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China LotSynergy Holdings Limited

華彩控股有限公司

(Incorporated in Bermuda with limited liability)

**(Stock Code: 8161)**

**MAJOR TRANSACTION  
ACQUISITION OF INTERESTS IN TRADITIONAL COMPUTER  
LOTTERY SYSTEM AND EQUIPMENT SUPPLIERS  
AND  
RESUMPTION OF TRADING**

**Financial adviser to China LotSynergy Holdings Limited**



The Board is pleased to announce that on 10 September 2007, the Group, through entering into of the Acquisition Agreement, and the entering into of the GZSH Acquisition Agreement and the LHL Acquisition Agreement by the CMIL Group, has conditionally agreed to acquire an aggregate of 80% equity interests in GZSH and the LHL Group. The aggregate consideration of the Acquisition, the GZSH Acquisition and the LHL Acquisition amounts to HK\$224.0 million which will be satisfied as to (i) HK\$156.8 million by cash; and as to (ii) HK\$67.2 million by the allotment and issue of an aggregate of 67.2 million new Shares at an Issue Price of HK\$1.0 per Share. The Acquisition, the GZSH Acquisition and the LHL Acquisition will be completed in two stages as detailed below.

The Board believes that the acquisitions of the CMIL Group will enable the Group to build on its foundation to expand into the traditional computer lottery related businesses in the PRC.

CMIL, through its subsidiaries, GZSH and GZL, is principally engaged in the research and development, manufacturing and the supply of computer lottery system and equipment in the PRC. It is also involved in the provision of maintenance services. GZSH and GZL are technology corporations in the Guangdong Province and possess a number of important intellectual properties rights relating to lottery equipment.

Currently, GZSH is one of the three largest suppliers in the PRC which specialises in the provision of lottery system and equipment to the provincial welfare lottery issuing authorities. GZSH has supplied more than 7,000 lottery terminals to Guangdong Welfare Lottery Issuing Centre in the Guangdong Province, which is one of the most developed markets for lottery in the PRC. It is also entitled to a share of revenue derived from the sales of lottery sales in the province.

GZL is a well-known corporation which is principally engaged in the research and development and manufacturing of lottery ticket scanners. Since its establishment, it has supplied more than 40,000 units of lottery ticket scanners to its customers in both the PRC and overseas.

At present, the CMIL Group is actively developing business in overseas markets. It is also a supplier of lottery terminal to the Keno project carried out by an associated company of the Group.

The Board believes that the Acquisition, the GZSH Acquisition and the LHL Acquisition are consistent with the Group's long-term development strategy. The acquisitions will not only create synergistic benefits to the existing business of the Group, but will also allow the Group to expand into other related business areas. The Board believes that the acquisitions will strengthen the Group's overall capability and will position the Group well for its development in the industry.

The Acquisition, the GZSH Acquisition and the LHL Acquisition will be completed in two stages:

Stage 1: Acquisition of 60% equity interests in GZSH and the LHL Group

On 10 September 2007, the Group entered into the Acquisition Agreement with the Vendor under which the Group has conditionally agreed to acquire from the Vendor and the Vendor has conditionally agreed to sell to the Group 100% equity interests in CMIL for an aggregate consideration of HK\$168.0 million (subject to adjustments) which will be satisfied as to (i) HK\$117.6 million by cash; and as to (ii) HK\$50.4 million by the allotment and issue of 50.4 million Consideration Shares at an Issue Price of HK\$1.0 per Share. The Consideration will be adjusted downward and the adjusted consideration will be repayable by the Vendor in cash if the Net Profit in the audited consolidated accounts of the CMIL Group for the year ending 31 December 2007 or 31 December 2008 is less than HK\$25 million or HK\$40 million respectively. The principal asset of the CMIL Group is its 60% equity interests in each of GZSH and the LHL Group.

## Stage 2: Acquisition of further 20% equity interests in GZSH and the LHL Group

On the same date, CTL, a wholly-owned subsidiary of CMIL, also entered into the GZSH Acquisition Agreement and the LHL Acquisition Agreement respectively with the GZSH Vendors and the LHL Vendors pursuant to which (i) CTL has conditionally agreed to acquire from the GZSH Vendors and the GZSH Vendors have conditionally agreed to sell to CTL 20% equity interests in GZSH at a cash consideration of HK\$8.0 million; and (ii) CTL has conditionally agreed to acquire from the LHL Vendors and the LHL Vendors have conditionally agreed to sell to CTL 20% equity interests in LHL for an aggregate consideration of HK\$48.0 million which will be satisfied as to (a) HK\$31.2 million by cash; and as to (b) HK\$16.8 million by the allotment and issue of 16.8 million LHL Consideration Shares at an Issue Price of HK\$1.0 per Share.

The Vendor has warranted that the net asset value of the CMIL Group as at 30 June 2007 shall not be less than HK\$58.88 million. In the event that the net asset value as at 30 June 2007 or as at the last day of the calendar month immediately preceding the date of Completion is less than HK\$58.88 million, the Vendor will compensate the shortfall of the net asset value to the Purchaser.

The Acquisition, the GZSH Acquisition and the LHL Acquisition constitute a major transaction for the Company under the GEM Listing Rules and are subject to the disclosure and Shareholders' approval requirements stipulated thereunder. A circular containing details of, among other things, the Acquisition, the GZSH Acquisition and the LHL Acquisition, financial information on the CMIL Group, and a notice to convene the SGM and other information required under the GEM Listing Rules will be despatched to the Shareholders as soon as practicable.

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on 11 September 2007 pending the release of this announcement. Application has been made to the Stock Exchange for resumption of trading in the Shares on the Stock Exchange from 2:30 p.m. on 13 September 2007.

## **INTRODUCTION**

The Board is pleased to announce that on 10 September 2007, the Group, through entering into of the Acquisition Agreement, and the entering into of the GZSH Acquisition Agreement and the LHL Acquisition Agreement by the CMIL Group, has conditionally agreed to acquire an aggregate of 80% equity interests in GZSH and the LHL Group. The aggregate consideration of the Acquisition, the GZSH Acquisition and the LHL Acquisition amounts to HK\$224.0 million which will be satisfied as to (i) HK\$156.8 million by cash; and as to (ii) HK\$67.2 million by the allotment and issue of an aggregate of 67.2 million new Shares at an Issue Price of HK\$1.0 per Share. The Acquisition, the GZSH Acquisition and the LHL Acquisition will be completed in two stages as detailed below.

## Stage 1: Acquisition of 60% equity interests in GZSH and the LHL Group

On 10 September 2007, the Group entered into the Acquisition Agreement with the Vendor under which the Group has conditionally agreed to acquire from the Vendor and the Vendor has conditionally agreed to sell to the Group 100% equity interests in CMIL for an aggregate consideration of HK\$168.0 million (subject to adjustments) which will be satisfied as to (i) HK\$117.6 million by cash; and as to (ii) HK\$50.4 million by the allotment and issue of 50.4 million Consideration Shares at an Issue Price of HK\$1.0 per Share. The principal asset of CMIL is its interest in CTL and CTL holds 60% equity interests in each of GZSH and the LHL Group.

## Stage 2: Acquisition of further 20% equity interests in GZSH and the LHL Group

On the same date, CTL, a wholly-owned subsidiary of CMIL, also entered into the GZSH Acquisition Agreement and the LHL Acquisition Agreement respectively with the GZSH Vendors and the LHL Vendors pursuant to which (i) CTL has conditionally agreed to acquire from the GZSH Vendors and the GZSH Vendors have conditionally agreed to sell to CTL 20% equity interests in GZSH at a cash consideration of HK\$8.0 million; and (ii) CTL has conditionally agreed to acquire from the LHL Vendors and the LHL Vendors have conditionally agreed to sell to CTL 20% equity interests in LHL for an aggregate consideration of HK\$48.0 million which will be satisfied as to (a) HK\$31.2 million by cash; and as to (b) HK\$16.8 million by the allotment and issue of 16.8 million LHL Consideration Shares at an Issue Price of HK\$1.0 per Share.

The aggregate consideration of the Acquisition, the GZSH Acquisition and the LHL Acquisition are summarised as follows:

	<b>Cash</b> <i>HK\$ million</i>	<b>Consideration shares</b> <i>HK\$ million</i>	<b>Total</b> <i>HK\$ million</i>
Stage 1:			
Acquisition of 60% equity interests in GZSH and the LHL Group	<u>117.6</u>	<u>50.4</u>	<u>168.0</u>
Stage 2:			
(i) Acquisition of further 20% equity interests in GZSH	8.0	—	8.0
(ii) Acquisition of further 20% equity interests in the LHL Group	<u>31.2</u>	<u>16.8</u>	<u>48.0</u>
	<u>156.8</u>	<u>67.2</u>	<u>224.0</u>

## THE ACQUISITION AGREEMENT

### 1. Date

10 September 2007

### 2. Parties

- (i) UIL, a wholly-owned subsidiary of the Company, as the purchaser of the Sale Shares;
- (ii) CIL as the vendor of the Sale Shares; and
- (iii) Warrantors as the warrantors.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor, its ultimate beneficial owners and the Warrantors are independent of the Group and connected persons of the Group. CIL is an investment holding company holding 60% equity interests in each of GZSH and the LHL Group.

### 3. Principal terms of the Acquisition Agreement

#### *Assets to be acquired*

Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire from the Vendor and the Vendor has conditionally agreed to sell to the Purchaser the Sale Shares, representing the entire issued share capital of CMIL.

The principal assets of the CMIL Group are 60% equity interests in each of GZSH and the LHL Group.

Upon Completion, the Group is not restricted from disposing of the Sales Shares.

#### *The Consideration*

The Consideration is HK\$168.0 million (subject to adjustments), to be satisfied as to (i) HK\$117.6 million by cash, of which HK\$16.8 million will be paid within 3 Business Days after the date of the Acquisition Agreement and the remaining balance of HK\$100.8 million is payable at Completion; and as to (ii) HK\$50.4 million by the allotment and issue of 50.4 million Consideration Shares at the Issue Price of HK\$1.0 each, credited as fully paid-up, to the Vendor (or its nominees) at Completion.

Based on the closing price of HK\$0.85 per Share on the Last Trading Day, the Consideration Shares had a market value of HK\$42.84 million. The Directors intend to finance the cash consideration by internal resources.

(a) *Basis of the Consideration*

The Consideration was determined after arm's length negotiation between the Vendor and the Purchaser, with reference to, among other things (i) the future growth prospects and earnings capability of the CMIL Group; and (ii) the financial position of the CMIL Group. The Directors consider that the Consideration, including its payment terms, is fair and reasonable and the entering into of the Acquisition Agreement is in the interest of the Company and the Shareholders as a whole.

(b) *The Consideration Shares and the Issue Price*

The Consideration Shares will be issued at the Issue Price of HK\$1.0 per Consideration Share, which is determined with reference to the prevailing market prices of the Shares. The Issue Price represents:

- (i) a premium of approximately 17.6% over the closing price of HK\$0.85 per Share as quoted on the Stock Exchange on the date of the Acquisition Agreement;
- (ii) a premium of approximately 13.4% over the average closing price of approximately HK\$0.882 per Share for the last 5 trading days immediately prior to the date of the Acquisition Agreement; and
- (iii) a premium of approximately 10.0% over the average closing price of approximately HK\$0.909 per Share for the last 10 trading days immediately prior to the date of the Acquisition Agreement.

The Consideration Shares represent approximately 0.67% of both the total existing issued share capital of the Company as at the date of this announcement and the total issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Consideration Shares, when issued and credited as fully paid, will rank pari passu amongst themselves and in all respects with the existing Shares in issue as at the date of Completion. An ordinary resolution will be proposed at the SGM to seek, among other things, a specific mandate for the issue of the Consideration Shares pursuant to the Acquisition Agreement.

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

*(c) Consideration adjustments*

The Consideration will be adjusted if the Net Profit in the audited consolidated accounts of the CMIL Group for the year ending 31 December 2007 or 31 December 2008 is less than HK\$25 million (the “2007 Target Profit”) or HK\$40 million (the “2008 Target Profit”) respectively. The Consideration will be adjusted downward and the adjusted consideration will be repayable by the Vendor in cash in accordance with a formula with reference to the level of CMIL’s shareholding interests in GZSH and the LHL Group and the Net Profit achieved for the year ending 31 December 2007 and 31 December 2008, subject to a maximum of HK\$67.2 million in aggregate. In respect of the Net Profit of the CMIL Group for the year ending 31 December 2007, the adjusted consideration will be equal to the proportion of the shortfall of the 2007 Target Profit over the 2007 Target Profit times the Cash Consideration (before the Stage Two Acquisition Completion) or the Aggregate Cash Consideration (after the Stage Two Acquisition Completion). In respect of the Net Profit of the CMIL Group for the year ending 31 December 2008, the adjusted consideration will be equal to the proportion of the shortfall of the 2008 Target Profit over the 2008 Target Profit times 50% of the Cash Consideration (before the Stage Two Acquisition Completion) or 50% of the Aggregate Cash Consideration (after the Stage Two Acquisition Completion).

*(d) Share charges in respect of the Consideration Shares and the LHL Consideration Shares*

The Vendor and the LHL Vendors will charge the Consideration Shares and the LHL Consideration Shares, respectively, in favour of the Purchaser on Completion and LHL Completion as security for repayment obligations of the Vendor arising as a result of the adjustment of the Consideration as referred to in paragraph headed “Consideration adjustments” above. 50% of the aforesaid charged Shares will be discharged if the Net Profit in the audited consolidated accounts of the CMIL Group for the year ending 31 December 2007 is not less than HK\$25 million and the remaining 50% of the aforesaid charged Shares will be discharged if the Net Profit in the audited consolidated accounts of the CMIL Group for the year ending 31 December 2008 is not less than HK\$40 million.

***Key conditions precedent***

Completion is conditional upon, among other things:

- (i) completion of and satisfaction of the results of the due diligence exercise on the CMIL Group by the Purchaser;
- (ii) the Shareholders approving the Acquisition Agreement and the transactions contemplated thereunder at the SGM, including but not limited to the allotment and issue of the Consideration Shares;
- (iii) the listing committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Consideration Shares;

- (iv) the Bermuda Monetary Authority granting the approval for the allotment and issue of the Consideration Shares, if required;
- (v) the entering into of the GZSH Acquisition Agreement between the GZSH Vendors and CTL in relation to the acquisition of the further 20% equity interests in GZSH by CTL from the GZSH Vendors at a total consideration of HK\$8.0 million and the shareholders' agreement in respect of GZSH, in form and substance acceptable to the Purchaser;
- (vi) the entering into of the LHL Acquisition Agreement between the LHL Vendors and CTL in relation to the acquisition of the further 20% equity interests in LHL by CTL from the LHL Vendors at a total consideration of HK\$48.0 million (as to HK\$31.2 million by cash and as to HK\$16.8 million by the LHL Consideration Shares) and the shareholders' agreement in respect of LHL, in form and substance acceptable to the Purchaser; and
- (vii) the execution of a deed of taxation indemnity by the Vendor and the Warrantors in favour of the Purchaser in form and substance acceptable to the Purchaser.

### ***Completion***

Completion shall take place on the seventh Business Days or such later date as the parties may agree in writing after the fulfillment or waiver of the conditions. The conditions shall be fulfilled or waived within three months after the date of the Acquisition Agreement or such other later date as the parties to the Acquisition Agreement may agree in writing.

### ***Other principal terms of the Acquisition Agreement***

#### *Net asset value warranty*

The Vendor has warranted that the net asset value of the CMIL Group as shown in the consolidated audited account of the CMIL Group for the six months ended 30 June 2007 and the management account of the CMIL Group for the six months ended 30 June 2007 both prepared in accordance with the applicable Hong Kong accounting standards shall not be less than HK\$58.88 million. In the event that the net asset value as shown in any of the above accounts or in the management account for the period from 1 July 2007 to the last day of the calendar month immediately preceding the date of Completion is less than HK\$58.88 million, the Vendor will compensate the shortfall of the net asset value, on a dollar-to-dollar basis, to the Purchaser.



### *The New Project*

It is expected that a new lottery terminal supply agreement would be entered into between the CMIL Group and an independent third party company.

The Vendor and the Warrantors have undertaken to the Company to use their best endeavors to procure execution of the New Project within a reasonable practicable time after Completion. The Vendor and the Warrantors will be entitled to 30% of the net profit generated from the New Project by the CMIL Group for the period from the effective date of the New Project to 30 June 2009. Granting of profit entitlement to the Vendor and the Warrantors would provide the Vendor and the Warrantors incentives to negotiate the terms of and enter into the New Project which would maximise the value of the CMIL Group and hence the Group. The granting of profit entitlement and the relevant sharing profit percentage were determined after arm's length negotiation among the Vendor, the Purchaser and the Warrantors. In light of the fact that (i) the Company has not taken into account the potential benefits generated from the New Project while determining the Consideration; and (ii) the reasons for the granting of profit entitlement as mentioned above, the Directors consider the granting of profit entitlement is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## **THE GZSH ACQUISITION AGREEMENT**

### **1. Date**

10 September 2007

### **2. Parties**

- (i) CTL as the purchaser of the GZSH Sale Interest; and
- (ii) Mr. Chen, Mr. Lin, Mr. Yan and Mr. Wang as vendors of the GZSH Sale Interest.

The GZSH Vendors, who are experienced lottery-related business professionals, are the existing shareholders and management of GZSH. Save for being the parties to the Acquisition Agreement, the GZSH Acquisition Agreement and the LHL Acquisition Agreement, the GZSH Vendors are independent of the Group.

### **3. Principal terms of the GZSH Acquisition Agreement**

#### ***Assets to be acquired***

Pursuant to the GZSH Acquisition Agreement, the GZSH Purchaser has conditionally agreed to acquire from the GZSH Vendors and the GZSH Vendors have conditionally agreed to sell to the GZSH Purchaser the GZSH Sale Interest (on a pro rata basis in accordance with the GZSH Vendors' respective equity interests in GZSH, i.e. 11.2%, 3.2%, 3.2% and 2.4% equity interests in GZSH held by Mr. Chen, Mr. Lin, Mr. Yan and Mr. Wang respectively), representing 20% of total equity interests in GZSH.

Upon the GZSH Completion, the Group is not restricted from disposing of the GZSH Sale Interest.

#### ***The GZSH Consideration***

The GZSH Consideration is HK\$8.0 million payable in cash within 10 Business Days upon GZSH Completion. The Directors intend to finance the GZSH Consideration by internal resources. The GZSH Consideration of HK\$8.0 million will be payable to Mr. Chen, Mr. Lin, Mr. Yan and Mr. Wang as to HK\$4.48 million, HK\$1.28 million, HK\$1.28 million and HK\$0.96 million respectively.

The GZSH Consideration was determined after arm's length negotiation between the GZSH Purchaser and the GZSH Vendors with reference to, among other things (i) the future growth prospects and earnings capability of GZSH; and (ii) the financial position of GZSH. The Directors consider that the GZSH Consideration, including its payment terms, is fair and reasonable and the entering into of the GZSH Acquisition Agreement is in the interest of the Company and the Shareholders as a whole.

#### ***Key conditions precedent***

Payment of the GZSH Consideration is conditional upon, among other things:

- (i) the board of directors of GZSH approving the transactions contemplated under the GZSH Acquisition Agreement;
- (ii) obtaining all necessary approval(s) from the relevant approval authority for the equity transfer under the GZSH Acquisition Agreement; and
- (iii) obtaining the new business licence of GZSH as a result of the GZSH Acquisition Agreement from the administration of industry and commerce.

It was agreed between the GZSH Vendors and the GZSH Purchaser that payment of the GZSH Consideration is conditional upon:

- (i) the Shareholders approving the GZSH Acquisition Agreement at the SGM;
- (ii) Completion of the Acquisition Agreement; and
- (iii) fulfillment or wavier of all the conditions precedent set out in the LHL Acquisition Agreement.

***GZSH Completion***

GZSH Completion is conditional upon the Shareholders approving the GZSH Acquisition Agreement at the SGM. GZSH Completion shall take place on the date on which the new business license of GZSH for the change of equity interests under the GZSH Acquisition Agreement is issued by the administration of industry and commerce. The GZSH Vendors shall use their best efforts to fulfill the conditions within six months after the date of the GZSH Acquisition Agreement, or such later date as the parties to the GZSH Acquisition Agreement may agree within one month of the expiry of the above period.

The GZSH Consideration shall be payable in cash by the GZSH Purchaser to the GZSH Vendors within ten Business Days upon GZSH Completion.

**4. Shareholding structures of GZSH immediately before and after GZSH Completion**

Set out below are the shareholding structures of GZSH immediately before and after GZSH Completion:

	<b>Immediately before GZSH Completion</b>	<b>Immediately after GZSH Completion</b>
CTL	60.0%	80.0%
The GZSH Vendors:		
Mr. Chen	22.4%	11.2%
Mr. Lin	6.4%	3.2%
Mr. Yan	6.4%	3.2%
Mr. Wang	4.8%	2.4%

## THE LHL ACQUISITION AGREEMENT

### 1. Date

10 September 2007

### 2. Parties

- (i) CTL as purchaser of the LHL Sale Shares;
- (ii) Mr. Chen, Mr. Lin and Mr. Miao as vendors of the LHL Sale Shares;
- (iii) The LHL Warrantors as warrantors; and
- (iv) UIL.

The LHL Vendors, who are experienced lottery-related business professionals, are the existing shareholders and management of LHL. Save for being the parties to the Acquisition Agreement, the GZSH Acquisition Agreement and the LHL Acquisition Agreement, the LHL Vendors are independent of the Group.

### 3. Principal terms of the LHL Acquisition Agreement

#### *Assets to be acquired*

Pursuant to the LHL Acquisition Agreement, the LHL Purchaser has conditionally agreed to acquire from the LHL Vendors and the LHL Vendors have conditionally agreed to sell to the LHL Purchaser the LHL Sale Shares (on a pro rata basis to the LHL Vendor's respective shareholding in LHL, i.e. 11.0%, 7.0% and 2.0% shareholding in LHL held by Mr. Chen, Mr. Lin and Mr. Miao respectively), representing 20% of the total issued share capital of LHL.

Upon the LHL Completion, the Group is not restricted from disposing of the LHL Sale Shares.

#### *The LHL Consideration*

The LHL Consideration is HK\$48.0 million, to be satisfied as to (i) HK\$31.2 million by cash payable at LHL Completion; and as to (ii) HK\$16.8 million by the allotment and issue of 16.8 million LHL Consideration Shares at the Issue Price of HK\$1.0 each, credited as fully paid-up, to the LHL Vendors (or their respective nominees) at LHL Completion. Based on the closing price of HK\$0.85 per Share on the Last Trading Day, the LHL Consideration Shares had a market value of HK\$14.28 million. The Directors intend to finance the cash portion of the LHL Consideration by internal resources. The cash portion of the LHL Consideration of HK\$31.2 million will be payable to Mr. Chen, Mr. Lin and Mr. Miao as to HK\$17.16 million, HK\$10.92 million and HK\$3.12 million respectively. The Share portion of the LHL Consideration of 16.8 million LHL Consideration Shares will be allotted and issued to Mr. Chen, Mr. Lin and Mr. Miao (or their respective nominees) as to 9.24 million LHL Consideration Shares, 5.88 million LHL Consideration Shares and 1.68 million LHL Consideration Shares respectively.

*(a) Basis of the LHL Consideration*

The LHL Consideration was determined after arm's length negotiation between the LHL Purchaser and the LHL Vendors with reference to, among other things (i) the future growth prospects and earnings capability of the LHL Group; and (ii) the financial position of the LHL Group. The Directors consider that the LHL Consideration, including its payment terms, is fair and reasonable and the entering into of the LHL Acquisition Agreement is in the interest of the Company and the Shareholders as a whole.

*(b) The LHL Consideration Shares and the Issue Price*

The LHL Consideration Shares will be issued at the Issue Price of HK\$1.0 per LHL Consideration Share, which is determined with reference to the prevailing market prices of the Shares.

The LHL Consideration Shares represent:

- (i) approximately 0.22% of the total existing issued share capital of the Company as at the date of this announcement;
- (ii) approximately 0.22% of the total issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares; and
- (iii) approximately 0.22% of the total issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the LHL Consideration Shares.

The LHL Consideration Shares, when issued and credited as fully paid, will rank pari passu amongst themselves and in all respects with the existing Shares and the Consideration Shares in issue as at the date of LHL Completion. An ordinary resolution will be proposed at the SGM to seek, among other things, a specific mandate for the issue of the LHL Consideration Shares pursuant to the LHL Acquisition Agreement.

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the LHL Consideration Shares.

### ***Key conditions precedent***

LHL Completion is conditional upon, among other things:

- (i) completion of and satisfaction of the results of the due diligence exercise on the LHL Group by the LHL Purchaser;
- (ii) the Shareholders approving the LHL Acquisition Agreement and the transactions contemplated thereunder at the SGM, including but not limited to the allotment and issue of the LHL Consideration Shares;
- (iii) the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the LHL Consideration Shares;
- (iv) the Bermuda Monetary Authority granting the approval for the issue and allotment of the LHL Consideration Shares, if required;
- (v) fulfillment or waiver (as the case may be) of all conditions precedent to the GZSH Acquisition Agreement to the satisfaction of CTL;
- (vi) the entering into of the shareholders agreement in respect of LHL in form and substance acceptable to the LHL Purchaser; and
- (vii) completion of the share transfer under the Acquisition Agreement, as a result of which, UIL wholly owns CMIL which in turns owns 60% equity interest in LHL.

### ***LHL Completion***

LHL Completion shall take place on the seventh Business Days or such later date as the parties may agree in writing after the fulfillment or waiver of the conditions. The LHL Vendors shall use their best efforts to fulfill the conditions within six months after the date of the LHL Acquisition Agreement, or such later date as the parties to the LHL Acquisition Agreement may agree in writing.

#### **4. Shareholding structures of LHL immediately before and after LHL Completion**

Set out below are the shareholding structures of LHL immediately before and after LHL Completion:

	<b>Immediately before LHL Completion</b>	<b>Immediately after LHL Completion</b>
CTL	60.0%	80.0%
The LHL Vendors:		
Mr. Chen	22.0%	11.0%
Mr. Lin	14.0%	7.0%
Mr. Miao	4.0%	2.0%

## INFORMATION ON THE CMIL GROUP

### 1. CMIL Group

CMIL was incorporated in the BVI with limited liability on 6 January 2006. The principal asset of CMIL is its 100% equity interests in CTL. CTL holds 60% equity interests in LHL and GZSH, respectively. The unaudited net asset (before minority interest) of the CMIL Group as at 30 June 2007 was approximately HK\$58,880,000. Set out below is other unaudited consolidated financial information of the CMIL Group, which includes the results of GZSH and the LHL Group, prepared in accordance with the Hong Kong Financial Reporting Standards:

	<b>For the period from the date of incorporation to 31 December 2006</b>	<b>For the six months ended 30 June 2007</b>
	<i>HK\$</i>	<i>HK\$</i>
Turnover	956,000	17,087,000
Net profit before tax (before minority interests)	782,000	46,066,000 <i>(Note)</i>
Net profit after tax (before minority interests)	647,000	44,987,000 <i>(Note)</i>

*Note:* The amounts included waiver of certain debts amounting to approximately HK\$36,448,000 resulting from a restructuring.

### 2. GZSH

Currently, GZSH is one of the three largest suppliers in the PRC which specialises in the provision of lottery system and equipment to the provincial welfare lottery issuing authorities. GZSH has supplied more than 7,000 lottery terminals to Guangdong Welfare Lottery Issuing Centre in the Guangdong Province, which is one of the most developed markets for lottery in the PRC. It is also entitled to a share of revenue derived from the sales of lottery sales in the province. For the three years ended 31 December 2006, GZSH achieved an approximately 33.7% compounded average growth rate in terms of turnover. This is mainly attributable to the growth in computer lottery sales in the Guangdong Province.

The unaudited net asset value of GZSH as at 31 December 2006 was approximately HK\$13,801,000. Set out below is other unaudited financial information of GZSH, which is prepared in accordance with the Hong Kong Financial Reporting Standards:

	<b>For the year ended 31 December 2005</b>	<b>For the year ended 31 December 2006</b>
	<i>HK\$</i>	<i>HK\$</i>
Turnover	23,605,000	27,740,000
Net (loss)/profit before tax	(1,300,000)	1,118,000
Net (loss)/profit after tax	(1,880,000)	1,299,000

### 3. LHL Group

The principal asset of LHL is its 100% equity interests in GZL. LHL is an investment holding company incorporated in Hong Kong with limited liability on 29 December 2000. It was owned as to 60.0%, 22.0%, 14.0% and 4.0% by CTL, Mr. Chen, Mr. Lin and Mr. Miao respectively as at the date of the LHL Acquisition Agreement.

GZL is a well-known corporation which is principally engaged in the research and development and manufacturing of lottery ticket scanners. Since its establishment, it has supplied more than 40,000 units of lottery ticket scanner to its customers in both the PRC and overseas. GZL is also involved in the business of supplying of lottery system and equipment to overseas market. GZL owns a number of important intellectual property rights relating to lottery ticket scanner. For the three years ended 31 December 2006, the LHL Group achieved an approximately 138.5% compounded average growth rate in terms of turnover. This is mainly attributable to the increasing demand of lottery ticket scanners in the PRC lottery market.

The unaudited net asset value of the LHL Group as at 31 December 2006 was approximately HK\$13,092,000. Set out below is other unaudited financial information of the LHL Group, which is prepared in accordance with the Hong Kong Financial Reporting Standards:

	<b>For the year ended 31 December 2005</b>	<b>For the year ended 31 December 2006</b>
	<i>HK\$</i>	<i>HK\$</i>
Turnover	5,874,000	15,438,000
Net profit before tax	2,813,000	8,508,000
Net profit after tax	2,697,000	7,151,000

Immediately upon Completion, the CMIL Group (including each of CTL, GZSH, LHL and GZL) will become subsidiaries of the Company and their results will be consolidated in the accounts of the Group.



## SHAREHOLDING IN THE COMPANY

The shareholdings structure of the Company (i) as at the date of this announcement; (ii) immediately upon Completion; and (iii) immediately upon Completion, GZSH Completion and LHL Completion, are set out below:

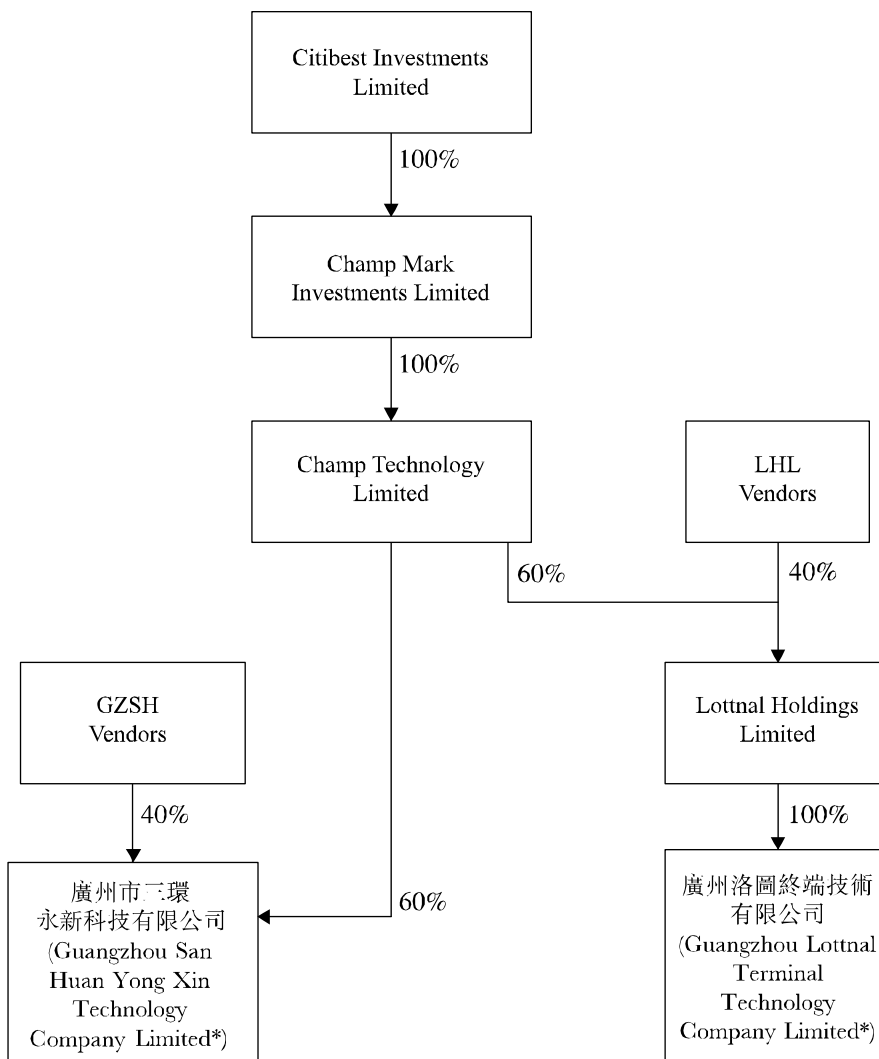
Shareholders	As at the date of this announcement		Immediately upon Completion		Immediately upon Completion, GZSH Completion and LHL Completion	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
<i>Parties acting in concert:</i>						
Burwill	1,541,956,296	20.51	1,541,956,296	20.37	1,541,956,296	20.33
Chan Shing	337,407,092	4.49	337,407,092	4.46	337,407,092	4.45
Lau Ting	209,155,212	2.78	209,155,212	2.76	209,155,212	2.76
Hang Sing Overseas Limited	45,280,768	0.60	45,280,768	0.60	45,280,768	0.60
Strong Purpose Corporation	42,380,168	0.56	42,380,168	0.56	42,380,168	0.56
Sub-total	<u>2,176,179,536</u>	<u>28.94</u>	<u>2,176,179,536</u>	<u>28.75</u>	<u>2,176,179,536</u>	<u>28.70</u>
CIL	-	-	50,400,000	0.67	50,400,000	0.66
Mr. Chen	-	-	-	-	9,240,000	0.12
Mr. Lin	-	-	-	-	5,880,000	0.08
Mr. Miao	-	-	-	-	1,680,000	0.02
Other non-public Shareholders (Note 1)	69,136,000	0.92	69,136,000	0.91	69,136,000	0.91
Public Shareholders (Note 2)	<u>5,273,012,464</u>	<u>70.14</u>	<u>5,273,012,464</u>	<u>69.67</u>	<u>5,273,012,464</u>	<u>69.51</u>
Total	<u>7,518,328,000</u>	<u>100.00</u>	<u>7,568,728,000</u>	<u>100.00</u>	<u>7,585,528,000</u>	<u>100.00</u>

### Note:

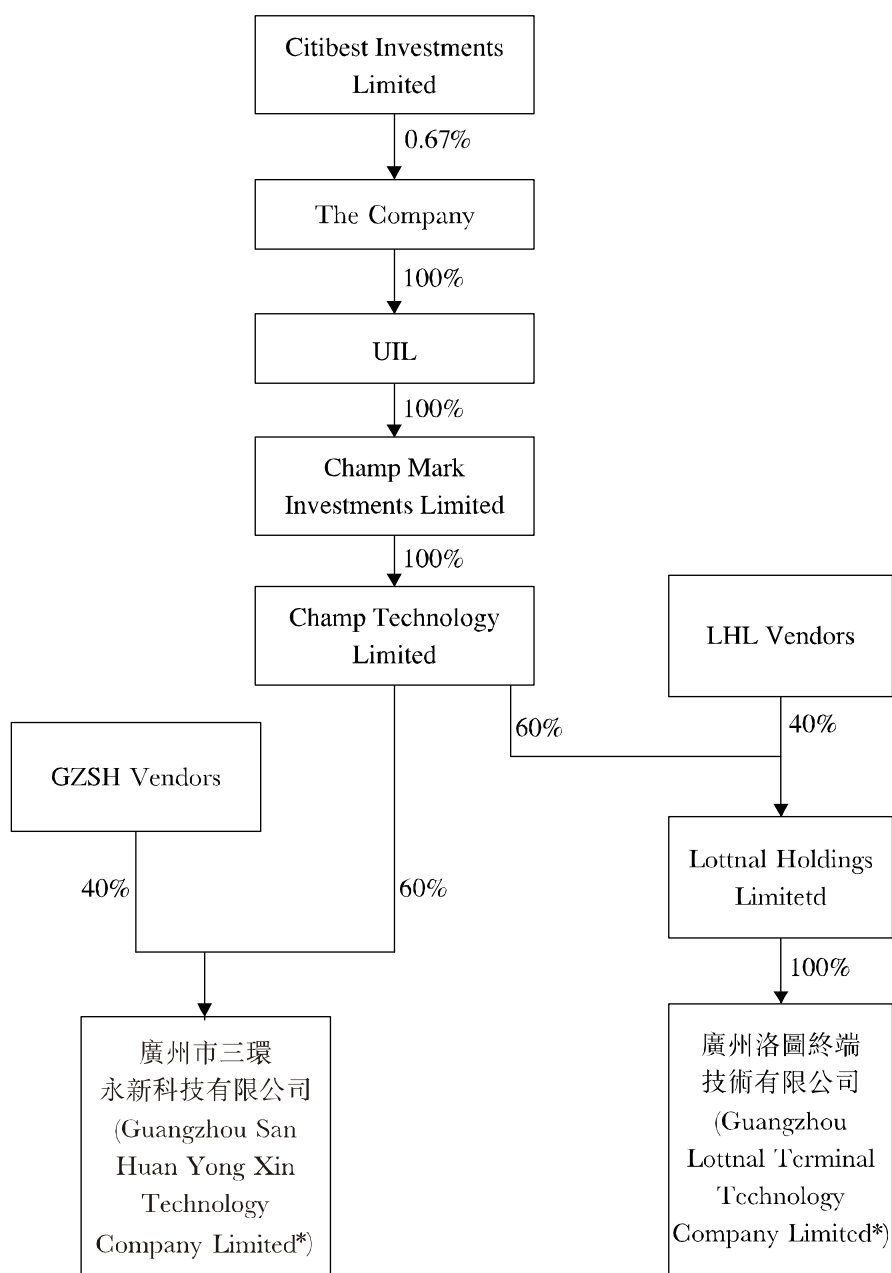
- The interests held by other non-public Shareholders in the share capital of the Company consist of the interests held by connected persons of the Company (other than Mr. Chan Shing and Ms. Lau Ting, both are the substantial Shareholders and the Directors).
- As at the date of this announcement, the interests held by public Shareholders in the share capital of the Company include the interests held by Atlantis Investment Management Limited, Legg Mason Inc, Lloyds TSB Group Plc, Lim Loong Keng, Yu Man Yiu, Park, Ward Ferry Management (BVI) Limited, JPMorgan Chase & Co., International Game Technology as to approximately 8.20%, 7.54%, 7.14%, 6.17%, 5.81%, 5.76%, 5.18% and 4.97% respectively.

## SHAREHOLDING STRCUTURE OF THE GROUP AND THE CMIL GROUP

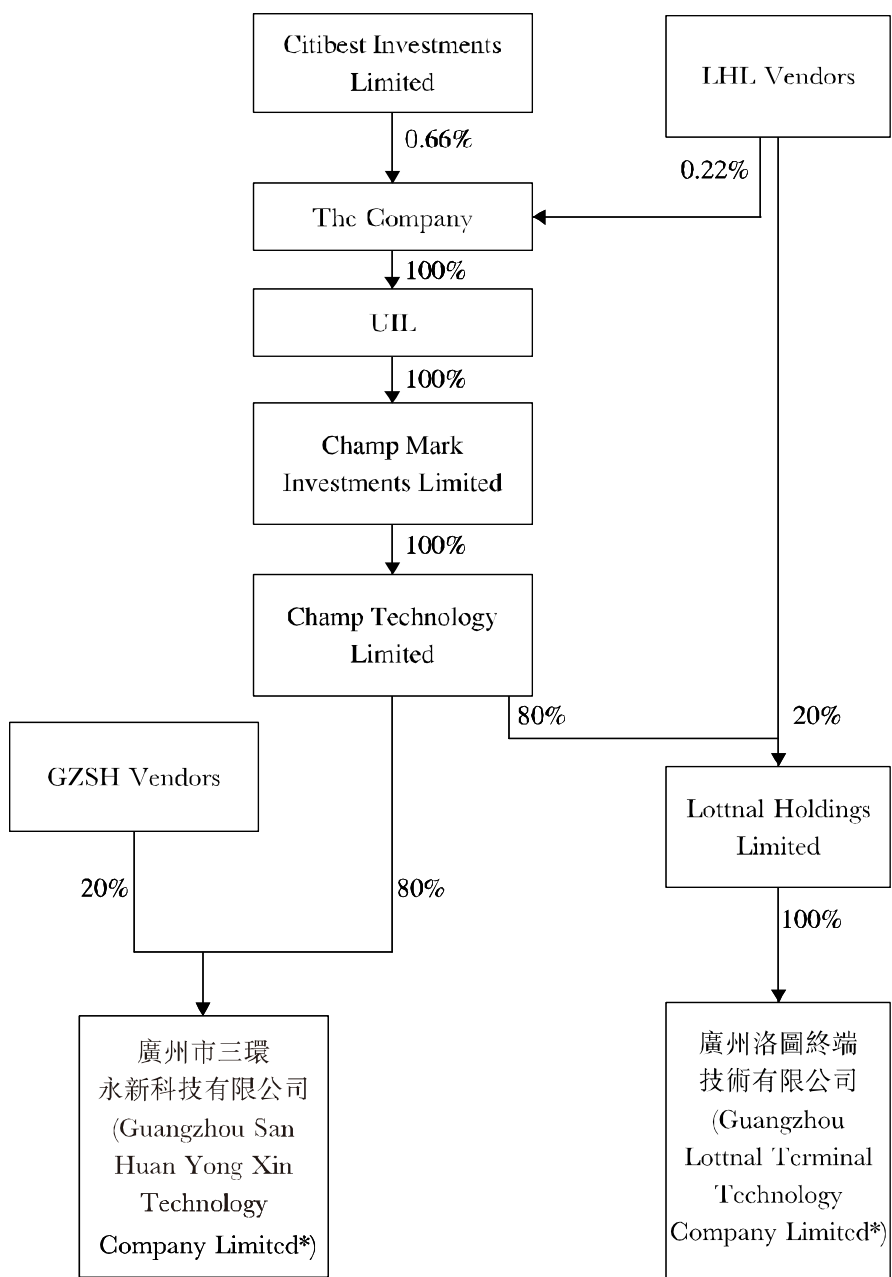
### Shareholding structure of the CMIL Group as at the date of this announcement



**Shareholding structure of the Group so far as is relevant to the CMIL Group immediately upon Completion**



**Shareholding structure of the Group so far as is relevant to the CMIL Group immediately upon Completion, GZSH Completion and LHL Completion**



## **INFORMATION ON THE GROUP**

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

Currently, one of the principal businesses of the Group is in the research and development and manufacturing of VLTs, and provision of VLTs to Beijing Lottery Online Technology Co., Ltd. (“CLO”). As at the end of August 2007, there were approximately 18,000 connected VLTs operating in 750 CLO halls throughout China.

The Group’s associated company, Tabcorp International Hong Kong Limited, is principally engaged in the business of supply of Keno system and terminals to China.

In May 2007, the Group and International Game Technology (“IGT”) formed a strategic alliance whereby the Group will be able to obtain advanced international gaming technologies and systems, as well as operation and management expertise, to facilitate expansion of its business in the lottery market in China. The Group has recently formed a 50:50 joint venture with IGT.

## **REASONS FOR THE ACQUISITIONS**

The Board believes that the acquisitions of the CMIL Group will enable the Group to build on its foundation to expand into the traditional computer lottery related businesses in the PRC.

CMIL, through its subsidiaries, GZSH and GZL, is principally engaged in the research and development, manufacturing and the supply of computer lottery system and equipment in the PRC. It is also involved in the provision of maintenance services. GZSH and GZL are technology corporations in the Guangdong Province and possess a number of important intellectual properties rights relating to lottery equipment.

Currently, GZSH is one of the three largest suppliers in the PRC which specialises in the provision of lottery system and equipment to the provincial welfare lottery issuing authorities. GZSH has supplied more than 7,000 lottery terminals to Guangdong Welfare Lottery Issuing Centre in the Guangdong Province, which is one of the most developed markets for lottery in the PRC. It is also entitled to a share of revenue derived from the sales of lottery sales in the province.

GZL is a well-known corporation which is principally engaged in the research and development and manufacturing of lottery ticket scanners. Since its establishment, it has supplied more than 40,000 units of lottery ticket scanners to its customers in both the PRC and overseas.

At present, the CMIL Group is actively developing business in overseas markets. It is also a supplier of lottery terminal to the Keno project carried out by an associated company of the Group.

The Board believes that the Acquisition, the GZSH Acquisition and the LHL Acquisition are consistent with the Group’s long-term development strategy. The acquisitions will not only create synergistic benefits to the existing business of the Group, but will also allow the Group to expand into other related business areas. The Board believes that the acquisitions will strengthen the Group’s overall capability and will position the Group well for its development in the industry.

## GENERAL

The Acquisition, the GZSH Acquisition and the LHL Acquisition constitute a major transaction for the Company under the GEM Listing Rules and are subject to the disclosure and Shareholders' approval requirements stipulated thereunder. The SGM will be convened to consider and, if thought fit, approve the Acquisition, the GZSH Acquisition and the LHL Acquisition and the allotment and issue of the Consideration Shares and the LHL Consideration Shares. A circular containing details of, among other things, the Acquisition, the GZSH Acquisition and the LHL Acquisition, financial information on the CMIL Group, and a notice to convene the SGM and other information required under the GEM Listing Rules will be despatched to the Shareholders as soon as practicable.

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on 11 September 2007 pending the release of this announcement. Application has been made to the Stock Exchange for resumption of trading in the Shares on the Stock Exchange from 2:30 p.m. on 13 September 2007.

## DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“Acquisition”	the acquisition of the Sale Shares by UIL pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional sale and purchase agreement dated 10 September 2007 entered into among CIL, UIL and the Warrantors in relation to the Acquisition
“Aggregate Cash Consideration”	HK\$156.8 million in cash, being the aggregate of cash portion of the Consideration, the GZSH Consideration and the LHL Consideration
“Board”	the board of Directors
“Business Day(s)”	any day (excluding Saturdays and Sundays) on which banks generally are open for business in Hong Kong and the PRC
“BVI”	British Virgin Islands
“Burwill”	Burwill Holdings Limited (stock code: 24), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange and Singapore Exchange Securities Trading Limited
“Cash Consideration”	HK\$117.6 million in cash, being the cash portion of the Consideration

“China” or “PRC”	The People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“CIL” or “Vendor”	Citibest Investments Limited, a company incorporated in the BVI with limited liability and is owned as to 50% by Ms. Tsang and 50% by Mr. Wong
“CMIL”	Champ Mark Investments Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Vendor as at the date of the Acquisition Agreement
“CMIL Group”	CMIL and its subsidiaries
“Company”	China LotSynergy Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the GEM
“Completion”	completion of the Acquisition Agreement
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Consideration”	the aggregate consideration of HK\$168.0 million for the Acquisition pursuant to the Acquisition Agreement
“Consideration Shares”	50.4 million new Shares to be allotted and issued by the Company to the Vendor as part of the Consideration under the Acquisition Agreement
“CTL”, “GZSH Purchaser” or “LHL Purchaser”	Champ Technology Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of CMIL
“Director(s)”	the director(s) of the Company
“GEM”	The Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	The Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“GZL”	廣州洛圖終端技術有限公司 (Guangzhou Lottnal Terminal Technology Company Limited*), a company established in the PRC with limited liability and is wholly-owned by LHL

“GZSH”	廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited*), a company established in the PRC with limited liability and was owned as to 60.0%, 22.4%, 6.4%, 6.4% and 4.8% by CTL, Mr. Chen, Mr. Lin, Mr. Yan and Mr. Wang respectively as at the date of the GZSH Acquisition Agreement
“GZSH Acquisition”	the acquisition of the GZSH Sale Interest by CTL pursuant to the GZSH Acquisition Agreement
“GZSH Acquisition Agreement”	the conditional sale and purchase agreement dated 10 September 2007 entered into between CTL and the GZSH Vendors in relation to the GZSH Acquisition
“GZSH Completion”	completion of the transfer of the GZSH Sale Interest under the GZSH Acquisition Agreement
“GZSH Consideration”	the consideration of HK\$8.0 million for the GZSH Acquisition pursuant to the GZSH Acquisition Agreement
“GZSH Sale Interest”	capital contribution in the sum of RMB2.0 million made by GZSH Vendors to GZSH, representing 20% of the total equity interests in GZSH
“GZSH Vendors”	Mr. Chen, Mr. Lin, Mr. Yan and Mr. Wang
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Issue Price”	HK\$1.0 per Share, being the issue price per Consideration Share and the issue price per LHL Consideration Share pursuant to the Acquisition Agreement and the LHL Acquisition Agreement respectively
“Last Trading Day”	10 September 2007, being the last trading day immediately preceding the date of the Acquisition Agreement and the LHL Acquisition Agreement
“LHL”	Lottnal Holdings Limited (洛圖控股有限公司), a company incorporated in Hong Kong with limited liability and was owned as to 60.0%, 22.0%, 14.0% and 4.0% by CTL, Mr. Chen, Mr. Lin and Mr. Miao respectively as at the date of the LHL Acquisition Agreement
“LHL Acquisition”	the acquisition of the LHL Sale Shares by CTL pursuant to the LHL Acquisition Agreement



“LHL Acquisition Agreement”	the conditional sale and purchase agreement dated 10 September 2007 entered into among CTL, the LHL Vendors, the LHL Warrantors and UIL in relation to the LHL Acquisition
“LHL Completion”	completion of the LHL Acquisition Agreement
“LHL Consideration”	the aggregate consideration of HK\$48.0 million for the LHL Acquisition pursuant to the LHL Acquisition Agreement
“LHL Consideration Shares”	16.8 million new Shares to be allotted and issued by the Company to the LHL Vendors as part of the LHL Consideration under the LHL Acquisition Agreement
“LHL Group”	LHL and GZL
“LHL Sale Shares”	70,000 shares of US\$1.0 each in the share capital of LHL, representing 20% of the total issued share capital of LHL
“LHL Vendors”	Mr. Chen, Mr. Lin and Mr. Miao
“LHL Warrantors”	Ms. Tsang, Mr. Wong, Mr. Yan, Mr. Wang and CIL, being the warrantors under the LHL Acquisition Agreement
“Mr. Chen”	Chen Hengben
“Mr. Lin”	Lin Jianzhong
“Mr. Miao”	Miao Zhikun
“Mr. Wang”	Wang Youcheng
“Mr. Wong”	Wong Chun Lam
“Mr. Yan”	Yan Hao
“Ms. Tsang”	Tsang Hoi Yin
“Net Profit”	the net profit after tax before minority interest from principal business activities of the CMIL Group, excluding (a) goodwill of any member of the CMIL Group; (b) the release and/or waiver of any amounts from any member of the CMIL Group to its shareholders and/or directors; (c) non-operating income; and (d) net profit from the New Project

“New Project”	a new agreement expected to be entered into between the CMIL Group and an independent third party in relation to the supply of terminals or other machinery by the CMIL Group
“Sale Shares”	3,600 issued shares of no par value in the share capital of CMIL, representing the entire issued share capital of CMIL
“SGM”	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Acquisition, the GZSH Acquisition and the LHL Acquisition and the allotment and issue of the Consideration Shares and LHL Consideration Shares
“Share(s)”	ordinary share(s) of HK\$0.0025 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stage Two Acquisition Completion”	the fulfillment or waiver of all conditions precedent to the GZSH Acquisition and the LHL Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“UIL” or “Purchaser”	Upmax Investments Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company
“VLT”	Video lottery terminal
“Warrantors”	Ms. Tsang, Mr. Wong, Mr. Chen, Mr. Lin, Mr. Miao, Mr. Yan and Mr. Wang, being the warrantors under the Acquisition Agreement
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollar(s), the lawful currency of the United States of America
“%”	per cent.

By order of the Board  
**China LotSynergy Holdings Limited**  
**Ng Lai Ping, Grace**  
*Company Secretary*

Hong Kong, 12 September 2007

*As at the date of this announcement, the Board comprises Mr. Chan Shing, Ms. Lau Ting, Mr. Hoong Cheong Thard, Mr. Wu Jingwei and Mr. Wang Taoguang as executive Directors, Mr. Sun Ho and Mr. Paulus Johannes Cornelis Aloysius Karskens as non-executive Directors, and Mr. Huang Shenglan, Mr. Chan Ming Fai and Mr. Li Xiaojun as independent non-executive Directors.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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.*

*This announcement will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its posting.*

*\* For identification only*