



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 2012**

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

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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\* For identification purposes only

## FINANCIAL RESULTS (AUDITED)

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 2012, together with the comparative figures for the year ended 31 December 2011, as follows:

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2012*

|   | <i>Notes</i> | <b>2012</b><br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| Turnover  | 3            | <b>607,255</b>                 | 528,136                 |
| Costs of sales and services   |              | <b>(124,749)</b>               | (96,460)                |
| Gross profit  |              | <b>482,506</b>                 | 431,676                 |
| Other income and gains  | 4            | <b>21,059</b>                  | 14,367                  |
| General and administrative expenses   |              | <b>(177,286)</b>               | (130,666)               |
| Impairment of accounts receivable   |              | <b>(29,789)</b>                | –                       |
| Share option expenses   |              | <b>(1,015)</b>                 | (19,750)                |
| Operating profit  | 5            | <b>295,475</b>                 | 295,627                 |
| Finance costs   | 6            | <b>(19,825)</b>                | (19,495)                |
| Share of losses of jointly-controlled entities                                      |              | <b>(4,121)</b>                 | (9,126)                 |
| Profit before income tax  |              | <b>271,529</b>                 | 267,006                 |
| Income tax expense  | 7            | <b>(69,196)</b>                | (48,703)                |
| Profit for the year   |              | <b>202,333</b>                 | 218,303                 |
| <b>Profit attributable to:</b>  |              |                                |                         |
| Owners of the Company   |              | <b>67,513</b>                  | 66,485                  |
| Non-controlling interests   |              | <b>134,820</b>                 | 151,818                 |
|   |              | <b>202,333</b>                 | 218,303                 |
| <b>Earnings per share attributable to owners<br/>of the Company during the year</b> |              |                                |                         |
| — basic   | 8            | <b>0.91 HK cents</b>           | 0.90 HK cents           |
| — diluted   | 8            | <b>0.90 HK cents</b>           | 0.89 HK cents           |
|   |              | <b>2012</b><br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
| Dividends   | 14           | <b>13,415</b>                  | –                       |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

|   | 2012<br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit for the year   | 202,333                 | 218,303                 |
| Other comprehensive income/(expense):   |                         |                         |
| Fair value gain/(loss) on available-for-sale<br>financial assets                  | 2,266                   | (9,499)                 |
| Reclassification adjustment on disposal of<br>available-for-sale financial assets | –                       | (7,149)                 |
| Currency translation differences  | 164                     | 16,445                  |
|   | <u>2,430</u>            | <u>(203)</u>            |
| Other comprehensive income/(expense) for the year                                 | <u>2,430</u>            | <u>(203)</u>            |
| Total comprehensive income for the year   | <u>204,763</u>          | <u>218,100</u>          |
| <b>Attributable to:</b>   |                         |                         |
| Owners of the Company   | 69,943                  | 59,862                  |
| Non-controlling interests   | 134,820                 | 158,238                 |
|   | <u>204,763</u>          | <u>218,100</u>          |
| <b>Total comprehensive income for the year</b>                                    | <u>204,763</u>          | <u>218,100</u>          |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

|   | <i>Notes</i> | <b>2012</b><br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| <b>Non-current assets</b>                                     |              |                                |                         |
| Property, plant and equipment                                 |              | <b>495,864</b>                 | 281,679                 |
| Intangible assets   |              | <b>413,763</b>                 | 396,132                 |
| Investments in jointly-controlled entities                    |              | <b>99,782</b>                  | 103,739                 |
| Available-for-sale financial assets                           |              | <b>31,128</b>                  | 28,862                  |
| Deferred income tax assets                                    |              | <b>17,176</b>                  | 4,622                   |
| Prepaid rentals   |              | <b>2,257</b>                   | 3,260                   |
|   |              | <u><b>1,059,970</b></u>        | <u>818,294</u>          |
| <b>Current assets</b>   |              |                                |                         |
| Inventories   |              | <b>28,682</b>                  | 29,907                  |
| Accounts receivable   | 9            | <b>65,867</b>                  | 177,160                 |
| Prepayments, deposits and other receivables                   |              | <b>106,728</b>                 | 70,461                  |
| Amounts due from jointly-controlled entities                  |              | <b>401</b>                     | 457                     |
| Amount due from a related company                             |              | <b>21,564</b>                  | 21,564                  |
| Income tax receivable   |              | <b>1,490</b>                   | –                       |
| Cash and bank balances  |              | <b>713,606</b>                 | 648,867                 |
|   |              | <u><b>938,338</b></u>          | <u>948,416</u>          |
| <b>Total assets</b>   |              | <u><b>1,998,308</b></u>        | <u>1,766,710</u>        |
| <b>Current liabilities</b>                                    |              |                                |                         |
| Accounts payable  | 10           | <b>46,195</b>                  | 12,813                  |
| Accruals and other payables                                   |              | <b>22,852</b>                  | 40,901                  |
| Amounts due to jointly-controlled entities                    |              | <b>6,173</b>                   | 4,811                   |
| Income tax payable  |              | <b>15,474</b>                  | 18,110                  |
| Financial liabilities at fair value through<br>profit or loss |              | <b>1,093</b>                   | 9,155                   |
| Bank borrowings   |              | <b>612,855</b>                 | 380,602                 |
| Convertible note  | 11           | <b>–</b>                       | 68,308                  |
|   |              | <u><b>704,642</b></u>          | <u>534,700</u>          |
| Net current assets  |              | <u><b>233,696</b></u>          | <u>413,716</u>          |
| <b>Total assets less current liabilities</b>                  |              | <u><b>1,293,666</b></u>        | <u>1,232,010</u>        |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)***At 31 December 2012*

|   | <i>Notes</i> | <b>2012</b><br><b>HK\$'000</b> | 2011<br><i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| <b>Non-current liabilities</b>                      |              |                                |                         |
| Deferred income tax liabilities                     |              | <u>39,121</u>                  | <u>14,472</u>           |
| <b>Net assets</b>                                   |              | <u><b>1,254,545</b></u>        | <u>1,217,538</u>        |
| <b>Equity attributable to owners of the Company</b> |              |                                |                         |
| Share capital                                       | <i>12</i>    | <b>18,631</b>                  | 18,530                  |
| Reserves  | <i>13</i>    | <b>866,477</b>                 | 877,478                 |
| Retained profits                                    |              | <u><b>196,344</b></u>          | <u>109,896</u>          |
|   |              | <b>1,081,452</b>               | 1,005,904               |
| <b>Non-controlling interests</b>                    |              | <u><b>173,093</b></u>          | <u>211,634</u>          |
| <b>Total equity</b>                                 |              | <u><b>1,254,545</b></u>        | <u>1,217,538</u>        |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

|   | Attributable to owners of the Company  |                                   |   | Non-controlling interests<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|-----------------------------------|---|---------------------------------------|-------------------|
|   | Share capital<br>HK\$'000<br>(Note 12) | Reserves<br>HK\$'000<br>(Note 13) | (Accumulated losses)/<br>retained profits<br>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 (expense)/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  | –                                      | (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 expired  | –                                      | (28,872)                          | 28,872  | –                                     | –                 |
| Total contributions by and distributions to owners of the Company                               | 25                                     | (830,124)                         | 852,127   | –                                     | 22,028            |
| Dividends paid to non-controlling interests   | –                                      | –                                 | –   | (113,913)                             | (113,913)         |
| 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         |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** (Cont'd)  
For the year ended 31 December 2012

|   | Attributable to owners of the Company  |                                   |                              | Non-controlling interests<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|-----------------------------------|------------------------------|---------------------------------------|-------------------|
|   | Share capital<br>HK\$'000<br>(Note 12) | Reserves<br>HK\$'000<br>(Note 13) | Retained profits<br>HK\$'000 |                                       |                   |
| Balance at 1 January 2012   | 18,530                                 | 877,478                           | 109,896                      | 211,634                               | 1,217,538         |
| Comprehensive income  |  |                                   |                              |                                       |                   |
| Profit for the year   | -                                      | -                                 | 67,513                       | 134,820                               | 202,333           |
| Other comprehensive (expense)/income:   |  |                                   |                              |                                       |                   |
| Release of revaluation reserve upon depreciation of leasehold land and building                 | -                                      | (302)                             | 302                          | -                                     | -                 |
| Fair value gain on available-for-sale financial assets  | -                                      | 2,266                             | -                            | -                                     | 2,266             |
| Currency translation differences  | -                                      | 164                               | -                            | -                                     | 164               |
| Total other comprehensive income  | -                                      | 2,128                             | 302                          | -                                     | 2,430             |
| Total comprehensive income  | -                                      | 2,128                             | 67,815                       | 134,820                               | 204,763           |
| Total contributions by and distributions to owners of the Company recognised directly in equity |  |                                   |                              |                                       |                   |
| Issue of consideration shares   | 101                                    | 4,489                             | -                            | -                                     | 4,590             |
| Release of convertible note equity reserve upon redemption of convertible note at maturity      | -                                      | (11,670)                          | 11,670                       | -                                     | -                 |
| Share option scheme:  |  |                                   |                              |                                       |                   |
| — value of employee services  | -                                      | 730                               | -                            | -                                     | 730               |
| — value of other participants' services   | -                                      | 285                               | -                            | -                                     | 285               |
| — vested share options forfeited and expired  | -                                      | (6,963)                           | 6,963                        | -                                     | -                 |
| Total contributions by and distributions to owners of the Company                               | 101                                    | (13,129)                          | 18,633                       | -                                     | 5,605             |
| Dividends paid to non-controlling interests   | -                                      | -                                 | -                            | (173,361)                             | (173,361)         |
| Total transactions with owners  | 101                                    | (13,129)                          | 18,633                       | (173,361)                             | (167,756)         |
| <b>Balance at 31 December 2012</b>  | <b>18,631</b>                          | <b>866,477</b>                    | <b>196,344</b>               | <b>173,093</b>                        | <b>1,254,545</b>  |

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 operation service providers of lottery systems, terminal equipment and game products in the lottery market in China. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game and high frequency lottery, to 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 the revaluation of available-for-sale financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

### Changes in accounting policy and disclosures

#### (a) *New and amended standards adopted by the Group*

There are no HKFRSs or HK(IFRIC) interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

#### (b) *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

Amendment to HKAS 1, ‘Financial statement presentation’ regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in ‘other comprehensive income’ on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income.



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

### Changes in accounting policy and disclosures (Cont'd)

#### (b) New standards and interpretations not yet adopted (Cont'd)

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, which are largely aligned between HKFRSs and US GAAP, 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 or US GAAP.

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 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 no later than the accounting period beginning on or after 1 January 2015. The Group will also consider the impact of the remaining phases of HKFRS 9 when completed by the Board.

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.

HKFRS 11 'Joint arrangements' replaces HKAS 31 and HK(SIC)-Int 13 and describes the accounting for joint arrangements with joint control. The standard addresses only two forms of joint arrangements, 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.

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 operation service provider of lottery systems, terminal equipment and game products in the lottery market in China. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game and high frequency lottery, to new media lottery. An analysis of the Group's turnover for the year is as follows:

|   | <b>2012</b><br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Turnover  |                                |                         |
| Income from provision of lottery terminals and lottery sales channels | <b>600,034</b>                 | 494,608                 |
| Income from sales of equipment  | <b>6,091</b>                   | 30,372                  |
| Income from provision of consultancy services                         | <b>1,130</b>                   | 3,156                   |
|   | <b>607,255</b>                 | 528,136                 |

#### Segment information

The Group's revenue and contribution to profit were mainly derived from the provision of technology and operation service for lottery systems, terminal equipment and game products in the lottery market 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

|  | <b>2012</b><br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| People's Republic of China ("PRC") (country of domicile) | <b>603,567</b>                 | 523,343                 |
| Russia   | <b>57</b>                      | 4,793                   |
| Vietnam  | <b>3,631</b>                   | –                       |
|  | <b>607,255</b>                 | 528,136                 |

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

##### (b) Non-current assets

|           | <b>2012</b>                                 |  | 2011                               |  |
|-----------|---|--|------------------------------------|--|
|           | <b>Total<br/>assets<br/><i>HK\$'000</i></b> | <b>Additions to<br/>non-current<br/>assets<br/><i>HK\$'000</i></b> | Total<br>assets<br><i>HK\$'000</i> | Additions to<br>non-current<br>assets<br><i>HK\$'000</i> |
| PRC       | <b>834,480</b>                              | <b>232,765</b>   | 647,542                            | 96,591   |
| Hong Kong | <b>177,186</b>                              | <b>45,882</b>  | 137,268                            | 697  |
|           | <b>1,011,666</b>                            | <b>278,647</b>   | 784,810                            | 97,288   |

The non-current assets information above is based on the locations of the assets and excludes financial instruments and deferred income 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:

|            | 2012<br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|------------|-------------------------|-------------------------|
| Customer A | 69,236                  | 64,114                  |
| Customer B | 470,613                 | 411,212                 |
|            | <u>          </u>       | <u>          </u>       |

### 4. OTHER INCOME AND GAINS

|   | 2012<br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Fair value gain on financial assets at fair value through profit or loss (held for trading) | –                       | 404                     |
| Fair value adjustment of contingent consideration   | 3,472                   | 2,360                   |
| Reclassification adjustment on disposal of available-for-sale financial assets              | –                       | 7,149                   |
| Interest income from bank deposits  | 17,587                  | 4,454                   |
|   | <u>          </u>       | <u>          </u>       |
|   | <u>21,059</u>           | <u>14,367</u>           |

### 5. OPERATING PROFIT

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

|   | 2012<br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Costs of sales and services   |                         |                         |
| — Depreciation of lottery terminals                                     | 30,543                  | 31,287                  |
| — Business tax  | 30,933                  | 28,130                  |
| — Cost of inventories recognised as expense                             | 3,668                   | 14,474                  |
| — Repairs and maintenance   | 7,150                   | 5,990                   |
| — Commission  | 26,377                  | 4,095                   |
| — Handling charges  | 11,231                  | 908                     |
| — Other costs of sales and services                                     | 14,847                  | 11,576                  |
|   | <u>          </u>       | <u>          </u>       |
|   | <u>124,749</u>          | <u>96,460</u>           |
| Loss on disposal of property, plant and equipment                       | 62                      | 358                     |
| Operating lease rentals in respect of land and buildings                | 8,759                   | 7,698                   |
| Auditors' remuneration  | 800                     | 750                     |
| Amortisation of intangible assets                                       |                         |                         |
| — CLO Contract <i>(included in general and administrative expenses)</i> | 6,528                   | 6,528                   |
| Depreciation of other items of property, plant and equipment            | 8,266                   | 8,390                   |
| Foreign exchange differences, net                                       | 658                     | (14,302)                |
|   | <u>          </u>       | <u>          </u>       |

## 6. FINANCE COSTS

|  | 2012<br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Interest expense on bank borrowings wholly repayable within five years | 16,883                  | 1,939                   |
| Imputed interest expense on convertible note                           | 2,942                   | 17,556                  |
|  | <u>19,825</u>           | <u>19,495</u>           |

## 7. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2012 as the Group had no assessable profits arising in or derived from Hong Kong. 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. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

|   | 2012<br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Current tax   |                         |                         |
| — PRC Enterprise Income Tax                         | 58,650                  | 51,785                  |
| — Adjustments in respect of prior years             | (1,549)                 | 150                     |
| Total current tax                                   | 57,101                  | 51,935                  |
| Deferred tax  |                         |                         |
| — Origination and reversal of temporary differences | 12,095                  | (3,232)                 |
| Income tax expense                                  | <u>69,196</u>           | <u>48,703</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.

|  | 2012                 | 2011                 |
|--|----------------------|----------------------|
| Profit attributable to owners of the Company ( <i>HK\$'000</i> ) | <u>67,513</u>        | <u>66,485</u>        |
| Weighted average number of ordinary shares in issue              | <u>7,452,584,666</u> | <u>7,408,638,795</u> |
| Basic earnings per share   | <u>0.91 HK cents</u> | <u>0.90 HK cents</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.

|   | 2012                 | 2011                 |
|---|----------------------|----------------------|
| Profit attributable to owners of the Company (HK\$'000)                   | <u>67,513</u>        | <u>66,485</u>        |
| Weighted average number of ordinary shares in issue                       | 7,452,584,666        | 7,408,638,795        |
| Effect of dilutive potential ordinary shares:                             |                      |                      |
| — Share options   | 3,247,022            | 93,553               |
| — Contingent consideration shares   | <u>8,888,154</u>     | <u>26,422,317</u>    |
| Weighted average number of ordinary shares for diluted earnings per share | <u>7,464,719,842</u> | <u>7,435,154,665</u> |
| Diluted earnings per share  | <u>0.90 HK cents</u> | <u>0.89 HK cents</u> |

The computation of diluted earnings per share does not assume the conversion of the 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 sales 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 consultancy services is billed on a monthly or yearly basis and is due 30 days after the invoice date. The ageing analysis of the accounts receivable at the end of the reporting period, based on invoice date, is as follows:

|                                    | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|------------------------------------|------------------|------------------|
| Less than 3 months                 | 62,595           | 78,208           |
| Over 3 months but less than 1 year | 3,235            | 69,866           |
| Over 1 year                        | <u>37</u>        | <u>29,086</u>    |
|                                    | <u>65,867</u>    | <u>177,160</u>   |

## 10. ACCOUNTS PAYABLE

The ageing analysis of the accounts payable at the end of the reporting period, based on invoice date, is as follows:

|                                    | <b>2012</b><br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|------------------------------------|--------------------------------|-------------------------|
| Less than 3 months                 | <b>45,869</b>                  | 12,004                  |
| Over 3 months but less than 1 year | <b>245</b>                     | 649                     |
| Over 1 year                        | <b>81</b>                      | 160                     |
|                                    | <u><b>46,195</b></u>           | <u>12,813</u>           |

## 11. CONVERTIBLE NOTE

|  | <b>2012</b><br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Principal amount of convertible note issued (net of issue costs) | –                              | 71,250                  |
| Equity component (net of issue costs)                            | –                              | (13,977)                |
|  | <u>–</u>                       | <u>(13,977)</u>         |
| Liability component on initial recognition (net of issue costs)  | –                              | 57,273                  |
| Imputed interest   | –                              | 11,035                  |
|  | <u>–</u>                       | <u>11,035</u>           |
| Liability component  | <u>–</u>                       | <u>68,308</u>           |
| Analysis for reporting purpose as:                               |                                |                         |
| Current liabilities  | <u>–</u>                       | <u>68,308</u>           |

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

|                          | <b>2012</b><br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|--------------------------|--------------------------------|-------------------------|
| At 1 January             | <b>68,308</b>                  | 145,752                 |
| Interest charge          | <b>2,942</b>                   | 17,556                  |
| Redeemed during the year | <b>(71,250)</b>                | (95,000)                |
|                          | <u>–</u>                       | <u>68,308</u>           |
| At 31 December           | <u>–</u>                       | <u>68,308</u>           |

*Note:*

On 27 September 2010, the Company issued a zero coupon convertible note with a principal amount of HK\$166,250,000. The 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 convertible note until the close of business on the 15th day prior to 12 May 2012 (“Maturity Date”). If the convertible note has not been converted, the Company shall redeem the convertible note on the first business day falling on or after the first anniversary of the date of the convertible note at HK\$95,000,000 and on Maturity Date at HK\$71,250,000.

## 12. SHARE CAPITAL

|  | <b>Authorised ordinary shares</b>            |                 |
|--|--|-----------------|
|  | <i>Number of shares</i>                      | <i>HK\$'000</i> |
| At 1 January 2011, 31 December 2011 and 31 December 2012 | <b>16,000,000,000</b>                        | <b>40,000</b>   |
|  | <b>Issued and fully paid ordinary shares</b> |                 |
|  | <i>Number of shares</i>                      | <i>HK\$'000</i> |
| At 1 January 2011  | 7,402,164,000                                | 18,505          |
| Share options exercised ( <i>Note (i)</i> )              | 9,800,000                                    | 25              |
| At 31 December 2011                                      | 7,411,964,000                                | 18,530          |
| Issue of consideration shares ( <i>Note (ii)</i> )       | <b>40,620,666</b>                            | <b>101</b>      |
| At 31 December 2012                                      | <b>7,452,584,666</b>                         | <b>18,631</b>   |

*Notes:*

- (i) 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\$2,278,000, of which approximately HK\$25,000 was credited to share capital and the balance of approximately HK\$2,253,000 was credited to the share premium account.
- (ii) Pursuant to the two equity interests transfer agreements, the Company allotted and issued 27,612,666 consideration shares of HK\$0.0025 each at HK\$0.113 and 13,008,000 consideration shares of HK\$0.0025 each at HK\$0.113 to the vendors on 3 April 2012 as payment of part of the consideration for the acquisition of 70% equity interests in 重慶拓扣網絡科技有限公司 and 廣州頂尚信息科技有限公司 respectively.

### 13. RESERVES

|  | Share<br>premium<br>HK\$'000 | Convertible<br>note<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Currency<br>translation<br>reserve<br>HK\$'000 | Share-<br>based<br>compensation<br>reserve<br>HK\$'000 | Revaluation<br>reserve<br>HK\$'000 | Available-<br>for-sale<br>investments<br>HK\$'000 | Total<br>HK\$'000 |
|--|------------------------------|---------------------------------|--------------------------------|--|--|------------------------------------|---|-------------------|
| Balance at 1 January 2011  | 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 expired   | -                            | -                               | -                              | -  | (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             |
| <b>Balance at 31 December 2011</b>   | <b>735,484</b>               | <b>11,670</b>                   | <b>15,158</b>                  | <b>51,591</b>                                  | <b>46,460</b>  | <b>11,653</b>                      | <b>5,462</b>                                      | <b>877,478</b>    |
| Issue of consideration shares  | 4,489                        | -                               | -                              | -  | -  | -                                  | -   | 4,489             |
| Share option scheme:   |                              |                                 |                                |  |  |                                    |   |                   |
| — value of employee services   | -                            | -                               | -                              | -  | 730  | -                                  | -   | 730               |
| — value of other participants' services  | -                            | -                               | -                              | -  | 285  | -                                  | -   | 285               |
| — vested share options forfeited and expired   | -                            | -                               | -                              | -  | (6,963)  | -                                  | -   | (6,963)           |
| Release of convertible note equity reserve upon redemption of convertible note at maturity | -                            | (11,670)                        | -                              | -  | -  | -                                  | -   | (11,670)          |
| Release of revaluation reserve upon depreciation of leasehold land and building            | -                            | -                               | -                              | -  | -  | (302)                              | -   | (302)             |
| Fair value gain on available-for-sale financial assets                                     | -                            | -                               | -                              | -  | -  | -                                  | 2,266   | 2,266             |
| Currency translation differences   |                              |                                 |                                |  |  |                                    |   |                   |
| — overseas jointly-controlled entities   | -                            | -                               | -                              | 164  | -  | -                                  | -   | 164               |
| <b>Balance at 31 December 2012</b>   | <b>739,973</b>               | <b>-</b>                        | <b>15,158</b>                  | <b>51,755</b>                                  | <b>40,512</b>  | <b>11,351</b>                      | <b>7,728</b>                                      | <b>866,477</b>    |

### 14. DIVIDENDS

A final dividend in respect of the year ended 31 December 2012 of 0.18 HK cents (2011: Nil) per share, amounting to a total dividend of approximately HK\$13,415,000 (2011: Nil) is to be proposed at the annual general meeting on 14 May 2013. The consolidated financial statements do not reflect this dividend payable.



## **DIVIDEND**

The Board has recommended the payment of a final dividend of 0.18 HK cents (2011: Nil) per share for the year ended 31 December 2012.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The Group is engaged as a technology and operation service provider of lottery systems, terminal equipment and game products in the lottery market in China. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game (“CTG”) and 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**

Strong growth momentum was maintained in the lottery market in China in 2012, with total sales of lottery amounting to RMB261.52 billion, representing 18.0% growth year on year (“YOY”). Welfare Lottery and Sports Lottery contributed RMB151.03 billion and RMB110.49 billion respectively, up 18.2% and 17.8% YOY respectively. All lottery types showed double-digit sales growth except Scratch Cards in both lotteries. The top three fastest growing lottery types were Welfare Video Lottery, Sports CTG and Sports Single Match Game, which grew 31.8%, 26.2% and 23.0% YOY respectively.

### **Business Review and Outlook**

The Group made favourable development in all business segments in 2012. VLT, the only video lottery in the country, made the spotlight with the highest sales growth. Sales of VLT hit new record high attributable to the on-going deployment of the third-generation VLT terminal together with the steady increase in the number of newly approved VLT venues. Two historical breakthroughs were achieved in the CTG business. With Welfare Lottery, the Group will for the first time be serving not only Guangdong Welfare Lottery as it will be joined by Chongqing Welfare Lottery where the Group was chosen the winner in an open bid. With Sports Lottery, the Group will for the first time be providing CTG terminals to Sports Lottery as it has become a qualified terminal provider for China Sports Lottery Centre after passing the latest CTG terminal evaluation exercise held by the authority. Meanwhile, the Group’s persistent efforts in the new media lottery business covering telephone lottery and new type lottery have yielded good progress in the development of new distribution channels and new games.

### **Lottery Business**

#### *China Welfare Lottery Video Lottery (VLT) Business*

Taking high technology as its carrier, VLT has played a vital role in the China lottery industry. The Group is the exclusive equipment provider for VLT. Sales of VLT amounted to RMB6.39 billion in the fourth quarter of 2012, up 35.2% YOY, which was substantially higher than the overall industry growth of 12.9% YOY in the same period. The average daily sales per

terminal of VLT exceeded RMB3,300, up 29.2% YOY. The total sales of VLT amounted to RMB22.42 billion in 2012, up 31.8% compared to 2011. That made VLT the fastest growing lottery type of all in the country in 2012 outpacing the overall industry growth of 18.0%, made it a truly vivid product with strong potential. The top five VLT provinces by sales in 2012 were Zhejiang (RMB2.95 billion), followed by Shandong (RMB2.27 billion), Guangdong (RMB1.86 billion), Jiangsu (RMB1.75 billion) and Hubei (RMB1.47 billion). VLT contributed over 20% of the total sales of Welfare lottery games in Anhui, Zhejiang, Gansu, Hubei and Hunan. On the other hand, sales of VLT achieved over 50% YOY growth in Guizhou, Hainan, Shanghai, Sichuan, Yunnan, Guangdong, Gansu and Jiangxi. Undoubtedly, VLT has become a key growth driver for Welfare Lottery in the provinces.

As at 31 December 2012, the Group had delivered 15,000 units of the third-generation terminals to the provinces as requested by China Welfare Lottery Centre (“CWLC”). In the meantime, according to the deployment planning of CWLC, the Group is working closely with both CWLC and provincial welfare lottery centres on system upgrade, testing and registration without affecting the operation of the venues.

VLT sales contributed approximately RMB4.48 billion welfare funds in 2012. With the substantial increase in welfare funds, more public welfare initiatives including social security and charitable programs have been launched, benefitting more individuals and disadvantaged groups in need. Various similar programs and events were implemented by welfare lottery authorities in the provinces in 2012 to promote the culture and values of welfare lottery: public welfare, charity, health, happiness and innovation.

The market share of VLT is poised to further increase in 2013. Both CWLC and provincial welfare lottery authorities take the development of VLT as their top priority. According to the deployment planning of CWLC, the Group will provide another 15,000 units of the third-generation terminals in 2013, which should replace all the remaining first-generation terminals. Meanwhile a batch of new venues for third-generation terminals will be put into operation soon. The Group has made full preparations for this including capital expenditure, technology and service. The VLT terminal installed base will be further enlarged to contribute consistent earnings growth to the Group.

## **CTG and High Frequency Lottery Business**

### *CTG Business*

Total sales of Welfare CTG countrywide were RMB108.41 billion in 2012, up approximately 19.5% YOY. Guangdong remained the top performing province in Welfare Lottery. In CTG alone, the province made RMB10.23 billion sales claiming 9.4% market share. The Group is the exclusive terminal provider of CTG to the province’s Welfare Lottery. To satisfy the request of Guangdong Welfare Lottery Centre, the Group provided an additional 300 units of CTG terminals in the third quarter of 2012, which were put in the market in the fourth quarter. The Group will provide another 200 units of CTG terminals in early 2013 in a bid to assist Guangdong Welfare Lottery to maintain steady growth in sales and its leading position as the top performing province in Welfare Lottery in 2013.

Guangzhou San Huan Yong Xin Technology Company Limited (“GZSH”), a subsidiary of the Group, provides premium products and services to Guangdong province, and provides terminal maintenance service to Shenzhen Welfare Lottery. At the end of 2012, GZSH successfully won the bid for the procurement of Welfare Lottery CTG betting terminals and technical service for Chongqing Municipal Welfare Lottery Centre. GZSH is required to provide Welfare Lottery CTG terminals and technical services to Chongqing Municipal Welfare Lottery Centre on revenue-sharing basis. As certain provincial supply contracts of Welfare CTG system and terminal will fall due in 2013, the Group will endeavour to secure such business opportunities with its competitive advantages in terminal product and vertical integration.

Guangzhou Lottnal Terminal Company Limited (“GZL”), a subsidiary of the Group, provided its lottery readers and other core components to a number of lottery companies local and abroad, as well as CTG terminals to Asia region in 2012. GZL participated in the latest CTG terminal evaluation exercise held by China Sports Lottery Centre in the fourth quarter of 2012 with its three terminal types including the standard type, the economy type and portable type. All of the three types passed the exercise including third party testing, expert review and internal technical testing. GZL will soon become a qualified terminal provider for Sports Lottery. GZL has made full preparations in technology, product and marketing, and strives to become a major terminal provider for Sports Lottery. Such important breakthrough will fundamentally broaden the earnings base of the Group’s CTG business.

#### *High Frequency Lottery Business (KENO)*

Total sales of KENO in 2012 dropped compared to the previous year, mainly impacted by local high frequency games with higher payout ratio in the respective provinces. However, the average daily sales per terminal of KENO in certain provinces were found to be the highest among all CTG games in the relevant province, reflecting the vitality of the KENO game type. KENO has been selected as a priority lottery product in the 12th Five Year Plan of Welfare Lottery made in 2012, and together with CTG, VLT and Scratch Card, form the four main lottery types in Welfare Lottery. The Group believes that the new payout ratio and adoption of a flexible business model such as co-location arrangement will provide the catalyst for KENO to break the development bottleneck and grow rapidly.

#### **New media lottery business**

##### *On the telephone lottery business:*

The Group’s telephone lottery business grew rapidly in 2012, and achieved 183% sales growth compared to the previous year. In light of new regulations, adjustments were made to this business area for better compliance with requirements of lottery authorities. After years of dedication and efforts in the development of telephone lottery, the Group has established a leading position in offering advanced technology, products and operation for telephone lottery.

The Group's proprietary mobile lottery development platform allows the adding of additional lottery games and betting features simultaneously and rapidly in various mobile platforms including the iOS, Android and Symbian. The mobile lottery client-end products developed on this platform have been made available in all mainstream application stores and highly commended by both its cooperation partners and lottery authorities, as well as given more business opportunities.

The Group continues to work closely with telecommunication operators and financial institutions. It is proud to be the only lottery company to enter into various forms of business cooperation with the country's all three telecommunication operators. Benefitted from their huge customer base, the Group has recorded consistent increase in sales and the number of mobile lottery users. The cooperation with financial institutions notably China Merchants Bank, Bank of Communications, Bank of China and Union Pay has fully demonstrated the advantage of mobile lottery in offering a more secure and convenient way of purchasing lottery tickets. It has become a top application in mobile banking. The Group's cooperation with many other financial institutions in offering mobile lottery will commence in 2013.

2013 will be a very crucial year for China and the Group in the development of telephone and internet lottery business. The Group seeks to capture more business opportunities in this area by enhancing its operation team and product offering.

*On the new type lottery business:*

In 2012, following further tightening of the distribution of lottery via new channels, lottery authorities have announced specific technical requirements and standards for the system construction and trial sales in relation to such new channels. The support and encouragement of policies provide strong protection as well as promising prospect for the development of the Group's new type lottery business.

In accordance with the requirements and standards announced, the Group has been in extensive cooperation with many lottery authorities in relation to the construction of new distribution channels. The Group provides comprehensive assistance taking advantage of its experience in product and market development. Under the new opportunity, the Group will assist lottery authorities to develop new players to lottery targeting hundreds of millions of middle to high income earners through creative marketing initiatives and a variety of game products. The Group believes that the new type lottery products will become the next spotlight in the China lottery market set to gain enormous market share.

**Technical strength**

The Group's Research and Development Centre continues to strengthen its capabilities by making improvements to the security, stability, ease of maintenance and functionality of the relevant system and terminal products. They ensure sound technical support is available to various business units of the Group in providing their services to customers.

## Conclusion

Sales of lottery in China doubled in three years from RMB132.48 billion in 2009 to RMB261.52 billion in 2012. Coupled with such growth, important development was made in the regulatory framework for lottery in 2012 including the Implementation Details of the Regulations on the Administration of Lottery (《彩票管理條例實施細則》), the Regulations on the Administration of Lottery Funds (《彩票公益金管理辦法》), the Regulations on Financial Management for Lottery Authorities (《彩票機構財務管理辦法》) and the Regulations on the Administration of Sales and Distribution of Lottery (《彩票銷售發行管理辦法》). These regulations not only represent enhanced industry standards and transparency but also provide for greater protection for both lottery players and market participants. Further, the launch of telephone lottery in few selected provinces and the expected possible trial run of internet distribution of lottery in 2013 show that the China lottery market seeks comprehensive development promoting higher sales, enhanced regulation, increased protection and continuous innovation.

With stable earnings growth achieved in 2012, the Group has maintained profitability for third straight year. The Group will continue to lay a solid foundation for long term development by strengthening its existing businesses and profitability as well as capturing new opportunities with innovative products. The Group will strive to repay its shareholders with greater performance.

## Financial Review

The Group recorded a turnover of approximately HK\$607.3 million for the year ended 31 December 2012, representing an increase of approximately 15% over 2011. The Group recorded approximately HK\$67.5 million profit attributable to owners of the Company for the year ended 31 December 2012, representing an increase of approximately 2% over 2011. The Group's subsidiary 東莞天意電子有限公司 (“東莞天意”) is principally engaged in the provision of VLT including maintenance services to Beijing Lottery Online Technology Co., Ltd (“CLO”) under the contract. On 5 June 2012, 東莞天意 signed a supplementary agreement with CLO. Under the supplementary agreement, both parties agree to revise the VLT service fee from 2% to 1.7% with effect from 1 January 2012, where 0.4% fee for provision of maintenance services will be changed to 0.1% fee for provision of spare parts. 東莞天意 will no longer provide maintenance services to CLO for all existing and new VLT terminals. 東莞天意 is however responsible to provide the spare parts of VLT terminals to CLO who will take up all the maintenance services itself. During the year under review, 東莞天意 received 75% of the outstanding maintenance fee accumulated till 31 December 2011 of approximately HK\$119.1 million. This amount comprised approximately HK\$89.3 million in cash receipt and the remaining outstanding accounts receivable of approximately HK\$29.8 million impaired is considered as compensation to CLO for its contribution to the maintenance work in the last three years. The Group considers that the above adjustment represents the best combination of the respective strengths of the parties to the contract. The repair and maintenance services for VLT delivered through local welfare lottery centres in the provinces and cities will allow such services to be provided in a more timely and cost-effective manner, while the role of 東莞天意 in the provision of VLT business will be more clearly defined with the right responsibilities and obligations. This will only benefit the long term and consistent rapid growth of VLT business. Moreover, the financial impact of the above adjustment has been offset by the continuing increase in average daily sales per terminal of VLT across various provinces.



## **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 2012, the Company had an outstanding corporate guarantee for unlimited amount for a banking facilities of a property installment loan of approximately HK\$106.9 million (2011: HK\$106.9 million), and an outstanding corporate guarantee limited to approximately HK\$17 million (2011: Nil) for a banking facilities of a property installment loan of approximately HK\$17 million (2011: Nil); whereas, a subsidiary of the Group had an outstanding corporate guarantee for a maximum of RMB80 million plus interest and fees for a banking facilities of a working capital loan of RMB150 million (2011: RMB80 million) granted to the Group. The Group had outstanding bank borrowings at 31 December 2012 of approximately HK\$612.9 million (2011: HK\$380.6 million). At 31 December 2012, 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\$176.4 million (2011: HK\$135.5 million), (ii) standby letters of credit issued by bank for an aggregate amount of US\$55 million (2011: US\$29.8 million), (iii) accounts receivable of approximately HK\$47.4 million (2011: HK\$152.4 million) and (iv) bank deposits amounting to approximately HK\$446.9 million (2011: HK\$293.8 million).

The Group's total equity amounted to approximately HK\$1,254.5 million at 31 December 2012 (2011: HK\$1,217.5 million). At 31 December 2012, net current assets of the Group amounted to approximately HK\$233.7 million (2011: HK\$413.7 million), including approximately HK\$713.6 million in cash and deposits with banks and financial institution (2011: HK\$648.9 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2012 was approximately 37.2% (2011: 31%).

### **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 2012, the Group's leasehold land and buildings at net book value of approximately HK\$176.4 million (2011: HK\$135.5 million) were pledged to bank to secure the bank borrowings granted to the Group. At 31 December 2012, the Group's accounts receivable at outstanding balance of approximately HK\$47.4 million (2011: HK\$152.4 million) and bank deposits amounting to approximately HK\$446.9 million (2011: HK\$293.8 million) were pledged to secure bank borrowings and banking facilities granted to the Group.

### **Contingent Liabilities**

At 31 December 2012, the Group did not have any material contingent liabilities (2011: Nil).

## **Staff**

At 31 December 2012, the Group had 480 (2011: 430) 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 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 2012.

## **Closure of Register of Members**

The proposed final dividend is subject to approval of shareholders at the Annual General Meeting to be held on Tuesday, 14 May 2013.

For the purpose of determining shareholders who qualify for the final dividend, the Company's register of members will be closed from Tuesday, 21 May 2013 to Thursday, 23 May 2013 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Transfer Office, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration no later than 4:30 p.m. on Monday, 20 May 2013. Subject to the approval of shareholders of the Company at the Annual General Meeting, the dividend warrants will be despatched to shareholders on or about Monday, 8 July 2013.

## **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 2012 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 2012, except for the deviations from Code provisions A2.1, A4.1, A4.2 and A6.7. The Chairperson of the Company, Ms. LAU Ting, currently also assumes the role of the Chief Executive Officer. Although the Code provision A2.1 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 A4.2 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. In respect of code provision A6.7, Mr. HUANG Shenglan and Mr. CUI Shuming, being the Independent Non-executive Directors, did not attend the annual general meeting of the Company held on 18 May 2012 due to other business commitments.

### 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 2012.

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

Hong Kong, 8 March 2013

*This announcement will remain on the “Latest Company Announcements” page of the GEM’s website at [www.hkgem.com](http://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, 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.*