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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)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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 2015, together with the comparative figures for the year ended 31 December 2014, as follows:

* *For identification purposes only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Turnover	3	643,748	1,034,769
Costs of sales and services			
— Depreciation of lottery terminals		(118,219)	(109,339)
— Others		(166,057)	(199,566)
		<u>(284,276)</u>	<u>(308,905)</u>
Gross profit		359,472	725,864
Other income	4	32,908	31,510
Other losses — net	5	(234,930)	(15,305)
General and administrative expenses		(369,852)	(239,256)
Share option expenses		(92,230)	(12,378)
		<u>(304,632)</u>	<u>490,435</u>
Operating (loss)/profit	6	(304,632)	490,435
Finance costs	7	(61,412)	(55,600)
Share of loss of an associate		(7)	—
Share of (losses)/profits of joint ventures		(4,073)	917
		<u>(370,124)</u>	<u>435,752</u>
(Loss)/Profit before income tax		(370,124)	435,752
Income tax expense	8	(46,006)	(93,433)
		<u>(416,130)</u>	<u>342,319</u>
(Loss)/Profit for the year		<u>(416,130)</u>	<u>342,319</u>
(Loss)/Profit attributable to:			
Owners of the Company		(497,654)	100,010
Non-controlling interests		81,524	242,309
		<u>(416,130)</u>	<u>342,319</u>
(Loss)/Earnings per share attributable to owners of the Company during the year			
— basic	9	<u>(5.85) HK cents</u>	<u>1.27 HK cents</u>
— diluted	9	<u>(5.85) HK cents</u>	<u>1.25 HK cents</u>

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

For the year ended 31 December 2015

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
(Loss)/Profit for the year	(416,130)	342,319
Other comprehensive expenses:		
<i>Items that may be reclassified to profit or loss</i>		
Fair value loss on available-for-sale financial assets	(2,810)	(377)
Reclassification adjustment on disposal of available-for-sale financial assets	(9,514)	–
Reclassification adjustment on impairment of available-for-sale financial assets	4,318	–
Release of currency translation reserve upon disposal of a subsidiary	–	1,394
Currency translation differences	(69,659)	(46,716)
Other comprehensive expenses for the year	(77,665)	(45,699)
Total comprehensive (expenses)/income for the year	(493,795)	296,620
Attributable to:		
Owners of the Company	(555,329)	63,282
Non-controlling interests	61,534	233,338
Total comprehensive (expenses)/income for the year	(493,795)	296,620

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	<i>Notes</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		668,968	661,758
Intangible assets		448,336	555,430
Investment in an associate		4,764	–
Investments in joint ventures		32,534	51,567
Available-for-sale financial assets		10,000	35,161
Deferred income tax assets		8,402	8,807
Prepaid rentals		–	253
		1,173,004	1,312,976
Current assets			
Inventories		58,516	54,160
Accounts receivable	<i>10</i>	88,632	301,007
Prepayments, deposits and other receivables		371,134	459,992
Amounts due from joint ventures		–	337
Amount due from a related company		–	21,564
Financial assets at fair value through profit or loss		677,466	876,245
Cash and bank balances		792,637	907,930
		1,988,385	2,621,235
Total assets		3,161,389	3,934,211
Current liabilities			
Accounts and bills payable	<i>11</i>	16,489	41,513
Accruals and other payables		60,278	72,657
Amounts due to joint ventures		6,766	5,969
Income tax payable		1,105	28,822
Bank borrowings		583,038	911,213
		667,676	1,060,174
Net current assets		1,320,709	1,561,061
Total assets less current liabilities		2,493,713	2,874,037
Non-current liabilities			
Convertible bonds		602,156	588,321
Deferred income tax liabilities		74,189	79,951
		676,345	668,272
Net assets		1,817,368	2,205,765

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)*At 31 December 2015*

	<i>Notes</i>	2015 HK\$'000	2014 <i>HK\$'000</i>
Equity attributable to owners of the Company			
Share capital	<i>12</i>	21,330	21,131
Reserves		1,433,762	1,365,162
(Accumulated losses)/retained profits		(143,334)	375,396
		1,311,758	1,761,689
Non-controlling interests		505,610	444,076
Total equity		1,817,368	2,205,765

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, gaming products in 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 convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Group*

The following new and amended standards are mandatory for the first time for the financial year beginning 1 January 2015:

Amendments from annual improvements to HKFRSs — 2010–2012 Cycle, on HKFRS 8, “Operating segments”, HKAS 16, “Property, plant and equipment” and HKAS 38, “Intangible assets” and HKAS 24, “Related party disclosures”.

Amendments from annual improvements to HKFRSs — 2011–2013 Cycle, on HKFRS 13, “Fair value measurement”.

Amendments and interpretations as mentioned above are not expected to have a material effect on the Group’s operating results, financial position or comprehensive income.

(b) *New Hong Kong Companies Ordinance (Cap. 622)*

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

2. BASIS OF PREPARATION (Cont'd)

Changes in accounting policy and disclosures (Cont'd)

(c) *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the ‘hedged ratio’ to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess HKFRS 9’s full impact.

HKFRS 15, “Revenue from contracts with customers” deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 ‘Revenue’ and HKAS 11 ‘Construction contracts’ and related interpretations. HKFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of HKFRS 15.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

3. TURNOVER AND SEGMENT INFORMATION

The Group is a technology and operation service provider of lottery systems, terminal equipment, gaming products 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. An analysis of the Group's turnover for the year is as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Income from provision of lottery terminals and lottery sales channels	540,866	973,847
Income from sales of equipment	102,666	60,712
Income from provision of consultancy services	216	210
	643,748	1,034,769

Segment information

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

Geographical information

(a) Revenue from external customers

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
People's Republic of China ("PRC") (Country of domicile)	643,748	1,034,769

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

(b) Non-current assets

	2015		2014	
	Total assets	Additions to non-current assets	Total assets	Additions to non-current assets
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
PRC	981,538	205,796	1,093,816	283,605
Hong Kong	167,454	840	175,192	4,715
Cambodia	5,610	1,862	–	–
	1,154,602	208,498	1,269,008	288,320

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

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

Information about major customer

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Customer A	<u>434,705</u>	<u>810,212</u>

4. OTHER INCOME

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Interest income from bank deposits and others	<u>32,908</u>	<u>31,510</u>

5. OTHER LOSSES — NET

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Fair value losses on financial assets at fair value through profit or loss	(103,697)	(17,802)
Reclassification adjustment on disposal of available-for-sale financial assets	9,514	–
Impairment of available-for-sale financial assets	(4,318)	–
Impairment of goodwill	(122,904)	–
Impairment of investment in a joint venture	(13,367)	–
Loss on disposal of property, plant and equipment	(99)	(476)
Loss on disposal of a subsidiary	–	(1,010)
Foreign exchange (losses)/gains	(59)	3,983
	<u>(234,930)</u>	<u>(15,305)</u>

6. OPERATING (LOSS)/PROFIT

The Group's operating (loss)/profit is arrived at after charging:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Costs of sales and services		
— Depreciation of lottery terminals	118,219	109,339
— Amortisation of intangible assets	3,935	330
— Business tax	26,099	48,647
— Cost of inventories recognised as expense	96,740	48,439
— Repairs and maintenance	12,919	7,738
— Commission and handling charges	15,394	86,764
— Others	10,970	7,648
	284,276	308,905
Operating lease rentals in respect of land and buildings	16,939	12,132
Auditors' remuneration	950	880
Amortisation of intangible assets	3,263	6,528
Depreciation of other items of property, plant and equipment	12,311	9,682

7. FINANCE COSTS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Interest expenses on bank borrowings	15,077	22,940
Interest expenses on convertible bonds	46,335	32,660
	61,412	55,600

8. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% (2014: 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 2015 and 2014 as the Group had no assessable profits arising in or derived from Hong Kong for both years.

The applicable corporate income tax rate for PRC subsidiaries are 25% (2014: 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% (2014: 15%).

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current tax		
— PRC Enterprise Income Tax	58,225	88,540
— Adjustments in respect of prior years	(8,057)	(333)
Total current tax	50,168	88,207
Deferred tax		
— Origination and reversal of temporary differences	(4,162)	5,226
Income tax expense	46,006	93,433

9. (LOSS)/EARNINGS PER SHARE

(a) Basic

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

	2015	2014
(Loss)/Profit attributable to owners of the Company (<i>HK\$'000</i>)	(497,654)	100,010
Weighted average number of ordinary shares in issue	8,501,842,949	7,856,192,688
Basic (loss)/earnings per share	(5.85) HK cents	1.27 HK cents

9. (LOSS)/EARNINGS PER SHARE (Cont'd)

(b) Diluted

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

	2015	2014
(Loss)/Profit attributable to owners of the Company (HK\$'000)	<u>(497,654)</u>	<u>100,010</u>
Weighted average number of ordinary shares in issue	8,501,842,949	7,856,192,688
Effect of dilutive potential ordinary shares:		
— Share options	<u>—</u>	<u>147,787,262</u>
Weighted average number of ordinary shares for diluted (loss)/earnings per share	<u>8,501,842,949</u>	<u>8,003,979,950</u>
Diluted (loss)/earnings per share	<u>(5.85) HK cents</u>	<u>1.25 HK cents</u>

The computation of diluted earnings per share for the year ended 31 December 2015 did not assume the conversion of the convertible bonds and the exercise of share options since their conversion and exercise would result in a decrease in loss per share.

The computation of diluted earnings per share for the year ended 31 December 2014 did not assume the conversion of the convertible bonds since their exercise would result in an increase in earnings per share. In addition, the computation of diluted earnings per share for the year ended 31 December 2014 did not assume the exercise of the option granted by the Company to a wholly owned subsidiary of Tencent Holdings Limited because the exercise price of that option was higher than the average market price for shares.

10. ACCOUNTS RECEIVABLE

Income from provision of lottery terminals and lottery sales channels is billed on a monthly basis and is due 15 to 30 days after month-end. Income from sales of equipment is billed upon the delivery of products and with credit periods ranging from 30 to 180 days. Income from provision of consultancy services is billed on a monthly 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:

	2015 HK\$'000	2014 HK\$'000
Less than three months	14,771	230,304
Over three months but less than one year	73,050	69,333
Over one year	<u>811</u>	<u>1,370</u>
	<u>88,632</u>	<u>301,007</u>

11. ACCOUNTS AND BILLS PAYABLE

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Less than three months	15,465	33,865
Over three months but less than one year	886	7,530
Over one year	138	118
	<u>16,489</u>	<u>41,513</u>

12. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.0025 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2014, 31 December 2014 and 31 December 2015	16,000,000,000	40,000
	Issued and fully paid ordinary shares of HK\$0.0025 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2014	7,606,872,820	19,017
Issue of new shares	594,034,513	1,485
Share options exercised	351,100,000	878
Share repurchased and cancelled	(99,800,000)	(249)
At 31 December 2014	8,452,207,333	21,131
Share options exercised	79,600,000	199
At 31 December 2015	8,531,807,333	21,330

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: 0.25 HK cents).

MANAGEMENT DISCUSSION AND ANALYSIS

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

China's Lottery Market

According to sales figures published by the Ministry of Finance ("MOF"), total annual sales of China's lottery recorded a year-on-year ("YOY") decrease for the first time in ten years. Total lottery sales in 2015 amounted to RMB367.88 billion, representing a decrease of 3.8% as compared to 2014. Welfare Lottery sales decreased by 2.2% YOY to RMB201.51 billion, whereas Sports Lottery sales decreased by 5.7% YOY to RMB166.37 billion. As the industry's main source of revenue, Lotto's sales decreased by 4.9% YOY, and accounted for 64.1% of total lottery sales. Video Lottery, with sales increased by 12.5% YOY, is the only lottery category with positive sales growth, and accounted for 11.6% of total lottery sales. The sales of Single Match Games ("SMG") dropped 4.2% YOY and accounted for 16.0% of total lottery sales. The sales of Paper-based Scratch Card dropped 11.9% YOY and accounted for 8.2% of total lottery sales. The Lotto category remains the backbone of China's lottery industry, followed by Video Lottery, SMG and Scratch Card categories, which form the other three key pillars of the sector.

Business Review and Outlook

Video Lottery Business

China Welfare Lottery Video Lottery ("VLT") Business

As a technology-rich product, VLT has been playing a vital role in China's lottery industry, and the Group has been the exclusive terminal provider for VLT. The VLT supply contract expired on 28 June 2015. In the first half of 2015, the total sales of VLT were RMB21.2 billion, representing YOY growth of 20.1%, which was the fastest growing lottery category. In the second half of 2015, while the total sales of China's lottery recorded a drop of 12% YOY, VLT achieved an increase of 6% to RMB21.28 billion. The total full year sales of VLT in 2015 grew 12.5% YOY to RMB42.47 billion, and accounted for 11.6% of total lottery sales. VLT was the only lottery category with positive growth among the five major categories including Lotto, SMG, Scratch Card, Video Lottery and KENO.

Dongguan Tianyi Electronic Company Limited (“DGTY”), a subsidiary of the Group, has made three generations of VLT terminal replacements and upgrades in the last 12 years from 2003 to 2015, supplying a total number of over 70,000 units of terminals. Currently, approximately 41,500 units of the third generation terminals are in good operational condition and support the sales of VLT nationwide. As at the end of 2015, these approximately 41,500 units of terminals have been rolled out in over 1,800 VLT halls across 28 provinces, cities, autonomous regions and municipalities in China.

DGTY’s VLT supply contract expired on 28 June 2015. According to the supply contract, DGTY has the full ownership of the approximately 41,500 units of terminals generating all the sales of VLT, and has first right of refusal in the renewal of the VLT supply contract.

As at 28 June 2015, the Group had not received notification from China Welfare Lottery Issuance and Administration Centre (“CWLC”) regarding a suspension of VLT sales after the expiry of the supply contract. The Group decided to maintain the VLT terminals it provided in fully operational condition for VLT’s continued use after the expiry of the supply contract, so as to support the sustained and healthy growth of VLT. This ensured the consistent and steady sales growth of VLT in the second half of 2015. According to legally binding documents that the Group sent to CWLC and the relevant cooperation partner, the Group shall be paid for the terminals it provided that have been in operation during the interim period (“Interim Period”) after the expiry of the supply contract and before the finalization of the new supply contract. The Group is in active discussion with CWLC and the relevant cooperation partner regarding arrangements for the Interim Period, the new supply contract, and the recovery of outstanding payment. Meanwhile, the Group reserves all its rights to protect its lawful interests.

According to the “Government Procurement Law of the People’s Republic of China”, the “Regulations on the Administration of Lotteries” and the relevant management regulations of the MOF and relevant authorities, CWLC should procure new VLT terminals by following government procurement procedures. The Group is one of the companies with the largest video lottery terminal manufacturing capacity worldwide. The terminals developed and manufactured by DGTY is the only VLT terminal approved and confirmed by all three ministries including the MOF, the Ministry of Public Security and the Ministry of Civil Affairs.

The Group has been the supplier of VLT terminals and related services for 12 years since 2003. It has unique and unmatched experience, capabilities and qualification for VLT terminal manufacturing and development. With the terminals and related services provided by the Group in the last decade or so, VLT has become one of China lottery industry’s most pivotal lottery categories. Up to the end of 2015, the total sales of VLT had amounted to RMB179.57 billion including lottery funds of RMB38.97 billion raised for the government, representing a significant contribution to China Welfare Lottery. It is the genuine wish of the Group to continue to supply terminals for VLT to ensure the steady, consistent and rapid growth of the game category, and contribute to the China lottery business as a whole.

CTG Business

In 2015, Guangdong province, which is jointly served by the Group's subsidiaries, Guangzhou San Huan Yong Xin Technology Company ("GZSH") and Beijing Bestinfo Cyber Technology Company Limited ("Bestinfo"), recorded Welfare CTG sales of RMB12.68 billion. The Province remained the largest provincial Welfare Lottery market in China in terms of sales for eight consecutive years. Chongqing, which is also served by GZSH, recorded Welfare CTG sales of RMB1.59 billion in 2015. Shanghai, which is jointly served by GZSH and Bestinfo, recorded Welfare CTG sales of RMB2.66 billion. Additionally, GZSH continued to provide terminal maintenance services to Shenzhen Welfare Lottery Centre.

The Group's Sports CTG business grew at an impressive pace in 2015. Guangzhou Lottnal Terminal Company Limited ("GZL"), a subsidiary of the Group, successively won bids for Sports Lottery CTG terminal procurement programmes of Gansu, Guizhou, Shaanxi, Guangxi, Hunan, Yunnan, Inner Mongolia, Guangdong, Henan, Liaoning, Heilongjiang, Zhejiang, expanding its business presence to 15 provinces, nearly half of the 31 provinces and regions in China. The Group is gradually establishing its leading position in the lottery industry. In 2015, the Group was the top selling Sports Lottery CTG terminal provider after winning bids for a total number of 13,928 units of terminals, accounting for 30% market share of the total nationwide Sports Lottery CTG terminal procurement volume. In 2016, the Group will leverage its unique technology and product advantages to further increase its terminal sales, and expand its high quality services to more provinces. At the same time, the Group will continue to maintain its collaboration with domestic and overseas terminal manufacturers to provide specialized terminal products and core components including lottery terminals and readers.

In 2015, the Group and National Sports Lottery Limited, which was established by Khmer First Investment Holding Group in Cambodia, launched Sports Lottery in Cambodia to offer CTG and scratch card games, with an aim of raising funds for the 32nd Southeast Asian Games to be held in Cambodia in 2023. In December 2015, the Group and Cambodia's Khmer Pool Welfare Lottery Co., Ltd launched Welfare Lottery in Cambodia to offer scratch card games in Cambodia, to raise funds for Cambodia's Red Cross. The parties are discussing extending their collaboration to offer high-frequency CTG in 2016. The Management believes that the development in emerging markets will bring new opportunities for the Group.

In 2015, Bestinfo won a bid for Guangdong Welfare Lottery Centre's "Welfare Computer Ticket Game Lottery Information System Technical Services Procurement Project", for the provision of a new generation sales management system. The system was successfully launched on 7 March 2016. In 2016, Bestinfo will continue to develop a new generation comprehensive lottery information management system with comprehensive data analysis and management techniques for Shanghai Welfare Lottery Centre. The Group has become a comprehensive CTG terminal and services provider for Guangdong Welfare Lottery and Shanghai Welfare Lottery, and earned recognition from these lottery authorities with technical strength and quality service. Such outstanding performance has laid a solid foundation for the Group to win more projects.

New Media Lottery Business

The Group's New Media Lottery business had ups and downs in 2015. The joint announcement of eight government ministries to suspend online lottery sales, and the National Audit Office's audit report on the lottery funds of 18 provinces and cities were evident that the Central Government and the State Council attach great importance to the healthy development of China's lottery market. While the suspension had certain impact on new media lottery operations via mobile phone and the Internet, it showed that there is a compelling need for the lottery authorities to put in place standardized management for new media lottery, so as to create a favourable market environment for the development of new channels and new games in the future.

In response to the requirements of the relevant regulatory authorities, the Group made appropriate adjustment to its telephone lottery business. In addition to maintaining close ties with telecommunication operators, banks and other financial institutions, the Group has been working closely with provincial lottery authorities to enhance the technical development of telephone lottery sales system with innovative application proposals covering cloud computing, big data and work flow.

In April 2015, the Group won a bid for Henan Sports Lottery Centre's "Telephone Lottery Sales Management System Software Development Services Project", with responsibilities to provide Henan Sports Lottery Centre with a comprehensive range of services related to telephone lottery sales management system software development. The project is exemplar of the Group's rapid development in the new media lottery area.

In the meantime, rapid technological advancement has driven innovations in lottery development. Since the suspension of online lottery sales, the demands of new lottery patrons like white-collar consumers for new distribution channels and new games have become stronger. Society has called upon lottery authorities to accelerate the progress of lottery reformation and innovation, optimize lottery patron base and so on to meet market needs. In 2015, in light of market development, the Group made further progress on system construction and new project preparation for new type lottery, with the aim of capturing new markets.

Economic development, industry structure, technological advancement and media environment have given rise to new market opportunities. The Group is confident about the tremendous potential of new type lottery, and has cooperated more closely with lottery authorities to improve the relevant technical systems in preparation for the launch of the products. The Group's leading R&D and innovation capabilities in new type lottery games have given it competitive advantage in this area. The Group has developed a next-gen and industry leading new type lottery games that are fun, interactive, and have cross border features. The Group believes that the new type lottery will open up a new and vast consumer market to satisfy people's growing cultural and entertainment needs, as well as contribute additional fiscal revenue to the government.

In 2016, the Group will further improve the provincial telephone lottery sales system, commit more resources to new type lottery development, as well as continuously expand its business collaborations. Meanwhile, the Group will maintain its competitive advantage through cooperating with financial institutions and telecommunication operators, strengthen the relationship with various lottery authorities and provide players with innovative products and services, as part of the preparations for expanding its new media lottery business.

Conclusion

The Group's focus on building its own technology and product offering has enabled it to cover Video Lottery terminal, CTG terminal, CTG core transaction system, CTG management system, CTG game development and design, Scratch Card integrated management system, New Media Lottery sales system, New Media Lottery big data analysis system, and New Media Lottery game development and design. In addition, the Group has developed extensive operations and service capabilities for Video Lottery, CTG and New Media Lottery. For over a decade, the Group has showed its dedication to the industry with extensive investment, accountability and responsiveness to earn recognition as a leading market participant. Exploring new opportunities in the market with caution and prudence, the Group believes its efforts will pay off in the long run. Meanwhile, the Group will shape its strategies and execution in response to prevalent market trend and development as part of its preparation for opportunities brought by China lottery's 13th Five-Year Plan, for the benefit of its shareholders, employees and society as a whole.

Financial Review

The Group recorded a turnover of approximately HK\$643.7 million (2014: HK\$1,034.8 million) for the year ended 31 December 2015, representing a decrease of approximately 38% over 2014. Loss attributable to owners of the Company for 2015 amounted to approximately HK\$497.7 million (2014: profit of approximately HK\$100 million), and is mainly due to impairment of goodwill of approximately HK\$122.9 million (2014: Nil), fair value loss on financial assets at fair value through profit and loss of approximately HK\$103.7 million (2014: HK\$17.8 million), staff costs (excluding employee share option benefits) of approximately HK\$143.9 million (2014: HK\$121.2 million) and share option expenses of approximately HK\$92.2 million (2014: HK\$12.4 million).

The Group has continually discussed with China Welfare Lottery Centre on the interim arrangements after the expiry of the VLT supply contract ("the Supply Contract") on 28 June 2015 and consulted with China Welfare Lottery Centre on the status of the procurement procedures for the relevant new supply contract. On 11 August 2015, the Company's lawyer issued legal letters (the "Letters") to China Welfare Lottery Centre and Beijing China Lottery Online Technology Company Limited ("CLO"). The Letters requested, among others, China Welfare Lottery Centre and CLO to confirm that DGTY should be compensated for its provision of terminal services after the expiry of the Supply Contract. The Letters also stated that confirmation is deemed to be provided if there is no written reply from China Welfare Lottery Centre or CLO by 18 August 2015. As of the date of the Company's interim report and till 31 December 2015, DGTY has not received any reply or disagreement on the Letters from China Welfare Lottery Centre or CLO. Therefore, the Company considers that the Group should be compensated for its provision of terminal services after the expiry of the Supply

Contract. The revenue model is still uncertain and the relevant interim arrangements were not finalized before the publication of the Company's interim and final results announcement. As of the date of the Company's interim report and till 31 December 2015, the Group has not yet received any compensation which is subject to the terms of the interim arrangements to be finalized. In addition, on the accounting side, given the above uncertainty, the recoverable amount of the cash generating unit in the VLT business was adversely affected. Therefore, on 14 August 2015, based on the information available at that time, the management of the Company decided to make an impairment of the remaining goodwill from the VLT business in the amount of approximately HK\$95.3 million, and published on the same day a profit warning announcement to announce, among others, its expectation of impairment. The Company has informed its auditors of the information contained in this paragraph.

For the year ended 31 December 2015, the revenue, net profit and total assets from the VLT business (being the business under the Supply Contract) was approximately HK\$434.7 million, approximately HK\$123.2 million and approximately HK\$1,187.9 million respectively, representing 68%, N/A and 38% respectively to the Group's total revenue, net profit and total assets. Regarding the VLT business, over 41,500 units of VLT terminals of the Company are still being used for the video lottery category, which is currently the fastest growing and steadily developing lottery category in China's Welfare Lottery space. The Company expects that there will be a significant impact on its financial position if there is not any new contract for supplying additional VLT terminals. Nevertheless, the Company believes that these 41,500 plus units of currently operating VLT terminals will continue to generate substantial revenue for the Company. Meanwhile, DGTY is a high technology enterprise in China, equipped with state of art lottery equipment manufacturing as well as R&D capabilities given its self-built Guangdong Lottery Terminal Equipment Engineering and Technology Research Centre. It is able to take on extensive lottery equipment manufacturing and R&D work for domestic and overseas market participants. The Group has continually discussed with China Welfare Lottery Centre on the interim arrangements and consulted with China Welfare Lottery Centre on the status of the procurement procedures for the relevant new supply contract. The other business segments of the Group are well managed as mentioned in the above Business Review and Outlook and generating stable cash flow.

Financial assets at fair value through profit and loss comprised of debt securities listed in Hong Kong and outside Hong Kong, listed equity securities in Hong Kong and outside Hong Kong and unlisted fund investments (the "Financial Assets"). All the Financial Assets are liquid stocks and the Company intends to hold them as short-term investments. The Company has its treasury investment policy in place for the purpose of provision of the authority and guidelines to the Directors and management to undertake investment of surplus funds for the prudent management and control of risk in their investment portfolios. The acquisitions of the Financial Assets were conducted for the purpose of treasury activities of the Group and in accordance with the treasury investment policy of the Company. All the Financial Assets were acquired from independent third parties of the Company. As at 31 December 2015, the assets ratio of each of the Financial Assets did not exceed 5% (as defined in the Listing Rules). During the year under review, fair value loss on financial assets at fair value through profit and loss amounted to approximately HK\$103.7 million (2014: HK\$17.8 million).

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

The Group believes that it has adequate financial resources to fund its capital and operating requirements. At 31 December 2015, the Company had an outstanding corporate guarantee for unlimited amount for total banking facilities of property installment loans of approximately HK\$153.7 million (2014: HK\$153.7 million), an outstanding corporate guarantee limited to approximately HK\$17 million (2014: HK\$17 million) for a banking facility of a property installment loan of approximately HK\$17 million (2014: HK\$17 million), an outstanding corporate guarantee for unlimited amount for credit facilities of investment purpose of US\$20 million (2014: US\$20 million) and an outstanding corporate guarantee for unlimited amount for credit facilities of investment purpose of US\$5 million (2014: Nil) and overdraft for liquidity purpose of US\$15 million (2014: Nil). At 31 December 2014, a subsidiary of the Group had an outstanding corporate guarantee for a maximum of RMB140 million plus interest and fees for a banking facility of a working capital loan of RMB200 million.

The Group had outstanding bank borrowings at 31 December 2015 of approximately HK\$583 million (2014: HK\$911.2 million). At 31 December 2015, the bank borrowings and banking facilities of the Group were secured by (i) leasehold land and buildings of the Group with a carrying amount of approximately HK\$165.8 million (2014: HK\$169.3 million); (ii) standby letters of credit issued by banks for an aggregate amount of US\$32 million (2014: US\$59 million); (iii) accounts receivable of nil (2014: HK\$284 million); (iv) bank deposits amounting to approximately HK\$275.5 million (2014: HK\$500.7 million) and (v) financial assets of approximately HK\$635.1 million (2014: HK\$298.5 million).

In 2014, the Company has issued 5% convertible bonds (the “Convertible Bonds”) due 2019 in total aggregate principal of HK\$650 million. The Convertible Bonds shall be converted into the paid ordinary shares of HK\$0.0025 each (the “Shares”) of the Company at the applicable conversion price of HK\$0.92 each. The Convertible Bonds bear interest at the rate of 5% per annum payable semi-annually in arrears. During the year under review, no Convertible Bonds had been converted into Shares by the bondholders and no redemption of the Convertible Bonds had been made by the Company. At 31 December 2015, the principal amount of the Convertible Bonds outstanding was HK\$650 million (2014: HK\$650 million).

In 2014, the Company had raised net proceeds of approximately HK\$445 million from the issuance of a total of 594,034,513 new shares of the Company at the subscription price of HK\$0.75 per share to Hongze Lake Investment Limited, being the subscriber and is a wholly owned subsidiary of Tencent Holdings Limited whose shares are listed on the Main Board of the Stock Exchange with stock code 700. The Company granted an option to the subscriber to subscribe for a further 273,140,969 new shares of the Company at the option price of HK\$0.83 per share subject to the terms of the option. At 3 November 2015, option as abovementioned had lapsed.

The Group’s total equity amounted to approximately HK\$1,817.4 million at 31 December 2015 (2014: HK\$2,205.8 million). At 31 December 2015, net current assets of the Group amounted to approximately HK\$1,320.7 million (2014: HK\$1,561.1 million), including approximately HK\$792.6 million in cash and deposits with banks and financial institutions (2014: HK\$907.9 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2015 was approximately 42.5% (2014: 43.9%).

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

At 31 December 2015, the Group's leasehold land and buildings at net book value of approximately HK\$ 165.8 million (2014: HK\$169.3 million) were pledged to banks to secure the bank borrowings granted to the Group. At 31 December 2015, the Group's accounts receivable at outstanding balance of nil (2014: HK\$284 million) and bank deposits amounting to approximately HK\$253 million (2014: HK\$488.8 million) were pledged to secure bank borrowings and banking facilities granted to the Group. At 31 December 2015, the Group's cash deposits and financial assets at an aggregate carrying value of approximately HK\$657.6 million (2014: HK\$310.4 million) were pledged to a financial institution to secure the credit facilities granted to the Group.

Contingent Liabilities

At 31 December 2015, the Group did not have any material contingent liabilities (2014: Nil).

Staff

At 31 December 2015, the Group employed 445 full time employees (2014: 499). 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 China's lottery market.

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

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 2015.

Convertible Bonds

The Company had made an adjustment as a result of a final dividend of per share of the Company for the year ended 31 December 2014 to the conversion price of the convertible bonds (the “Bonds”) from HK\$0.93 per share to HK\$0.92 per share on 6 June 2015. The maximum number of shares that will be issued upon conversion of all the outstanding bonds at the previous conversion price and the adjusted conversion price is 698,924,731 shares and 706,521,739 shares respectively, representing an increase of 7,597,008 shares issuable under the Bonds. For the year ended 31 December 2015, there was no convertible bonds had been exercised by holders of the convertible bonds or redeemed by the Company. The convertible bonds are currently listed on the Stock Exchange.

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 2015 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 2015, 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. LAU Ting, currently also assumes the role of the Chief Executive Officer. Although the Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, the Board considers that given the nature of the Group’s businesses which requires considerable market expertise, the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management. Although some of the Non-Executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A.4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group.

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

Required Standard of Dealing regarding Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules 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 2015.

By order of the Board
China LotSynergy Holdings Limited
LAU Ting
Chairperson of the Board

Hong Kong, 22 March 2016

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