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China LotSynergy Holdings Limited

華彩控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1371)

SUPPLEMENTAL ANNOUNCEMENT - DISCLOSEABLE TRANSACTION IN RELATION TO ACQUISITION

References are made to an announcement dated 12 August 2019 of China LotSynergy Holdings Limited (the "Company") in relation to a disclosable transaction for the Acquisition (the "Announcement"). Unless otherwise defined herein, capitalised terms used herein shall have the meaning ascribed to them in the Announcement. The Company would like to provide supplemental information to the Announcement as follows.

Basis for the Determination of the Consideration

As disclosed in the Announcement, the aggregate consideration of HK\$9,000,000 was arrived at after taking into account of the existing business model, revenue generated, sales channel, future growth prospects and overall commercial value of the Target Group and the unaudited financial statements of NFF provided by the Vendor.

1. Financial performance, growth potential and prospects of NFF

NFF was incorporated in mid 2016. From a forward-looking perspective, the growth potential of the NFF's business can be reflected by its track records in the past two and a half years. According to the management accounts of NFF for the years ended 31 December 2017 and 31 December 2018, NFF's unaudited operating revenues were RMB4,809,700 and RMB9,732,303 respectively, representing a growth of approximately 102%. Based on the financial information of NFF for six months ended 30 June 2019, the revenue of NFF for first half in 2019 already reached RMB7,281,985, which represented approximately 75% of its total annual revenue in 2018. The Target Company and the Company expect that NFF would continue to record an annual growth for year 2019.

The unaudited net loss of NFF before and after taxation and extraordinary items for the year ended 31 December 2018 was RMB4,067,839, representing a decrease of 31% when compared with that of RMB5,885,048 for the year ended 31 December 2017. The unaudited net loss before and after taxation and extraordinary items for the six months ended 30 June 2019 was RMB996,998, representing a further decrease of 49% when compared with that of RMB1,939,567 for the six months ended 30 June 2018.

The above-mentioned continuous growth in revenue and decrease in loss show the constant improvement in the business and financial performances of NFF.

In addition to the information contained in the Announcement and this announcement including the facts that NFF has entered into the industry for several years and has developed self-owned brand and sales channels, the Directors, in determining the consideration, had also made reference to the price to book ratio of a comparable Hong Kong listed company that operates in the relevant industry based on the public information in past two months.

2. Business development and plan of the Target Group

NFF mainly engages in R&D, processing, production and sales of natural and health food in China. The products of NFF have been accredited by China Forest Food Certification. NFF has successfully developed self-owned brand, namely "Tian Ran Lin Chang 天然林場", for its various kinds of products.

The main sales channels currently used by NFF are direct selling, distribution and new media marketing. As online has become an important channel for the sales of health food, NFF has also developed e-commerce platform for selling products online in order to eliminate the cost of direct selling.

Based on the information provided by the management of the Target Group, NFF has planned to intensify its sales and marketing efforts. NFF also planned to invest certain amounts of resources in R&D and building up its own IP assets.

3. The Board has also taken into account of the factors as set out in the section headed "Reasons for and Benefits of the Acquisition" in determination of the consideration.

Reasons for and Benefits of the Acquisition

As disclosed in the Announcement, the Group believes that the Acquisition can strengthen its financial position by developing the business of production and sales of natural and health food engaged by the Target Group currently at a lower cost and higher efficiency.

1. The Acquisition offers an opportunity for the Group to diversify its existing business portfolio with growth potential

The Group is principally engaged in the provision of technology and operation services for lottery systems, terminal equipment and gaming products in the China's lottery market. Our principal businesses cover various lottery products ranging from video lottery, computer-generated ticket games and KENO-type lottery to new media lottery, and the Group has been continued to explore and develop other potential businesses.

As mentioned in the Company's 2018 annual report, certain regulations on the lottery industry in China had been revised. Facing the slightly increasing risk due to the changes in regulations, the Group would explore its development strategy and execution plan in response to the prevalent situation and development, and look for changes amid development. While the Group remains focused on developing its existing main business, the Acquisition is in line with the Group's business strategy as the introduction of business with potential into the Group represents an attractive investment opportunity to diversify the Group's business portfolio and business risk.

2. Growth Potential of health food industry in China

The Directors considers that the proposed Acquisition provides an opportunity to diversify the Group's business with growth potential. Prior to entering into the Acquisition with the Vendor, the Company had considered the following information and was optimistic about the growth potential of natural and health food industry in China.

According to the survey conducted by the Hong Kong Trade Development Council in 2017 on China's middle-class consumers, based on health concerns, increased purchase convenience and increased market supply, 71% of respondents said they had been spending more on green products in the past year. While 59% said that the increased sales channels and purchase convenience for green products had prompted them to spend more on such products than before. When asked about their attitude towards green consumption, 73% of respondents agreed with the statement "I tend to use products ensuring health and safety, e.g. those that are organic and contain no additives, even though the prices are higher than conventional products". According to the consumer focus group discussions conducted by the same organization, the varieties and wide coverage making green consumer goods became an essential part of household consumption in China. Participants in the survey rated food and drinks were the most popular green product they bought most frequently, followed by household cleaning products, clothing and accessories/personal care products, baby and child products, electrical home appliances, furniture and furnishings, and office appliances.

Therefore, by acquiring the Target Group, it is expected that the Group can tap into the natural and health food industry and capture the opportunities in the growing health food industry in China.

3. Through the Acquisition, the Group can open up new streams of revenue

As disclosed above, the revenue of NFF for the first half of 2019 was RMB7,281,985, and has been on the rising track for the past two and a half years. Upon completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company and the revenue of NFF will be consolidated into the Company's account. Therefore, it is expected that the Acquisition will broaden its source of income and thus bring positive financial impact to the Company.

4. The Company has also considered about the saving of the Group's additional resources, time and expenses which would need to be incurred in setting up natural and health food business on its own instead of the Acquisition

As provided above, the Group has been looking for business opportunities with growth potential so as to diversify its business, and had considered market information relating to the natural and health food industry prior to entering into the Acquisition.

NFF has well established business and operation infrastructure for carrying out R&D, processing, production and sales of natural and health food activities in China. It has self-owned brand products and has established different sales channels including e-commerce and offline distribution. NFF has an experienced management team mainly located in China primarily responsible for the overall business and daily operation of NFF, and a team of skilled sales and marketing personnel. Upon completion of the Acquisition, the management team will report to the management of the Group on the business performance and provide suggestions with regard to the business development of NFF on a regular basis.

The Company considers that there is value in acquiring a well-established organization with certain level of maturity in its capabilities and abilities as an effective and efficient means to enter new and growing market.

Accordingly, the Directors are of the view that the Acquisition (including the consideration) is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

Hong Kong, 30 August 2019

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

** For identification purposes only*