeast Asia.

Conclusion

2018 is a year of reform for the China's lottery. In order to strictly control the lottery market risks, further highlight the public welfare and social responsibility of the state's lottery, and foster the healthy development of the lottery industry, the Chinese government amended "Lottery Regulations and Code of Practice" (彩票管理條例實施細則) and "Measures for the Management of Lottery Distribution and Sales" (彩票發行銷售管理辦法), and revised the rules of high frequency games and SMG in a move to further strengthen the regulation of the lottery market. It is foreseeable that China is no longer simply pursuing lottery sales, but more consciously on the development of responsibility lottery.

As a leading market participant, the Group has showed its dedication to the lottery industry for over a decade, exploring its development strategy and execution plan in response to the prevalent industry situation and development, following the pace of building up and healthy development of the state's responsibility lottery, so as to bring about the best contribution to the development of a responsible, reliable, healthy and sustainable China's lottery ecosystem in the aspects of sales channels, gaming products, lottery security, supporting systems, operating systems, among others. Moreover, the Group is looking for changes amid development, rooting in China while expanding into Africa, Southeast Asian and other overseas lottery markets.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$183.9 million (2017: HK$237.9 million) for the year ended 31 December 2018, representing a decrease of approximately 23% over 2017. Loss attributable to owners of the Company for the year ended 31 December 2018 amounted to approximately HK$169 million (2017: HK$193 million), and is mainly due to net impairment losses on financial assets of approximately HK$66 million (2017: Nil), and staff costs (excluding employee share option benefits) of approximately HK$117.8 million (2017: HK$119.2 million).

DGTY's Welfare VLT supply contract expired on 28 June 2015. According to the supply contract agreed by both parties, DGTY has the full ownership of the approximately 41,500 units of terminals generating all the sales of Welfare VLT. The Group decided to maintain the Welfare VLT terminals it provided in fully operational condition, so as to support the sustained and healthy growth as well as the distribution of Welfare VLT. Riding on the superb quality of DGTY's third generation terminals, the sales of Welfare VLT has continued its upward climb and achieved satisfactory performance, notwithstanding the absence of new terminal over the last four years. According to legally binding documents that the Group sent to CWLC and CLO along with unanimous accreditation reached by domestic civil law experts, the Group shall be paid for the provision of these terminals for Welfare VLT's continued use after the expiry of the supply contract.

In order to protect the Group's lawful rights and interests, DGTY has filed a civil action with the People's High Court of Beijing, claiming the compensation from CLO for the continued use of terminals after the expiry of the supply contract. The Judgement was delivered on 10 August 2018 after two public hearings. Pursuant to the Judgement, DGTY's claims in relation to claiming cooperation remuneration and partial interest from CLO is in conformity with facts, has legal basis and should therefore be supported. People's High Court of Beijing ruled that CLO is required to pay DGTY cooperation remuneration for 1 June 2015 to 26 March 2017 which amounted to RMB1,360,211,853 and partial interest calculated at the benchmark interest rates published by the People's Bank of China within 10 days after the effective date of judgment. Of which the cooperation remuneration amount ruled under the Judgement, RMB54,835,734 was attributed to being the remuneration under the period of VLT supply contract which DGTY has already recognized as revenue and receivable in 2015. CLO appealed to the Supreme People's Court. The Supreme People's Court accepted the case and that an outcome is awaited.

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

The Group believes that it has adequate financial resources to fund its capital and operating requirements. As at 31 December 2018, the Company had an outstanding corporate guarantee limited to approximately HK$240 million (2017: corporate guarantee for unlimited amount) for a banking facility of an uncommitted revolving loan of approximately HK$240 million (2017: total banking facilities of property installment loans, term loan and bridging loan of approximately HK$164.9 million); an outstanding corporate guarantee limited to approximately HK$23 million (2017: HK$17 million) for a banking facility of a short term secured loan of approximately HK$23 million (2017: a property installment loan of HK$17 million); and an outstanding corporate guarantee for unlimited amount for credit facilities of investment purpose of Nil (2017: US$5 million) and overdraft for liquidity purpose of Nil (2017: US$25 million).

The Group had outstanding bank borrowings as at 31 December 2018 of approximately HK$262.3 million (2017: HK$163.7 million). As at 31 December 2018, 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$155.6 million (2017: HK$158.7 million); (ii) bank deposits amounting to Nil (2017: approximately HK$7.5 million); and (iii) a personal guarantee executed by a director of the Company (2017: unlimited personal guarantee executed by a substantial shareholder of the Company).

Pursuant to the placing agreement entered into between the Company and the placing agent on 13 April 2018, the Company has allotted and issued an aggregate of 1,034,500,000 new ordinary shares of the Company on 26 April 2018 to at least six independent individual investors at a price of HK$0.116 each under the general mandate granted to the Directors of the Company by its shareholders at the annual general meeting of the Company held on 1 June 2017. The directors of the Company were of the view that the placing would enable the Company to broaden its shareholders' base and strengthen the financial position of the Company, which is in the interests of the Group and the shareholders of the Company as a whole. The closing price per share of the Company on 13 April 2018, being the date of the placing agreement, was HK$0.142. The net issue price per placing share (after deduction of the placing commission and other related expenses) was approximately HK$0.115. The net proceeds from the placing, after deduction of all placing commission and other related expenses, amounted to approximately HK$119 million. The net proceeds of the placing of approximately HK$89.4 million were intended to be used for the repayment upon redemption of existing convertible bonds, approximately HK$15 million for the development of ordinary business in oversea and the remaining balance for general working capital. As at 31 December 2018, all the net proceeds of the placing has been utilized for the abovementioned purposes.

As at 1 January 2018, the outstanding convertible bonds of the Company were: (i) 7.5% convertible bonds due 2019 in the aggregate principal amount of HK$175.95 million (the "New Option 1 Bonds"); and (ii) 8% convertible bonds due 2019 in the aggregate principal amount of HK$100 million (the "New Option 2 Bonds"). The New Option 1 Bonds shall be convertible into the Shares of the Company at conversion price of HK$0.24 each. The New Option 2 Bonds shall be convertible into the Shares of the Company at conversion price of HK$0.92 each. With effective from 26 April 2018, due to the placing of shares of the Company, the conversion price of the New Option 1 Bonds had been adjusted from HK$0.24 to HK$0.23 pursuant to the terms and conditions of the New Option 1 Bonds.

During the period under review, no New Option 1 Bonds and New Option 2 Bonds had been converted into the shares of the Company by the bondholders. During the period, the Company received notifications from bondholders that total principal amount of HK$101.15 million of put options will be exercised under the terms and conditions of the New Option 1 Bonds and New Option 2 Bonds. The Company had redeemed and cancelled the New Option 1 Bonds in the principal amount of HK$1.15 million with unpaid interest in amount of approximately HK$1.17 million on 9 April 2018 off exchange. The Company had also redeemed and cancelled the New Option 2 Bonds in the principal amount of HK$100 million with unpaid interest in amount of approximately HK$102.65 million on 9 May 2018 off exchange and that there is no outstanding New Option 2 Bonds remained in issue thereafter.

As at 31 December 2018, the total outstanding principal amount of the New Option 1 Bonds was HK$174.8 million. The maximum number of shares of the Company that will be issued upon conversion of all the outstanding New Option 1 Bonds was 760,000,000 shares.

On 22 March 2019, the Company and the sole bondholder of New Option 1 Bonds have conditionally agreed to amend certain terms and conditions of the New Option 1 Bonds, including the maturity date, interest and interest payment date and conversion price, as disclosed in the Company announcements dated 22 March 2019 and 28 March 2019 respectively. Based on the amended conversion price of HK$0.20 and assuming full conversion of the New Option 1 Bonds, an aggregate of 874,000,000 conversion shares of the Company may be issued by the Company pursuant to the general mandate granted to the Directors on 6 June 2018.

The Group‘s total equity amounted to approximately HK$1,072.2 million at 31 December 2018 (2017: HK$1,139.1 million). At 31 December 2018, net current assets of the Group amounted to approximately HK$330.1 million (2017: HK$366.7 million), including approximately HK$146 million in cash and deposits with banks and financial institution (2017: HK$193.5 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2018 was approximately 33.9% (2017: 32.5%).

Exposure to Exchange Rates Fluctuations

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 Assets

As at 31 December 2018, the Group’s leasehold land and buildings at net book value of approximately HK$155.6 million (2017: HK$158.7 million) were pledged to banks to secure the bank borrowings granted to the Group. At 31 December 2018, the Group’s cash deposits and financial assets at an aggregate carrying value of Nil (2017: approximately HK$7.5 million) were pledged to financial institutions to secure the credit facilities granted to the Group.

Contingent Liabilities

As at 31 December 2018, the Group did not have any material contingent liabilities (2017: Nil).

Staff

As at 31 December 2018, the Group employed 282 full time employees (2017: 289). The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programs for staff are provided as and when required. The Group will further strengthen its team buildup, in order to offer enhanced services for lottery market.

Purchase, Sale or Redemption of the Company's Listed Securities

Save as the placing and redemption of the New Option 1 Bonds and New Option 2 Bonds mentioned above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2018.

Audit Committee

The Audit Committee of the Company currently comprises the three Independent Non-executive Directors of the Company, namely Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming. The audited annual results of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee.

Corporate Governance

The Company has complied with the code provisions of the Corporate Governance Code (the "Code") under Appendix 14 of the Listing Rules throughout the year ended 31 December 2018, except for the deviations as disclosed below:-

Code provision A.1.1 stipulates that the board should be held the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. The relevant Code provision had not been fully complied with as the Company did not announce its quarterly results and that two regular Board meetings were held during the year. Board meetings will be held on other occasions when Board decisions are required. The Chairperson of the Company, Ms. CHAN Tan Na, Donna, 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. Mr. HUANG Shenglan was absent from the 2018 annual general meeting of the Company as is stipulated in Code provision A.6.7 due to his other important engagement.

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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the Model Code during the year ended 31 December 2018.

By order of the Board
China LotSynergy Holdings Limited
CHAN Tan Na, Donna
Chairperson of the Board

Hong Kong, 30 March 2019

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