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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)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

UNAUDITED ANNUAL RESULTS

For the reasons as explained under the headline “Review of Unaudited Annual Results” in this announcement, the auditing process for the annual results of China LotSynergy Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) has not been completed. The board of directors of the Company (the “Board” or the “Directors”) hereby presents the unaudited consolidated results of the Group for the year ended 31 December 2019 based on management accounts, together with the comparative figures of the audited consolidated results for the year ended 31 December 2018, as follows:

* For identification purposes only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Unaudited 2019 HK\$'000	Audited 2018 HK\$'000
Revenue	155,379	183,927
Costs of sales and services		
— Depreciation of lottery terminals	(33,456)	(35,661)
— Others	(60,151)	(52,325)
	<u>(93,607)</u>	<u>(87,986)</u>
Gross profit	61,772	95,941
Other income	6,215	39,840
Other gains — net	7,906	13,819
Net impairment losses on financial assets	(397,855)	(66,062)
General and administrative expenses	(155,345)	(185,083)
Share option expenses	(5,065)	(13,237)
	<u>(482,372)</u>	<u>(114,782)</u>
Operating loss	(482,372)	(114,782)
Finance costs	(36,790)	(33,396)
Share of losses of associates	(64)	(4,022)
Share of loss of a joint venture	(2,180)	(1,660)
	<u>(521,406)</u>	<u>(153,860)</u>
Loss before income tax	(521,406)	(153,860)
Income tax expense	(7,429)	(8,861)
	<u>(528,835)</u>	<u>(162,721)</u>
Loss for the year	<u>(528,835)</u>	<u>(162,721)</u>
(Loss)/Profit attributable to:		
Owners of the Company	(498,425)	(169,468)
Non-controlling interests	(30,410)	6,747
	<u>(528,835)</u>	<u>(162,721)</u>
Loss per share attributable to owners of the Company during the year		Restated
— basic	<u>(50.05) HK cents</u>	<u>(18.0) HK cents</u>
— diluted	<u>(50.05) HK cents</u>	<u>(18.0) HK cents</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2019

	Unaudited 2019 HK\$'000	Audited 2018 HK\$'000
Loss for the year	(528,835)	(162,721)
Other comprehensive expense:		
<i>Items that may be reclassified to profit or loss</i>		
Release of currency translation reserve upon disposal of subsidiaries	–	(54)
Currency translation differences	(12,810)	(36,254)
Share of other comprehensive expense of associates and joint venture	(139)	(502)
Other comprehensive expense for the year	(12,949)	(36,810)
Total comprehensive expense for the year	(541,784)	(199,531)
Attributable to:		
Owners of the Company	(506,217)	(191,095)
Non-controlling interests	(35,567)	(8,436)
Total comprehensive expense for the year	(541,784)	(199,531)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Unaudited 2019 HK\$'000	Audited 2018 HK\$'000
Non-current assets		
Property, plant and equipment	272,179	279,358
Right-of-use assets	38,328	–
Intangible assets	465,331	455,217
Interests in associates	43,450	35,572
Investment in a joint venture	2,418	4,675
Financial assets at fair value through profit or loss	7,583	8,561
Deferred income tax assets	–	5,607
	<u>829,289</u>	<u>788,990</u>
Current assets		
Inventories	13,937	18,850
Accounts receivable	74,993	83,574
Prepayments, deposits and other receivables	188,066	584,369
Cash and bank balances	64,727	146,021
	<u>341,723</u>	<u>832,814</u>
Total assets	<u>1,171,012</u>	<u>1,621,804</u>
Current liabilities		
Accounts payable	6,139	456
Accruals and other payables	71,882	49,910
Contract liabilities	18,992	3,043
Amount due to a joint venture	7,902	7,550
Tax payable	6,396	7,043
Bank borrowings	246,144	262,274
Lease liabilities	7,418	–
Convertible bonds	180,011	172,480
	<u>544,884</u>	<u>502,756</u>
Net current (liabilities)/assets	<u>(203,161)</u>	<u>330,058</u>
Total assets less current liabilities	<u>626,128</u>	<u>1,119,048</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*Cont'd*)
At 31 December 2019

	Unaudited 2019 HK\$'000	Audited 2018 HK\$'000
Non-current liabilities		
Deferred income tax liabilities	41,907	46,854
Lease liabilities	<u>31,441</u>	<u>–</u>
	<u>73,348</u>	<u>46,854</u>
Net assets	<u><u>552,780</u></u>	<u><u>1,072,194</u></u>
Equity attributable to owners of the Company		
Share capital	25,737	24,399
Reserves	1,388,159	1,375,614
Accumulated losses	<u>(1,157,766)</u>	<u>(667,311)</u>
	256,130	732,702
Non-controlling interests	<u>296,650</u>	<u>339,492</u>
Total equity	<u><u>552,780</u></u>	<u><u>1,072,194</u></u>

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged in the provision of technology and operation services for lottery systems, terminal equipment and gaming products in the China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery ("VLT"), computer-generated ticket games ("CTG") and KENO-type lottery to new media lottery, and continue to explore and develop other potential businesses, including natural & healthy food business and trading business. By building up its technical competencies, expanding into new markets and upholding high standards of corporate governance, the Group has established a solid foundation and an outstanding corporate brand name, providing it with comprehensive capabilities for sustainable development. The Group has gradually established a development layout at domestic and international levels by making great efforts to open up international markets over the past years.

China's Lottery Market

China's lottery market recorded a 17.5% decline in total sales to RMB422.053 billion in 2019, pursuant to the sales data released by the Ministry of Finance ("MOF"). Welfare Lottery sales fell by 14.8% YOY to RMB191.238 billion, while Sports Lottery sales down 19.6% YOY to RMB230.815 billion. In terms of lottery types, sales of Lotto, Single Match Games ("SMG") and VLT have gone down, while Paper-based Scratch Card and KENO saw rise in sales compared with last year. Lotto, which is the industry's main source of revenue, posted a 17.6% YOY drop to RMB227.337 in its sales, accounting for 53.8% of total lottery sales. SMG sales dipped 26.3% YOY to RMB121.943, accounting for 28.9% of total lottery sales. VLT sales dropped 7.1% YOY to RMB44.085, accounting for 10.4% of total lottery sales. Sales of Paper-based Scratch Card and KENO advanced 26.6% YOY and 28.6% YOY to RMB28.522 billion and RMB0.167 billion, accounting for 6.8% and 0.1% of total lottery sales respectively.

The China's lottery market has shown a trend of sustainable healthy development in recent years. In order to strictly control the lottery market risks, further highlight the public welfare and social responsibility of the state's lottery and foster the healthy development of the lottery industry, the MOF, the Ministry of Civil Affairs ("MOCA") and the General Administration of Sport of China jointly issued "Notice on Strengthening the Management of Payout and Promotion of High Frequency Games" and "Notice on Revised Rules of High Frequency Games and SMG, and Intensified Lottery Market Governance" in January 2019, adjusting the rules of the high frequency games and SMG, altering the range of betting multiples, strengthening the management of terminal sales, and discontinuing the payout and promotions. Those new rules, which reinforcing the market regulations of the high frequency games and SMG, would have impact on the sales in the short run. The figures reveal monthly lottery sales has gone down for 11 months in a row since February 2019. The national lottery revenue fell 17.5% YOY in 2019, primarily due to the requirement at political level in terms of strengthening industry regulation, underscoring lottery social responsibility, enhancing lottery

system credibility, ensuring safe and smooth operation of lottery market, in a bid to contribute to the long-term, healthy and orderly development of lottery industry. As it can be observed that the sales decline of high frequency games and SMG was merely a direct reason.

In 2019, China's Welfare Lottery generated RMB55.728 lottery funds, with Sports Lottery generated RMB58.318. From the initial issuance to the end of 2019, China's Welfare Lottery has raised RMB656.865 billion lottery funds, whereas Sports Lottery has raised nearly RMB490 billion. The lottery has made outstanding contributions to the development of various public works projects undertaken in China.

BUSINESS REVIEW AND OUTLOOK

Video Lottery Business

As a technology-rich product, VLT plays a vital role in China's lottery industry. The Group is the exclusive terminal equipment provider for China Welfare Lottery Video Lottery — VLT (“Welfare VLT”). Welfare VLT was one of the driving forces of nationwide Welfare Lottery, with its sales decreased by 7.1% YOY to RMB44.085 billion, accounted for 21.3% of Welfare Lottery sales and 10.4% of the nation's total lottery sales respectively in 2019.

Dongguan Tianyi Electronic Company Limited (“DGTY”), a subsidiary of the Group, has been the supplier of Welfare VLT terminal for 16 years since 2003. The terminal developed and manufactured by DGTY is the only Welfare VLT terminal approved and confirmed by all three ministries including the MOF, the Ministry of Public Security and the MOCA. DGTY has made three generations of terminal replacements and upgrades in the last 16 years, supplying a total number of over 70,000 units of terminals. For the year ended 31 December 2019, approximately 41,500 units of the third-generation terminals have been placed in over 2,000 Welfare VLT halls across 28 provinces, cities, autonomous regions and municipalities in China, supporting the entire Welfare VLT sales nationwide.

DGTY's Welfare VLT supply contract expired in June 2015. According to the supply contract agreed by both parties, DGTY has the full ownership of the approximately 41,500 units of terminals generating all the sales of Welfare VLT. Estimably, sales of Welfare VLT has continued its upward climb and achieved satisfactory performance on the back of the superb quality of DGTY's third generation terminals, notwithstanding the absence of new terminal over the last four years. DGTY was well recognized by authorities and players thanks to its strong technological prowess and integrated service capabilities.

According to legally binding documents that the Group sent to China Welfare Lottery Issuance and Administration Centre and Beijing China Lottery Online Technology Company Limited (“CLO”) along with unanimous accreditation reached by domestic civil law experts, DGTY shall be paid for the provision of these terminals for Welfare VLT's continued use after the expiry of the supply contract. In order to protect the Group's lawful rights and interests, DGTY has filed a civil action with the People's High Court of Beijing, claiming the compensation from CLO for the continued use of terminals after the expiry of the supply contract. “The Civil Judgement” No. 65 (2016) of the People's High Court of Beijing was delivered on 10 August 2018, which ruled that CLO is required to pay DGTY cooperation

remuneration amounted to approximately RMB1.36 billion and partial interest. CLO appealed to the Supreme People's Court. The Supreme People's Court held two hearings, and that an outcome is awaited.

The Group is equipped with the largest dedicated VLT terminal production capacity in China and even in the world, with the most extensive technical tools and experience in design, development, testing and production quality control of video lottery terminal.

CTG Business

On the Welfare Lottery CTG side, Guangdong Province, which is served by the Group, remained the largest provincial Welfare Lottery market in China with sales reached approximately RMB12.2 billion in 2019. Shanghai Welfare Lottery CTG, which is also served by the Group, recorded sales of RMB3.93 billion. Meanwhile, Guangzhou San Huan Yong Xin Technology Company Limited, a subsidiary of the Group, won a bid for the procurement of Welfare Lottery computer ticket game betting terminals and technical service for Chongqing Welfare Lottery Issuance Centre. In the next five years, the Group will provide 3,000 units of lottery betting terminals and related services to Chongqing Welfare Lottery Issuance Centre. This is the Group's second time winning the bid in Chongqing Welfare Lottery since our first winning in 2013.

In 2019, the Group's Sports Lottery CTG terminal business recorded sustained growth with successively won bids for the Sports Lottery CTG terminal procurement programmes of Guangxi, Inner Mongolia and other provinces, in spite of restricted rules of high frequency games and SMG, and sinking demand on CTG terminal. At the same time, the Group won bids for the Sports Lottery after-sales service procurement programmes in the provinces of Guizhou, Liaoning and others, achieving breakthrough in terminal after-sales service leveraged on its superb service capacities.

The Group continued to focus on overseas lottery business in 2019. The CTG system, developed by the Group for Khmer Pool Welfare Lottery Co., Ltd and Cambodian Sports Lottery, is running smoothly. The Group brought the advanced lottery products and technologies to African market, and marketed in Ghana on 9 August 2019. It is expected to roll out more games and value-added channels one after another in the first quarter of this year. Furthermore, the Group is developing handheld lottery terminal business for Philippine Charity Sweepstakes Office, and it is expected to be launched in the first half of this year.

New Lottery Business (New Retail, AI)

In 2019, the Group continued to maintain good relations with lottery authorities and actively explore new products and new models in the new environment.

The traditional lottery sales channel already cannot meet the diversified needs of its customer and the need for digitalized and integrated lottery retail channel is gradually arising, resulting from the rise of electronic payments and artificial intelligence. China's lottery industry is undergoing developmental revolution in terms of channel realignment and innovation. Under new circumstances, lottery authorities also continue to beef up the foundation of sales channels and enhance management practices.

In response to these development opportunities, the Group has taken the lead to introduce the notion of new lottery retail, opening up new ideas of lottery business expansion by product and channel innovations.

The Group has stepped up its R&D efforts in fields of artificial intelligence and others, fully used of innovative technologies such as intelligent hardware, the Internet of Things, big data and artificial intelligence etc. across the lottery retail channels, namely operation, management, marketing and others, and developed cloud AI-based smart lottery outlets total solution. The solution consisted of intelligent terminal products, as well as a full range of intelligent hardware and software products that are servicing at lottery authorities and point-of-sale, namely intelligent storefront management system, intelligent payment system, intelligent marketing and sales platform, smart lottery big data service system and others. The cloud AI-based smart lottery outlets total solution not only effectively solves the survival and development problem of traditional lottery outlets, but also enriches its vitality, offers player with new experience, allows a better regulated and healthier operation environment, and provides the authorities with anew intelligent management tools. At present, the Group has entered into agreement to jointly promote the business with partners in the lottery industry.

In orders to tap the board artificial intelligence application market, in 2018, the Group, as a leading player in China's lottery industry, has landed at the China's Sound Valley — the national-level industrial base of artificial intelligence and garnered the award dedicated leading enterprises which settled there. Riding on the robust foundation provided by the China's Sound Valley, the Group has achieved milestones in the fields of intelligent hardware, intelligent voice, face recognition, big data and cloud computing, and has received several proprietary intellectual property rights such as patents and software copyrights. On that basis, the Group has developed a number of intelligent hardware products and intelligent software systems for various industries. In 2019, the group's proprietary R&D project, “mobile ticket bots”, which is gearing towards the retail industry, received funding support from “2019 China's Sound Valley Establishment” specify for industrialization of technological innovation products.

New forms of economies spurred by 5G, big data, block chain, artificial intelligence and others, with the rise of new technologies, new industries and new models. Innovative technology serves as power engine in China. In the future, the group will live up to the opportunities given by the times, empower the lottery industries, and make a positive contribution to the healthy development of China's lottery market.

New Lottery Business (Video Lottery & Digital Scratch Card)

During the year under review, the group continued to increase its strategic layout and in-depth cooperation at the domestic and international levels, and actively studied and developed new growth points in businesses of video lottery and digital scratch card.

Gamification and electronic sales are the key features of VLT and digital scratch card, not only enabling betting on mobile phone, tablet device and fixed terminal, and also allowing converged development, mutually enhancement with other consumer entertainment industries with a promising future.

VLT and digital scratch card business, one of the core competencies we are proud of, in which the Group has overall strengths in terms of system, games, terminals and business development and others.

Natural & Healthy Food Business

In 2019, Tian Ran Lin Chang Food Limited (“TRLC”), a subsidiary of the Group, opened up three product lines, namely nuts, honey and mushrooms, and a consigned product line for fresh fruits.

TRLC formed long-term strategic cooperation with e-commerce sites, regarding its mushrooms business, and signed purchase contracts with a number of enterprises. TRLC launched its nuts products on several major e-commerce platforms and earned a good reputation. In terms of its robust product, honey, TRLC has been trying new packaging and joint marketing approach, incorporating with prevailing key opinion leaders and webcasts in 2019. TRLC also tried with a wider range of fresh fruits and selected seasonal fresh fruits selling via its own channels and other e-commerce channels.

Trading Business

The Group believes that it can maintain its competitive advantage through innovation and creative, hence, the Group continues to explore other potential businesses. In 2019, the Group deployed and launched trading business for various types of goods through its existing networks and resources for the purpose of generating income and enhancing the Group’s competitiveness. The Group will continue to review the effectiveness of the relevant business.

Conclusion

In the past two years, Chinese lottery has been changing from simply pursuing sales volume and speed to quality and social benefits, with special emphasis on building up and carrying out responsible lottery, so as to foster a healthy industry ecosystem. Chinese lottery industry has entered the “era of quality”, which means great challenges and opportunities to the industry, especially for professional lottery companies.

The Group noted that lottery issuance and sales authorities proactively reformed every related aspect of lottery issuance and sales in 2019, while professional lottery companies actively engaged in the tides of reform. Lottery sales declined in 2019 against the backdrop of policy adjustments, but the market remained dynamic. There is no doubt that China’s lottery market could be worth trillions.

China’s lottery was back in business in middle of March following a record long shut down caused by the pandemic. A good number of major league games have been postponed or suspended as a result of global outbreak of the pandemic, putting a pause on distribution of SMG, within the sector of Sports Lottery, football match schedule nationwide on 25 March 2020. In 2009, MOF issued a statement to support mobile and online lottery. However, lottery sales fell to zero during the pandemic, while illegal lottery and online gambling were everywhere as well as mobile games went viral. That leaves Chinese lottery issuers and regulators with a lot to think about, but there should also be action.

After all, it had been seen that there are always tide turning on business model, with the in-depth development of internet. Lottery is born best for paperless, electronic, dispersed and mobile consumption. Inevitably, there will be a new round of explosive growth and innovative changes upon the end of this adjustment, which is the trend of the times.

With its continuous investment and in-depth understanding of the lottery industry for more than a decade, the Group will bring its edges together and look for wide range of cooperation in terms of sales channels, core systems, gaming products, lottery security, among others, making contribution to the development of a responsible, reliable, healthy and sustainable China's lottery ecosystem. The Group will foster the internationalization of lottery while rooting in China, continue to explore and innovate a more diverse business model.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK\$155.4 million (2018: HK\$183.9 million) for the year ended 31 December 2019, representing a decrease of approximately 16% over 2018. Loss attributable to owners of the Company for the year ended 31 December 2019 amounted to approximately HK\$498.4 million (2018: HK\$169.5 million), and is mainly due to net impairment losses on financial assets of approximately HK\$397.9 million (2018: HK\$66 million), and staff costs (excluding employee share option benefits) of approximately HK\$97.5 million (2018: HK\$117.8 million).

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

As at 31 December 2019, the Group had net liabilities of approximately HK\$203.2 million (2018: net assets of HK\$330.1 million). The management of the Group considers the liquidity position of the Group is sufficient to operate as a going concern in the foreseeable future as the Group maintains a healthy financial position as of 31 December 2019 with cash and cash equivalents and net assets value of approximately HK\$64.7 million and HK\$552.8 million respectively. The management of the Group has given consideration to the following steps taken which expected to strengthen the Group's financial position:

- (1) The Group has been actively negotiating with banks to secure the renewals of the banking facilities granted to the Group;
- (2) The Group has been actively negotiating with investors for the extension of convertible bonds and considering further financing when necessary including but not limited to equity financing to improve the liquidity of the Group;
- (3) The Group has taken measures to tighten its cost control over general and administrative expenses; and
- (4) The Group is awaiting the outcome of the final judgement of a civil action against CLO claiming the compensation from CLO for the continued use of terminals after the expiry of the supply contract with DGTY. The first judgement delivered by the People's High Court of Beijing ruled that CLO is required to pay DGTY cooperation remuneration for 1 June 2015 to 26 March 2017 which amounted to RMB1,360,211,853 and with relevant interest.

The Group believes that it has adequate financial resources to fund its capital and operating requirements. As at 31 December 2019, the Company had an outstanding corporate guarantee limited to approximately HK\$240 million (2018: HK\$240 million) for a banking facility of an uncommitted revolving loan of approximately HK\$240 million (2018: HK\$240 million); and an outstanding corporate guarantee limited to approximately HK\$23 million (2018: HK\$23 million) for a banking facility of a short term secured loan of approximately HK\$23 million (2018: HK\$23 million).

The Group had outstanding bank borrowings as at 31 December 2019 of approximately HK\$246.1 million (2018: HK\$262.3 million). As at 31 December 2019, the bank borrowings and banking facilities of the Group were secured by (i) leasehold land and buildings of the Group with a carrying amount of approximately HK\$151.6 million (2018: HK\$155.6 million); and (ii) a personal guarantee executed by a director of the Company (2018: a personal guarantee executed by a director of the Company).

By an ordinary resolution passed at the Company's annual general meeting on 13 June 2019, every ten (10) issued and unissued ordinary shares of HK\$0.0025 each in the share capital of the Company has been consolidated into one (1) ordinary share of HK\$0.025 each in the share capital of the Company (the "Share Consolidation") with effective on 14 June 2019. Following the Share Consolidation, the authorised share capital of the Company are HK\$40 million divided into 1,600,000,000 shares of the Company with par value of HK\$0.025 each. As at 31 December 2019, 1,029,480,733 shares of the Company have been issued. The board lot size has also been changed from 20,000 to 10,000 shares of the Company upon the effective of the Share Consolidation. Details of the Share Consolidation are set out in the Company's announcements dated 18 April 2019 and 13 June 2019 and the Company's circular dated 30 April 2019.

At 1 January 2019, the outstanding convertible bonds of the Company were 7.5% convertible bonds due 2019 in the aggregate principal amount of HK\$174.8 million (the "New Option 1 Bonds"). The New Option 1 Bonds shall be convertible into the shares of the Company at conversion price of HK\$0.23 each. On 28 March 2019, the Company and the holders of New Option 1 Bonds entered into the supplemental trust deed to extend the maturity date from 7 April 2019 to 7 November 2019 and amend the conversion price from HK\$0.23 to HK\$0.20 with effect from 29 March 2019. Pursuant to the supplemental trust deed, the interest for the extended period from 7 April 2019 to 7 November will be charged at 8.5% per annum and payable in arrear on 7 November 2019. With effect from 14 June 2019, due to the Share Consolidation, the conversion price of the New Option 1 Bonds had been adjusted from HK\$0.20 to HK\$2 per shares of the Company. On 4 November 2019, the Company and the holders of New Option 1 Bonds entered into the second supplemental trust deed to further extend the maturity date from 7 November 2019 to 7 November 2020. Repayments will be in two instalments: (i) 50% of the principal amount outstanding on 7 May 2020 and (ii) remaining of the principal amount outstanding on the maturity date on 7 November 2020.

During the year under review, no New Option 1 Bonds had been converted into the shares of the Company by the bondholders. At 31 December 2019, the total outstanding principal amount of the New Option 1 Bonds was HK\$174.8 million. The maximum number of shares of the Company that will be issued upon conversion of all the outstanding New Option 1 Bonds was 87,400,000 shares of the Company.

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2019 was approximately 52.8% (2018: 33.9%).

Exposure to Exchange Rates Fluctuations

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 Assets

As at 31 December 2019, the Group's leasehold land and buildings at net book value of approximately HK\$151.6 million (2018: HK\$155.6 million) were pledged to banks to secure the bank borrowings granted to the Group.

Contingent Liabilities

As at 31 December 2019, the Group did not have any material contingent liabilities (2018: Nil).

Staff

As at 31 December 2019, the Group employed 265 full time employees (2018: 282). The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programs for staff are provided as and when required. The Group will further strengthen its team buildup, in order to offer enhanced services for lottery market.

Purchase, Sale or Redemption of the Company's Listed Securities

Save as (i) the shares of the Company issued upon the exercise of share options granted under the share option scheme of the Company (as adopted by the shareholders of the Company on 18 May 2012); and (ii) the amendments to the terms and conditions of the New Option 1 Bonds in year 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2019.

Discloseable Transaction

On 12 August 2019, Capital Way Financial Holdings Limited, an indirect wholly-owned subsidiary of the Company, has entered into an agreement in relation to the acquisition of the entire issued shares of Qing Yu International Holding Limited at an aggregate consideration of HK\$9,000,000, which is settled as to (i) HK\$3,000,000 in cash; and (ii) the issue of a promissory note. Upon completion, the Qing Yu International Holding Limited has become an indirect wholly-owned subsidiary of the Company. Qing Yu International Holding Limited, together with its subsidiaries, are principally engaged in R&D, processing, production and

sales of natural and health food. The Group believes that this acquisition can strengthen its financial position by developing the business of production and sales of natural and health food at a lower cost and higher efficiency.

Audit Committee

The Audit Committee of the Company currently comprises the three Independent Non-executive Directors of the Company, namely Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming.

Review of Unaudited Annual Results

The auditing process for the annual results for the year ended 31 December 2019 of the Group has been delayed and has not been completed since the staff of both the Group and the Company's auditor have been affected by the travel restrictions and quarantine measures in force in parts of China to combat the Coronavirus Disease 2019 (COVID-19) outbreak. The unaudited results based on management accounts contained herein have not been agreed by the Company's auditor. Following the completion of the auditing process, the Company will issue further announcement(s) in relation to the audited results for the year ended 31 December 2019 as agreed by the Company's auditor and/or the material differences (if any) as compared with the unaudited annual results contained herein. As the aforementioned restrictions are continuously affecting the auditing process, the exact date for the publication of the Group's audited results could not be estimated at this stage. The Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process. The unaudited annual results contained herein have been reviewed by the Audit Committee of the Company.

There may or may not be material differences between the Group's audited results for the year ended 31 December 2019 and the unaudited results as disclosed in this announcement. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

Event after reporting period

Coronavirus Disease 2019 has an impact on the global business environment, including the sales of Chinese lottery. Subject to the development and timing of Coronavirus Disease 2019, further changes in the Chinese lottery market and economic conditions may have an impact on the Group's performance. The extent of the impact to the Group's annual results 2020 could not be reasonably estimated by the Group currently. The Group will continuously monitor the development of the Coronavirus Disease 2019 and take relevant measures.

Changes of Addresses of Registered Office and Bermuda Principal Share Registrar and Transfer Office

The registered office of the Company has been relocated to Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda with effect from 15 July 2019.

The Bermuda principal share registrar and transfer office of the Company has also been relocated to 4th Floor North, Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda with effect from 19 July 2019.

Corporate Governance

The Company has complied with the code provisions of the Corporate Governance Code (the “Code”) under Appendix 14 of the Listing Rules throughout the year ended 31 December 2019, except for the deviations as disclosed below:

Code provision A.1.1 stipulates that the board should be held the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. The relevant Code provision had not been fully complied with as the Company did not announce its quarterly results and that two regular Board meetings were held during the year. Board meetings will be held on other occasions when Board decisions are required. The Chairperson of the Company, Ms. CHAN Tan Na, Donna, currently also assumes the role of the Chief Executive Officer. Although the Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, the Board considers that given the nature of the Group’s businesses which requires considerable market expertise, the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management. Although some of the Non-Executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A.4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Mr. HUANG Shenglan was absent from the 2019 annual general meeting of the Company as is stipulated in Code provision A.6.7 due to his other important engagement.

The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

Required Standard of Dealing regarding Securities Transactions by Directors

The Company has adopted the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “Model Code”) as its code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the Model Code during the year ended 31 December 2019.

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

Hong Kong, 31 March 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.