China LotSynergy Holdings Limited

華彩控股有限公司*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8161)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**



*This announcement, for which the directors (the "Directors") of China LotSynergy Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

* *For identification purposes only*

## FINANCIAL RESULTS

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 2010, together with the comparative figures for the year ended 31 December 2009, as follows:

## CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2010*

| | *Notes* | **2010** <br> ***HK$'000*** | 2009 <br> *HK$'000* |
|---|---|---|---|
| Turnover | *3* | **282,577** | 84,578 |
| Costs of sales and services | | **(62,237)** | (47,576) |
| Gross profit | | **220,340** | 37,002 |
| Other income and gains | *4* | **16,465** | 68,258 |
| General and administrative expenses | | **(110,046)** | (139,694) |
| Share option expenses | | **(9,520)** | (10,667) |
| Operating profit/(loss) | *5* | **117,239** | (45,101) |
| Gain on redemption of convertible note | | **171,947** | – |
| Imputed interest expense on redeemed convertible note | *6* | **(20,748)** | (26,423) |
| Gain on redemption of convertible note, net of imputed interest expense | | **151,199** | (26,423) |
| Finance costs | *6* | **(5,809)** | – |
| Share of losses of jointly-controlled entities | | **(12,408)** | (11,198) |
| Profit/(Loss) before income tax | | **250,221** | (82,722) |
| Income tax | *7* | **(33,477)** | (5,030) |
| Profit/(Loss) for the year | | **216,744** | (87,752) |
| **Profit/(Loss) attributable to:** | | | |
| Equity holders of the Company | | **152,254** | (81,596) |
| Non-controlling interests | | **64,490** | (6,156) |
| | | **216,744** | (87,752) |
| **Earnings/(Loss) per share attributable to equity holders of the Company during the year** | | | |
| – basic | *8* | **2.06 HK cents** | (1.10) HK cents |
| – diluted | *8* | **2.05 HK cents** | (1.10) HK cents |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2010*

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit/(Loss) for the year | **216,744** | (87,752) |
| Other comprehensive income: | | |
| Fair value gain on available-for-sale financial assets | **19,081** | 15,889 |
| Currency translation differences | **12,824** | 60 |
| Other comprehensive income for the year, net of tax | **31,905** | 15,949 |
| Total comprehensive income for the year | **248,649** | (71,803) |
| **Attributable to:** | | |
| Equity holders of the Company | **181,584** | (65,647) |
| Non-controlling interests | **67,065** | (6,156) |
| **Total comprehensive income for the year** | **248,649** | (71,803) |

## CONSOLIDATED BALANCE SHEET

*At 31 December 2010*

| | Notes | At 31 December 2010 HK$'000 | At 31 December 2009 HK$'000 (restated) | At 1 January 2009 HK$'000 (restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | | **270,338** | 130,570 | 114,263 |
| Investment property | | **–** | 140,000 | 127,000 |
| Intangible assets | | **351,544** | 330,625 | 337,153 |
| Investments in jointly-controlled entities | | **108,154** | 116,738 | 80,184 |
| Available-for-sale financial assets | | **68,910** | 49,829 | 33,940 |
| Deferred income tax assets | | **180** | 803 | 1,660 |
| Prepaid rentals | | **4,087** | 4,847 | 5,771 |
| Total non-current assets | | **803,213** | 773,412 | 699,971 |
| **Current assets** | | | | |
| Inventories | | **19,250** | 16,983 | 13,625 |
| Accounts receivable | *9* | **103,042** | 25,390 | 14,060 |
| Prepayments, deposits and other receivables | | **30,101** | 31,178 | 12,699 |
| Amount due from a jointly-controlled entity | | **411** | 237 | 7,857 |
| Amounts due from related companies | | **21,564** | 21,613 | 21,854 |
| Financial assets at fair value through profit or loss | *10* | **92,258** | 447,451 | 292,185 |
| Income tax refundable | | **–** | – | 603 |
| Cash and bank balances | | **347,612** | 632,693 | 747,681 |
| Total current assets | | **614,238** | 1,175,545 | 1,110,564 |
| **Total assets** | | **1,417,451** | 1,948,957 | 1,810,535 |
| **Current liabilities** | | | | |
| Accounts payable | *11* | **2,656** | 13,864 | 4,647 |
| Accruals and other payables | | **11,824** | 13,453 | 12,722 |
| Amount due to a jointly-controlled entity | | **24,594** | 26,302 | 34,033 |
| Income tax payable | | **27,859** | 4,382 | 1,998 |
| Financial liabilities at fair value through profit or loss | | **–** | 284,282 | 191,632 |
| Bank borrowings | | **105,119** | 75,000 | – |
| Convertible note | *12* | **86,272** | – | – |
| Total current liabilities | | **258,324** | 417,283 | 245,032 |
| Net current assets | | **355,914** | 758,262 | 865,532 |
| **Total assets less current liabilities** | | **1,159,127** | 1,531,674 | 1,565,503 |

**CONSOLIDATED BALANCE SHEET** *(Cont'd)*
*At 31 December 2010*

| | Notes | At 31 December 2010 HK$'000 | At 31 December 2009 HK$'000 (restated) | At 1 January 2009 HK$'000 (restated) |
|---|---|---|---|---|
| **Non-current liabilities** | | | | |
| Convertible note | *12* | **59,480** | 588,780 | 562,357 |
| Deferred income tax liabilities | | **13,268** | 17,207 | 16,334 |
| Total non-current liabilities | | **72,748** | 605,987 | 578,691 |
| **Net assets** | | **1,086,379** | 925,687 | 986,812 |
| **Equity attributable to equity holders of the Company** | | | | |
| Share capital | *13* | **18,505** | 18,505 | 18,505 |
| Reserves | *14* | **1,714,406** | 1,674,420 | 1,647,920 |
| Accumulated losses | | **(808,897)** | (876,657) | (795,177) |
| | | **924,014** | 816,268 | 871,248 |
| **Non-controlling interests** | | **162,365** | 109,419 | 115,564 |
| **Total equity** | | **1,086,379** | 925,687 | 986,812 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2010*

| | Attributable to equity holders of the Company | | | | |
|---|---|---|---|---|---|
| | Share capital *HK$'000* *(Note 13)* | Reserves *HK$'000* *(Note 14)* | Accumulated losses *HK$'000* | Non-controlling interests *HK$'000* | Total *HK$'000* |
| Balance at 1 January 2009 | 18,505 | 1,647,920 | (795,177) | 115,564 | 986,812 |
| Comprehensive income | | | | | |
| Loss for the year | – | – | (81,596) | (6,156) | (87,752) |
| Other comprehensive income: | | | | | |
| Fair value gain on available-for-sale financial assets | – | 15,889 | – | – | 15,889 |
| Currency translation differences | – | 60 | – | – | 60 |
| Total other comprehensive income | – | 15,949 | – | – | 15,949 |
| Total comprehensive income | – | 15,949 | (81,596) | (6,156) | (71,803) |
| Share option scheme: | | | | | |
| – value of employee services | – | 10,389 | – | – | 10,389 |
| – value of other participants' services | – | 278 | – | – | 278 |
| – vested share options cancelled | – | (116) | 116 | – | – |
| Deregistration of a subsidiary | – | – | – | 11 | 11 |
| | – | 10,551 | 116 | 11 | 10,678 |
| Balance at 31 December 2009 | 18,505 | 1,674,420 | (876,657) | 109,419 | 925,687 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Cont'd)*

*For the year ended 31 December 2010*

| | Attributable to equity holders of the Company | | | | |
|---|---|---|---|---|---|
| | **Share capital** *HK\$'000* *(Note 13)* | **Reserves** *HK\$'000* *(Note 14)* | **Accumulated losses** *HK\$'000* | **Non-controlling interests** *HK\$'000* | **Total** *HK\$'000* |
| Balance at 1 January 2010 | 18,505 | 1,674,420 | (876,657) | 109,419 | 925,687 |
| Comprehensive income | | | | | |
| Profit for the year | – | – | 152,254 | 64,490 | 216,744 |
| Other comprehensive income: | | | | | |
| Release of revaluation reserve upon depreciation of leasehold land and building | – | (140) | 140 | – | – |
| Fair value gain on available-for-sale financial assets | – | 19,081 | – | – | 19,081 |
| Currency translation differences | – | 10,249 | – | 2,575 | 12,824 |
| Total other comprehensive income | – | 29,190 | 140 | 2,575 | 31,905 |
| Total comprehensive income | – | 29,190 | 152,394 | 67,065 | 248,649 |
| Release of convertible note equity reserve upon redemption of convertible note | – | (20,080) | (98,785) | – | (118,865) |
| Recognition of equity component of convertible note | – | 25,614 | – | – | 25,614 |
| Deferred tax liability on recognition of equity component of convertible note | – | (4,226) | – | – | (4,226) |
| Share option scheme: | | | | | |
| – value of employee services | – | 9,442 | – | – | 9,442 |
| – value of other participants' services | – | 78 | – | – | 78 |
| – vested share options cancelled | – | (32) | 32 | – | – |
| Changes in ownership interests in subsidiaries that do not result in a loss of control | – | – | 14,119 | (14,119) | – |
| | – | 10,796 | (84,634) | (14,119) | (87,957) |
| **Balance at 31 December 2010** | 18,505 | 1,714,406 | (808,897) | 162,365 | 1,086,379 |

*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's shares are listed on the Growth Enterprise Market ("GEM'') of The Stock Exchange of Hong Kong Limited (the "Stock Exchange''). The Company and its subsidiaries (together the "Group'') are technology and service providers of lottery systems, terminal equipment, game products, and market operation to the public welfare lottery industry in China. The principal businesses of the Group cover traditional computer ticket game ("CTG"), high frequency lottery, video lottery and new media lottery.

## 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 on the GEM 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 investment property, available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

**Changes in accounting policy and disclosures**

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

  HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

  The application of HKAS 27 (revised) has affected the accounting for the Group's disposal of part of its interests in subsidiaries in current year. The change in policy has resulted in the difference of HK$14,119,000 between the consideration received and the non-controlling interests recognised being recognised directly in equity, instead of profit or loss. Therefore, the change in accounting policy has resulted in a decrease in the profit for the year of HK$14,119,000.

## 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)*

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The amendment has no material impact on the Group's financial statements.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.

  HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land as at 1 January 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance lease retrospectively. As a result of the reassessment, the Group has reclassified its leasehold land from operating lease to finance lease. The land interest of the Group that is held to earn rentals and/or capital appreciation is accounted for as investment property and carried at fair value. The land interest of the Group that is held for own use is accounted for as property, plant and equipment and is depreciated from the land interest available for its intended use over the shorter of the useful live of the asset and the lease term. The application of HKAS 17 (amendment) has had no material impact on the Group's financial statements for the current and prior years.

- HKAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). The amendment has no material impact on the Group's financial statements.

## 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)*

- Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ('HK Int 5') clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

  In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

  As a result, bank loan that contain a repayment on demand clause with the aggregate carrying amount of HK$75,000,000 and HK$70,292,000 has been reclassified from non-current liabilities to current liabilities as at 31 December 2009. At 31 December 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$105,119,000 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

  *Effect of application of HK Int 5 on the consolidated balance sheet*

| | **At 31 December 2010** | At 31 December 2009 | At 1 January 2009 |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *HK$'000* |
| **Increase/(decrease) in** | | | |
| **Current liabilities** | | | |
| Bank borrowings | **93,417** | 70,292 | – |
| **Non-current liabilities** | | | |
| Bank borrowings | **(93,417)** | (70,292) | – |

*(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)*

- HK(IFRIC) 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

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

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

*(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events) (Cont'd)*

- HK(IFRIC) 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- HK(IFRIC) 9, 'Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to HK(IFRIC) 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.

- HK(IFRIC) 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied. In particular, the Group should clearly document its hedging strategy because of the possibility of different designations at different levels of the Group.

- HKAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective from 1 January 2010. In addition to incorporating HK(IFRIC) 8, 'Scope of HKFRS 2', and HK(IFRIC) 11, 'HKFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of group arrangements that were not covered by that interpretation.

- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1.

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

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

(c) *New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted.*

The Group's assessment of the impact of these new standards and interpretations is set out below:

- HKFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace HKAS 39, 'Financial instruments: recognition and measurement'. HKFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. It is not expected to have any impact on the Group's financial statements.

- Revised HKAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes HKAS 24, 'Related party disclosures', issued in 2003. HKAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.

  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. When the revised standard is applied, the Group will need to disclose any transactions between its subsidiaries and its associates. The Group is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

- 'Classification of rights issues' (amendment to HKAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with HKAS 8 'Accounting policies, changes in accounting estimates and errors'. The Group will apply the amended standard from 1 January 2011.

- HK (IFRIC) – Int 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011. It is not expected to have any impact on the Group's financial statements.

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

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

*(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted. (Cont'd)*

- Prepayments of a minimum funding requirement' (amendments to HK (IFRIC) – Int 14). The amendments correct an unintended consequence of HK (IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when HK (IFRIC) – Int 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Group will apply these amendments for the financial reporting period commencing on 1 January 2011.

- HKAS 12 (amendment), 'Income taxes'. The amendment provides an exception to the principles in the existing standard for measuring deferred tax assets or liabilities when investment property is measured at fair value. The amendment is effective for annual periods on or after 1 January 2012. This amendment is not expected to have a material impact on the Group's financial statements.

- Since October 2010, the IASB has published Amendments to HKFRS 7, 'Financial instruments: Disclosures on derecognition, Additions to HKFRS 9', 'Financial instruments – Classification and measurement' for financial liability accounting and Amendments to HKAS 12, 'Income taxes' on Deferred tax: Recovery of underlying assets. Management is in the process of making an assessment of their impact and is not yet in a position to state what impact, if any, they may have on the Group's financial statements.

## 3. TURNOVER AND SEGMENT INFORMATION

The Group is a technology and service provider of lottery systems, terminal equipment, game products and market operation to the public welfare lottery industry in China. The principal businesses of the Group cover traditional CTG, high frequency lottery, video lottery and new media lottery. An analysis of the Group's turnover for the year is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK\$'000*** | *HK\$'000* |
| Turnover | | |
| Income from provision of lottery terminals | **268,372** | 66,093 |
| Income from sales of equipment | **12,198** | 17,466 |
| Income from provision of consultancy services | **2,007** | 1,019 |
| | **282,577** | 84,578 |

**Segment information**

The Group's revenue and contribution to profit/(loss) were mainly derived from the provision of technology and service for lottery systems, terminal equipment, game products and market operation to the public welfare lottery industry 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.

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

**Geographical information**

(a) Revenue from external customers

| | 2010 | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| People's Republic of China ("PRC") | **282,008** | 84,578 |
| Russia | **569** | – |
| | **282,577** | 84,578 |

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

(b) Non-current assets

| | 2010 | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| PRC | **593,214** | 578,960 |
| Hong Kong | **140,909** | 143,820 |
| | **734,123** | 722,780 |

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

**Information about major customers**

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

| | 2010 | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Customer A | **51,407** | 39,546 |
| Customer B | **216,129** | 26,409 |
| Customer C | **6,191** | 9,932 |

## 4. OTHER INCOME AND GAINS

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Fair value gains/(losses), net: | | |
| – Financial assets at fair value through profit or loss (held for trading) | **13,517** | 17,418 |
| – Early redemption option embedded in convertible note at fair value | **–** | 121,919 |
| – Redemption option held by a noteholder embedded in convertible note at fair value | **–** | (92,650) |
| | **13,517** | 46,687 |
| Interest income from bank deposits | **2,325** | 5,994 |
| Dividend income on financial assets at fair value through profit or loss | **–** | 1,161 |
| Fair value gain on investment property | **–** | 13,000 |
| Gain on disposal of property, plant and equipment | **367** | – |
| Rental income | **256** | 672 |
| Reversal of impairment on other receivables | **–** | 744 |
| | **16,465** | 68,258 |

## 5. OPERATING PROFIT/(LOSS)

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Costs of sales and services | | |
| – Depreciation of lottery terminals | **35,239** | 26,459 |
| – Business tax | **13,789** | 3,412 |
| – Cost of inventories recognised as expense | **5,819** | 7,636 |
| – Repairs and maintenance | **3,374** | 5,244 |
| – Other costs of sales and services | **4,016** | 4,825 |
| | **62,237** | 47,576 |
| Loss on disposal of property, plant and equipment | **–** | 3,194 |
| Operating lease rentals in respect of land and buildings | **6,206** | 6,903 |
| Auditors' remuneration | | |
| – Provision for the year | **693** | 630 |
| – Underprovision in prior year | **–** | 30 |
| Amortisation of intangible assets | | |
| – CLO Contract *(included in general and administrative expenses)* | **6,528** | 6,528 |
| Depreciation of other items of property, plant and equipment | **6,914** | 4,123 |
| Foreign exchange differences, net | **(5,498)** | 261 |

## 6. FINANCE COSTS

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest expense on bank borrowings wholly repayable within five years | **693** | – |
| Imputed interest expense on convertible note | **25,864** | 26,423 |
| | **26,557** | 26,423 |
| *Less:* Imputed interest expense on redeemed convertible note | **(20,748)** | (26,423) |
| | **5,809** | – |

## 7. INCOME TAX

Hong Kong Profits Tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2009 and 2010 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 profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current income tax | | |
| – PRC Enterprise Income Tax | **37,677** | 4,180 |
| – Adjustments in respect of prior years | **341** | (880) |
| Total current tax | **38,018** | 3,300 |
| Deferred income tax | | |
| – Origination and reversal of temporary differences | **(4,541)** | 1,730 |
| | **33,477** | 5,030 |

## 8. EARNINGS/(LOSS) PER SHARE

(a) Basic

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

| | **2010** | 2009 |
|---|---|---|
| Profit/(Loss) attributable to equity holders of the Company *(HK$'000)* | **152,254** | (81,596) |
| Weighted average number of ordinary shares in issue | **7,402,164,000** | 7,402,164,000 |
| Basic earnings/(loss) per share | **2.06 HK cents** | (1.10) HK cents |

## 8. EARNINGS/(LOSS) PER SHARE *(Cont'd)*

(b) Diluted

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

| | **2010** | 2009 |
|---|---|---|
| Profit/(Loss) attributable to equity holders of the Company *(HK$'000)* | **152,254** | (81,596) |
| Weighted average number of ordinary shares in issue | **7,402,164,000** | 7,402,164,000 |
| Effect of dilutive potential ordinary shares: – Share options | **7,726,425** | – |
| Weighted average number of ordinary shares for diluted earnings/(loss) per share | **7,409,890,425** | 7,402,164,000 |
| Diluted earnings/(loss) per share | **2.05 HK cents** | (1.10) HK cents |

The computation of diluted earnings/(loss) per share has not assumed the conversion of convertible note since its conversion would result in an increase/a decrease in earnings/(loss) per share.

The computation of diluted loss per share for the year ended 31 December 2009 has not assumed the exercise of share options because their exercise would reduce the loss per share.

## 9. ACCOUNTS RECEIVABLE

Income from provision of lottery terminals is billed on a monthly basis and is due 15 to 30 days after month-end. Income from sales of lottery equipment is billed upon the delivery of products and with credit periods ranging from 30 to 180 days. Income from provision of maintenance services is billed on a monthly or yearly basis and is due 30 days after the invoice date. At 31 December 2010, the ageing analysis of the accounts receivable is as follows:

| | **At 31 December 2010** ***HK$'000*** | At 31 December 2009 *HK$'000* | At 1 January 2009 *HK$'000* |
|---|---|---|---|
| Less than 3 months | **84,839** | 23,558 | 12,634 |
| Over 3 months but less than 1 year | **16,312** | 1,832 | 1,426 |
| Over 1 year | **1,891** | – | – |
| | **103,042** | 25,390 | 14,060 |

Of the total accounts receivable outstanding at 31 December 2010, total amount of approximately HK$68,325,000 have been subsequently collected.

## 10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **At 31 December 2010** *HK$'000* | At 31 December 2009 *HK$'000* | At 1 January 2009 *HK$'000* |
|---|---|---|---|
| Listed securities: | | | |
| – Equity securities – Hong Kong | **–** | – | 37,975 |
| – Equity securities – Elsewhere | **–** | – | 7,419 |
| Unlisted equity investment | **92,258** | 78,741 | – |
| Early redemption option embedded in convertible note at fair value | **–** | 368,710 | 246,791 |
| | **92,258** | 447,451 | 292,185 |
| Market value of listed securities | **–** | – | 45,394 |

## 11. ACCOUNTS PAYABLE

At 31 December 2010, the ageing analysis of the accounts payable is as follows:

| | **At 31 December 2010** *HK$'000* | At 31 December 2009 *HK$'000* | At 1 January 2009 *HK$'000* |
|---|---|---|---|
| Less than 3 months | **2,267** | 13,641 | 2,308 |
| Over 3 months but less than 1 year | **360** | 223 | 741 |
| Over 1 year | **29** | – | 1,598 |
| | **2,656** | 13,864 | 4,647 |

## 12. CONVERTIBLE NOTE

| | **At 31 December 2010** *HK$'000* | At 31 December 2009 *HK$'000* | At 1 January 2009 *HK$'000* |
|---|---|---|---|
| Principal amount of convertible note issued (net of issue costs) | **166,250** | 541,276 | 541,276 |
| Early redemption option held by the Company | **–** | 82,286 | 82,286 |
| Redemption option held by a noteholder | **–** | (75,930) | (75,930) |
| Equity component (net of issue costs) | **(25,614)** | (24,842) | (24,842) |
| Liability component on initial recognition (net of issue costs) | **140,636** | 522,790 | 522,790 |
| Imputed interest | **5,116** | 65,990 | 39,567 |
| Liability component | **145,752** | 588,780 | 562,357 |
| Analysis for reporting purpose as: | | | |
| Current liabilities | **86,272** | – | – |
| Non-current liabilities | **59,480** | 588,780 | 562,357 |
| | **145,752** | 588,780 | 562,357 |

## 12. CONVERTIBLE NOTE *(Cont'd)*

The movement of liability component of the convertible notes for the year is set out below:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **588,780** | 562,357 |
| Issued during the year | **140,636** | – |
| Interest charge | **25,864** | 26,423 |
| Redeemed during the year | **(609,528)** | – |
| At 31 December | **145,752** | 588,780 |

*Notes:*

(a) On 31 May 2007, the Company issued an unsecured 8-year maturity zero coupon convertible note with principal amount of HK$550,000,000. The note is convertible into ordinary shares of HK$0.0025 each (adjusted after share subdivision took place in 2007) of the Company at an initial conversion price of HK$0.955 per ordinary share (adjusted after share subdivision took place in 2007) (subject to adjustment) on any business day during the period on and after 31 May 2010 up to 16 May 2015. The note is redeemable by the Company on or at any time after 31 May 2012 and prior to 31 May 2015 at a gross yield of 4% per annum to the noteholder, calculated on a semiannual basis. Moreover, the noteholder may require the Company to redeem all or some of the note held by the noteholder on 31 May 2012 at 121.89944% of the principal amount. Unless previously converted, purchased or cancelled in accordance with the conditions of the note, the Company shall redeem the note on the maturity date on 31 May 2015 at 137.27857% of the principal amount.

(b) On 20 September 2010, the Company and the noteholder entered into a supplemental deed ("Supplemental Deed") to amend certain terms and conditions of the convertible note. Pursuant to the Supplemental Deed, the Company has the right to redeem all and not some of the convertible note including all accrued interest at any time prior to the maturity date of the convertible note at the redemption price of HK$475,000,000. On 27 September 2010, the Company redeemed the convertible note by way of making a cash payment of HK$308,750,000 and issue of a new zero coupon convertible note ("New Convertible note") with a principal amount of HK$166,250,000 to the noteholder.

The New Convertible Note is convertible into ordinary shares of HK$0.0025 each of the Company at an initial conversion price of HK$0.955 per ordinary share (subject to adjustment) on any business day during the period commencing on the date of issue of the New Convertible Note until the close of business on the 15th day prior to 12 May 2012 ("Maturity Date"). If the New Convertible Note has not been converted, the Company shall redeem the New Convertible Note on the first business day falling on or after the first anniversary of the date of issue of the New Convertible Note at HK$95,000,000 and on Maturity Date at HK$71,250,000.

## 13. SHARE CAPITAL

| | Authorised ordinary shares | |
|---|---|---|
| | *Number of shares* | *HK$'000* |
| At 1 January 2009, 31 December 2009 and 31 December 2010 | **16,000,000,000** | **40,000** |

| | Issued and fully paid ordinary shares | |
|---|---|---|
| | *Number of shares* | *HK$'000* |
| At 1 January 2009, 31 December 2009 and 31 December 2010 | **7,402,164,000** | **18,505** |

## 14. RESERVES

| | Share premium | Convertible note | Capital reserve | Currency translation reserve | Share-based compensation reserve | Revaluation reserve | Available-for-sale investments | Total |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Balance at 1 January 2009 | 1,546,166 | 20,080 | 15,158 | 31,257 | 36,145 | 11,974 | (12,860) | 1,647,920 |
| Share option scheme: | | | | | | | | |
| – value of employee services | – | – | – | – | 10,389 | – | – | 10,389 |
| – value of other participants' services | – | – | – | – | 278 | – | – | 278 |
| – vested share options cancelled | – | – | – | – | (116) | – | – | (116) |
| Fair value gain on available -for-sale financial assets | – | – | – | – | – | – | 15,889 | 15,889 |
| Currency translation differences | | | | | | | | |
| – overseas subsidiaries | – | – | – | (210) | – | – | – | (210) |
| – overseas jointly-controlled entities | – | – | – | 270 | – | – | – | 270 |
| Balance at 31 December 2009 | **1,546,166** | **20,080** | **15,158** | **31,317** | **46,696** | **11,974** | **3,029** | **1,674,420** |
| Share option scheme: | | | | | | | | |
| – value of employee services | **–** | **–** | **–** | **–** | **9,442** | **–** | **–** | **9,442** |
| – value of other participants' services | **–** | **–** | **–** | **–** | **78** | **–** | **–** | **78** |
| – vested share options cancelled | **–** | **–** | **–** | **–** | **(32)** | **–** | **–** | **(32)** |
| Release of convertible note equity reserve upon redemption of convertible note | **–** | **(20,080)** | **–** | **–** | **–** | **–** | **–** | **(20,080)** |
| Recognition of equity component of convertible note | **–** | **25,614** | **–** | **–** | **–** | **–** | **–** | **25,614** |
| Deferred tax liability on recognition of equity component of convertible note | **–** | **(4,226)** | **–** | **–** | **–** | **–** | **–** | **(4,226)** |
| Release of revaluation reserve upon depreciation of leasehold land and building | **–** | **–** | **–** | **–** | **–** | **(140)** | **–** | **(140)** |
| Fair value gain on available-for-sale financial assets | **–** | **–** | **–** | **–** | **–** | **–** | **19,081** | **19,081** |
| Currency translation differences | | | | | | | | |
| – overseas subsidiaries | **–** | **–** | **–** | **6,425** | **–** | **–** | **–** | **6,425** |
| – overseas jointly-controlled entities | **–** | **–** | **–** | **3,824** | **–** | **–** | **–** | **3,824** |
| **Balance at 31 December 2010** | **1,546,166** | **21,388** | **15,158** | **41,566** | **56,184** | **11,834** | **22,110** | **1,714,406** |

# DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a technology and service provider of lottery systems, terminal equipment, game products and market operation to the public welfare lottery industry in China. The principal businesses of the group cover traditional computer ticket game (CTG), high frequency lottery, video lottery and new media lottery. Through professional and effective operation management coupled with well-established and practical technical competencies, the Group has built a solid foundation and a good brand name within the industry with comprehensive capability for sustainable development.

For 2010, the Group recorded operating revenue of HK$282.6 million, generating profit attributable to equity holders of HK$152.3 million as compared with the loss of HK$81.6 million for 2009. While achieving good results in the year, the Group has further improved its business structure. With ongoing efforts to strengthen its existing businesses, the Group has become an integrated technology and service provider for all types of lottery products covering hardware and software, lottery system research and development and client-end functionality design, as well as sales and operation management. In only one year following the promulgation of the first lottery regulation in July 2009, the Ministry of Finance (MOF) announced the provisional regulations on sales of lottery via telephone and the Internet in October 2010, marking the embarkation of lottery on a new era taking advantage of new media development coupled with increased domestic spending. As a dedicated, practical and innovative lottery technology company, China LotSynergy has been well positioned to meet and capture lottery opportunities in the new era with technical and business development capabilities.

### Business Review and Outlook

Total sales of lottery (Welfare and Sport combined) in 2010 exceeded RMB166 billion, representing a 25.5% increase over 2009. Of which, VLT, the video lottery game, maintained the strongest growth.

The Group continues to optimize its business strategy and planning to enhance its comprehensive competitiveness by maintaining the outstanding operating results of its CTG and VLT business, and being practical and yet innovative in the high frequency lottery segment and the new media lottery space covering telephone (mobile phone) and the Internet. The Group obtained the CMMI (Capability Maturity Model Integration) II accreditation in early February this year after great efforts commenced from mid 2010 to become a high technology company with such internationally recognized qualification.

#### *Video Lottery Business*

*China Welfare Lottery Video Lottery (VLT) Business*

VLT, a high technology based lottery game, is playing a vital role in the China lottery space with total sales of RMB9.3 billion in 2010, representing an increase of 702% over 2009 with sales of 1.16 billion. VLT was re-launched in mid 2009 and recovered strongly after comprehensive enhancement measures by the government that lasted one year and a half between early 2008 and mid 2009. With more terminals connected, daily sales nationwide and per terminal have increased. The game is very popular among players and growing healthily. The Group is the exclusive equipment provider for VLT, which remains a major revenue contributor for the Group. With the continuous enhancement of operation standard and management for VLT, the Group's technical strength as well as operation and management around video lottery generally has been taken to a new height as manifested in its new product research and development and design (hardware and software) and a competent and dedicated management and operation team.

### ***CTG and High Frequency Lottery Business***

*CTG Business*

The Group has set a strong foothold in the traditional CTG space, exclusively supplying betting terminal equipment and operation maintenance to Welfare Lottery in Guangdong province, the leading lottery selling province in China. In 2010, sales of Welfare Lottery in Guangdong province exceeded RMB11.3 billion, representing 36% increase over 2009 as opposed to the 26% nationwide increase. The Group continues to provide quality products and service to Guangdong province, ensuring stable and increasing contribution of cash flow. The Group continues to maintain its leading advantage in China in its products including betting terminal, lottery scanner and reader with constant innovation and improvement. Meanwhile, the Group has secured orders in the traditional CTG space in China and European and South East Asian countries.

*High Frequency Lottery Business (KENO)*

CLS-GTECH Company Limited, a joint venture company between the Group and GTECH Corporation, is the exclusive provider of the system, terminals and operation maintenance for KENO, the only nationwide high frequency game of Welfare Lottery. Periodic growth has been seen in the sales of Keno from mid 2010 attributing to the roll out of the product and its additional games in eight selected provinces including Liaoning, Hebei, Sichuan, Hunan, Shanxi, Gansu, Shandong and Jilin as a social game. However, the current low average terminal connection rate and daily sales per terminal create a bottleneck mainly owing to the fact that KENO has not been given an adequate payout ratio as a high frequency game, not to say the current payout ratio is far below its international counterparts. The application process for increase of the payout ratio of KENO is underway. Once approved, sales of the product are expected to increase substantially.

The forthcoming task of the Group is to assist the issuance and administration authority proactively in stepping up its marketing initiatives on KENO. The Group will take advantage of successful experience in certain provinces and apply them in under-performed provinces. It is worth mentioning that the daily sales per terminal in certain provinces are comparatively higher, where their experiences have proved KENO to be an incremental product to existing product offerings in their provinces and a unique high frequency game with huge potential. The management believes that after increase of the payout ratio, and measures for social games like co-location introduced for its operation, KENO will overcome the current bottleneck to grow rapidly in China.

***New media lottery business***

The promulgation by MOF on 9 October 2010 of the "Provisional Regulation for the Administration of Telephone Lottery Sales (「電話銷售彩票管理暫行辦法」)" and the "Provisional Regulation for the Administration of Internet Lottery Sales (「互聯網銷售彩票管理暫行辦法」)" to approve sales of lottery via telephone (mobile phone) and the Internet is a huge drive to the Group's development in this area, and proves the Group's far-sighted decision to invest in this area since early 2008. The Group now possesses integrated technical capability to build a comprehensive sales management platform for telephone (mobile phone) and Internet lottery sales. The Group has also built up substantial innovative experience in system building, client-side product development, and actual operation management, possessing comprehensive strength as a technology and service provider for the system building and market operation and management of various new lottery sales channels.

The Group has already formed technical and operational cooperation with several provincial lottery issuance and management authorities. Meanwhile, the Group has also formed close partnership with telecom operators, financial institutions, Internet portals, mobile phone producers, middleware producers including China Unicom, Bank of Communications, China UnionPay, Lenovo, Tianyu, Coolpad for enhanced technical strength and market operation capability. Preparations have been made for the Group to enter the telephone (mobile phone) and Internet lottery space. Further, with a dedicated team and comprehensive technical preparations, the Group has made breakthrough in the electronic instant scratch card space and received favorable feedback from the customers.

***Other lottery business***

The Group continues its collaboration with its strategic partners including IGT and GTECH to develop lottery-related products tailored to the China market, which will help enhance the capabilities of the Group in the China lottery industry in areas such as R & D of systems and games, design and manufacture of terminal equipment, and operation & maintenance, improve and enrich the variety and content of games, as well as introduce the technology and management techniques of responsible lottery. This will strengthen the Group's overall competitive advantage to capture business opportunities in the development of the lottery market in China.

**Conclusion**

The China lottery industry has maintained rapid development with a 20-25% yearly growth in the last ten years. Opportunities abound in the China lottery industry following state approval of the application of new media to lottery sales coupled with increased domestic spending. As the Chinese economy is expected to maintain rapid growth in 2011, China is set to become the largest lottery market in the world.

The Group made an acquisition of a stake in Chongqing Tuokou in February 2011. It will continue to identify other profitable investment opportunities and businesses that will create strategic value, enhance its business portfolio, strengthen its revenue base and profitability, in order to provide long-term and stable returns to its shareholders.

**Financial Review**

The Group recorded a turnover of approximately HK$282.6 million for the year ended 31 December 2010, representing an increase of 234% over 2009. Due to improving sales from VLT business and early redemption of the convertible note issued to IGT, the Group recorded approximately HK$152.3 million profit attributable to equity holders for the year ended 31 December 2010 as compared with the loss of HK$81.6 million for 2009.

**Liquidity, Financial Resources, Gearing Ratio and Capital Structure**

The Group believes that it has adequate financial resources to fund our capital and operating requirements. At 31 December 2010, the Group had an outstanding corporate guarantee for unlimited amount for banking facilities of a property installment loan of HK$106.9 million (at 31 December 2009: HK$75 million) granted to the Group. The Group had outstanding bank borrowing at 31 December 2010 of HK$105.1 million (at 31 December 2009: HK$75 million). The Group's leasehold land and building was pledged to secure this bank borrowing. In addition, at 5 March 2010, treasury facilities of HK$30 million (at 31 December 2009: HK$30 million) had been terminated by the bank.

The Group's total equity amounted to approximately HK$1,086 million at 31 December 2010 (at 31 December 2009: HK$925.7 million). At 31 December 2010, net current assets of the Group amounted to approximately HK$355.9 million (at 31 December 2009: HK$758.3 million (restated)), including approximately HK$347.6 million in cash and deposits with banks and financial institution (at 31 December 2009: HK$632.7 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2010 was approximately 23.4% (at 31 December 2009: 52.5%).

**Exposure to Exchange Rates Fluctuation**

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 Asset**

At 31 December 2010, the Group's leasehold land and building at net book value of HK$138.3 million (at 31 December 2009: investment property of HK$140 million) was pledged to bank to secure the bank borrowing granted to the Group.

**Contingent Liabilities**

At 31 December 2010, the Group did not have any material contingent liabilities (at 31 December 2009: Nil).

## Staff

At 31 December 2010, the Group had 314 (at 31 December 2009: 290) 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.

## 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 2010.

## COMPETING INTERESTS

The Directors believe that none of the Directors, the management shareholders of the Company (as defined in the GEM Listing Rules) and their respective associates had an interest, directly or indirectly, in a business which competes or may compete with the business of the Group.

## 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 2010 have been reviewed by the Audit Committee.

## CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2010, except for the deviations from Code provisions A2.1, A4.1 and A4.2.

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 A4.1, 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 required standard of dealings regarding securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealings in securities of the Company by the Directors (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the Code of Conduct during the year ended 31 December 2010.

On behalf of the Board
**LAU Ting**
*Chairperson*

Hong Kong, 15 March 2011

*As at the date of this announcement, the Board comprises Ms. LAU Ting, Mr. CHAN Shing, Mr. WU Jingwei and Mr. LIAO Yuang-whang as Executive Directors; Mr. HOONG Cheong Thard as Non-executive Director; and Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming as Independent Non-executive Directors.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM's website at www.hkgem.com for at least 7 days from the date of its posting and the Company's website at www.chinalotsynergy.com.*