



China LotSynergy Holdings Limited

華彩控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8161)

**FINAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2007**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF  
THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK  
EXCHANGE”)**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

*This announcement, for which the directors (the “Directors”) of China LotSynergy Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The 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.*

## FINANCIAL RESULTS

The Directors of China LotSynergy Holdings Limited (the "Company") hereby announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007, together with the comparative figures for the year ended 31 December 2006, as follows:-

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2007*

	Notes	2007 HK\$'000	2006 HK\$'000
<b>Continuing operations:</b>			
Turnover	3	310,267	71,345
Costs of sales and services		(50,917)	(11,026)
Gross profit		259,350	60,319
Other income and gains		116,770	20,152
General and administrative expenses		(72,744)	(39,670)
Other expenses		(8,536)	-
Finance costs		(14,329)	-
Share option expenses		(20,327)	(23,823)
Operating profit from continuing operations	4	260,184	16,978
Share of profit less loss of associates		(13,217)	(4,943)
Profit before income tax		246,967	12,035
Income tax	5	(1,034)	(186)
Profit for the year from continuing operations		245,933	11,849
<b>Discontinued operations:</b>			
Loss for the year from discontinued operations		-	(14,748)
Profit / (Loss) for the year		245,933	(2,899)
<b>Attributable to:</b>			
Equity holders of the Company		132,094	(29,188)
Minority interests		113,839	26,289
		245,933	(2,899)
<b>Earnings / (Loss) per share for profit / (loss) from continuing operations attributable to the equity holders of the Company during the year</b>			
- basic	6	1.79 HK cents	(0.21) HK cents
- diluted	6	1.76 HK cents	(0.21) HK cents
<b>Loss per share for loss from discontinued operations attributable to the equity holders of the Company during the year</b>			
- basic and diluted	6	N/A	(0.22) HK cents

# **CONSOLIDATED BALANCE SHEET**

*At 31 December 2007*

	Notes	2007 HK\$'000	2006 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		141,974	63,491
Leasehold land		97,548	-
Intangible assets		1,183,681	990,805
Investments in jointly-controlled entities		90,954	-
Investment in an associate		-	54,016
Deferred income tax assets		1,030	-
Prepaid rentals		6,334	-
Total non-current assets		1,521,521	1,108,312
<b>Current assets</b>			
Inventories		12,159	-
Accounts receivable	7	74,740	24,138
Prepayments, deposits and other receivables		16,203	16,109
Amount due from a jointly-controlled entity		7,877	-
Amounts due from related companies		24,289	21,250
Financial assets at fair value through profit or loss		192,294	-
Deposit with a financial institution		17,287	16,175
Cash and bank balances		993,269	310,620
Total current assets		1,338,118	388,292
<b>Total assets</b>		2,859,639	1,496,604
<b>Current liabilities</b>			
Accounts payable	8	11,986	2,680
Accruals and other payables		26,009	9,042
Amount due to a jointly-controlled entity		44,345	-
Amount due to an associate		-	29,637
Amounts due to related companies		133	9,080
Amount due to a director		-	347
Income tax payable		2,306	682
Financial liabilities at fair value through profit or loss		123,230	-
Total current liabilities		208,009	51,468
Net current assets		1,130,109	336,824
<b>Total assets less current liabilities</b>		2,651,630	1,445,136
<b>Non-current liabilities</b>			
Convertible note		537,119	-
Deferred income tax liabilities		13,907	9,400
Total non-current liabilities		551,026	9,400
<b>Net assets</b>		2,100,604	1,435,736

**CONSOLIDATED BALANCE SHEET (Cont'd)***At 31 December 2007*

	<i>Notes</i>	<b>2007</b> <b>HK\$'000</b>	2006 <i>HK\$'000</i>
<b>Capital and reserves</b>			
Share capital	9	<b>19,142</b>	17,726
Reserves	10	<b>1,753,095</b>	1,414,346
Retained profit / (Accumulated losses)		<b>132,823</b>	(87,346)
<b>Capital and reserves attributable to equity holders of the Company</b>		<b>1,905,060</b>	1,344,726
<b>Minority interests</b>		<b>195,544</b>	91,010
<b>Total equity</b>		<b>2,100,604</b>	1,435,736

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company				
	Share capital HK\$'000 (Note 9)	Reserves HK\$'000 (Note 10)	Retained profit/(Accumulated losses) HK\$'000	Minority interests HK\$'000	Total HK\$'000
Balance at 1 January 2006	14,300	332,757	(58,505)	16,562	305,114
Currency translation differences	-	3,037	-	2,071	5,108
Net income recognised directly in equity	-	3,037	-	2,071	5,108
Profit / (Loss) for the year	-	-	(29,188)	26,289	(2,899)
Total recognised income / (expense) for the year	-	3,037	(29,188)	28,360	2,209
Repurchase of shares	(375)	(53,273)	-	-	(53,648)
Share option scheme:					
- value of employee services	-	19,600	-	-	19,600
- value of other participants' services	-	4,223	-	-	4,223
- issue of shares under share option scheme	1	234	-	-	235
- vested share options cancelled	-	(347)	347	-	-
Issue of shares under subscription agreements	1,800	659,700	-	-	661,500
Issue of shares arising on business combination	2,000	478,000	-	-	480,000
Share issue expenses	-	(29,585)	-	-	(29,585)
Minority interests arising on business combination	-	-	-	46,088	46,088
	3,426	1,078,552	347	46,088	1,128,413
Balances at 31 December 2006 and at 1 January 2007	17,726	1,414,346	(87,346)	91,010	1,435,736
Currency translation differences	-	14,770	-	8,848	23,618
Net income recognised directly in equity	-	14,770	-	8,848	23,618
Profit for the year	-	-	132,094	113,839	245,933
Total recognised income for the year	-	14,770	132,094	122,687	269,551
Reduction of share premium	-	(87,346)	87,346	-	-
Repurchase of shares	(24)	(8,486)	-	-	(8,510)
Share option scheme:					
- value of employee services	-	17,699	-	-	17,699
- value of other participants' services	-	2,628	-	-	2,628
- issue of shares under share option scheme	338	63,786	-	-	64,124
- vested share options cancelled and lapsed	-	(729)	729	-	-
Issue of shares under subscription agreement	934	251,246	-	-	252,180
Issue of shares arising on business combination	168	71,736	-	-	71,904
Share issue expenses	-	(6,635)	-	-	(6,635)
Convertible note - equity component	-	24,842	-	-	24,842
Deferred tax on convertible note	-	(4,762)	-	-	(4,762)
Dividends paid to minority shareholders	-	-	-	(24,860)	(24,860)
Minority interests arising on business combination	-	-	-	15,554	15,554
Acquisition of additional interests in subsidiaries	-	-	-	(8,847)	(8,847)
	1,416	323,979	88,075	(18,153)	395,317
<b>Balance at 31 December 2007</b>	<b>19,142</b>	<b>1,753,095</b>	<b>132,823</b>	<b>195,544</b>	<b>2,100,604</b>

*Notes:*

## **1. GENERAL INFORMATION**

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") is 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. 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 available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

### *(a) Standards, amendment and interpretations effective in 2007*

HKFRS 7, 'Financial Instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of Financial Statements – Capital Disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

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

### *(a) Standards, amendment and interpretations effective in 2007 (Cont'd)*

HK(IFRIC)-Int 8, 'Scope of HKFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

HK(IFRIC)-Int 10, 'Interim Financial Reporting and Impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

### *(b) Standards, amendments and interpretations effective in 2007 but not relevant*

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HK(IFRIC)-Int 7, 'Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies'; and
- HK(IFRIC)-Int 9, 'Reassessment of Embedded Derivatives'.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- HKAS 23 (Revised), 'Borrowing Costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

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

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

- HKFRS 8, 'Operating Segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 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. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.
- HK(IFRIC)-Int 11, 'HKFRS 2—Group and Treasury Share Transactions' (effective from 1 March 2007). HK(IFRIC)-Int 11 provides guidance on classifying share-based payment transactions involving an entity's own equity instruments or the equity instruments of the parent. The Group will apply HK(IFRIC)-Int 11 from 1 January 2008, but it is not expected to have a significant impact on the Group's financial statements.
- HK(IFRIC)-Int 14, 'HKAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (effective from 1 January 2008). HK(IFRIC)-Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC)-Int 14 from 1 January 2008, but it is not expected to have any impact on the Group's financial statements.



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

- (d) *Interpretations to existing standards that are not yet effective and not relevant for the Group's operations*

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- HK(IFRIC)-Int 12, 'Service Concession Arrangements' (effective from 1 January 2008). HK(IFRIC)-Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC)-Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.
- HK(IFRIC)-Int 13, 'Customer Loyalty Programmes' (effective from 1 July 2008). HK(IFRIC)-Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC)-Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

## 3. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in investment, project development and the provision of technologies and equipment and consultancy services in public welfare lottery business and related sectors. An analysis of the Group's turnover for the year from continuing operations is as follows:

	2007 HK\$'000	2006 HK\$'000
Turnover		
Income from provision of lottery terminals	284,162	71,295
Income from sales of lottery equipment	26,038	-
Income from provision of consultancy services	67	50
	<u>310,267</u>	<u>71,345</u>

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

#### Segment information

Segment information is presented by way of the Group's primary segment reporting, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

#### (a) Primary reporting format – business segments

For the years ended 31 December 2007 and 2006, over 90% of the Group's revenues were derived from the Group's continuing operations representing investment, project development and the provision of technologies and equipment and consultancy services in public welfare lottery business and related sectors. Accordingly, no further business segment information is presented.

#### (b) Secondary reporting format – geographical segments

For the years ended 31 December 2007 and 2006, over 90% of the Group's revenues were derived from customers based in the People's Republic of China ("PRC"). An analysis of the Group's assets and capital expenditure by geographical segments is as follows:

#### Carrying amounts of segment assets

	2007 HK\$'000	2006 HK\$'000
PRC	1,578,896	1,143,421
Hong Kong	1,184,550	294,374
Other	5,239	4,793
	<hr/>	<hr/>
	2,768,685	1,442,588
Investments in jointly-controlled entities	90,954	-
Investment in an associate	-	54,016
	<hr/>	<hr/>
	2,859,639	1,496,604
	<hr/>	<hr/>

#### Capital expenditure

	2007 HK\$'000	2006 HK\$'000
PRC	280,653	1,060,890
Hong Kong	111,185	720
	<hr/>	<hr/>
	391,838	1,061,610
	<hr/>	<hr/>

#### 4. OPERATING PROFIT FROM CONTINUING OPERATIONS

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Operating profit from continuing operation is stated after charging / (crediting):		
Costs of sales and services		
- Depreciation of lottery terminals	17,383	5,431
- Business tax	14,836	3,636
- Cost of inventories recognised as expenses	13,372	-
- Repairs and maintenance	2,522	300
- Transportation	2,804	1,659
	<u>50,917</u>	<u>11,026</u>
Loss on disposal of property, plant and equipment	1,198	-
Loss on disposal of domain names and trademarks	-	1,576
Operating lease rentals in respect of land and buildings	3,815	2,481
Auditors' remuneration	590	350
Amortisation of intangible assets		
- CLO Contract	6,527	4,896
- Domain names and trademarks	-	78
Depreciation of other items of property, plant and equipment	1,203	704
Write-down of inventories to net realisable value	658	-
Impairment of other receivables	8,536	-
Foreign exchange differences, net	<u>(1,170)</u>	<u>(1,103)</u>

#### 5. INCOME TAX

Hong Kong Profits Tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2007 as the Group had no assessable profits arising or derived from Hong Kong for the year. 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.

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Current income tax		
- Hong Kong Profits Tax	-	186
- PRC Enterprise Income Tax	1,262	-
Deferred income tax	<u>(228)</u>	<u>-</u>
	<u>1,034</u>	<u>186</u>

## 6. EARNINGS / (LOSS) PER SHARE

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

	2007	2006 (As restated) (Note 9(ii))
Profit / (Loss) from continuing operations attributable to the equity holders of the Company for the purpose of calculating basic and diluted earnings / (loss) per share (HK\$'000)	132,094	(14,440)
Loss from discontinued operations attributable to the equity holders of the Company for the purpose of calculating basic and diluted loss per share (HK\$'000)	-	(14,748)
Profit / (Loss) attributable to equity holders of the Company (HK\$'000)	<u>132,094</u>	<u>(29,188)</u>
<b>Number of shares:</b>		
Weighted average number of ordinary shares in issue for the purpose of calculating basic earnings / (loss) per share	7,360,681,227	6,883,621,808
Effect of dilutive potential ordinary shares:		
- Share options	<u>141,435,395</u>	-
Weighted average number of ordinary shares for the purpose of calculating diluted earnings / (loss) per share	<u>7,502,116,622</u>	<u>6,883,621,808</u>
	HK cents	HK cents
Basic earnings / (loss) per share		
- Continuing operations	1.79	(0.21)
- Discontinued operations	N/A	(0.22)
	<u>1.79</u>	<u>(0.43)</u>
Diluted earnings / (loss) per share		
- Continuing operations	1.76	(0.21)
- Discontinued operations	N/A	(0.22)
	<u>1.76</u>	<u>(0.43)</u>

The computation of diluted earnings per share for the year ended 31 December 2007 has not assumed the conversion of convertible note because its conversion would increase the earnings per share. The computation of diluted loss per share for the year ended 31 December 2006 has not assumed the exercise of share options because their exercise would reduce the loss per share.

The weighted average number of ordinary shares for the purpose of basic earnings / (loss) per share has been adjusted for the share subdivision on 7 August 2007.

## 7. ACCOUNTS RECEIVABLE

Income from provision of lottery terminals is billed on a monthly basis and is due 15-30 days after month-end. Income from sales of lottery equipment is billed upon the delivery of products and with credit periods ranging from 30 to 180 days. Income from provision of maintenance services is billed on a monthly or yearly basis and is due 30 days after the invoice date. At 31 December 2007, the ageing analysis of the accounts receivable is as follows:

	<b>2007</b> <b>HK\$'000</b>	<b>2006</b> <b>HK\$'000</b>
0 – 30 days	<b>38,842</b>	14,893
31 – 60 days	<b>35,898</b>	<b>9,245</b>
	<b>74,740</b>	<b>24,138</b>

The carrying amounts of the Group's accounts receivable are denominated in RMB. The carrying amounts of the Group's accounts receivable approximate their fair values.

## 8. ACCOUNTS PAYABLE

At 31 December 2007, the ageing analysis of the accounts payable is as follows:

	<b>2007</b> <b>HK\$'000</b>	<b>2006</b> <b>HK\$'000</b>
0 – 30 days	<b>2,842</b>	646
31 – 60 days	<b>3,401</b>	631
Over 60 days	<b>5,743</b>	<b>1,403</b>
	<b>11,986</b>	<b>2,680</b>

The carrying amounts of the Group's accounts payable are denominated in RMB. The carrying amounts of the Group's accounts payable approximate their fair values.

## 9. SHARE CAPITAL

	<b>Authorised ordinary shares</b>	
	Number of shares	HK\$'000
At 1 January 2006	2,000,000,000	20,000
Increase in authorised share capital ( <i>Note (i)</i> )	2,000,000,000	20,000
At 31 December 2006 and 1 January 2007	<b>4,000,000,000</b>	<b>40,000</b>
Subdivision of one share of HK\$0.01 each into four shares of HK\$0.0025 each ( <i>Note (ii)</i> )	<b>12,000,000,000</b>	-
<b>At 31 December 2007</b>	<b>16,000,000,000</b>	<b>40,000</b>
	<b>Issued and fully paid ordinary shares</b>	
	Number of shares	HK\$'000
At 1 January 2006	1,430,000,000	14,300
Share options exercised ( <i>Note (iii)</i> )	120,000	1
New issue of shares ( <i>Note (iv)</i> )	180,000,000	1,800
New issue of shares ( <i>Note (v)</i> )	200,000,000	2,000
Repurchase of shares ( <i>Note (vi)</i> )	(37,538,000)	(375)
At 31 December 2006 and 1 January 2007	<b>1,772,582,000</b>	<b>17,726</b>
New issue of shares ( <i>Note (vii)</i> )	<b>93,400,000</b>	<b>934</b>
Subdivision of one share of HK\$0.01 each into four shares of HK\$0.0025 each ( <i>Note (ii)</i> )	<b>5,597,946,000</b>	-
New issue of shares ( <i>Note (viii)</i> )	<b>67,200,000</b>	<b>168</b>
Share options exercised ( <i>Note (ix)</i> )	<b>135,320,000</b>	<b>338</b>
Repurchase of shares ( <i>Note (x)</i> )	(9,688,000)	(24)
<b>At 31 December 2007</b>	<b>7,656,760,000</b>	<b>19,142</b>

*Notes:*

- (i) Pursuant to the ordinary resolution passed by the Company's shareholders at the special general meeting held on 21 March 2006, the authorised share capital of the Company was increased from HK\$20,000,000 to HK\$40,000,000 by the creation of an additional 2,000,000,000 shares of HK\$0.01 each in the capital of the Company.

## 9. SHARE CAPITAL (Cont'd )

*Notes (cont'd):*

- (ii) Pursuant to the ordinary resolution passed by the Company's shareholders at the special general meeting held on 6 August 2007, every share of HK\$0.01 each in the issued and unissued share capital of the Company was subdivided into 4 shares of HK\$0.0025 each (the "Share Subdivision"). The Share Subdivision became effective on 7 August 2007.
- (iii) Share options were exercised by optionholders in January 2006 to subscribe for a total of 120,000 shares of HK\$0.01 each by payment of subscription monies of approximately HK\$235,000, of which HK\$1,000 was credited to share capital and the balance of HK\$234,000 was credited to the share premium account.
- (iv) Pursuant to the placing agreements and the subscription agreements dated 17 January 2006, the Company allotted and issued a total of 180,000,000 new shares of HK\$0.01 each at a subscription price of HK\$3.675 each to the subscribers on 27 January 2006, following the completion of the placing of 180,000,000 existing shares of HK\$0.01 each to more than six placees at a placing price of HK\$3.675 each (the "2006 Top-up Placing"). The Company raised a sum of approximately HK\$631.9 million through the 2006 Top-up Placing and the fund was partly used to settle the balance of the cash consideration of HK\$470 million for the subscription of interest in Corich International Limited ("Corich") and as the Group's general working capital.
- (v) Pursuant to the subscription agreement dated 9 January 2006, the Company allotted and issued a total of 200,000,000 new consideration shares of HK\$0.01 each at HK\$2.40 each to Toward Plan Investments Limited and Win Key Development Limited on 28 April 2006 as payment of part of the consideration for the subscription of interest in Corich.
- (vi) The Company repurchased 37,538,000 of its own shares of HK\$0.01 each on the Stock Exchange in February and May 2006. The highest and lowest price paid per share were HK\$2.95 and HK\$0.87 respectively. The total amount paid for the repurchase of shares was approximately HK\$53,648,000 and has been deducted from shareholders' equity. The shares repurchased were subsequently cancelled.
- (vii) Pursuant to the subscription agreement dated 1 May 2007, the Company issued and allotted a total of 93,400,000 new shares of HK\$0.01 each at a subscription price of HK\$2.70 per share to International Game Technology on 31 May 2007. The net proceeds of the subscription shares and the convertible note would be used for financing business expansion, potential investment opportunities and general working capital.
- (viii) Pursuant to the two conditional sale and purchase agreements dated 10 September 2007, the Company allotted and issued a total of 50,400,000 new consideration shares of HK\$0.0025 each at HK\$1.13 to Citibest Investments Limited on 30 October 2007 and 16,800,000 new consideration shares of HK\$0.0025 each at HK\$0.98 to certain vendors on 27 December 2007 as payment of part of the consideration for the subscription of interests in Champ Mark Investments Limited and Lottnal Holdings Limited respectively.
- (ix) Share options were exercised by optionholders during the year ended 31 December 2007 to subscribe for a total of 135,320,000 shares of HK\$0.0025 each by payment of subscription monies of approximately HK\$64,124,000, of which approximately HK\$338,000 was credited to share capital and the balance of approximately HK\$63,786,000 was credited to the share premium account.
- (x) The Company repurchased 9,688,000 of its own shares of HK\$0.0025 each on the Stock Exchange in December 2007. The highest and lowest price paid per share were HK\$0.90 and HK\$0.85 respectively. The total amount paid for the repurchase of shares was approximately HK\$8,510,000 and has been deducted from shareholders' equity. The shares repurchased were subsequently cancelled.

## 10. RESERVES

	Share premium <i>HK\$'000</i>	Convertible note equity reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Currency translation reserve <i>HK\$'000</i>	Share-based compensation reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2006	291,319	-	15,158	1	26,279	332,757
Repurchase of shares	(53,273)	-	-	-	-	(53,273)
Share option scheme:						
- value of employee services	-	-	-	-	19,600	19,600
- value of other participants' services	-	-	-	-	4,223	4,223
- issue of shares under share option scheme	401	-	-	-	(167)	234
- vested share options cancelled	-	-	-	-	(347)	(347)
Issue of shares	1,137,700	-	-	-	-	1,137,700
Share issue expenses	(29,585)	-	-	-	-	(29,585)
Currency translation differences						
- overseas subsidiaries	-	-	-	2,070	-	2,070
- overseas associate	-	-	-	967	-	967
<b>Balances at 31 December 2006 and 1 January 2007</b>	<b>1,346,562</b>	<b>-</b>	<b>15,158</b>	<b>3,038</b>	<b>49,588</b>	<b>1,414,346</b>
Reduction of share premium	(87,346)	-	-	-	-	(87,346)
Repurchase of shares	(8,486)	-	-	-	-	(8,486)
Share option scheme:						
- value of employee services	-	-	-	-	17,699	17,699
- value of other participants' services	-	-	-	-	2,628	2,628
- issue of shares under share option scheme	107,038	-	-	-	(43,252)	63,786
- vested share options cancelled and lapsed	-	-	-	-	(729)	(729)
Issue of shares	322,982	-	-	-	-	322,982
Share issue expenses	(6,635)	-	-	-	-	(6,635)
Currency translation differences						
- overseas subsidiaries	-	-	-	8,409	-	8,409
- overseas associate and jointly-controlled entities	-	-	-	6,361	-	6,361
Convertible note – equity component	-	24,842	-	-	-	24,842
Deferred tax on convertible note	-	(4,762)	-	-	-	(4,762)
<b>Balance at 31 December 2007</b>	<b>1,674,115</b>	<b>20,080</b>	<b>15,158</b>	<b>17,808</b>	<b>25,934</b>	<b>1,753,095</b>

## DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2007 (2006: Nil).



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review and Outlook**

The Group is principally engaged in the provision of lottery gaming system, terminal equipment and relevant technologies and consultancy services for the public welfare lottery market.

#### ***Business Review***

In 2007, the Group made substantial progress in its lottery business and achieved significant results in strategic developments. The Group committed resources to improve its operational and management infrastructure. Under a strengthened platform, the Group continued to supply Video Lottery Terminals ("VLT") to the China Lottery On-line ("CLO", or "中福在線") national network, and completed the restructuring of Tabcorp International Hong Kong Limited ("TIHK") (a joint venture company focusing on the national high frequency lottery KENO project) by bringing in GTECH Corporation ("GTECH"), one of the world's largest KENO system providers. The Group expanded into traditional computer lottery business through the strategic acquisition of Champ Mark Investments Limited and its subsidiaries ("CMIL Group"), a traditional computer lottery equipment supplier focusing on the China welfare lottery sector. The Group also formed a joint venture with International Game Technology ("IGT") in Beijing, one of the global leading gaming system and equipment company, to facilitate the Group's expansion into new lottery related business.

During the year under review, the Group's total turnover was approximately HK\$310 million, representing an increase of 335% over the corresponding period last year. Excluding the share option expenses and amortisation of intangibles, the profit attributable to equity holders of the Company for the year was approximately HK\$155.7 million (2006: loss of HK\$2.9 million).

#### **Supply of VLT Equipment**

In 2007, CLO's instant video lottery was one of the fastest-growing lottery products in China. As the exclusive supplier of VLT in China, the Group benefited from the rapid growth of the product. As at the end of 2007, there were over 920 CLO halls in more than 300 cities located in 28 provinces (including autonomous regions and municipalities) throughout the country, and there were over 22,000 connected VLT terminals in CLO halls operated under one single system forming a national distribution network. VLT sales for 2007 amounted to RMB13.26 billion, representing 21% of the total national welfare lottery sales of RMB63.1 billion in 2007 (approximately 1.6% and 9.2% in 2005 and 2006 respectively) and a year-on-year increase of over RMB8.64 billion.

### **Restructuring of KENO Joint Venture Company - TIHK**

During the year under review, the Group completed the restructuring of the joint venture, TIHK, in order to facilitate the development requirement of the national high frequency KENO lottery project in China. In December 2007, China LotSynergy Limited, a wholly-owned subsidiary of the Company, acquired the remaining 67% equity interest in TIHK from Tabcorp International No. 1 Pty Ltd, a wholly-owned subsidiary of Tabcorp Holdings Limited. Immediately after the acquisition, the Group disposed of 50% equity interest in TIHK to GTECH Global Services Corporation Ltd., a wholly-owned subsidiary of GTECH. Pursuant to the transaction, TIHK became a 50:50 joint venture of the Group and GTECH and its name was changed to CLS-GTECH Company Limited. Through the restructuring, GTECH becomes a new shareholder and is involved in the KENO project. This will bring positive impacts to the future development of the project especially on the implementation of a nationwide rollout of KENO in public places in the PRC. GTECH has extensive industry experience and can provide technical assurance to ensure the implementation of the rollout plans. At present, KENO has demonstrated satisfactory business prospects in the initial nationwide trial run. The Group anticipates that KENO will contribute to its steady long term income growth once KENO is rolled out in public places nationwide in the PRC on a significant scale.

GTECH together with its parent company, Lottomatica, S.p.A., is the world's largest lottery company and one of the largest gaming solution providers. GTECH provides leading gaming technology and its instant lottery systems operate in many countries worldwide and cover the areas of gaming system, terminal supply, printing, logistics and distribution. GTECH is also one of the largest providers of KENO systems to operators worldwide and it provides KENO systems to Beijing and Shenzhen Lottery Issuing Centers. It has extensive experience in operating business in the PRC. Its parent company, Lottomatica, S.p.A., is listed on the Milan Stock Exchange in Italy with over US\$5.5 billion in market value at 28 December 2007.

### **Acquisition of CMIL Group, Entering the Traditional Computer Lottery Business**

The Group expanded its business to include traditional computer lottery through an acquisition. In the fourth quarter 2007, the Group completed the acquisition of CMIL Group, whose subsidiaries 廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited\*) ("GZSH") and 廣州洛圖終端技術有限公司 (Guangzhou Lottnal Terminal Technology Company Limited\*) ("GZL") are principally engaged in the research and development, manufacture, supply and maintenance of traditional computer lottery terminal and equipment in the PRC and possess a number of relevant patents and intellectual properties rights. Currently, GZSH specialises in the provision of lottery system and equipment to the provincial welfare lottery issuing authorities in the PRC; GZL is a well-known PRC corporation which is engaged in the research and development and manufacture of lottery ticket scanners. CMIL Group is also currently the sole supplier of standardised national high frequency lottery KENO gaming terminals in the PRC. The acquisition diversified the Group's income source and extended its business from the original VLT and KENO lottery business to the traditional computer lottery business and resulted in enlargement of the Group's involvement in the PRC lottery market.

*\* For identification only*

### **Exploring New Lottery Business Through International Cooperation**

The Group is committed to working with strategic partners, who are global leaders in the industry, to develop the China lottery business. In May 2007, the Group and IGT entered into a share subscription agreement and a technical cooperation agreement. Pursuant to these agreements, the Group and IGT formed a strategic alliance whereby the Group would be able to obtain advanced international lottery technologies and systems, as well as operation and management expertise to enhance its service and expand into the PRC lottery market. The completion of the share subscription agreement took place on 31 May 2007 upon the fulfillment of all conditions. IGT subscribed for new shares and convertible note issued by the Company with a total investment over HK\$802 million.

Following the formation of the strategic alliance between the Group and IGT, the two parties entered into a shareholders' agreement in August 2007 and through their respective wholly-owned subsidiaries formed a 50:50 joint venture to develop new lottery business in China.

### ***Business Outlook***

China's welfare lottery business is directed by the PRC authorities. Since its launch twenty years ago, the China welfare lottery has made significant contribution to the country's social security and welfare business. In 2007, total sales of the China welfare lottery amounted to approximately RMB63.1 billion, and it raised approximately RMB21.7 billion for welfare funds.

Compared with many developed countries, the lottery industry in China is still in its developing stage. Before the passing of lottery legislations in China, there will be improvements and adjustments to be made on areas from supervision, issuance to distribution. The Group believes that the government is speeding up the legislation process to regulate the industry. The operation of the China welfare lottery is also being improved based on the principle of "safe operation, and healthy development". The implementation of the principles will reflect more clearly the validity and the public welfare nature of the China welfare lottery and will reduce policy risks faced by investors. It will also result in more effective clamp down on illegal lottery, underground gambling, and other forms of illegal gaming and this will be positive for the issuance and sales of lottery and will provide more room for the development of the lottery business in China.

The Group is pleased to be involved in the welfare lottery business in the PRC. One of the development strategies of the Group is to work with leading international industry players to introduce international advanced lottery technology and operation management expertise into the China lottery market. The Group believes that the cooperation with IGT and GTECH can help the China lottery industry to improve the standard of research and development of systems, terminal manufacturing and operations. It will also improve and enrich game varieties and contents and allow the China lottery market to be operated in an enhanced safety environment and developed in a sustainable and stable manner in the long term.

The Group's strategic focus is on the welfare lottery business and on consolidating its leading position in the China lottery industry. The Group will further enhance the build-up of its technical team, strengthen the existing business and seek to explore new business opportunities in lottery-related segments in China. The Group will also expand through mergers and acquisitions to enhance its business portfolio and strengthen its revenue streams and profitability in order to provide long-term and stable returns to its shareholders.

## **Financial Review**

During the year, the Group's income from lottery business and the Group's operation in the production and provision of lottery terminals in the PRC achieved encouraging results.

The Group recorded a turnover of approximately HK\$310.3 million for the year ended 31 December 2007, representing a growth of 335% over 2006. Profit attributable to equity holders for the year amounted to approximately HK\$132.1 million, as compared with the loss of HK\$29.19 million for 2006. The profit attributable to equity holders for the year, excluding the share option expenses and amortisation of intangible assets, was approximately HK\$155.7 million, as compared with the loss of HK\$2.9 million for last year.

Benefiting from the expanding coverage across China during the year, the Group's business in the production and provision of VLT continued to grow. The VLT sales for 2007 increased by 187% to RMB13.26 billion compared with 2006.

The Group also recorded a gain on disposal of investment of approximately HK\$70 million during the year, which represented the gain on the disposal of 50% equity interest of TIHK to GTECH Global Services Corporation Ltd.

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

The Group raised a net proceeds of approximately HK\$787 million from a placement of 93,400,000 shares (equivalent to 373,600,000 shares after subdivision of shares became effective on 7 August 2007) at HK\$2.70 each (equivalent to HK\$0.675 each after subdivision of shares became effective on 7 August 2007) and an issue of convertible note at a principal amount of HK\$550 million to IGT during the year.

At 31 December 2007, the Group had an outstanding guarantee and indemnity for HK\$20 million (at 31 December 2006: HK\$20 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 Group believes that the available financial resources will sufficiently fund our capital and operating requirements. The Group did not have any bank borrowings at 31 December 2007 (at 31 December 2006: Nil).

The Group's total equity amounted to approximately HK\$2,100.6 million at 31 December 2007 (at 31 December 2006: HK\$1,435.7 million). At 31 December 2007, net current assets of the Group amounted to approximately HK\$1,130.1 million (at 31 December 2006: HK\$336.8 million), including approximately HK\$1,010.6 million in cash and deposits with banks and financial institution (at 31 December 2006: HK\$326.8 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2007 was approximately 26.5% (at 31 December 2006: 4.1%).

### **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 2007, the Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (at 31 December 2006: Nil).

### **Contingent Liabilities**

At 31 December 2007, the Group did not have any material contingent liabilities (at 31 December 2006: Nil).

### **Staff**

At 31 December 2007, the Group had 214 (2006: 120) full time employees. 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**

During the year ended 31 December 2007, the Company repurchased a total of 9,688,000 shares in the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the general mandates granted by the shareholders at the annual general meeting held on 24 April 2007, details of which were as follows:-

<b>Month/Year</b>	<b>Number of shares repurchased</b>	<b>Price per share</b>		<b>Total consideration (before expenses)</b>
		<b>Lowest</b>	<b>Highest</b>	
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
12/2007	9,688,000	0.850	0.900	8,510,560

All shares repurchased were cancelled subsequently and accordingly the Company's issued share capital was reduced by the nominal value of these shares. The repurchases were effected for the benefit of the shareholders as a whole by enhancing the net assets and earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2007.

## **COMPETING INTERESTS**

The Directors believe that none of the Directors, the management shareholders of the Company (as defined in the Rules Governing the Listing of Securities on The Growth Enterprise Market 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.

## **CHANGE IN MEMBER OF REMUNERATION COMMITTEE**

With effect from 29 February 2008, the Remuneration Committee of the Company comprises Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Ms. LAU Ting.

## **AUDIT COMMITTEE**

The Company has established an Audit Committee which comprises the three Independent Non-Executive Directors of the Company, Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. LI Xiaojun. The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial statements of the Group for the year ended 31 December 2007 have been reviewed by the Audit Committee.

## **CORPORATE GOVERNANCE**

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2007, except for the deviations from Code provisions A4.1 and A4.2.

The Non-Executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation in accordance with the Bye-laws of the Company (the "Bye-laws"). The Directors have not been required by the Bye-laws to retire by rotation at least once every three years. However, in accordance with Bye-law 99 of the Bye-laws, at each annual general meeting of the Company one-third of the Directors for the time being or, if their number is not a multiple of three, then the number nearest one-third, shall retire from office by rotation save any Director holding office as Chairman or Managing Director. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairman or Managing Director, by rotation at least once every three years in order to comply with Code provisions. The Chairman will not be subject to retirement by rotation as the Board considered that the continuity of office of the Chairman 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 consider appropriate.

## **REQUIRED STANDARD OF DEALINGS 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 required standard of dealings set out in the Code of Conduct.

## **CLOSURE OF REGISTER**

The Register of Members of the Company will be closed from Friday, 25 April 2008 to Tuesday, 29 April 2008, both days inclusive, during which period no transfer of shares will be registered. All transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shop No. 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 24 April 2008.

On behalf of the Board  
**CHAN Shing**  
*Chairman*

The People's Republic of China, 29 February 2008

At the date of this announcement, the Board comprises Mr. Chan Shing, Ms. Lau Ting, Mr. Hoong Cheong Thard, Mr. Wu Jingwei and Mr. Liao Yuang-whang as Executive Directors, Mr. Paulus Johannes Cornelis Aloysius Karskens and Mr. Wang Taoguang as Non-Executive Directors and Mr. Huang Shenglan, Mr. Chan Ming Fai and Mr. Li Xiaojun as Independent Non-Executive Directors.

*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.*