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China LotSynergy Holdings Limited

華彩控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1371)

**SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO
(1) IMPAIRMENT ON LOAN RECEIVABLES;
(2) IMPAIRMENT OF INVESTMENT IN AN ASSOCIATE; AND
(3) UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED
31 DECEMBER 2019**

References are made to the announcement of China LotSynergy Holdings Limited (the “**Company**”, together with its subsidiaries, collectively referred to as the “**Group**”) for the year ended 31 December 2019 (“**FY2019**”) published by the Company on 31 March 2020 (the “**Unaudited Results Announcement**”) containing, among others, the unaudited annual results announcement of the Company for FY2019 (the “**Unaudited Results**”); and the annual report of the Company for FY2019 published by the Company on 30 June 2020 (the “**2019 Annual Report**”) containing, among others, the audited annual results of the Group for FY2019 (the “**Audited Results**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those set out in the Unaudited Results Announcement and the 2019 Annual Report.

(1) IMPAIRMENT ON LOANS RECEIVABLES

As disclosed in Note 3 “Financial Risk Management” in the Notes to the Consolidated Financial Statements of the Group for the year ended 31 December 2019 of the 2019 Annual Report, the Company has provided impairment losses on financial assets of HK\$406.5 million which represented the write down of the credit impaired loans in respect of which the borrowers had failed to repay the outstanding loans when the Group called for repayment during FY2019 (the “**Loan Impairment**”).

The Board would like to provide the following further information in relation to the Loan Impairment (including the salient terms of the loans that are entered into by the subsidiaries of the Company (the “**Lenders**” and each being a “**Lender**”).

Background information of the loans

Loan (collectively, the “Loans”)	Borrower (collectively, the “Borrowers”)	Date of agreement for Loan	Amount of the (a) principal and (b) interest rates (the “Loan Amount”)	Term of the Loan and repayment terms	(a) Details of personal guarantee (“PG”) or securities, if any, and valuation of securities. (b) Enforcement of PG or security?	Status of collection of the Loan as at 31 December 2019
1	Seng Keng Promocao De Jogos Sociedade Unipessoal Limitada	21 August 2014	(a) HKD50,000,000 (b) 8% p.a.	Within 180 days; repayable on demand at request of the Lender, or Borrower may repay a portion before the maturity date	(a) No PG or security provided. (b) N/A	Interests of HKD6,369,878 have been repaid; HKD50,000,000 as principal and HKD27,263,435 as interest remain outstanding
2	Global Link Investment Limited	14 May 2014	(a) HKD80,000,000 (b) 7% p.a.	4 months	(a) PG provided in December 2017 by Borrower’s ultimate beneficial owner in respect of the Loan Amount (b) As the ultimate beneficial owner is not contactable or located to enforce the PG, the Lender has not yet been able to enforce the PG.	Interests of HKD9,815,363 has been repaid; HKD80,000,000 as principal and HKD35,018,057 as interest remain outstanding
3	Wealthy Capital Enterprises Inc.	4 February 2016	(a) HKD100,000,000 (b) 6% p.a.	Approximately 10 months	(a) PG provided in February 2016 by Borrower’s ultimate beneficial owner in respect of the Loan Amount (b) Yes, bankruptcy order together with a proof of debt claiming for HKD125,972,602.74 million (which consist of HKD25,972,602.74 as interest which reflects the amount as at the bankruptcy order) in aggregate filed on 3 June 2020. On 14 July 2020, creditors’ meeting was held which two creditors’ representatives (including the Company) attended the meeting. Trustee in bankruptcy has been appointed and a creditors’ committee was formed.	HKD100,000,000 as principal and HKD7,729,203 as interest remain outstanding
4a	Unionconcept Investment Ltd.	21 November 2016	(a) HKD48,000,000 (b) 5% p.a.	12 months, may repay before the maturity date	(a) PG provided in December 2018 by Borrower’s ultimate beneficial owner in respect of the Loan Amount (b) As the Borrower’s ultimate beneficial owner is not contactable or located to enforce the PG, the Lender has not yet been able to enforce the PG.	HKD48,000,000 as principal and HKD10,702,685 as interest remain outstanding
4b	Unionconcept Investment Ltd.	12 December 2016	(a) HKD40,000,000 (b) 5% p.a.	12 months, may repay before the maturity date	(a) PG provided in December 2017 by Borrower’s ultimate beneficial owner in respect of the Loan Amount (b) As the Borrower’s ultimate beneficial owner is not contactable or located to enforce the PG, the Lender has not yet been able to enforce the PG.	HKD40,000,000 as principal and HKD8,655,890 as interest remain outstanding
5a	Oceanic Ray Limited	15 January 2015	(a) HKD20,000,000 (b) 5.5% p.a.	1 year, may repay before the maturity date	(a) No PG or security provided. (b) N/A	HKD20,000,000 as principal and HKD8,443,389 as interest remain outstanding
5b	Oceanic Ray Limited	9 August 2016	(a) HKD25,000,000 (b) 5% p.a.	6 months, may repay before the maturity date	(a) No PG or security provided. (b) N/A	HKD25,000,000 as principal and HKD7,243,150 as interest remain outstanding

Loan (collectively, the "Loans")	Borrower (collectively, the "Borrowers")	Date of agreement for Loan	Amount of the (a) principal and (b) interest rates (the "Loan Amount")	Term of the Loan and repayment terms	(a) Details of personal guarantee ("PG") or securities, if any, and valuation of securities. (b) Enforcement of PG or security?	Status of collection of the Loan as at 31 December 2019
6	Shenzhen Sea World Industrial Development Co., Ltd.* (深圳市海上世界實業發展有限公司)	23 June 2016	(a) RMB15,000,000 (b) 8% p.a.	4 months, may repay prior to the maturity date	(a) No PG or security provided. (b) N/A	RMB15,000,000 as principal and RMB7,191,188 as interest remain outstanding
7	Beijing Huishengxin Business Service Co., Ltd.* (北京匯晟鑫商務服務有限公司)	10 August 2016	(a) RMB16,000,000 (b) 6.8% p.a.	6 months, may repay before the maturity date	(a) No PG or security provided. (b) N/A	RMB16,000,000 as principal and RMB7,716,179 as interest remain outstanding
8a	Shenzhen Xiangfu Yeguang Jewelry Co., Ltd.* (深圳市祥富業廣珠寶有限公司)	5 March 2018	(a) RMB5,000,000 (b) 4.35% p.a.	24 months, may repay before the maturity date	(a) No PG or security provided. (b) N/A	RMB5,000,000 as principal and RMB429,678 as interest remain outstanding
8b	Shenzhen Xiangfu Yeguang Jewelry Co., Ltd.* (深圳市祥富業廣珠寶有限公司)	8 March 2018	(a) RMB35,000,000 (b) 4.35% p.a.	12 months	(a) No PG or security provided. (b) N/A	RMB35,000,000 as principal and RMB2,878,205 as interest remain outstanding
9a & b	Zhongrong Green Financial Leasing Co., Ltd.* (中融綠色融資租賃有限公司)	18 May 2018	(a) RMB20,000,000 (b) 8% p.a.	RMB20 million, provided in two tranches: (i) Tranche 1: RMB10 million for 1 year from drawdown; (ii) Tranche 2: RMB10 million for 6 months from drawdown (and extended for an additional 1 year)	(a) No PG or security provided. (b) N/A	Repaid RMB1,256,023.99 as interest, RMB20,000,000 as principal and RMB992,770 as interest remain outstanding

Listing Rules implication and reasons for provision of the Loans

As all of the applicable percentage ratios were less than 5%, each of the provision of the Loans (even when aggregated in respect of Loan 4a and 4b, Loan 5a and 5b, Loan 8a and 8b and Loan 9a and 9b, respectively) did not then constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules. Hence, each of the provision of the Loans was not subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Borrowers and each of their ultimate beneficial owner are independent third parties of the Company and the connected persons of the Company.

The management became acquainted with the ultimate beneficial owners of the Borrowers through different formal or informal business occasions. Some of the ultimate beneficial owners of the Borrowers had previously brought business opportunities to the Group and established a good rapport with the Company in the past. As such, the Company considered that generally they were reliable and trustworthy. Through leveraging on the ultimate beneficial owners' business

connections in the People's Republic of China (“PRC” or “China”), the management believed that the provision of the Loans to the Borrowers would be able to help the Group build and further its business relationship generally across the regions in China in order to explore new business opportunities in the traditional lottery market, in particular, those in Southern China.

Due diligence and credit assessment procedures performed by the Company and reasons leading to the Loan Impairment

As mentioned in the section headed “Listing Rules implication and reasons for provisions of the Loans”, given that the ultimate beneficial owners of the Borrowers were pre-existing business connections of the Company, due diligence was conducted through the personal network of the management team in order to ascertain the personal background of the ultimate beneficial owners which generally could not be reflected solely on public searches. In addition, the Lenders also conducted company searches on the Borrowers and obtained the corporate information of the Borrowers (save for those which are offshore companies such as the British Virgin Islands). In respect of Loan 3, the Lender had also conducted a background search on the ultimate beneficial owner of its Borrower which showed that such individual held more than 5% interests in certain listed companies in Hong Kong. Thus, the Lender strongly believed that the Borrower had repayment capabilities in respect of Loan 3.

In respect of all the Loans, save for Loan 3, given the outbreak of the Coronavirus Disease 2019 (the “COVID-19”) at around the fourth quarter of 2019 to first quarter of 2020, the general business operations and the economy in China has deteriorated significantly, in particular, the lottery market in China. Given that the lottery outlets were ordered to be shut down for a long period of time and that most businesses did not operate, the Company considered the chance that the Borrowers were able to repay the Loan Amount became very low since most of the Borrowers' businesses were also severely affected by COVID-19. In respect of Loan 3, when the bankruptcy order was filed against the ultimate beneficial owner of the Borrower under Loan 3, the Company was made aware that another company also filed for bankruptcy against the same individual. Thus, the Company considered the likelihood of recovering the Loan Amount under Loan 3 as very low.

The Lenders made repeated requests to demand for repayment but in vain as the ultimate beneficial owners are not contactable. Taking into account (i) the COVID-19 situation; (ii) the bankruptcy order filed against the ultimate beneficial owner of the Borrower under Loan 3; (iii) updated company searches indicating the Borrower under Loan 8a and 8b are being wound up; and (iv) the Company was informed by the Borrower under Loan 9a and 9b that such Borrower is in financial difficulty and has been attempting to negotiate debt restructuring plan, the Board therefore considered the Loans to be impaired at a board meeting held on 31 March 2020.

Actions taken and the proposed timetable thereof

The management has monitored and followed up from time to time to recover the Loans. The Company has also been seeking further legal advice and considering appointing debt recovery companies for the recovery of the Loans. In respect of Loan 3, the related debt recovery work is already in process and a law firm has been appointed

for such purpose. However, considering the travel restrictions due to COVID-19, the Company's progress has been delayed and also considered the cost and benefit is not justified as at the date of this announcement as the procedure for legal action could be a lengthy and costly process which may eventually result in vain. The Company has already commenced legal actions in respect of Loan 3 and will be cautiously monitoring its progress to ascertain whether similar legal actions should commence for other Loans when the legal proceedings for Loan 3 has more progress.

Meanwhile, the Company will continue to assess and balance the cost and benefit of further actions to recover the Loans including engaging debt recovery agent, private detective to identify and if possible locate the Borrowers and their ultimate beneficial owners and/or their assets and taking legal actions in the respective jurisdictions of the ultimate beneficial owners, against the success in the recovery of the debt. In respect of Loan 3, the Company is awaiting the High Court of Hong Kong to issue further directions and notice.

(2) IMPAIRMENT OF INVESTMENT IN AN ASSOCIATE

As disclosed under Note 20 "Interests in Associates" in the Notes to the Consolidated Financial Statements of the Group for the year ended 31 December 2019 of the 2019 Annual Report, a wholly owned subsidiary of the Company being Sinmax Limited ("**Sinmax**"), Pan Asia Blockchain Holding Limited ("**PABH**") and Pan Asia Blockchain Lottery Limited (the "**Target**") entered into a share subscription agreement (the "**Share Subscription Agreement**") and shareholders' agreement on 5 September 2018 (the "**Shareholders' Agreement**") in relation to the capital injection of funds into the Target in exchange for a subscription of new shares in the Target (the "**Share Subscription**"). However, during the current financial year ended 31 December 2019, PABH breached certain terms of the Shareholders' Agreement and the ultimate beneficial owner of PABH (the "**PABH UBO**") has also become uncontactable and caused the Target to cease operations. The Group has commenced legal proceedings to seek to recover the sum of HK\$35,000,000 that has been paid by the Group pursuant to the Share Subscription Agreement. As the other parties involved in the Shareholders' Agreement could not be contacted with, the Group considers the likelihood of recovery of the investment sums to be low and full provision for impairment loss of approximately HK\$32,000,000 was recognised to fully write down the investment in the year ended 31 December 2019 (the "**Investment Impairment**").

The Board would like to provide the following supplemental information in relation to the Investment Impairment.

Key terms of the Share Subscription Agreement and Shareholders' Agreement

The key terms of the Share Subscription in the Target are set out as follows:

Date of Share Subscription Agreement: 5 September 2018

Parties: Pan Asia Blockchain Lottery Limited as the target company; Simax as the subscriber, being a wholly-owned subsidiary of the Company.

To the best knowledge, information and belief of the Company, PABH is not a connected person of the Company and the PABH UBO is not related to or connected with any connected persons of the Company.

Subscription shares: 6,000 new shares of the Target (the “**Subscription Shares**”), representing 37.5% of the enlarged issued share capital of the Target at completion of the Share Subscription (“**Completion**”). Completion took place on 5 September 2018.

Aggregate subscription price: HK\$35 million (the “**Aggregate Subscription Price**”) in cash payable by three instalments. All the Aggregate Subscription Price has been paid by Sinmax.

The Shareholders' Agreement was entered into between Sinmax, PABH and the Target. The key terms of the Shareholders' Agreement included board representation, board level reserved matters, dividends payment at least once annually of at least 90% of the Target's profit, and the provision of financial statements, annual budget and cash flow forecast.

Listing Rules implication and reasons for the Share Subscription

As the applicable percentage ratios were less than 5% at the time the Share Subscription Agreement was entered into and the Share Subscription did not involve the issuance of securities for which listing would be sought as consideration, the Board considered that the Share Subscription did not then constitute a notifiable transaction under Chapter 14 of the Listing Rules. Hence, the Share Subscription was not subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

The Company was looking for opportunity to expand its business and one of the directions was through technology innovation. The Company thus believed blockchain technology would bring innovative change to lottery industry which it would allow passing information, not just making payment easier, in a fully automated and safer manner. By way of a private conference forum, the Company became acquainted with the PABH UBO who is also the sole director of the Target, whereby the Company understood the PABH UBO had the pre-existing capabilities and platform to operate cryptocurrency applications and has in place a professional development team in cryptocurrency applications which has operated for six years already. Such

cryptocurrency was also traded in seven worldwide cryptocurrency exchange platforms. The Company therefore entered into the Share Subscription to invest in the Target as a new start-up. Combining the Company's expertise in lottery system development and PABH UBO's know-how in blockchain cryptocurrency application, the management of the Company believed that synergy could be created. The investment in the Target was consistent with the Company's leading technology driven strategy such as the utilization of Big Data and the development of artificial intelligence based smart lottery outlets.

Reasons leading to the Investment Impairment

The Target and PABH has breached the key terms of the Shareholders' Agreement. Given the PABH UBO has effective control over the Target and its board and could not be contacted since September 2019, Sinmax had no information over the state of affairs of the Target, including the whereabouts of Sinmax's investment. The PABH UBO's disappearance had caused the Target to cease operation, and the continuing development of the Target's business as promised by the PABH UBO to Sinmax was therefore compromised. The Company entered into the investment in the hope that the technology could enhance the Company's existing business and had no reasons to believe that the PABH UBO would not honor her obligations.

Due diligence procedures performed by the Company

Prior to entering into the Share Subscription Agreement, the Company had conducted internal assessment of the feasibility of applying blockchain technology in the lottery market in China and overseas, performed company search on the Target to ascertain its existence, sought advice from its financial advisors and conducted background check of the PABH UBO and the team through the abovementioned financial advisors who were acquainted with the PABH UBO.

Actions taken by the Company and the latest development of legal proceedings

In view of the PABH UBO's disappearance, Sinmax had undertaken the following actions:

- (i) On 12 June 2020, Sinmax issued a letter of demand to the Target claiming for the gross misconduct of director of the Target and breach of Shareholders' Agreement and demanding immediate repayment of its investment of the HK\$35 million within 7 days of the demand, failing which Sinmax shall institute legal proceedings for recovery of the investment.
- (ii) On 24 June 2020, Sinmax (as plaintiff) issued a writ of summons with endorsement of claim at the Court of First Instance in Hong Kong against the PABH UBO (as 1st defendant) and the Target (as 2nd defendant) claiming damages for HK\$35 million.
- (iii) On 27 June 2020, Sinmax was advised by its legal advisers that (i) the writ of summons was served on the registered address of the Target; but (ii) the writ of summons was not able to be served on the PABH UBO.

- (iv) On 8 July 2020, Sinmax was advised by its legal advisers that no acknowledgement of service of the writ of summons was filed by the Target.
- (v) As advised by Sinmax's legal advisers, given PABH UBO is the key person and the sole director of the Target, the Company has recently commissioned staff of the Company's office in Beijing to try to locate the whereabouts of the PABH UBO first as the last reported address of the PABH UBO was in Shanxi province. Thereafter, if the Company is still not successful in locating the PABH UBO, the Company would consider engaging a private investigator.
- (vi) Depending on the outcome of the investigation, the Company, after seeking further legal advice from its legal advisers, will consider the appropriate steps to be taken in pursuing the legal proceedings against the Target and/or the PABH UBO for the recovery of its investment, including seeking a default judgment and/or reporting to the enforcement body in the PRC within the next few months so far as the circumstances under COVID-19 permits.

(3) UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

References are made to the Unaudited Results and the Audited Results for FY2019. The Board would like to provide the following supplemental information in relation to the material differences between the Unaudited Results and the Audited Results (collectively, the “**Adjustments**“, each an “**Adjustment**”), particularly, the nature and reasons for each Adjustment.

The nature and reasons for each Adjustment

(i) Increase in finance cost of HK\$17.1 million

The finance costs increased by HK\$17.1 million due to the increase in the effective interest expense on the New Option 1 Bonds. Following the modification to the terms of the New Option 1 Bonds, the Group re-measured the liability component of the New Option 1 Bonds by discounting the principal and interest payments using a discount rate at the effective date of the modification. As stated in the Unaudited Results Announcement, the Company's auditor had not completed the audit process of the Group's annual results for the year ended 31 December 2019. The discount rate used in the remeasurement had not been agreed by the Company's auditor at that date and hence the discount rate was subsequently revised. The use of revised discount rate at the effective date of the modification for the New Option 1 Bonds results in an increase in the effective interest expense on the New Option 1 Bonds of HK\$17.1 million.

(ii) Decrease in accruals and other payables of HK\$30.5 million

Due to the impact of COVID-19, the Group obtained the outstanding information from the subsidiaries in the PRC subsequent to the publication of the Unaudited Results Announcement. It was noted that certain intercompany payables and receivables with aggregate amounts of HK\$29.6 million had not been eliminated in the unaudited consolidated statement of financial position. The accruals and other

payables decreased by HK\$30.5 million mainly due to the elimination of those intercompany payables and receivables. The elimination of intercompany balances results in a decrease in other payables of HK\$29.6 million.

(iii) Decrease in prepayments, deposits and other receivables of HK\$28.5 million

As explained in (ii) above, it was noted that certain intercompany payables and receivables with aggregate amounts of HK\$29.6 million had not been eliminated in the unaudited consolidated statement of financial position. The prepayments, deposits and other receivables decreased by HK\$28.5 million mainly due to the elimination of those intercompany payables and receivables. The elimination of intercompany balances results in a decrease in other receivables of HK\$29.6 million.

(iv) The use of a revised discount rate at the effective date of the modification for the New Option 1 Bonds which results in a difference of HK\$32.6 million

As explained in (i) above, the discount rate used in the re-measurement of the liability component of the New Option 1 Bonds had not been agreed by the Company's auditor at the date of unaudited results announcement and hence the discount rate was subsequently revised.

(v) Reallocation of other income from administrative expenses — which results an increase in administrative expense of HK\$47.7 million and increase in other income of HK\$51.2 million

Certain interest income on loan receivables of HK\$47.7 million was presented within administrative expenses in the unaudited consolidated statement of profit or loss. Such income was subsequently presented within other income in the audited consolidated statement of profit or loss. The change in presentation results in an increase in administrative expenses of HK\$47.7 million and an increase in other income of HK\$47.7 million. No corresponding adjustment to profit or loss item has been made.

The Group has obtained the outstanding information from the subsidiaries in the PRC. Subsequently, it was noted that certain interest income on loan receivables amounting to HK\$3.5 million was not recorded in the unaudited consolidated financial statements. The corresponding adjustment results in an increase in other income of HK\$3.5 million.

The above additional information does not affect other information contained in the Unaudited Results Announcement and the 2019 Annual Report. All other information in the Unaudited Annual Results Announcement and the 2019 Annual Report remains unchanged.

By order of the Board
China LotSynergy Holdings Limited
CHAN Tan Na, Donna
Chairperson

Hong Kong, 31 August 2020

As at the date of this announcement, the Board comprises Ms. CHAN Tan Na, Donna, Mr. WU Jingwei, Mr. LI Zi Kui and Ms. ZHU Xinxin as Executive Directors; and Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming as Independent Non-executive Directors.

** For identification purposes only*