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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 2013**

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, the “Group”) for the year ended 31 December 2013, together with the comparative figures for the year ended 31 December 2012, as follows:

* For identification purposes only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

		2013	2012
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	743,756	607,255
Costs of sales and services		(199,775)	(124,749)
Gross profit		543,981	482,506
Other income	4	20,171	17,587
Other gains — net	5	4,298	2,752
General and administrative expenses		(182,513)	(176,566)
Impairment of accounts receivable		—	(29,789)
Share option expenses		(7,031)	(1,015)
Operating profit	6	378,906	295,475
Finance costs	7	(22,656)	(19,825)
Share of losses of joint ventures		(7,048)	(4,121)
Profit before income tax		349,202	271,529
Income tax expense	8	(87,000)	(69,196)
Profit for the year		262,202	202,333
Profit attributable to:			
Owners of the Company		88,556	67,513
Non-controlling interests		173,646	134,820
		262,202	202,333
Earnings per share attributable to owners of the Company during the year			
— basic	9	1.18 HK cents	0.91 HK cents
— diluted	9	1.17 HK cents	0.90 HK cents
		2013	2012
		<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends	13	18,319	13,415

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Profit for the year	262,202	202,333
Other comprehensive income/(expense):		
<i>Items that may be reclassified to profit or loss</i>		
Fair value gain on available-for-sale financial assets	4,410	2,266
Reclassification adjustment on disposal of available-for-sale financial assets	(3,755)	–
Currency translation differences	21,625	164
Other comprehensive income for the year	22,280	2,430
Total comprehensive income for the year	284,482	204,763
Attributable to:		
Owners of the Company	102,551	69,943
Non-controlling interests	181,931	134,820
Total comprehensive income for the year	284,482	204,763

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	<i>Notes</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		635,111	495,864
Intangible assets		435,792	413,763
Investments in joint ventures		95,705	99,782
Available-for-sale financial assets		35,538	31,128
Deferred income tax assets		8,401	17,176
Prepaid rentals		1,299	2,257
		1,211,846	1,059,970
Current assets			
Inventories		28,168	28,682
Accounts receivable	<i>10</i>	83,607	65,867
Prepayments, deposits and other receivables		195,141	106,728
Amounts due from joint ventures		79	401
Amount due from a related company		21,564	21,564
Income tax receivable		–	1,490
Cash and bank balances		841,129	713,606
		1,169,688	938,338
Total assets		2,381,534	1,998,308
Current liabilities			
Accounts payable	<i>11</i>	7,638	46,195
Accruals and other payables		36,884	22,852
Amounts due to joint ventures		5,365	6,173
Income tax payable		28,058	15,474
Financial liabilities at fair value through profit or loss		–	1,093
Bank borrowings		797,243	612,855
		875,188	704,642
Net current assets		294,500	233,696
Total assets less current liabilities		1,506,346	1,293,666
Non-current liabilities			
Deferred income tax liabilities		50,170	39,121
Net assets		1,456,176	1,254,545

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*Cont'd*)
At 31 December 2013

	<i>Notes</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Equity attributable to owners of the Company			
Share capital	<i>12</i>	19,017	18,631
Reserves		886,497	866,477
Retained profits		289,091	196,344
		1,194,605	1,081,452
Non-controlling interests		261,571	173,093
Total equity		1,456,176	1,254,545

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 (together the “Group”) are technology and operation service providers of lottery systems, terminal equipment and game products in the lottery market in China. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game and high frequency 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”). Dealings in the shares on the Main Board commenced on 16 October 2013 pursuant to the approval granted by the Stock Exchange for the transfer of listing of the shares from the Growth Enterprise Market (“GEM”) to the Main Board of the Stock Exchange.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities of the Stock Exchange and by the Hong Kong Companies Ordinance. 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 liabilities 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 standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 and have a material impact on the Group:

Amendment to HKAS 1, ‘Financial statement presentation’ regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in ‘other comprehensive income’ (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

HKFRS 10, ‘Consolidated financial statements’ builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

HKFRS 11, ‘Joint arrangements’ focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

HKFRS 12, ‘Disclosures of interests in other entities’ includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

2. BASIS OF PREPARATION (Cont'd)

Changes in accounting policy and disclosures (Cont'd)

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

HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRS. The requirements, which are largely aligned between HKFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRS.

(b) 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 2013, and have not been applied in preparing the 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. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact. The Group will also consider the impact of the remaining phases of HKFRS 9 when completed by the Board.

Amendment to HKAS 36, 'Impairment of assets', on recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in HKAS 36 by the issue of HKFRS 13.

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 and game products in the lottery market in China. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game and high frequency lottery, to new media lottery. An analysis of the Group's turnover for the year is as follows:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Turnover		
Income from provision of lottery terminals and lottery sales channels	728,201	600,034
Income from sales of equipment	15,197	6,091
Income from provision of consultancy services	358	1,130
	<u>743,756</u>	<u>607,255</u>

Segment information

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

Geographical information

(a) Revenue from external customers

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
People's Republic of China ("PRC") (country of domicile)	743,756	603,567
Russia	–	57
Vietnam	–	3,631
	<u>743,756</u>	<u>607,255</u>

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

(b) Non-current assets

	2013	2012
	Total assets <i>HK\$'000</i>	Total assets <i>HK\$'000</i>
	Additions to non-current assets <i>HK\$'000</i>	Additions to non-current assets <i>HK\$'000</i>
PRC	993,227	834,480
Hong Kong	174,680	177,186
	<u>1,167,907</u>	<u>1,011,666</u>
	233,039	232,765
	11,562	45,882
	<u>244,601</u>	<u>278,647</u>

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

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

Information about major customers

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

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Customer A	43,771	69,236
Customer B	618,041	470,613

4. OTHER INCOME

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Interest income from bank deposits	20,171	17,587

5. OTHER GAINS — NET

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Fair value adjustment of contingent consideration	(44)	3,472
Reclassification adjustment on disposal of available-for-sale financial assets	3,755	—
Gain/(loss) on disposal of property, plant and equipment	71	(62)
Foreign exchange gains/(losses)	516	(658)
	4,298	2,752

6. OPERATING PROFIT

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

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Costs of sales and services		
— Depreciation of lottery terminals	80,083	30,543
— Business tax	38,376	30,933
— Cost of inventories recognised as expense	8,820	3,668
— Repairs and maintenance	6,270	7,150
— Commission and handling charges	57,597	37,608
— Other costs of sales and services	8,629	14,847
	199,775	124,749
Operating lease rentals in respect of land and buildings	8,782	8,759
Auditors' remuneration	880	800
Amortisation of intangible assets		
— CLO Contract (<i>included in general and administrative expenses</i>)	6,528	6,528
Depreciation of other items of property, plant and equipment	7,757	8,266

7. FINANCE COSTS

	2013 HK\$'000	2012 HK\$'000
Interest expense on bank borrowings wholly repayable within five years	22,656	16,883
Imputed interest expense on convertible note	—	2,942
	<u>22,656</u>	<u>19,825</u>

8. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% (2012: 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 2013 and 2012 as the Group had no assessable profits arising in or derived from Hong Kong for both years. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2013 HK\$'000	2012 HK\$'000
Current tax		
— PRC Enterprise Income Tax	67,295	58,650
— Adjustments in respect of prior years	40	(1,549)
Total current tax	<u>67,335</u>	<u>57,101</u>
Deferred tax		
— Origination and reversal of temporary differences	<u>19,665</u>	<u>12,095</u>
Income tax expense	<u>87,000</u>	<u>69,196</u>

9. EARNINGS PER SHARE

(a) Basic

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

	2013	2012
Profit attributable to owners of the Company (HK\$'000)	<u>88,556</u>	<u>67,513</u>
Weighted average number of ordinary shares in issue	<u>7,478,558,573</u>	<u>7,452,584,666</u>
Basic earnings per share	<u>1.18 HK cents</u>	<u>0.91 HK cents</u>

9. EARNINGS PER SHARE (*Cont'd*)

(b) Diluted

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

	2013	2012
Profit attributable to owners of the Company (<i>HK\$'000</i>)	<u>88,556</u>	<u>67,513</u>
Weighted average number of ordinary shares in issue	7,478,558,573	7,452,584,666
Effect of dilutive potential ordinary shares:		
— Share options	96,288,242	3,247,022
— Contingent consideration shares	<u>—</u>	<u>8,888,154</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>7,574,846,815</u>	<u>7,464,719,842</u>
Diluted earnings per share	<u>1.17 HK cents</u>	<u>0.90 HK cents</u>

The computation of diluted earnings per share for the year ended 31 December 2012 did not assume the conversion of the convertible note since its exercise would result in an increase in earnings per share.

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:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Less than 3 months	82,828	62,595
Over 3 months but less than 1 year	728	3,235
Over 1 year	<u>51</u>	<u>37</u>
	<u>83,607</u>	<u>65,867</u>

11. ACCOUNTS PAYABLE

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

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Less than 3 months	6,980	45,869
Over 3 months but less than 1 year	596	245
Over 1 year	62	81
	<u>7,638</u>	<u>46,195</u>

12. SHARE CAPITAL

	Authorised ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2012, 31 December 2012 and 31 December 2013	16,000,000,000	40,000
	Issued and fully paid ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2012	7,411,964,000	18,530
Issue of consideration shares	40,620,666	101
At 31 December 2012	7,452,584,666	18,631
Issue of consideration shares	8,888,154	22
Share options exercised	145,400,000	364
At 31 December 2013	<u>7,606,872,820</u>	<u>19,017</u>

13. DIVIDENDS

A final dividend in respect of the year ended 31 December 2013 of 0.24 HK cents (2012: 0.18 HK cents) per share, amounting to a total dividend of approximately HK\$18,319,000 (2012: HK\$13,415,000) is to be proposed at the annual general meeting on 27 May 2014. The consolidated financial statements do not reflect this dividend payable.

DIVIDENDS

The Board has recommended the payment of a final dividend of 0.24 HK cents (2012: 0.18 HK cents) per share for the year ended 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged in the provision of technology and services for lottery systems, terminal equipment, gaming products and their operations in China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery, computer-generated ticket games ("CTG") and high frequency lottery to new media lottery. Through building up its technical competencies, expansion into new markets in China and high standards of corporate governance, the Group has established a solid foundation and a reputable brand name, providing it with comprehensive capabilities for sustainable development in the industry. On 16 October 2013, the Group became the first Hong Kong listed lottery company to successfully transfer its listing from the GEM Board to the Main Board of the Hong Kong Stock Exchange.

China's Lottery Market

China's lottery market demonstrated sustained growth in 2013 according to figures published by the Ministry of Finance, with total lottery sales of RMB309.33 billion, representing an increase of 18.3% year on year ("YOY"). Welfare Lottery and Sports Lottery contributed RMB176.53 billion and RMB132.80 billion respectively, representing growth of 16.9% and 20.2% YOY respectively. With the exception of Scratch Cards, all other lottery types posted double-digit sales growth. The three fastest growing lottery types were Welfare Video Lottery, Sports Single Match Games and Lotto (i.e., Welfare and Sports CTGs), which grew at 29.1%, 26.2% and 21.4% YOY respectively.

Business Review and Outlook

The Group's business segments continued to develop favourably in 2013. VLT sales reached record highs, with growth at 29.1% YOY, maintaining its position as the fastest growing lottery type. All old-generation VLT terminals nationwide were replaced and upgraded to third-generation terminals, with nearly 29,000 units connected by the end of the year. For our Welfare CTG business, Guangdong Welfare Lottery maintained stable sales growth, while the size of Chongqing Welfare Lottery's terminal operations is expected to expand further on the back of outstanding sales performance since the commencement of sales in June 2013. For our Sports Lottery CTG business, the Group won terminal supply contracts in four provinces. Meanwhile, we continued to expand our new media lottery business, which includes telephone lottery and new type lottery, utilizing new channels and new lottery types to establish closer ties with lottery authorities and channel partners, ensuring that the Group will maintain its competitive advantage in the new media lottery area.

Video Lottery Business

China Welfare Lottery Video Lottery (VLT) Business

As a technology-rich product, VLT has been playing a vital role in China's lottery industry. The Group is the exclusive terminal equipment provider for VLT. VLT sales amounted to RMB28.9 billion in 2013, representing a growth of 29.1% YOY. VLT continued to be the fastest growing lottery type nationwide, with sales growth outpacing that of the overall lottery industry's growth of 18.3% YOY during the same period.

With the exception of February, VLT's monthly sales exceeded RMB2.2 billion in 2013, with average daily sales amounting to RMB80.83 million and average daily sales per terminal exceeding RMB3,173.

In 2013, the top five provinces for VLT by sales were Zhejiang (RMB3.65 billion), Shandong (RMB2.78 billion), Guangdong (RMB2.43 billion), Jiangsu (RMB2.41 billion) and Hubei (RMB1.81 billion). They were followed by Anhui, Hunan, Liaoning and Henan, with sales in each province exceeding RMB1.1 billion. 15 provinces recorded VLT sales growth of over 30% YOY. Sales growth in Henan, Jiangxi, Sichuan and Guizhou exceeded 45% YOY, out of which Sichuan recorded the highest sales growth, at 87% YOY. VLT accounted for more than 20% of the total Welfare Lottery sales in Zhejiang, Shandong, Hubei, Anhui, Hunan and Gansu. VLT has undoubtedly become a key growth driver for Welfare Lottery across the provinces.

As at 31 December 2013, at the request of China Welfare Lottery Centre ("CWLC"), the Group had manufactured more than 30,000 units of third-generation terminals, and had delivered more than 29,000 of these units to 28 provinces across the nation. Approximately 1,100 VLT halls had been set up with nearly 29,000 third-generation terminals connected. In 2014, the Group will strive to enhance its technical competencies and inject new life into the VLT product. In 2014, the Group will continue to deliver third-generation terminals and expects steady sales growth to continue. VLT is set to become an essential and influential lottery type in China's lottery market.

As a fast growing lottery type under Welfare Lottery, VLT has garnered much attention from provincial welfare lottery centres nationwide. Throughout 2013, provincial welfare lottery centres focused their efforts on reform by optimizing the management and layout of VLT halls, enhancing employee incentives and performance appraisal schemes, and developing practical promotional measures, all of which contributed to VLT's strong sales growth. Aside from serving as a key point-of-sale for Welfare Lottery, VLT halls are increasingly becoming venues for charitable contribution. The "caring welfare grant" program organized in 2013 gave impoverished university students the opportunity to earn a living for themselves by taking part in work-study programs at VLT halls across the nation. At the same time, an ever increasing amount of welfare funds from VLT sales had been distributed to various communities across the country, enabling the implementation of various public welfare and charity initiatives to benefit the disadvantaged and needy. VLT has consistently upheld the motto of "assisting the elderly, the disabled, the orphaned and the impoverished", and is dedicated to continuously making positive contributions to social welfare and general good causes.

CTG and High Frequency Lottery Business

CTG Business

In 2013, Welfare CTG sales amounted to RMB129 billion nationwide, representing growth of 19% YOY. Guangdong province, which is served by the Group's subsidiary, Guangzhou San Huan Yong Xin Technology Company ("GZSH"), is the largest provincial Welfare Lottery market in China, contributing RMB11.1 billion in CTG sales during the year, representing growth of 8.2% YOY. In June 2013, GZSH signed a contract with Chongqing Municipal Welfare Lottery Centre to provide Welfare Lottery CTG terminals and technical services on a revenue-sharing basis. Currently, the terminals in Chongqing initially deployed by GZSH are operational. Chongqing Municipal Welfare Lottery Centre recorded CTG sales of RMB2.22 billion in 2013. According to the contract, GZSH will continue to work with Chongqing Municipal Welfare Lottery Centre to deploy more terminals in 2014. GZSH also provides terminal maintenance services to Shenzhen Welfare Lottery Centre.

Guangzhou Lottnal Terminal Company Limited ("GZL"), a subsidiary of the Group, has developed standard, economy and portable type Sports Lottery CTG terminals in-house, all of which have been successfully included in China Sports Lottery Centre's terminal procurement catalogue since March 2013. Thereafter, GZL has successfully won bids to supply standard type Sports Lottery CTG terminals and provide technical services to Sports Lottery Centres in Guizhou, Gansu, Zhejiang and Anhui. In February 2014, GZL won another bid to supply standard type Sports Lottery CTG terminals and provide technical services to Gansu Sports Lottery Centre. Additionally, GZL continues to work with domestic and international terminal manufacturers to provide customized terminals and lottery readers. In 2014, the Group's increasingly sophisticated product and technological capabilities will coincide with the period of peak demand for the addition and replacement of Sports Lottery CTG terminals. The Group will leverage its unique intellectual property rights and product advantages to gain more contracts and earn more business opportunities.

High Frequency Lottery Business (KENO)

Total sales of KENO nationwide dropped in 2013 compared to 2012, due to competitive pressure from provincial high frequency games with higher payout ratios. In the first half of 2013, CWLC expanded its nationwide management of CTG games to include KENO, and focused its efforts on increasing the payout ratio of the game. The Group believes that the increased payout ratio, along with the implementation of proactive measures required for social game types, such as co-location, will be the catalysts that will enable KENO to break out of its development bottleneck and drive rapid growth.

New Media Lottery Business

Telephone Lottery Business

In 2013, the Group made significant strides in its telephone lottery business, benefitting from closer ties with lottery authorities, telecommunications operators and financial institutions in China.

In 2013, the Group entered into telephone lottery sales contracts with another three provincial lottery authorities. To date, the Group has already secured new media lottery business cooperation with more than ten provincial lottery authorities, an indication of the recognition gained on the Group's strength in the new media lottery area. In addition to maintaining close cooperation with China Merchants Bank and Bank of Communications, the Group also entered into cooperation with, among others, Shanghai Pudong Development Bank and Bank of Chengdu. A highlight of 2013 is that the Group assumed the role of operational support for lottery operations available on China Mobile's mobile payment platform, demonstrating the Group's commitment to excellence, as well as its strong operational competencies and service capabilities.

2014 will be a crucial year for the Group's telephone lottery business. To further solidify our leading position in the new media lottery area, the Group is striving to cooperate with more provincial lottery authorities, with the aim of becoming a telephone lottery system provider and distributor. The Group will increase the breadth and depth of its collaboration with telecommunications operators and financial institutions in China, and continue to realize new collaborations in 2014. The Group will continue to strive to provide the best services to our various partners to establish mutually beneficial relationships, thereby contributing to the development of new media lottery in China's lottery market.

New Type Lottery Business

In 2013, the rapid development of China's e-commerce, mobile internet and other new media businesses, as well as the widespread usage of new technology have been key drivers of product innovations in the lottery market. With the support of various government policies, lottery authorities at different levels are accelerating the construction of new type lottery systems and new project submissions, in an effort to capture first mover opportunities.

In 2013, the Group expanded upon its advantageous position in new type lottery development by increasing its cooperation with numerous lottery authorities to further improve systems in accordance with new specifications, commence development of a variety of games and assist lottery authorities with project submission.

The Group continued to innovate in gaming products, developing new games which have earned broad acclaim by combining the needs of the market with the desires of the players. In order to quickly penetrate key markets, the Group has devised a new media marketing plan which focuses on establishing strategic cooperation with many leading new media companies in China.

New type lottery is an important area of strategic development for the Group and a key growth driver for the market. The Group firmly believes that through enhanced systems and products and market-oriented promotional strategies, it will build up a competitive advantage in this market, while at the same time assisting lottery authorities in expansion to new markets, leading to unlimited development prospects.

Conclusion

In 2013, lottery sales nationwide reached record highs, a trend which will undoubtedly continue over the next few years. As a professional lottery company with deep involvement and ties in China's lottery market, the Group stands to reap the benefits of its sustained rapid development. Having undergone twenty years of booming growth, China's lottery sector is currently facing unprecedented opportunities and transformations.

Lottery games are inherently numerical, as the gaming process essentially involves the sale of number sequences. New media lottery has the advantage of being the lowest cost method of achieving this, making it incomparably dynamic and revolutionary. The Group understands that new media lottery entails an innovative combination of new lottery channels and new games, primarily backed by enhanced system capabilities and new gaming innovations. Thus, the Group will focus on acquiring a more accurate grasp of the market's and players' needs and desires to drive innovation in this area.

The 300,000 terminals and sales outlets under Sports and Welfare Lottery are the result of twenty years of development of China's lottery industry, and form the backbone of the sector. The upward trend for future terminal and sales outlets growth is expected to be sustained. The growth in new media lottery consumption will supplement consumption through terminals in physical outlets with new features. With the entire retail sector entering the online-to-offline ("O2O") era, the lottery sector is also poised to adopt this innovation. Implementation of lottery-specific O2O strategies necessitates conducting in-depth research into the lottery market's development landscape, player behaviour and the psychology of consumption. Learning from the successes of other consumer goods industries, developing suitable O2O products, and bringing customers more convenience, rationality and entertainment will all facilitate stronger expansion and development of China's lottery industry.

With lottery issuance and regulatory authorities advocating the need for better cooperation between the market and the government, the Group, as a trusted partner of lottery authorities, will continue to strive to provide professional and high quality services, and will strictly comply with lottery related policies and regulations. In 2014, the new media lottery sector is expected to thrive, and the lottery industry will witness an accelerated integration of online and offline businesses. The Group is prepared to strengthen its existing businesses and earnings base, while striving to capture new business opportunities to achieve new growth drivers, thus creating greater value for its shareholders.

Financial Review

The Group recorded a turnover of approximately HK\$743.8 million for the year ended 31 December 2013, representing an increase of approximately 22% over 2012. The Group recorded approximately HK\$88.6 million in profit attributable to owners of the Company for the year ended 31 December 2013, representing an increase of approximately 31% over 2012. The improvement in both turnover and profit attributable to owners of the Company is mainly attributable to sustained growth of China lottery market in 2013.

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 2013, the Company had an outstanding corporate guarantee for an unlimited amount for total banking facilities of property installment loans of approximately HK\$153.7 million (2012: HK\$106.9 million), and an outstanding corporate guarantee limited to approximately HK\$17 million (2012: HK\$17 million) for a banking facility of a property installment loan of approximately HK\$17 million (2012: HK\$17 million); whereas, a subsidiary of the Group had an outstanding corporate guarantee for a maximum of RMB150 million (2012: RMB80 million) plus interest and fees for a banking facility of a working capital loan of RMB200 million (2012: RMB150 million) granted to the Group. The Group had outstanding bank borrowings at 31 December 2013 of approximately HK\$797.2 million (2012: HK\$612.9 million). At 31 December 2013, 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\$172.9 million (2012: HK\$176.4 million), (ii) standby letters of credit issued by bank for an aggregate amount of US\$59 million (2012: US\$55 million), (iii) accounts receivable of approximately HK\$60.5 million (2012: HK\$47.4 million) and (iv) bank deposits amounting to approximately HK\$501.3 million (2012: HK\$446.9 million).

The Group's total equity amounted to approximately HK\$1,456.2 million at 31 December 2013 (2012: HK\$1,254.5 million). At 31 December 2013, net current assets of the Group amounted to approximately HK\$294.5 million (2012: HK\$233.7 million), including approximately HK\$841.1 million in cash and deposits with banks and financial institutions (2012: HK\$713.6 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2013 was approximately 38.9% (2012: 37.2%).

Exposure to Exchange Rate Fluctuations

All of 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 2013, the Group's leasehold land and buildings at net book value of approximately HK\$172.9 million (2012: HK\$176.4 million) were pledged to banks to secure the bank borrowings granted to the Group. At 31 December 2013, the Group's accounts receivable at outstanding balance of approximately HK\$60.5 million (2012: HK\$47.4 million) and bank deposits amounting to approximately HK\$501.3 million (2012: HK\$446.9 million) were pledged to secure bank borrowings and banking facilities granted to the Group.

Contingent Liabilities

At 31 December 2013, the Group did not have any material contingent liabilities (2012: Nil).

Staff

At 31 December 2013, the Group had 460 (at 31 December 2012: 480) full time employees. 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 programmes for staff are provided as and when required. The Group will further strengthen its team, and in particular on the build up of its technical team, in order to offer enhanced services for China's welfare lottery market.

Closure of Register of Members

The proposed final dividend is subject to approval of shareholders at the Annual General Meeting to be held on Tuesday, 27 May 2014. For the purpose of determining shareholders who qualify for the final dividend, the Company's register of members will be closed from Thursday, 5 June 2014 to Monday, 9 June 2014 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Transfer Office, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 4 June 2014. Subject to the approval of shareholders of the Company at the Annual General Meeting, the dividend warrants will be despatched to shareholders, whose names appear on the Register of Members of the Company on Monday, 9 June 2014, on or about Wednesday, 9 July 2014.

Transfer of Listing from the GEM to the Main Board of the Stock Exchange

On 25 March 2013, the Company made an application to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the transfer of listing of the shares of the Company from the Growth Enterprise Market of the Stock Exchange ("GEM") to the Main Board pursuant to the transfer of listing procedures under Chapter 9A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (the "Transfer of Listing").

On 4 October 2013, the approval-in-principle for the Transfer of Listing was granted by the Stock Exchange. The last day of dealings in the shares of the Company on GEM was 15 October 2013. Dealing in the shares of the Company on the Main Board (under stock code: 1371) commenced at 9:00 a.m. on 16 October 2013 following the Transfer of Listing. The Company has adopted "CHINA LOTSYN" as its English stock short name and "華彩控股" as its Chinese stock short name for trading purpose on the Main Board. The Transfer of Listing has not involved any issue of new shares by the Company. No change has been made to the existing share certificates, the trading currency and the share registrar of the shares of the Company in connection with the Transfer of Listing.

The Board believes that the listing of the shares of the Company on the Main Board can help enhance the profile of the Group and increase the trading liquidity of the shares of the Company by attracting more institutional and retail investors. The Board considers that the Transfer of Listing can be beneficial to the financing flexibility, future growth and business development of the Group.

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 2013.

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 2013 have been reviewed by the Audit Committee.

Corporate Governance

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and of the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2013, except for the deviations from Code provisions A.2.1, A.4.1 and A.4.2. 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.

* For identification purposes only

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 2013.

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

Hong Kong, 25 March 2014

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.