



China LotSynergy Holdings Limited

華彩控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8161)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

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This announcement, for which the directors (the “Directors”) of China LotSynergy Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

* For identification purposes only

FINANCIAL RESULTS

The board of directors (the “Board” or the “Directors”) of China LotSynergy Holdings Limited (the “Company”) hereby presents the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2011, together with the comparative figures for the year ended 31 December 2010, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	<i>Notes</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Turnover	3	528,136	282,577
Costs of sales and services		(96,460)	(62,237)
Gross profit		431,676	220,340
Other income and gains	4	14,367	16,465
General and administrative expenses		(130,666)	(110,046)
Share option expenses		(19,750)	(9,520)
Operating profit	5	295,627	117,239
Gain on redemption of convertible note		—	171,947
Imputed interest expense on redeemed convertible note	6	—	(20,748)
Gain on redemption of convertible note, net of imputed interest expense		—	151,199
Finance costs	6	(19,495)	(5,809)
Share of losses of jointly-controlled entities		(9,126)	(12,408)
Profit before income tax		267,006	250,221
Income tax	7	(48,703)	(33,477)
Profit for the year		218,303	216,744
Profit attributable to:			
Owners of the Company		66,485	152,254
Non-controlling interests		151,818	64,490
		218,303	216,744
Earnings per share attributable to owners of the Company during the year			
— basic	8	0.90 HK cents	2.06 HK cents
— diluted	8	0.89 HK cents	2.05 HK cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Profit for the year	218,303	216,744
Other comprehensive income:		
Fair value (loss)/gain on available-for-sale financial assets	(9,499)	19,081
Reclassification adjustment on disposal of available-for-sale financial assets	(7,149)	—
Currency translation differences	16,445	12,824
	<u> </u>	<u> </u>
Other comprehensive (expense)/income for the year, net of tax	(203)	31,905
	<u> </u>	<u> </u>
Total comprehensive income for the year	<u>218,100</u>	<u>248,649</u>
Attributable to:		
Owners of the Company	59,862	181,584
Non-controlling interests	158,238	67,065
	<u> </u>	<u> </u>
Total comprehensive income for the year	<u>218,100</u>	<u>248,649</u>

CONSOLIDATED BALANCE SHEET

At 31 December 2011

	<i>Notes</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		281,679	270,338
Intangible assets		396,132	351,544
Investments in jointly-controlled entities		103,739	108,154
Available-for-sale financial assets		28,862	68,910
Deferred income tax assets		4,622	180
Prepaid rentals		3,260	4,087
		<hr/>	<hr/>
Total non-current assets		818,294	803,213
Current assets			
Inventories		29,907	19,250
Accounts receivable	9	177,160	103,042
Prepayments, deposits and other receivables		70,461	30,101
Amounts due from jointly-controlled entities		457	411
Amount due from a related company		21,564	21,564
Financial assets at fair value through profit or loss	10	—	92,258
Cash and bank balances		648,867	347,612
		<hr/>	<hr/>
Total current assets		948,416	614,238
		<hr/>	<hr/>
Total assets		1,766,710	1,417,451
Current liabilities			
Accounts payable	11	12,813	2,656
Accruals and other payables		40,901	11,824
Amount due to a jointly-controlled entity		4,811	24,594
Income tax payable		18,110	27,859
Financial liabilities at fair value through profit or loss		9,155	—
Bank borrowings		380,602	105,119
Convertible note	12	68,308	86,272
		<hr/>	<hr/>
Total current liabilities		534,700	258,324
		<hr/>	<hr/>
Net current assets		413,716	355,914
		<hr/>	<hr/>
Total assets less current liabilities		1,232,010	1,159,127
		<hr/>	<hr/>

CONSOLIDATED BALANCE SHEET (*Cont'd*)
At 31 December 2011

	<i>Notes</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Non-current liabilities			
Convertible note	<i>12</i>	—	59,480
Deferred income tax liabilities		<u>14,472</u>	<u>13,268</u>
Total non-current liabilities		<u>14,472</u>	<u>72,748</u>
Net assets		<u>1,217,538</u>	<u>1,086,379</u>
Equity attributable to owners of the Company			
Share capital	<i>13</i>	18,530	18,505
Reserves	<i>14</i>	877,478	1,714,406
Retained profit/(accumulated losses)		<u>109,896</u>	<u>(808,897)</u>
		1,005,904	924,014
Non-controlling interests		<u>211,634</u>	<u>162,365</u>
Total equity		<u>1,217,538</u>	<u>1,086,379</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company			Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000 (Note 13)	Reserves HK\$'000 (Note 14)	Accumulated losses HK\$'000		
Balance at 1 January 2010	18,505	1,674,420	(876,657)	109,419	925,687
Comprehensive income					
Profit for the year	—	—	152,254	64,490	216,744
Other comprehensive income:					
Release of revaluation reserve upon depreciation of leasehold land and building	—	(140)	140	—	—
Fair value gain on available-for-sale financial assets	—	19,081	—	—	19,081
Currency translation differences	—	10,249	—	2,575	12,824
Total other comprehensive income, net of tax	—	29,190	140	2,575	31,905
Total comprehensive income	—	29,190	152,394	67,065	248,649
Total contributions by and distributions to owners of the Company recognised directly in equity					
Release of convertible note equity reserve upon redemption of convertible note	—	(20,080)	(98,785)	—	(118,865)
Recognition of equity component of convertible note	—	25,614	—	—	25,614
Deferred tax liability on recognition of equity component of convertible note	—	(4,226)	—	—	(4,226)
Share option scheme:					
— value of employee services	—	9,442	—	—	9,442
— value of other participants' services	—	78	—	—	78
— vested share options cancelled	—	(32)	32	—	—
Total contributions by and distributions to owners of the Company	—	10,796	(98,753)	—	(87,957)
Changes in ownership interests in subsidiaries that do not result in a loss of control	—	—	14,119	(14,119)	—
Total transactions with owners	—	10,796	(84,634)	(14,119)	(87,957)
Balance at 31 December 2010	18,505	1,714,406	(808,897)	162,365	1,086,379

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Cont'd)
For the year ended 31 December 2011

	Attributable to owners of the Company				Total HK\$'000
	Share capital HK\$'000 (Note 13)	Reserves HK\$'000 (Note 14)	(Accumulated losses)/ retained profit HK\$'000	Non- controlling interests HK\$'000	
Balance at 1 January 2011	18,505	1,714,406	(808,897)	162,365	1,086,379
Comprehensive income					
Profit for the year	—	—	66,485	151,818	218,303
Other comprehensive income:					
Release of revaluation reserve upon depreciation of leasehold land and building	—	(181)	181	—	—
Fair value loss on available-for-sale financial assets	—	(9,499)	—	—	(9,499)
Reclassification adjustment on disposal of available-for-sale financial assets	—	(7,149)	—	—	(7,149)
Currency translation differences	—	10,025	—	6,420	16,445
Total other comprehensive (expense)/income, net of tax	—	(6,804)	181	6,420	(203)
Total comprehensive (expense)/income	—	(6,804)	66,666	158,238	218,100
Total contributions by and distributions to owners of the Company recognised directly in equity					
Reduction of share premium	—	(813,537)	813,537	—	—
Release of convertible note equity reserve upon redemption of convertible note at maturity	—	(9,718)	9,718	—	—
Share option scheme:					
— value of employee services	—	6,381	—	—	6,381
— value of other participants' services	—	13,369	—	—	13,369
— share options exercised	25	2,253	—	—	2,278
— vested share options cancelled and lapsed	—	(28,872)	28,872	—	—
Dividends paid to non-controlling interests	—	—	—	(113,913)	(113,913)
Total contributions by and distributions to owners of the Company	25	(830,124)	852,127	(113,913)	(91,885)
Non-controlling interests arising on business combinations	—	—	—	4,944	4,944
Total transactions with owners	25	(830,124)	852,127	(108,969)	(86,941)
Balance at 31 December 2011	18,530	877,478	109,896	211,634	1,217,538

Notes:

1. GENERAL INFORMATION

China LotSynergy Holdings Limited (the “Company”) was incorporated in Bermuda on 13 September 2000 as an exempted company with limited liability under the Companies Act of Bermuda.

The Company’s shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company and its subsidiaries (together the “Group”) are technology and service provider of lottery systems, terminal equipment, game products and marketing operation to the public welfare lottery industry in China. The principal businesses of the Group cover traditional computer ticket game (“CTG”), high frequency lottery, video lottery and new media lottery.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011 that would be expected to have a material impact on the Group.

- HKAS 24 (Revised), ‘Related party disclosures’ is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:
 - The name of the government and the nature of their relationship;
 - The nature and amount of any individually significant transactions; and
 - The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party.

2. BASIS OF PREPARATION (Cont'd)

Changes in accounting policy and disclosures (Cont'd)

(b) *New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted*

- HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.
- HKFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.
- HKRS 11, 'Joint arrangements' replaces HKAS 31 'Interests in joint ventures' and HK(SIC)-Int 13 'Jointly controlled entities — non-monetary contributions by venturers'. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangement, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The Group is yet to assess HKFRS 11's full impact and intends to adopt HKFRS 11 no later than the accounting period beginning on or after 1 January 2013.
- HKFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.
- Consequential amendments were made to HKAS 27 'Consolidated and separate financial statements' and HKAS 28 'Investments in associates' as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group is yet to assess the full impact and intends to adopt the consequential amendments to HKAS 27 and HKAS 28 on later than the accounting period beginning on or after 1 January 2013.
- HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

3. TURNOVER AND SEGMENT INFORMATION

The Group is a technology and service provider of lottery systems, terminal equipment, game products and market operation to the public welfare lottery industry in China. The principal businesses of the Group cover traditional CTG, high frequency lottery, video lottery and new media lottery. An analysis of the Group's turnover for the year is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Turnover		
Income from provision of lottery terminals and lottery sale channels	494,608	268,372
Income from sales of equipment	30,372	12,198
Income from provision of consultancy services	3,156	2,007
	528,136	282,577

Segment information

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

Geographical information

(a) *Revenue from external customers*

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
People's Republic of China ("PRC")	523,343	282,008
Russia	4,793	569
	528,136	282,577

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

(b) *Non-current assets*

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
PRC	647,542	593,214
Hong Kong	137,268	140,909
	784,810	734,123

The non-current assets information above is based on the location of assets and excludes financial instruments and deferred tax assets.

3. TURNOVER AND SEGMENT INFORMATION (Cont'd)

Information about major customers

Revenue from major customers, each of whom amounted to 10% or more of the total revenue, is set out below:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Customer A	64,114	51,407
Customer B	411,212	216,129
	<u>475,326</u>	<u>267,536</u>

4. OTHER INCOME AND GAINS

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Fair value gain on financial assets at fair value through profit or loss (held for trading)	404	13,517
Fair value gain on financial liabilities at fair value through profit or loss	2,360	—
Reclassification adjustment on disposal of available-for-sale financial assets	7,149	—
Interest income from bank deposits	4,454	2,325
Gain on disposal of property, plant and equipment	—	367
Rental income	—	256
	<u>14,367</u>	<u>16,465</u>

5. OPERATING PROFIT

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Costs of sales and services		
— Depreciation of lottery terminals	31,287	35,239
— Business tax	28,130	13,789
— Cost of inventories recognised as expense	14,474	5,819
— Repairs and maintenance	5,990	3,374
— Other costs of sales and services	16,579	4,016
	<u>96,460</u>	<u>62,237</u>
Loss on disposal of property, plant and equipment	358	—
Operating lease rentals in respect of land and buildings	7,698	6,206
Auditors' remuneration	750	693
Amortisation of intangible assets		
— CLO Contract (included in general and administrative expenses)	6,528	6,528
Depreciation of other items of property, plant and equipment	8,390	6,914
Foreign exchange differences, net	(14,302)	(5,498)
	<u>110,322</u>	<u>89,802</u>

6. FINANCE COSTS

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Interest expense on bank borrowings wholly repayable within five years	1,939	693
Imputed interest expense on convertible note	17,556	25,864
	<u>19,495</u>	<u>26,557</u>
<i>Less:</i> Imputed interest expense on redeemed convertible note	<u>—</u>	<u>(20,748)</u>
	<u><u>19,495</u></u>	<u><u>5,809</u></u>

7. INCOME TAX

Hong Kong Profits Tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2011 as the Group had tax losses brought forward to set off the estimated assessable profits. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2010 as the Group had no assessable profits arising in or derived from Hong Kong. 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.

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Current tax		
— PRC Enterprise Income Tax	51,785	37,677
— Adjustments in respect of prior years	150	341
	<u>51,935</u>	<u>38,018</u>
Total current tax	51,935	38,018
Deferred tax		
— Origination and reversal of temporary differences	(3,232)	(4,541)
	<u>(3,232)</u>	<u>(4,541)</u>
Income tax expense	<u><u>48,703</u></u>	<u><u>33,477</u></u>

8. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2011	2010
Profit attributable to owners of the Company (<i>HK\$'000</i>)	<u><u>66,485</u></u>	<u><u>152,254</u></u>
Weighted average number of ordinary shares in issue	<u><u>7,408,638,795</u></u>	<u><u>7,402,164,000</u></u>
Basic earnings per share	<u><u>0.90 HK cents</u></u>	<u><u>2.06 HK cents</u></u>

8. EARNINGS PER SHARE (Cont'd)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	2011	2010
Profit attributable to owners of the Company (HK\$'000)	<u>66,485</u>	<u>152,254</u>
Weighted average number of ordinary shares in issue	7,408,638,795	7,402,164,000
Effect of dilutive potential ordinary shares:		
— Share options	93,553	7,726,425
— Contingent consideration shares	<u>26,422,317</u>	<u>—</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>7,435,154,665</u>	<u>7,409,890,425</u>
Diluted earnings per share	<u>0.89 HK cents</u>	<u>2.05 HK cents</u>

The computation of diluted earnings per share has not assumed the conversion of convertible note since its exercise would result in an increase in earnings per share.

9. ACCOUNTS RECEIVABLE

Income from provision of lottery terminals and lottery sale channels is billed on a monthly basis and is due 15 to 30 days after month-end. Income from sales of equipment is billed upon the delivery of products and with credit periods ranging from 30 to 180 days. Income from provision of maintenance services is billed on a monthly or yearly basis and is due 30 days after the invoice date. At 31 December 2011, the ageing analysis of the accounts receivable is as follows:

	2011 HK\$'000	2010 HK\$'000
Less than 3 months	78,208	84,839
Over 3 months but less than 1 year	69,866	16,312
Over 1 year	<u>29,086</u>	<u>1,891</u>
	<u>177,160</u>	<u>103,042</u>

Of the total accounts receivable outstanding at 31 December 2011, total amount of approximately HK\$77,739,000 (2010: HK\$68,325,000) has been subsequently collected up to the date of approval of these financial statements.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Unlisted equity investment	—	92,258

11. ACCOUNTS PAYABLE

At 31 December 2011, the ageing analysis of the accounts payable is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Less than 3 months	12,004	2,267
Over 3 months but less than 1 year	649	360
Over 1 year	160	29
	<u>12,813</u>	<u>2,656</u>

12. CONVERTIBLE NOTE

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Principal amount of convertible note issued (net of issue costs)	71,250	166,250
Equity component (net of issue costs)	<u>(13,977)</u>	<u>(25,614)</u>
Liability component on initial recognition (net of issue costs)	57,273	140,636
Imputed interest	<u>11,035</u>	<u>5,116</u>
Liability component	<u>68,308</u>	<u>145,752</u>
Analysis for reporting purpose as:		
Current liabilities	68,308	86,272
Non-current liabilities	<u>—</u>	<u>59,480</u>
	<u>68,308</u>	<u>145,752</u>

The movement of liability component of the convertible note for the year is set out below:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
At 1 January	145,752	588,780
Issued during the year	—	140,636
Interest charge	17,556	25,864
Redeemed during the year	<u>(95,000)</u>	<u>(609,528)</u>
At 31 December	<u>68,308</u>	<u>145,752</u>

12. CONVERTIBLE NOTE (Cont'd)

Notes:

- (a) On 31 May 2007, the Company issued an unsecured 8-year maturity zero coupon convertible note with principal amount of HK\$550,000,000. The note is convertible into ordinary shares of HK\$0.0025 each (adjusted after share subdivision took place in 2007) of the Company at an initial conversion price of HK\$0.955 per ordinary share (adjusted after share subdivision took place in 2007) (subject to adjustment) on any business day during the period on and after 31 May 2010 up to 16 May 2015. The note is redeemable by the Company on or at any time after 31 May 2012 and prior to 31 May 2015 at a gross yield of 4% per annum to the noteholder, calculated on a semiannual basis. Moreover, the noteholder may require the Company to redeem all or some of the note held by the noteholder on 31 May 2012 at 121.89944% of the principal amount. Unless previously converted, purchased or cancelled in accordance with the conditions of the note, the Company shall redeem the note on the maturity date on 31 May 2015 at 137.27857% of the principal amount.
- (b) On 20 September 2010, the Company and the noteholder entered into a supplemental deed ("Supplemental Deed") to amend certain terms and conditions of the convertible note. Pursuant to the Supplemental Deed, the Company has the right to redeem all and not some of the convertible note including all accrued interest at any time prior to the maturity date of the convertible note at the redemption price of HK\$475,000,000. On 27 September 2010, the Company redeemed the convertible note by way of making a cash payment of HK\$308,750,000 and issue of a new zero coupon convertible note ("New Convertible Note") with a principal amount of HK\$166,250,000 to the noteholder.

The New Convertible Note is convertible into ordinary shares of HK\$0.0025 each of the Company at an initial conversion price of HK\$0.955 per ordinary share (subject to adjustment) on any business day during the period commencing on the date of issue of the New Convertible Note until the close of business on the 15th day prior to 12 May 2012 ("Maturity Date"). If the New Convertible Note has not been converted, the Company shall redeem the New Convertible Note on the first business day falling on or after the first anniversary of the date of the New Convertible Note at HK\$95,000,000 and on Maturity Date at HK\$71,250,000.

13. SHARE CAPITAL

	Authorised ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2010, 31 December 2010 and 31 December 2011	16,000,000,000	40,000
	Issued and fully paid ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2010 and 31 December 2010	7,402,164,000	18,505
Share options exercised (<i>Note</i>)	9,800,000	25
At 31 December 2011	7,411,964,000	18,530

Note: Share options were exercised by optionholders during the year ended 31 December 2011 to subscribe for a total of 9,800,000 shares of HK\$0.0025 each by payment of subscription monies of approximately HK\$2,277,000, of which approximately HK\$24,500 was credited to share capital and the balance of approximately HK\$2,855,200 was credited to the share premium account.

14. RESERVES

	Share premium	Convertible note	Capital reserve	Currency translation reserve	Share- based compensation reserve	Revaluation reserve	Available- for-sale investments	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2010	1,546,166	20,080	15,158	31,317	46,696	11,974	3,029	1,674,420
Share option scheme:								
— value of employee services	—	—	—	—	9,442	—	—	9,442
— value of other participants' services	—	—	—	—	78	—	—	78
— vested share options cancelled	—	—	—	—	(32)	—	—	(32)
Release of convertible note equity reserve upon redemption of convertible note	—	(20,080)	—	—	—	—	—	(20,080)
Recognition of equity component of convertible note	—	25,614	—	—	—	—	—	25,614
Deferred tax liability on recognition of equity component of convertible note	—	(4,226)	—	—	—	—	—	(4,226)
Release of revaluation reserve upon depreciation of leasehold land and building	—	—	—	—	—	(140)	—	(140)
Fair value gain on available-for-sale financial assets	—	—	—	—	—	—	19,081	19,081
Currency translation differences								
— overseas subsidiaries	—	—	—	6,425	—	—	—	6,425
— overseas jointly-controlled entities	—	—	—	3,824	—	—	—	3,824
Balance at 31 December 2010	1,546,166	21,388	15,158	41,566	56,184	11,834	22,110	1,714,406
Reduction of share premium	(813,537)	—	—	—	—	—	—	(813,537)
Share option scheme:								
— value of employee services	—	—	—	—	6,381	—	—	6,381
— value of other participants' services	—	—	—	—	13,369	—	—	13,369
— share options exercised	2,855	—	—	—	(602)	—	—	2,253
— vested share options cancelled and lapsed	—	—	—	—	(28,872)	—	—	(28,872)
Release of convertible note equity reserve upon redemption of convertible note at maturity	—	(9,718)	—	—	—	—	—	(9,718)
Release of revaluation reserve upon depreciation of leasehold land and building	—	—	—	—	—	(181)	—	(181)
Fair value loss on available-for-sale financial assets	—	—	—	—	—	—	(9,499)	(9,499)
Reclassification adjustment on disposal of available-for-sale financial assets	—	—	—	—	—	—	(7,149)	(7,149)
Currency translation differences								
— overseas subsidiaries	—	—	—	5,314	—	—	—	5,314
— overseas jointly-controlled entities	—	—	—	4,711	—	—	—	4,711
Balance at 31 December 2011	735,484	11,670	15,158	51,591	46,460	11,653	5,462	877,478

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged as a technology and service provider of lottery systems, terminal equipment, game products and operation in the lottery market in China. The principal businesses of the Group cover various lottery products ranging from video lottery, traditional lottery or computer ticket game (including high frequency lottery), to new media lottery. With technical competencies and effective operational management, the Group has established a solid foundation and a reputable brand name providing the Group with comprehensive capability for sustainable development in the industry.

CHINA LOTTERY PERFORMANCE

Total lottery sales in China (Welfare and Sports combined) have grown by 22% CAGR from 2006 to 2011. Maintaining such strong momentum, lottery sales in China in 2011 reached RMB221.58 billion, representing 33% growth compared to 2010.

In January 2012, the Ministry of Finance (MOF), Ministry of Civil Affairs and General Administration of Sport jointly announced the Implementation Details of the Regulations on the Administration of Lottery (the “Implementation Details”) approved by the State Council. Taking effect from 1 March 2012, the Implementation Details will further tighten the supervision and management of the lottery market, contributing to the healthy and steady development of the industry as a whole.

BUSINESS REVIEW AND OUTLOOK

In 2011, the Group delivered good performance in its businesses in video lottery, computer ticket game (including high frequency lottery) and new media lottery with significant breakthroughs achieved. This has laid a sound basis for sustaining rapid and healthy development in 2012.

Video Lottery Business

China Welfare Lottery Video Lottery (VLT) Business

VLT, for which the Group is the exclusive equipment and service provider, was the fastest growing lottery product in the China lottery market. VLT maintained its strong momentum in 2011 with approximately 20,000 terminals connected and in operation in more than 860 sales venues across 28 provinces in China. The game generated sales of over RMB17 billion in 2011, representing 82.8% growth compared to 2010, far exceeding the average 33% growth of China lottery market as a whole. Contributing to over 13% of the total sales of Welfare Lottery in 2011, VLT was a major growth driver for Welfare Lottery. In the fourth quarter of 2011 in particular, the average daily sales of VLT exceeded RMB50 million. Such achievement was the result of the leadership of the relevant authorities of the state, the planning of the China Welfare Lottery Centre (CWLC) and the execution of provincial lottery authorities.

VLT has greatly contributed to social welfare and charitable campaigns in the nation, including providing subsidies to impoverished school children, opening Hope Primary Schools and old age homes, establishing special fund on medical help. These campaigns fully reflect the mission of the issuance of Welfare Lottery, which is helping the aged, the disadvantaged, the orphans, the needy and providing disaster relief (“扶老、助殘、救孤、濟困、賑災”). They have achieved great social impact contributing to greater recognition of the product by players.

In strict adherence to the overall planning, organization and management of CWLC, the Group stepped up its efforts in software and hardware development, manufacturing and operation maintenance for video lottery. The next generation terminal or third-generation terminal for VLT, which comes with dual screens and more salient features, is designed to support more sophisticated and entertaining games. This has taken the development of video lottery terminal in China to a new height. The third-generation terminal deployed to selected sales venues in Hebei Province and Tianjin are delivering impressive performance. 15,000 third-generation VLT terminals are expected to be rolled out nationwide in 2012. According to the deployment of CWLC, part of these terminals will be deployed to new venues while the remainder will replace certain first-generation terminals. Overall, there will be a net increase in the number of connected VLT terminals to generate more sales. 2012 will be the year for third-generation terminal. As the only video lottery product in China, driven by its unique characteristics and the rollout of third-generation terminals, VLT will continue to sustain good momentum and impressive sales.

CTG (including High Frequency Lottery) Business

CTG Business

The Group has maintained its strong foothold in the traditional CTG space. In 2011, total sales of Welfare Lottery’s CTG games reached RMB90.7 billion, representing 24% increase compared to 2010. With RMB10.1 billion sales, Guangdong province remained the top performing province in Welfare Lottery. The Group is the exclusive terminal provider to the province. In 2012, the Group will work with Guangdong Welfare Lottery on rolling out additional CTG terminals in an effort to help expand the province’s presence in the nation’s CTG market. Meanwhile the Group continued to provide terminal maintenance services to Shenzhen Welfare Lottery Centre. Constant innovation and improvement in its terminal and component products including lottery scanner and reader has enabled the Group to maintain its competitive advantage in this regard. In the domestic market, the Group has supplied lottery scanners and readers to more customers. Overseas, the Group has supplied components as well as terminals to lottery operators in Vietnam and Russia.

As supply contracts for CTG system and terminal under Welfare Lottery in several provinces will become due in 2012, the Group will endeavour to compete for such opportunity with its experience in CTG system and terminal integration. Furthermore, the Group looks to expand its presence in the Sports Lottery space by actively participating in the bidding exercise of the China Sports Lottery Administration Centre for provision of terminal and service.

High Frequency Lottery Business (KENO)

The joint venture company between the Group and GTECH Corporation is the exclusive provider of the system, games, terminal and operation maintenance for KENO, the only nationwide high frequency CTG game with a unified system under Welfare Lottery. Total sales of KENO in 2011 increased 37% compared to 2010 with Hebei province and Liaoning province continuing to be the best performers with average daily sales per terminal (“ADSPT”) exceeding RMB2,200. This is the best ADSPT in all traditional computer ticket games (including high frequency lottery games) in the nation.

Overall performance of KENO would have been better if there had not been further delay in obtaining approval for the increase of the payout ratio, slowdown in supply of KENO terminals, and a relatively lower terminal connection rate. However, it is worth mentioning that the introduction of local high-frequency CTG games in certain provinces in the second half of 2011 has not affected the steady growth of KENO, indicating that KENO is an incremental lottery product to the market. The Group believes the new payout ratio and adoption of flexible business model will allow KENO, the only nationwide high frequency lottery game under Welfare Lottery, to grow rapidly in China.

New Media lottery

Telephone Lottery and Internet Service Business

2011 represented a milestone for the Group’s telephone lottery and Internet service business. In line with the development trend and market situation surrounding the lottery industry, the Group has been in cooperation with a number of provincial lottery authorities in the business of telephone betting since 2009 when the Group commenced this business. It is one of the few companies with authorizations from several provincial lottery authorities. The Group has also partnered with telecom operators and financial institutions. Committed to becoming a major participant in the telephone lottery and Internet service business in China, the Group has consistently improved its business structure by making necessary acquisitions in related business operations. In 2011, the sales of the Group’s telephone lottery business increased 344% compared to the previous year.

The growing skill sets of the working team has played an important role in the rapid development of the Group’s telephone lottery and Internet service business in 2011, which consists of different project teams for telecom operators, financial institutions, mobile application platforms and Internet services respectively. The implementation of project-based management has proved to be more effective in resource allocation and more efficient in execution, resulting in expedited and greater progress in all projects. While efforts were made to strengthen existing business and boost player loyalty, new businesses have been developed attracting a large number of new users.

On the cooperation with telecom operators, the Group has become China Mobile’s official partner for its mobile payment-based lottery business. The Group also has established a relationship with China Telecom’s Bestpay in addition to maintaining its full cooperation with China Unicom. The Group is currently the only lottery company in cooperation with the nation’s three telecom leaders providing access to lottery services to mobile phone users everywhere in China.

On the cooperation with financial institutions, the Group has made significant progress in the business cooperation with China Merchants Bank, Bank of Communications, Union Pay and Bank of China. The cooperation with China Merchants Bank's mobile banking arm is worth mentioning as the business was greatly welcomed by customers upon launch with impressive sales. This is a very successful example of cooperation between a lottery sector participant and a financial institution.

A new version of the Group's lottery client-end product was launched in the third quarter of 2011, the first of its kind supporting high definition screen ever introduced in China. Enhanced and additional functions are made available simultaneously on a variety of mobile platforms including the iOS and Android, contributing to greater player experience and loyalty. Now available on all main-stream mobile application stores, the Group's mobile lottery client-end application has become a market-leading product in the industry.

New-type lottery business

In line with rapid development of the lottery industry and taking advantage of its experience in the sector backed by technological strength and innovations, the Group has developed the new-type lottery business on new media channels including the mobile, Internet and video platform. This encompasses new electronic lottery, interactive lottery game and mobile lottery game, etc. The use of new electronic devices in purchasing lottery has become the trend given it is environmentally friendly, convenient, interactive, secure and reliable. All of these features suggest that this new-type lottery adapts well to the fast-pace lifestyle and consumption habit of modern society and particularly appealing to middle-to-high income players. The new-type lottery will demonstrate huge growth potential and brilliant prospect.

In 2011, the Group's focus on new-type lottery business mainly fell in two broad areas including R & D on technology and business promotion with target customers. On product offering, an all-in solution in support of multiple sales channels and different types of lottery games has been developed. With innovative and unique design and complete system functionality, this solution represents the right new-type lottery product for the rapidly growing China market.

The solution has been promoted to lottery authorities at various levels and was highly recognized. The Group has entered into exclusive cooperation agreements or reached intent on cooperation with several major provincial lottery authorities.

The Group anticipates breakthrough in this business when favourable policies are in place, allowing the commercial rollout of new-type lottery to take place in selected province in 2012. The Group will continue to cultivate on new-type lottery business in a practical, stepwise and efficient manner. Meanwhile, more resources and R & D efforts will be committed to strengthen the Group's existing technology and product offerings to constantly provide innovative lottery games to the lottery industry in China.

As we look ahead, new-type lottery not only helps to attract new lottery players, enhance competitiveness of lottery sales channels, it will become a main growth driver for the lottery industry in China. It represents a new market with tremendous potential given the huge target customer base in China (with over 900 million mobile phone users and 510 million Internet users respectively in the nation). The Group believes technologically advanced products and well-established partnership with customers have positioned the Group for the right opportunities while strengthening its leading position in this area.

Technological Strength

The Group has consistently improved its technology in relation to lottery transaction system, game design and development, terminal design and development, new media lottery system and client-end development for its video lottery, traditional lottery (including hi-frequency lottery) and new media lottery businesses. CMMI is currently the most practical and prevailing benchmark for software process and maturity level adopted internationally. The Group obtained CMMI III accreditation in 2011, taking its technology development maturity and project management technique to the next level. While further strengthening the Group's technology capabilities, this has made us a fully compliant, mature and reliable technology provider for the lottery industry in China.

Corporate social responsibility

The Group commits to corporate social responsibility by participating in public welfare and charitable endeavours. It has co-founded and donated to the China Social Assistance Foundation, a registered national public-fundraising foundation in China. In 2011, the Foundation implemented a number of charitable programmes including a programme to provide medical help to rural migrant workers suffering from Pneumoconiosis, a programme to improve the standard of living of single elderly people and the level of management and service in old age homes, as well as established special funds dedicated to helping rural migrant workers and education for school age children. The charitable programmes of the Foundation have since its inception benefitted hundreds of thousands of people in 20 provinces and cities across China, which have been widely reported by print and online media in the nation. They have had a huge social impact and greatly contributed to social welfare development in China. In the Report on the Level of Transparency of Charities in China 2011 published by the Ministry of Civil Affairs, the China Social Assistance Foundation ranked no. 8 of all. This is a ranking from an investigation of the 1000 various charities and organizations in China based on their publicly available information on their management, business, and financial integrity, as well as the accessibility, accuracy and availability of such information.

China LotSynergy believes engagement in social welfare development, caring for social well-being and commitment to corporate social responsibility should be practised by all enterprises with forward-looking planning, and they are the fundamental beliefs shared by all participants in the China lottery market. China LotSynergy will uphold such beliefs and continue to contribute to social welfare development in China.

Conclusion

2012 represents a year with challenges and opportunities for the lottery businesses of the Group. While the Implementation Details of the Regulation on the Administration of Lottery ensures more orderly and healthy development of the lottery industry, this will provide greater protection to market participants such as China LotSynergy who has strictly abided by all relevant industry rules and regulations for the further development of its businesses. With the nation's lottery industry embarking on a new epoch on new media platform, we believe the Group will stand out in the competition to become a truly leading participant in the China lottery industry with proper business planning, strong technological capabilities and dedication to corporate social responsibility. While we strive to give our best to the lottery industry and players in China, we commit to deliver outstanding results to our shareholders in the long run.

Financial Review

The Group recorded a turnover of approximately HK\$528.1 million for the year ended 31 December 2011, representing an increase of 87% over 2010. Due to the surge of sales from VLT and CTG businesses, the Group recorded approximately HK\$66.5 million profit attributable to equity holders for the year ended 31 December 2011. Excluding gain on redemption of convertible note, net of imputed interest expense, the profit attributable to equity holders in 2010 was HK\$1.1 million. Therefore, the net profit generated from the core businesses of the Group increased by 5,945% as compared with last year.

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

The Group believes that it has adequate financial resources to fund its capital and operating requirements. At 31 December 2011, the Group had an outstanding corporate guarantee for unlimited amount for banking facilities of a property installment loan and term loan facility of HK\$106.9 million (at 31 December 2010: HK\$106.9 million) and an outstanding corporate guarantee for a maximum of RMB80 million plus interest and fees for a banking facilities of a working capital loan of RMB80 million (at 31 December 2010: Nil) granted to the Group. The Group had outstanding bank borrowings at 31 December 2011 of HK\$380.6 million (at 31 December 2010: HK\$105.1 million). At 31 December 2011, the bank borrowings and banking facilities of the Group were secured by (i) leasehold land and building of the Group amounted to approximately HK\$135.5 million (at 31 December 2010: HK\$138.3 million), (ii) standby letter of credit issued by a bank for an aggregate amount of US\$29.8 million (at 31 December 2010: Nil), (iii) accounts receivable of approximately HK\$152.4 million (at 31 December 2010: Nil) and (iv) bank deposits amounting to approximately HK\$293.8 million (at 31 December 2010: Nil).

The Group's total equity amounted to approximately HK\$1,217.5 million at 31 December 2011 (at 31 December 2010: HK\$1,086.4 million). At 31 December 2011, net current assets of the Group amounted to approximately HK\$413.7 million (at 31 December 2010: HK\$355.9 million), including approximately HK\$648.9 million in cash and deposits with banks and financial institution (at 31 December 2010: HK\$347.6 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2011 was approximately 31% (at 31 December 2010: 23.4%).

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 2011, the Group's leasehold land and building at net book value of approximately HK\$135.5 million (at 31 December 2010: HK\$138.3 million) was pledged to bank to secure the bank borrowing granted to the Group. At 31 December 2011, the Group's accounts receivable at outstanding balance of approximately HK\$152.4 million (at 31 December 2010: Nil) and bank deposits amounting to approximately HK\$293.8 million (at 31 December 2010: Nil) were pledged to bank to secure the working capital loan and banking facilities granted to the Group.

Contingent Liabilities

At 31 December 2011, the Group did not have any material contingent liabilities (at 31 December 2010: Nil).

Staff

At 31 December 2011, the Group had 430 (at 31 December 2010: 314) full time employees. The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, 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 programmes for staff are provided as and when required. The Group will further strengthen its team, and in particular on the build up of its technical team, in order to offer enhanced services for China's welfare lottery market.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2011.

Competing Interests

The Directors believe that none of the Directors and their respective associates had an interest, directly or indirectly, in a business which competes or may compete with the business of the Group.

Audit Committee

The 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. The audited annual results of the Group for the year ended 31 December 2011 have been reviewed by the Audit Committee.

Corporate Governance

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2011, except for the deviations from Code provisions A2.1, A4.1 and A4.2. The Chairperson of the Company, Ms. LAU Ting, currently also assumes the role of the Chief Executive Officer. Although the Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, the Board considers that given the nature of the Group’s businesses which requires considerable market expertise, the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management. Although some of the Non-Executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

Required Standard of Dealing Regarding Securities Transactions by Directors

The Company has adopted the required standard of dealings regarding securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealings in securities of the Company by the Directors (the “Code of Conduct”). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the Code of Conduct during the year ended 31 December 2011.

By order of the Board
China LotSynergy Holdings Limited
LAU Ting
Chairperson

Hong Kong, 15 March 2012

This announcement will remain on the “Latest Company Announcements” page of the GEM’s website at www.hkgem.com for at least 7 days from the date of its posting and the Company’s website at <http://www.chinalotsynergy.com>.

As at the date of this announcement, the Board comprises Ms. LAU Ting, Mr. WU Jingwei, Mr. LIAO Yuang-whang, Ms. CHAN Tan Na, Donna and Mr. LI Zi Kui as Executive Directors; Mr. HOONG Cheong Thard as a Non-executive Director; and Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming as Independent Non-executive Directors.