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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 2016**

**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 2016, together with the comparative figures for the year ended 31 December 2015, as follows:

\* *For identification purposes only*

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Turnover	3	200,319	643,748
Costs of sales and services			
— Depreciation of lottery terminals		(128,516)	(118,219)
— Others		(78,734)	(166,057)
		<u>(207,250)</u>	<u>(284,276)</u>
(Gross loss)/gross profit		(6,931)	359,472
Other income	4	27,559	32,908
Other losses — net	5	(156,809)	(234,930)
General and administrative expenses		(227,244)	(369,852)
Share option expenses		<u>(18,998)</u>	<u>(92,230)</u>
Operating loss	6	(382,423)	(304,632)
Finance costs	7	(56,904)	(61,412)
Share of loss of an associate		(4)	(7)
Share of loss of a joint venture		<u>(2,369)</u>	<u>(4,073)</u>
Loss before income tax		(441,700)	(370,124)
Income tax expense	8	<u>(37,901)</u>	<u>(46,006)</u>
Loss for the year		<u>(479,601)</u>	<u>(416,130)</u>
<b>(Loss)/Profit attributable to:</b>			
Owners of the Company		(297,967)	(497,654)
Non-controlling interests		<u>(181,634)</u>	<u>81,524</u>
		<u>(479,601)</u>	<u>(416,130)</u>
<b>Loss per share attributable to owners of the Company during the year</b>			
— basic	9	<u>(3.49) HK cents</u>	<u>(5.85) HK cents</u>
— diluted	9	<u>(3.49) HK cents</u>	<u>(5.85) HK cents</u>

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

*For the year ended 31 December 2016*

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss for the year	<b>(479,601)</b>	(416,130)
Other comprehensive expenses:		
<i>Items that may be reclassified to profit or loss</i>		
Fair value loss on available-for-sale financial assets	<b>(2,944)</b>	(2,810)
Reclassification adjustment on disposal of available-for-sale financial assets	–	(9,514)
Reclassification adjustment on impairment of available-for-sale financial assets	<b>2,944</b>	4,318
Release of currency translation reserve upon disposal of subsidiaries	<b>(235)</b>	–
Currency translation differences	<b>(80,133)</b>	(69,659)
Other comprehensive expenses for the year	<b>(80,368)</b>	(77,665)
Total comprehensive expenses for the year	<b>(559,969)</b>	(493,795)
<b>Attributable to:</b>		
Owners of the Company	<b>(353,110)</b>	(555,329)
Non-controlling interests	<b>(206,859)</b>	61,534
<b>Total comprehensive expenses for the year</b>	<b>(559,969)</b>	(493,795)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>336,481</b>	668,968
Intangible assets		<b>457,183</b>	448,336
Investment in an associate		<b>4,460</b>	4,764
Investment in a joint venture		<b>28,115</b>	32,534
Available-for-sale financial assets		<b>7,056</b>	10,000
Deferred income tax assets		<b>9,039</b>	8,402
		<b>842,334</b>	1,173,004
<b>Current assets</b>			
Inventories		<b>24,687</b>	58,516
Accounts receivable	<i>10</i>	<b>77,370</b>	88,632
Prepayments, deposits and other receivables		<b>591,232</b>	371,134
Financial assets at fair value through profit or loss		<b>315,090</b>	677,466
Cash and bank balances		<b>374,575</b>	792,637
		<b>1,382,954</b>	1,988,385
<b>Total assets</b>		<b>2,225,288</b>	3,161,389
<b>Current liabilities</b>			
Accounts and bills payable	<i>11</i>	<b>5,736</b>	16,489
Accruals and other payables		<b>39,132</b>	60,278
Amount due to a joint venture		<b>7,919</b>	6,766
Income tax payable		<b>9,477</b>	1,105
Bank borrowings		<b>313,378</b>	583,038
		<b>375,642</b>	667,676
<b>Net current assets</b>		<b>1,007,312</b>	1,320,709
<b>Total assets less current liabilities</b>		<b>1,849,646</b>	2,493,713
<b>Non-current liabilities</b>			
Convertible bonds		<b>521,520</b>	602,156
Deferred income tax liabilities		<b>55,206</b>	74,189
		<b>576,726</b>	676,345
<b>Net assets</b>		<b>1,272,920</b>	1,817,368

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** (*Cont'd*)*At 31 December 2016*

	<i>Notes</i>	<b>2016</b> <b>HK\$'000</b>	2015 <i>HK\$'000</i>
<b>Equity attributable to owners of the Company</b>			
Share capital	<i>12</i>	<b>21,388</b>	21,330
Reserves		<b>1,352,856</b>	1,433,762
Accumulated losses		<b>(439,661)</b>	(143,334)
		<b>934,583</b>	1,311,758
<b>Non-controlling interests</b>		<b>338,337</b>	505,610
<b>Total equity</b>		<b>1,272,920</b>	1,817,368

*Notes:*

## **1. GENERAL INFORMATION**

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

The Company and its subsidiaries (collectively referred to as the “Group”) are technology and operation service providers of lottery systems, terminal equipment and gaming products 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 amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Accounting for acquisitions of interests in joint operations — Amendments to HKFRS 11;
- Clarification of acceptable methods of depreciation and amortisation — Amendments to HKAS 16 and HKAS 38;
- Annual improvements to HKFRSs 2012–2014 cycle; and
- Disclosure initiative — Amendments to HKAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period.

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

### Changes in accounting policy and disclosures (Cont'd)

#### (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 2016 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.

HKFRS 16, “Leases” will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for Group’s operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group’s result and classification of cash flows. The new standard is mandatory for financial years commencing on or after 1 January 2019.

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 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:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Income from provision of lottery terminals and lottery sales channels	<b>119,138</b>	540,866
Income from sales of equipment	<b>80,976</b>	102,666
Income from provision of consultancy services	<b>205</b>	216
	<b>200,319</b>	643,748

#### Segment information

The Group's revenue and contribution to loss were mainly derived from the provision of technology and operation service for lottery systems, terminal equipment and gaming products in 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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
People's Republic of China ("PRC") (Country of domicile)	<b>193,792</b>	643,748
Cambodia	<b>6,527</b>	–
	<b>200,319</b>	643,748

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

##### (b) Non-current assets

	<b>2016</b>		2015	
	<b>Total assets</b> <i>HK\$'000</i>	<b>Additions to non-current assets</b> <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Additions to non-current assets <i>HK\$'000</i>
PRC	<b>655,190</b>	<b>43,414</b>	981,538	205,796
Hong Kong	<b>164,447</b>	<b>1,441</b>	167,454	840
Cambodia	<b>6,602</b>	<b>2,473</b>	5,610	1,862
	<b>826,239</b>	<b>47,328</b>	1,154,602	208,498

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:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Customer A	N/A <sup>1</sup>	434,705
Customer B	<b>81,982</b>	N/A <sup>1</sup>

<sup>1</sup> The corresponding revenue did not contribute over 10% of the total revenue of the Group.

### 4. OTHER INCOME

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest income from bank deposits and others	<b>27,559</b>	32,908

### 5. OTHER LOSSES — NET

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Fair value gain/(loss) on financial assets at fair value through profit or loss	<b>27,847</b>	(103,697)
Reclassification adjustment on disposal of available-for-sale financial assets	–	9,514
Gain on repurchase of convertible bond	<b>5,841</b>	–
Gain on disposal of subsidiaries	<b>56</b>	–
Impairment of available-for-sale financial assets	<b>(2,944)</b>	(4,318)
Impairment of goodwill	–	(122,904)
Impairment of investment in a joint venture	–	(13,367)
Impairment of property, plant and equipment	<b>(188,127)</b>	–
Loss on disposal of property, plant and equipment	<b>(255)</b>	(99)
Foreign exchange gains/(losses)	<b>773</b>	(59)
	<b>(156,809)</b>	(234,930)

## 6. OPERATING LOSS

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Costs of sales and services		
— Depreciation of lottery terminals	<b>128,516</b>	118,219
— Amortisation of intangible assets	<b>7,778</b>	3,935
— Business tax	<b>98</b>	26,099
— Cost of inventories recognised as expense	<b>58,701</b>	96,740
— Repairs and maintenance	<b>7,623</b>	12,919
— Commission and handling charges	<b>938</b>	15,394
— Others	<b>3,596</b>	10,970
	<b>207,250</b>	284,276
Operating lease rentals in respect of land and buildings	<b>17,877</b>	16,939
Auditors' remuneration	<b>980</b>	950
Amortisation of intangible assets	—	3,263
Depreciation of other items of property, plant and equipment	<b>11,876</b>	12,311

## 7. FINANCE COSTS

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest expenses on bank borrowings	<b>10,821</b>	15,077
Interest expenses on convertible bonds	<b>46,083</b>	46,335
	<b>56,904</b>	61,412

## 8. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% (2015: 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 2016 and 2015 as the Group had no assessable profits arising in or derived from Hong Kong for both years.

The applicable enterprise income tax rate for PRC subsidiaries are 25% (2015: 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% (2015: 15%).

Under the Law of the People's Republic of China on Enterprise Income Tax, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from a PRC subsidiary to a non-PRC tax resident group entity in Hong Kong in respect of profits generated after 1 January 2008 shall be subject to the withholding tax at 10%, unless the Hong Kong company can be approved to enjoy a reduced rate of 5% pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax		
— PRC Enterprise Income Tax	12,631	35,781
— PRC withholding tax	48,443	22,444
— Adjustments in respect of prior years	<u>(5,639)</u>	<u>(8,057)</u>
Total current tax	55,435	50,168
Deferred tax		
— Origination and reversal of temporary differences	<u>(17,534)</u>	<u>(4,162)</u>
Income tax expense	<u><u>37,901</u></u>	<u><u>46,006</u></u>

## 9. LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of 8,547,775,912 (2015: 8,501,842,949) ordinary shares in issue during the year.

The computation of diluted loss per share for the years ended 31 December 2016 and 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.

## 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:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Less than three months	<b>10,331</b>	14,771
Over three months but less than one year	<b>2,716</b>	73,050
Over one year	<b>64,323</b>	811
	<u><b>77,370</b></u>	<u>88,632</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:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Less than three months	<b>2,837</b>	15,465
Over three months but less than one year	<b>475</b>	886
Over one year	<b>2,424</b>	138
	<u><b>5,736</b></u>	<u>16,489</u>

## 12. SHARE CAPITAL

	<b>Authorised ordinary shares of HK\$0.0025 each</b>	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2015, 31 December 2015 and 31 December 2016	<b>16,000,000,000</b>	<b>40,000</b>
	<b>Issued and fully paid ordinary shares of HK\$0.0025 each</b>	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2015	8,452,207,333	21,131
Share options exercised	79,600,000	199
At 31 December 2015	8,531,807,333	21,330
Share options exercised	<b>23,500,000</b>	<b>58</b>
<b>At 31 December 2016</b>	<u><b>8,555,307,333</b></u>	<u><b>21,388</b></u>

## **DIVIDEND**

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

## **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 principal businesses of the Group cover various lottery products ranging from video lottery ("VLT"), computer-generated ticket games ("CTG") and KENO-type lottery to new media lottery. By building up its technical competencies, expanding into new markets and upholding high standards of corporate governance, the Group has established a solid foundation and an outstanding corporate brand name, providing it with comprehensive capabilities for sustainable development.

### **China's Lottery Market**

According to figures published by the Ministry of Finance ("MOF"), China's lottery sales rebounded and achieved record high in 2016, with total lottery sales of RMB394.64 billion, representing a year-on-year ("YOY") growth of 7.3%. Welfare Lottery sales grew 2.5% YOY to RMB206.49 billion, whereas Sports Lottery sales rose 13.1% YOY to RMB188.15 billion. Lotto, which is the industry's main source of revenue, up 3.8%, and accounted for 62.0% of total lottery sales. Single Match Games ("SMG") sales surged 29.8% YOY, driven by the sport events during the year, accounting for 19.4% of total lottery sales. VLT, with sales increased by 4.9% YOY, and accounted for 11.3% of total lottery sales, albeit no provision of new terminal for the last 20 months. The sales of Paper-based Scratch Card dropped 5.9% YOY and accounted for 7.2% of total lottery sales. It is the only lottery category posted declining sales figure.

### **Business Review and Outlook**

#### ***Video Lottery Business***

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

As a technology-rich product, Welfare VLT plays a vital role in China's lottery industry. Welfare VLT terminal equipments have been provided exclusively by the Group. Welfare VLT sales amounted to RMB44.54 billion, and accounted for 11.3% of the nation's total lottery sales in 2016. It was the fastest growing welfare lottery type with sales growth of 4.9% YOY.

Dongguan Tianyi Electronic Company Limited (“DGTY”), a subsidiary of the Group, has been the supplier of Welfare VLT terminals since 2003. It has unique and unmatched experience, capabilities and qualification given its continual investment in Welfare VLT terminal manufacturing and R&D. The terminals developed and manufactured by DGTY is the only Welfare VLT terminal approved and confirmed by all three ministries including the MOF, the Ministry of Public Security and the Ministry of Civil Affairs. DGTY has made three generations of Welfare VLT terminal replacements and upgrades, supplying a total number of over 70,000 units of terminals. For the year ended 31 December 2016, approximately 41,500 units of the third-generation terminals have been placed in over 1,900 Welfare VLT halls across 28 provinces, cities, autonomous regions and municipalities in China, supporting the entire Welfare VLT sales nationwide.

DGTY’s Welfare VLT supply contract expired on 28 June 2015. According to the supply contract, DGTY has the full ownership of the approximately 41,500 units of terminals generating all the sales of Welfare VLT, and has first right of refusal in the renewal of the Welfare VLT supply contract. The Group had not received notification from China Welfare Lottery Issuance and Administration Centre (“CWLC”) regarding a suspension of Welfare VLT sales after the expiry of the supply contract. The Group decided to maintain the Welfare VLT terminals it provided in fully operational condition for Welfare VLT’s continued use after the expiry of the supply contract, so as to support the sustained and healthy growth of Welfare VLT. This ensured the consistent and steady sales growth of Welfare VLT after the expiry of the supply contract. According to legally binding documents that the Group sent to CWLC and Beijing China Lottery Online Technology Company Limited (“CLO”), the Group shall be paid for the provision of these terminals for Welfare VLT’s continued use after the expiry of the supply contract. The Group is striving willfully to achieve its goal. It is the genuine wish of the Group to continue to supply terminals and related services for Welfare VLT to ensure the steady, consistent and rapid growth of the lottery category, and contribute to the China lottery business as a whole.

### **CTG Business**

On the Welfare Lottery CTG side, Guangdong province, which is served by the Group, remained the largest provincial Welfare Lottery market in China with sales up 7.0% YOY to RMB13.56 billion in 2016. Chongqing Welfare CTG and Shanghai Welfare CTG, both are served by the Group, recorded sales of approximately RMB1.74 billion and RMB3.13 billion respectively, with CTG sales growth of 10.4% and 17.8% YOY respectively. Furthermore, the Group is developing a new generation lottery information management system for Guangdong Welfare Lottery and Shanghai Welfare Lottery, which is expected to launch in 2017, taking their electronic management to a new level.

The Group’s Sports Lottery CTG terminal business grew at an accelerated pace in 2016. The Group successively won bids for the Sports Lottery CTG terminal procurement programmes of Yunnan, Shaanxi, Jiangsu, Guizhou, Henan, Heilongjiang, Guangxi and Guangdong, achieved a total order number of over 8,000 units of terminals, expanding its business to 16 provinces. Meanwhile, the Group actively expanded into new Sports Lottery space and

successively won bids for terminal information display device programmes of Shaanxi, Zhejiang, Jilin and Heilongjiang provinces, with a total order number of over 7,000 units of devices, and has become the leading Sports Lottery terminal supplier in China.

The Group will leverage its unique technology and product advantages to earn business from more provinces. At the same time, the Group will continue to maintain its collaboration with domestic and international terminal manufacturers to provide lottery terminals and core components such as scanners.

### **New Media Lottery Business**

2016 is the first year of China's 13th Five-Year Plan. New channels such as telephone and internet related product incubation has been highlighted in the 13th Five-Year Plan for Sports Lottery and Welfare Lottery, expanding new development pattern and enhancing innovation force. In addition, related technical preparations have been speeded up. The launch of New Media Lottery is clearly in order.

In 2016, the Group continued to maintain its close ties with several provincial lottery authorities, constantly refined and upgraded the telephone lottery sales management system and related products, enhanced and upgraded the workflow optimization and monitoring function of its telephone lottery sales business in accordance with the business management and operational requirements of the provincial lottery authorities by perfecting the functions of data mining, sales and marketing, with the aim of providing better support for telephone lottery sales activities of lottery authorities.

At the same time, the Group proactively optimized and enhanced the new media lottery management system and products, as part of the technical and operating preparations for further expansion of its new media lottery business.

The Group will be the forerunner of the new media lottery space when the market is fully opened up, riding on its well-rounded leading edges in terms of technical experience, games, marketing strategy and veteran. The Group also actively assisted lottery authorities with exploration in new business model, providing lottery players with whole new experiences that are fast, convenient, and have self-help features. Meanwhile, the Group is establishing business cooperation with various industry leaders, so as to expand the lottery sales scale by cross-industry resources and innovative concepts. The Group has a reserve of highly creative and technology-rich games to generate new business opportunities to meet players' needs.

### **Overseas Markets Expansion**

In addition to the expansion in Chinese markets, the Group will capitalize on its resources and China's "One Belt One Road" initiative to expand into overseas markets.

In 2016, the Welfare Lottery instant scratch card project, in collaboration with Khmer Pool Welfare Lottery Co., Ltd, has developed along the right lines, and recorded encouraging sales together with the CTG project, which has been launched in the first half of 2016. The parties are extending their collaboration to jointly develop mobile and internet lottery business in Cambodia with an objective to bring players more convenient betting service.

At the same time, breakthroughs in new game and sale channels are anticipated in 2017, on the cooperation with National Sports Lottery Company Limited in Cambodia.

## **Conclusion**

Looking forward, China's lottery sales is expected to exceed RMB500 billion, synchronizing with the economic growth, while the total lottery sales will exceed RMB2,000 billion during the 13th Five-Year Plan period. There is enormous potential in China's lottery market, with pressing demand to breathe new life into the market by developing new channels and new games.

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 lottery 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, contributing its share to the achievement of a sound China's lottery ecosystem in terms of sales channels, gaming products, lottery security, supporting systems, operating systems and technical support, among others.

## **Financial Review**

The Group recorded a turnover of approximately HK\$200.3 million (2015: HK\$643.7 million) for the year ended 31 December 2016, representing a decrease of approximately 69% over 2015. The decrease in turnover is mainly due to expiry of Welfare VLT supply contract on 28 June 2015. Loss attributable to owners of the Company for the year ended 31 December 2016 amounted to approximately HK\$298 million (2015: HK\$497.7 million), and is mainly due to impairment of property, plant and equipment regarding to the year-end net book value of Welfare VLT terminals of approximately HK\$188.1 million (2015: Nil) and staff costs (excluding employee share option benefits) of approximately HK\$126.4 million (2015: HK\$143.9 million).

DGTY's Welfare 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 Welfare VLT, and has first right of refusal in the renewal of the Welfare VLT supply contract. The Group had not received notification from CWLC regarding a suspension of Welfare VLT sales after the expiry of the supply contract. The Group decided to maintain the Welfare VLT terminals it provided in fully operational condition for Welfare VLT's continued use after the expiry of the supply contract, so as to support the sustained and healthy growth of Welfare VLT. This ensured the consistent and steady sales growth of Welfare VLT after the expiry of the supply contract. According to legally binding documents



that the Group sent to CWLC and CLO, the Group shall be paid for the provision of these terminals for Welfare VLT's continued use after the expiry of the supply contract. The Group is striving willfully to achieve its goal. At the end of the reporting period, an impairment assessment was performed for these terminals. Management determined that an impairment charge of approximately HK\$188.1 million was required to reduce the value of these terminals to their recoverable amount.

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 Group intends to hold them as short-term investments. The Group 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 Group. All the Financial Assets were acquired from independent third parties of the Group. As at 31 December 2016, 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 gain on financial assets at fair value through profit and loss amounted to approximately HK\$27.8 million (2015: fair value loss of approximately HK\$103.7 million).

The Company continues to carry out discussion on a possible acquisition involving a group of companies engaged in lottery business as set out in the announcement dated 1 November 2016. No concrete terms have been agreed and the Company has not entered into any letter of intent, memorandum of understanding or any legally binding agreement in relation to such possible acquisition. If the acquisition is to proceed, the Company may consider, among others, equity or equity-linked financing to settle part of the consideration for the acquisition.

### **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 2016, the Company had an outstanding corporate guarantee for unlimited amount for total banking facilities of property installment loans of approximately HK\$153.7 million (2015: HK\$153.7 million), an outstanding corporate guarantee limited to approximately HK\$17 million (2015: HK\$17 million) for a banking facility of a property installment loan of approximately HK\$17 million (2015: HK\$17 million), an outstanding corporate guarantee for unlimited amount for credit facilities of investment purpose of US\$7.5 million (2015: US\$20 million) and an outstanding corporate guarantee for unlimited amount for credit facilities of investment purpose of US\$5 million (2015: US\$5 million) and overdraft for liquidity purpose of US\$25 million (2015: US\$15 million).

The Group had outstanding bank borrowings at 31 December 2016 of approximately HK\$313.4 million (2015: HK\$583 million). At 31 December 2016, 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\$162.2 million (2015: HK\$165.8 million); (ii) standby letters of credit issued by bank for an aggregate amount of Nil (2015: US\$32 million); (iii) bank deposits amounting to approximately HK\$124.6 million (2015: HK\$275.5 million); and (iv) financial assets of approximately HK\$300.1 million (2015: HK\$635.1 million).

In 2014, the Company has issued 5 per cent. convertible bonds due 2019 in total aggregate principal of HK\$650 million (the “Convertible Bonds”). 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 cent. per annum payable semi-annually in arrears. During the year under review, no Convertible Bonds had been converted into the Shares by the bondholders and principal amount of HK\$100 million of the Convertible Bonds had been repurchased and cancelled by the Company. At 31 December 2016, the principal amount of the Convertible Bonds outstanding was HK\$550 million (2015: HK\$650 million).

The Group’s total equity amounted to approximately HK\$1,272.9 million at 31 December 2016 (2015: HK\$1,817.4 million). At 31 December 2016, net current assets of the Group amounted to approximately HK\$1,007.3 million (2015: HK\$1,320.7 million), including approximately HK\$374.6 million in cash and deposits with banks and financial institutions (2015: HK\$792.6 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2016 was approximately 42.8% (2015: 42.5%).

### **Exposure to Exchange Rates Fluctuations**

All the Group’s assets, liabilities and transactions are denominated either in Hong Kong dollar, United States dollar or Renminbi. Foreign exchange risk arising from the normal course of operations is considered to be minimal.

### **Pledge of Assets**

At 31 December 2016, the Group’s leasehold land and buildings at net book value of approximately HK\$162.2 million (2015: HK\$165.8 million) were pledged to banks to secure the bank borrowings granted to the Group. At 31 December 2016, the Group’s time deposits of Nil (2015: HK\$253 million) were pledged to secure bank borrowings and banking facilities granted to the Group. At 31 December 2016, the Group’s cash deposits and financial assets at an aggregate carrying value of approximately HK\$424.7 million (2015: HK\$657.6 million) were pledged to financial institutions to secure the credit facilities granted to the Group.

### **Contingent Liabilities**

At 31 December 2016, the Group did not have any material contingent liabilities (2015: Nil).

## **Staff and Environment Policy**

At 31 December 2016, the Group employed 329 full time employees (2015: 445). 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. The Group understands that environmental protection has a material effect on society and working environment of the staff. Therefore, the Group strives to enhance the awareness of the staff in saving energy, including implementing rules of reducing electricity consumption in the offices and arranging collection of recyclable materials.

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

The Company had repurchased partial of the convertible bonds due 2019 (the "Convertible Bonds") in principal amount of HK\$100,000,000 with the price of HK\$96,125,000 on 29 November 2016 and the same had been cancelled on 9 December 2016 (the "Event"). As at 31 December 2016, the total outstanding principal amount of the Convertible Bonds was HK\$550,000,000. The maximum number of shares of the Company that will be issued upon conversion of all the outstanding Convertible Bonds before and after the Event is 706,521,739 Shares and 597,826,086 shares respectively, representing a decrease of 108,695,653 shares of the Company issuable under the Convertible Bonds. For the year ended 31 December 2016, there were no Convertible Bonds had been converted by holders of the Convertible Bonds. The Convertible Bonds are currently listed on the Stock Exchange.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2016.

## **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 2016 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 2016, except for the deviations as disclosed below:

Code provision A.1.1 stipulates that 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 By-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Mr. HOONG Cheong Thard and Ms. LAU Ting were absent from the 2016 annual general meeting of the Company as is stipulated in Code provision A.6.7 and E.1.2 respectively due to their other important engagement.

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

## **Required Standard of Dealing regarding Securities Transactions by Directors**

The Company has adopted the 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 2016.

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

Hong Kong, 10 March 2017

*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.*