



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 2009

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.

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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 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:— (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* 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 2009, together with the comparative figures for the year ended 31 December 2008, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	<i>Notes</i>	2009 HK\$'000	2008 <i>HK\$'000</i>
Turnover	3	84,578	117,377
Costs of sales and services		<u>(47,576)</u>	<u>(62,232)</u>
Gross profit		37,002	55,145
Other income and gains	4	68,258	46,532
General and administrative expenses		(139,694)	(118,476)
Other expenses		–	(2,007)
Finance costs	5	(26,423)	(25,238)
Impairment of goodwill		–	(854,725)
Share option expenses		<u>(10,667)</u>	<u>(12,940)</u>
Operating loss	6	(71,524)	(911,709)
Share of losses of jointly-controlled entities		<u>(11,198)</u>	<u>(15,323)</u>
Loss before income tax		(82,722)	(927,032)
Income tax	7	<u>(5,030)</u>	580
Loss for the year		<u>(87,752)</u>	<u>(926,452)</u>
Loss attributable to:			
Equity holders of the Company		(81,596)	(930,729)
Minority interests		<u>(6,156)</u>	<u>4,277</u>
		<u>(87,752)</u>	<u>(926,452)</u>
Loss per share attributable to equity holders of the Company during the year			
– basic	8	<u>(1.1) HK cents</u>	<u>(12.5) HK cents</u>
– diluted	8	<u>(1.1) HK cents</u>	<u>(12.5) HK cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Loss for the year	(87,752)	(926,452)
Other comprehensive income:		
Gain on revaluation of property	–	14,340
Fair value gain/(loss) on available-for-sale financial assets	15,889	(12,860)
Deferred tax arising from revaluation of property	–	(2,366)
Currency translation differences	60	18,813
	<hr/>	<hr/>
Other comprehensive income for the year, net of tax	15,949	17,927
	<hr/>	<hr/>
Total comprehensive income for the year	(71,803)	(908,525)
	<hr/>	<hr/>
Attributable to:		
Equity holders of the Company	(65,647)	(918,166)
Minority interests	(6,156)	9,641
	<hr/>	<hr/>
Total comprehensive income for the year	(71,803)	(908,525)
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CONSOLIDATED BALANCE SHEET

At 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Non-current assets			
Property, plant and equipment		130,570	114,263
Investment property		140,000	127,000
Intangible assets		330,625	337,153
Investments in jointly-controlled entities		116,738	80,184
Available-for-sale financial assets		49,829	33,940
Deferred income tax assets		803	1,660
Prepaid rentals		4,847	5,771
		<hr/>	<hr/>
Total non-current assets		773,412	699,971
Current assets			
Inventories		16,983	13,625
Accounts receivable	9	25,390	14,060
Prepayments, deposits and other receivables		31,178	12,699
Amount due from a jointly-controlled entity		237	7,857
Amounts due from related companies		21,613	21,854
Financial assets at fair value through profit or loss	10	447,451	292,185
Income tax refundable		–	603
Cash and bank balances		632,693	747,681
		<hr/>	<hr/>
Total current assets		1,175,545	1,110,564
		<hr/>	<hr/>
Total assets		1,948,957	1,810,535
Current liabilities			
Accounts payable	11	13,864	4,647
Accruals and other payables		13,453	12,722
Amount due to a jointly-controlled entity		26,302	34,033
Income tax payable		4,382	1,998
Financial liabilities at fair value through profit or loss		284,282	191,632
Bank borrowing		4,708	–
		<hr/>	<hr/>
Total current liabilities		346,991	245,032
		<hr/>	<hr/>
Net current assets		828,554	865,532
		<hr/>	<hr/>
Total assets less current liabilities		1,601,966	1,565,503

CONSOLIDATED BALANCE SHEET (Cont'd)
At 31 December 2009

	<i>Notes</i>	2009 HK\$'000	2008 <i>HK\$'000</i>
Non-current liabilities			
Convertible note		588,780	562,357
Deferred income tax liabilities		17,207	16,334
Bank borrowing		70,292	–
		<hr/>	<hr/>
Total non-current liabilities		676,279	578,691
		<hr/>	<hr/>
Net assets		925,687	986,812
		<hr/>	<hr/>
Equity attributable to equity holders of the Company			
Share capital	<i>12</i>	18,505	18,505
Reserves	<i>13</i>	1,674,420	1,647,920
Accumulated losses		(876,657)	(795,177)
		<hr/>	<hr/>
		816,268	871,248
Minority interests		109,419	115,564
		<hr/>	<hr/>
Total equity		925,687	986,812
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to equity holders of the Company			Minority interests HK\$'000	Total HK\$'000
	Share capital HK\$'000 (Note 12)	Reserves HK\$'000 (Note 13)	Retained profit/ (Accumulated losses) HK\$'000		
Balance at 1 January 2008	19,142	1,753,095	132,823	195,544	2,100,604
Comprehensive income (Loss)/Profit for the year	–	–	(930,729)	4,277	(926,452)
Other comprehensive income:					
Surplus on revaluation of property	–	14,340	–	–	14,340
Deferred tax arising from revaluation of property	–	(2,366)	–	–	(2,366)
Fair value loss on available-for-sale financial assets	–	(12,860)	–	–	(12,860)
Currency translation differences	–	13,449	–	5,364	18,813
Total other comprehensive income	–	12,563	–	5,364	17,927
Total comprehensive income	–	12,563	(930,729)	9,641	(908,525)
Repurchase of shares	(637)	(127,949)	–	–	(128,586)
Share option scheme:					
– value of employee services	–	13,332	–	–	13,332
– value of other participants' services	–	(392)	–	–	(392)
– vested share options cancelled	–	(2,729)	2,729	–	–
Deregistration of a subsidiary	–	–	–	(15,764)	(15,764)
Dividends paid to minority shareholders	–	–	–	(73,857)	(73,857)
	(637)	(117,738)	2,729	(89,621)	(205,267)
Balance at 31 December 2008	18,505	1,647,920	(795,177)	115,564	986,812

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (*Cont'd*)
For the year ended 31 December 2009

	Attributable to equity holders of the Company			Minority interests HK\$'000	Total HK\$'000
	Share capital HK\$'000 (Note 12)	Reserves HK\$'000 (Note 13)	Accumulated losses 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	-	8,139	-	-	8,139
- value of other participants' services	-	2,528	-	-	2,528
- 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

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 principally engaged in investment, project development and the provision of technologies and equipment and consultancy services in public welfare lottery business and related sectors.

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 Group has adopted the following new and amended HKFRS as of 1 January 2009:

- HKFRS 7 “Financial Instruments — Disclosures” (Amendment) (effective 1 January 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on loss per share.
- HKAS 1 (Revised) “Presentation of Financial Statements” (effective 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, “non-owner changes in equity”) in the statement of changes in equity, requiring “non-owner changes in equity” to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on loss per share.
- HKFRS 2 (Amendment), “Share-based Payment” (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and Company has adopted HKFRS 2 (Amendment) from 1 January 2009. The amendment does not have a material impact on the Group’s or Company’s financial statements.

2. BASIS OF PREPARATION (Cont'd)

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

- In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The change in accounting policy had no material impact on loss per share as the Group does not have any qualifying asset as at 31 December 2009.
- HKFRS 8, “Operating Segments” (effective 1 January 2009). HKFRS 8 replaces HKAS 14, “Segment Reporting”, and aligns segment reporting with the requirements of the US standard SFAS 131, “Disclosures about segments of an enterprise and related information”. The new standard requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. Such note disclosure does not have any material impact on the financial statements.

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following standards and amendments to existing standards have been published and are mandatory for the Group’s accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- HK(IFRIC) 17, “Distribution of Non-cash Assets to Owners” (effective on or after 1 July 2009). The interpretation is part of the HKICPA’s annual improvements project published in May 2009. 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. The Group and Company will apply HK(IFRIC) 17 from 1 January 2010. It is not expected to have a material impact on the Group’s or Company’s financial statements.
- HKAS 27 (Revised), “Consolidated and Separate Financial Statements”, (effective from 1 July 2009). The revised standard requires the effects of all transactions with minority 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 remeasured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with minority interests from 1 January 2010.
- HKFRS 3 (Revised), “Business Combinations” (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. 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 should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.
- HKAS 38 (Amendment), “Intangible Assets” (effective from 1 July 2009). The amendment is part of the HKICPA’s annual improvements project published in May 2009 and the Group and Company will apply HKAS 38 (Amendment) from the date HKFRS 3 (Revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group’s or Company’s financial statements.

2. BASIS OF PREPARATION (Cont'd)

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Cont'd)*

- HKFRS 5 (Amendment), “Measurement of Non-current Assets (or disposal groups) classified as held-for-sale”. The amendment is part of the HKICPA’s annual improvements project published in May 2009. The amendment provides clarification 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, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. The Group and Company will apply HKFRS 5 (Amendment) from 1 January 2010. It is not expected to have a material impact on the Group’s or Company’s financial statements.
- HKAS 1 (Amendment), “Presentation of Financial Statements”. The amendment is part of the HKICPA’s annual improvements project published in May 2009. The amendment provides clarification 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 Group and Company will apply HKAS 1 (Amendment) from 1 January 2010. It is not expected to have a material impact on the Group’s or Company’s financial statements.
- HKFRS 2 (Amendment), “Group Cash-settled and Share-based Payment Transactions” (effective from 1 January 2010). In addition to incorporating HK(IFRIC)-Int 8, “Scope of HKFRS 2”, and HK(IFRIC)-Int 11, “HKFRS 2-Group and Treasury Share Transactions”, the amendments expand on the guidance in HK(IFRIC)-Int 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Group’s financial statements.

3. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the business of provision of lottery systems, game products, terminal equipment and related technologies and marketing services to the public welfare lottery market in China. An analysis of the Group’s turnover for the year is as follows:

	2009 HK\$’000	2008 HK\$’000
Turnover		
Income from provision of lottery terminals	66,093	99,162
Income from sales of equipment	17,466	17,711
Income from provision of consultancy services	1,019	504
	<u>84,578</u>	<u>117,377</u>

Segment information

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

3. TURNOVER AND SEGMENT INFORMATION (Cont'd)

Geographical information

(a) Revenue from external customers

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
PRC	84,578	95,645
Other countries	–	21,732
	84,578	117,377

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

(b) Non-current assets

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
PRC	578,960	532,909
Hong Kong	143,820	131,462
	722,780	664,371

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:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Customer A	39,546	31,887
Customer B	26,409	45,543
Customer C	9,932	15,764
Customer D	–	21,732

4. OTHER INCOME AND GAINS

	2009 HK\$'000	2008 HK\$'000
Fair value gains/(losses), net:		
– Financial assets at fair value through profit or loss (held for trading)	17,418	(17,772)
– Early redemption option embedded in convertible note at fair value	121,919	102,977
– Redemption option held by a noteholder embedded in convertible note at fair value	(92,650)	(68,402)
	<u>46,687</u>	<u>16,803</u>
Interest income from bank deposits	5,994	16,616
Dividend income on financial assets at fair value through profit or loss	1,161	1,011
Fair value gain on investment property	13,000	7,000
Rental income	672	960
Reversal of impairment on other receivables	744	4,142
	<u>68,258</u>	<u>46,532</u>

5. FINANCE COSTS

	2009 HK\$'000	2008 HK\$'000
Imputed interest expense on convertible note	<u>26,423</u>	<u>25,238</u>

6. OPERATING LOSS

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

	2009 HK\$'000	2008 HK\$'000
Costs of sales and services		
– Depreciation of lottery terminals	26,459	32,882
– Business tax	3,412	3,942
– Cost of inventories recognised as expense	7,636	6,945
– Repairs and maintenance	5,244	11,084
– Other costs of sales and services	4,825	7,379
	<u>47,576</u>	<u>62,232</u>
Loss on disposal of property, plant and equipment	3,194	638
Operating lease rentals in respect of land and buildings	6,903	3,386
Auditors' remuneration		
– Provision for the year	630	600
– 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	4,123	2,809
Impairment of other receivables (included in other expenses)	–	2,007
Foreign exchange differences, net	261	(1,228)

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 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 2008 and 2009 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.

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Current tax		
– PRC Enterprise Income Tax	4,180	2,228
– Adjustments in respect of prior years	(880)	(2,314)
	<hr/>	<hr/>
Total current tax	3,300	(86)
Deferred tax		
– Origination and reversal of temporary differences	1,730	(494)
	<hr/>	<hr/>
	5,030	(580)
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8. LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss attributable to equity holders of the Company of approximately HK\$81,596,000 (2008: HK\$930,729,000) by the weighted average number of 7,402,164,000 ordinary shares in issue (2008: 7,445,419,421 ordinary shares) during the year.

The computation of diluted loss per share for the years ended 31 December 2009 and 2008 has not assumed the exercise of share options and conversion of convertible note because their exercise and conversion during the year 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 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 2009, the ageing analysis of the accounts receivable is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
0–30 days	11,296	9,020
31–60 days	5,924	2,330
61–90 days	6,338	1,284
Over 90 days	1,832	1,426
	<u>25,390</u>	<u>14,060</u>

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Listed securities:		
– Equity securities – Hong Kong	–	37,975
– Equity securities – Elsewhere	–	7,419
Unlisted equity investment	78,741	–
Early redemption option embedded in convertible note at fair value	368,710	246,791
	<u>447,451</u>	<u>292,185</u>
Market value of listed securities	–	45,394

11. ACCOUNTS PAYABLE

At 31 December 2009, the ageing analysis of the accounts payable is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
0–30 days	13,641	681
31–60 days	–	758
61–90 days	–	869
Over 90 days	223	2,339
	13,864	4,647

12. SHARE CAPITAL

	Authorised ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2008, 31 December 2008 and 2009	16,000,000,000	40,000
	Issued and fully paid ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2008	7,656,760,000	19,142
Repurchase of shares (<i>Note</i>)	<u>(254,596,000)</u>	<u>(637)</u>
At 31 December 2008, 1 January 2009 and 31 December 2009	7,402,164,000	18,505

Note: The Company repurchased 254,596,000 of its own shares of HK\$0.0025 each on the Stock Exchange during the year ended 31 December 2008. The highest and lowest price paid per share were HK\$0.96 and HK\$0.35 respectively. The total amount paid for the repurchase of shares was approximately HK\$128,586,000 and has been deducted from shareholders' equity. The shares repurchased were subsequently cancelled.

13. RESERVES

	Share premium HK\$'000	Convertible note HK\$'000	Capital reserve HK\$'000	Currency translation reserve HK\$'000	Share-based compensation reserve HK\$'000	Revaluation reserve HK\$'000	Available-for-sale investments HK\$'000	Total HK\$'000
Balance at 1 January 2008	1,674,115	20,080	15,158	17,808	25,934	-	-	1,753,095
Repurchase of shares	(127,949)	-	-	-	-	-	-	(127,949)
Share option scheme:								
- value of employee services	-	-	-	-	13,332	-	-	13,332
- value of other participants' services	-	-	-	-	(392)	-	-	(392)
- vested share options cancelled	-	-	-	-	(2,729)	-	-	(2,729)
Surplus on revaluation of property	-	-	-	-	-	14,340	-	14,340
Deferred tax arising from revaluation of property	-	-	-	-	-	(2,366)	-	(2,366)
Fair value loss on available-for-sale financial assets	-	-	-	-	-	-	(12,860)	(12,860)
Currency translation differences								
- overseas subsidiaries	-	-	-	8,896	-	-	-	8,896
- overseas jointly-controlled entities	-	-	-	4,553	-	-	-	4,553
Balance at 31 December 2008	1,546,166	20,080	15,158	31,257	36,145	11,974	(12,860)	1,647,920
	Share premium HK\$'000	Convertible note HK\$'000	Capital reserve HK\$'000	Currency translation reserve HK\$'000	Share-based compensation reserve HK\$'000	Revaluation reserve HK\$'000	Available-for-sale investments HK\$'000	Total 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	-	-	-	-	8,139	-	-	8,139
- value of other participants' services	-	-	-	-	2,528	-	-	2,528
- 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

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the business of provision of lottery systems, game products, terminal equipment and related technologies and marketing services to the public welfare lottery market in China.

Business Review

The Group is optimistic about the prospects of the public welfare lottery in China. While overcoming the hardships as a result of the adjustments across the lottery industry in 2009, through in-depth analysis of the industry and systematic research on company positioning, the Group has formed three business segments including (1) Computer-generated Ticket Game (CTG) and high-frequency lottery, (2) video lottery, (3) mobile lottery and internet services. Progress has been made in all these areas, including technological innovation capabilities enhanced and the standard of project management reinforced. On the CTG business, a new five-year contract has been signed with Guangdong Welfare Lottery Centre for supply of betting terminal and services, while Keno, the high-frequency lottery game, was officially rolled out in public venues; on the video lottery business, approval was obtained from the Ministry of Finance for the re-launch of sales of VLT across the nation; on the mobile lottery and internet services business, contracts have been signed with several provinces for betting via mobile phone/fixed line telephone. The cooperation between the Group and the global leaders in the lottery industry has been further strengthened, with a closer and more interactive business relationship established with IGT and GTECH. In 2009, the Group and IGT have completed a further capital injection into IGT-Synergy Technology (Beijing) Co., Ltd, their joint venture company in China for the development of lottery business in the nation.

Video Lottery Business

VLT Business

The Group is the exclusive equipment provider for the video lottery game of China Welfare Lottery Online (VLT), approved by the Ministry of Finance of China, which is a nationwide product issued by China Welfare Lottery Centre (“CWLC”). After the enhancement measures which lasted about one year and a half, approval was obtained from government regulatory authorities for the launch of four new games, namely, Qu Wei Gao Er Fu (趣味高爾夫), Lian Huan Duo Bao (連環奪寶), San Jiang Feng Guang(三江風光) and Hao Yun She Ji (好運射擊) from July 2009. The four games are running in a stable fashion, and well received by the market. Two of them, San Jiang Feng Guang(三江風光) and Hao Yun She Ji(好運射擊) are being sold in VLT halls with new sales permits across China, while the other two, Qu Wei Gao Er Fu (趣味高爾夫) and Lian Huan Duo Bao (連環奪寶), after having been trial run in 100 plus VLT halls in seven selected provinces for half a year, have now been extended to VLT halls in 28 provinces, autonomous regions and municipalities re-awarded with new sales permits having satisfied sales requirements and been accepted and approved by the authorities in December 2009. The payout ratio of the games has been increased to 65%. Meanwhile, in order to make better use of VLT as a means to raising welfare funds for disaster relief purposes, the design and graphics presentations of these four new games all emphasize the themes of public welfare, healthiness, culture and the like.

CTG and High Frequency Lottery Business

CTG Business

The Group is the exclusive supplier of CTG betting terminal equipment for Guangdong province, and supplies lottery ticket scanners and readers to other corporate customers. In 2009, Guangdong province continues to maintain its position as the leading welfare lotteries selling province in China. This business has brought in stable cash flow for the Group. During the year, a subsidiary of the Group entered into a new contract with Guangdong Welfare Lottery Centre for betting terminal and services for the next five years. Furthermore, the Group is actively exploring overseas markets for its new multifunction lottery betting terminals, with an aim to securing orders from Europe and Southeast Asian countries.

High Frequency Lottery Business

CLS-GTECH Company Limited, a joint venture company between the Group and GTECH, provides the system and terminals for KENO, the Welfare Lottery's high frequency game. Keno has now been massively rolled out in eight selected provinces including Liaoning, Hebei, Sichuan, Hunan, Shanxi, Gansu, Shandong and Jilin, with add-on game approved by the authorities including the Ministry of Finance in August 2009. Sales of Keno have increased steadily with more provinces and terminals selling the game. Success of the game in the international lottery sector has proved that Keno brings incremental sales to the market. The Group will work closely with lottery issuance authorities to meet their requirements on system and terminal equipment, as well as step up efforts like enriching the variety of Keno games on an ongoing basis. Management believes this business will bring long-term and stable revenue for the Group.

Mobile Lottery Business

Along with technological development in mobile communication technology, electronic payment and mobile phone terminal, mobile phone has evolved to become a crucial platform to obtain information and carry out electronic business transactions for a wide spectrum of users, and purchase of lottery via mobile phone has become an increasingly important channel for the middle to high income player groups. The Group is a licenced technology and service provider of mobile lottery service. The Group has successfully introduced new technologies to the lottery industry to provide a total solution for lottery purchase via mobile phone. The Group has made substantial progress in the mobile lottery business since the second half of 2009, securing four provincial authorizations for mobile phone and mobile terminal betting with Tianjin, Chongqing and Ningxia in less than four months.

Other Lottery Business

The Group is collaborating with its strategic partners including IGT and GTECH, to develop a wide variety of lottery-related products tailored to the China market, which will help enhance the capabilities of the China lottery industry in areas such as research & development 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, thereby fostering the safe and healthy development of the China lottery market.

Outlook

In 2009, the China lottery market showed strong growth momentum, with sales revenue amounting to RMB132.47 billion, representing an increase of approximately 25% over the same period of 2008. There is no doubt that the China economy will resume high-speed growth as it has demonstrated. The introduction of the “Regulations on Administration of Lotteries” (State Council Decree No.554) allows the lottery business in China, a major lottery market in the world, to smoothly progress to a new stage of development with the right legal protection and sound regulation, paving the way for continued rapid development.

With the strengthening of its integrated competitiveness in 2009, the Group has enhanced its strength in the research and development of systems and games, manufacture and design of terminals, as well as operation and maintenance, become capable of improving and enriching the variety and content of games, and developed advanced industry management practices. Three business segments have now been formed including CTG and High Frequency Lottery, Video Lottery, and Mobile Lottery and internet Services. The Group has high expectations of the development of all the segments in 2010.

In particular, as the terminal equipment supplier of VLT, the Group will work closely with CWLC in implementing various initiatives in 2010 while constantly enhancing its capabilities in the research and development, manufacture and provision of services for video lottery system, terminal equipment and games. As the exclusive supplier of terminal equipment and system for Keno, the Welfare Lottery’s nationwide high frequency product, the Group will apply its advanced technology in the operation and service support to ensure the smooth running of each and every terminal, while working closely with CWLC in developing new markets across China. As the supplier of CTG betting terminal equipment for Guangdong province, the Group will capture the opportunity of this new contract with the Province to further improve and develop its own capability, with an aim to expanding the business to other provinces in China. In January 2010, the Chinese government has speeded up the integration of the telecommunication network, broadcasting TV network and Internet, fully reflecting the government’s emphasis on the information business. Along with the creation of this epoch-making new media business chain, a more favourable environment will be provided for mobile betting. The Group has developed comprehensive technological and market development capability in this area, which is expected to deliver good performance in 2010. At the same time, the Group will actively explore and seek to develop new technologies and new channels, as well as work closely with its strategic partners to seize opportunities in emerging markets.

The Group will continue to focus on the lottery business in China. With its integrated competitiveness, the Group will endeavour to create new revenue streams by expanding its various businesses and participating in various parts of the lottery value chain. Meanwhile, the Group will identify potentially profitable investment opportunities, including businesses that are in shareholder’ interests and with strategic values, 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\$84.6 million for the year ended 31 December 2009, representing a decrease of 28% over 2008. Loss attributable to equity holders for the year amounted to approximately HK\$81.6 million, as compared with the loss of HK\$930.7 million for 2008.

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

At 31 December 2009, the Group had an outstanding guarantee and indemnity for HK\$30 million (at 31 December 2008: HK\$30 million) plus interest and other charges for treasury facilities provided by a bank. Such treasury facilities were for a maximum tenor of 18 months, with facility limits to be determined by the bank at its sole discretion and may vary from time to time by the bank. The treasury facilities and guarantee have been terminated at 5 March 2010 by the bank. In addition, at 31 December 2009, the Group had an outstanding corporate guarantee for unlimited amount for banking facilities of property installment loan of HK\$75 million granted to the subsidiary of the Company.

The Group believes that the available financial resources will sufficiently fund our capital and operating requirements. The Group had outstanding bank borrowing at 31 December 2009 of HK\$75 million (at 31 December 2008: Nil). The Group's investment property was pledged to secure this bank borrowing.

The Group's total equity amounted to approximately HK\$925.7 million at 31 December 2009 (at 31 December 2008: HK\$986.8 million). At 31 December 2009, net current assets of the Group amounted to approximately HK\$828.6 million (at 31 December 2008: HK\$865.5 million), including approximately HK\$632.7 million in cash and deposits with banks (at 31 December 2008: HK\$747.7 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2009 was approximately 52.5% (at 31 December 2008: 45.5%).

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 2009, the Group's investment property at market value of HK\$140 million (at 31 December 2008: Nil) was pledged to bank to secure the bank borrowing granted to the Group.

Contingent Liabilities

At 31 December 2009, the Group did not have any material contingent liabilities (at 31 December 2008: Nil).

Staff

At 31 December 2009, the Group had 290 (2008: 205) 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 and medical insurance. 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 had purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2009.

COMPETING INTERESTS

The Board believe that none of the Directors, the management shareholders of the Company (as defined in the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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 Company's Audit Committee currently comprises three Independent Non-Executive Directors, namely Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming. The audited financial statements of the Group for the year ended 31 December 2009 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 2009, 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 2009.

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 18 March 2010

As at the date of this announcement, the Board of the Company comprises Ms. Lau Ting, Mr. Chan Shing, Mr. Wu Jingwei and Mr. Liao Yuang-whang as Executive Directors, Mr. Hoong Cheong Thard and Mr. Paulus Johannes Cornelis Aloysius Karskens as Non-Executive Directors, 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 website at www.hkgem.com for at least 7 days from the date of its posting.