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China LotSynergy Holdings Limited

華彩控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1371)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 referred to as the “Group”) for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016, as follows:

* For identification purposes only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Revenue	3	237,852	200,319
Costs of sales and services			
— Depreciation of lottery terminals		(28,560)	(128,516)
— Others		(91,794)	(78,734)
		<u>(120,354)</u>	<u>(207,250)</u>
Gross profit/(Gross loss)		117,498	(6,931)
Other income	4	13,661	27,559
Other losses — net	5	(24,894)	(156,809)
General and administrative expenses		(211,674)	(227,244)
Share option expenses		<u>(10,174)</u>	<u>(18,998)</u>
Operating loss	6	(115,583)	(382,423)
Finance costs	7	(40,367)	(56,904)
Share of loss of an associate		—	(4)
Share of loss of a joint venture		<u>(23,408)</u>	<u>(2,369)</u>
Loss before income tax		(179,358)	(441,700)
Income tax expense	8	<u>(15,741)</u>	<u>(37,901)</u>
Loss for the year		<u>(195,099)</u>	<u>(479,601)</u>
Loss attributable to:			
Owners of the Company		(192,568)	(297,967)
Non-controlling interests		<u>(2,531)</u>	<u>(181,634)</u>
		<u>(195,099)</u>	<u>(479,601)</u>
Loss per share attributable to owners of the Company during the year			
— basic	9	<u>(2.25) HK cents</u>	<u>(3.49) HK cents</u>
— diluted	9	<u>(2.25) HK cents</u>	<u>(3.49) HK cents</u>

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

For the year ended 31 December 2017

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss for the year	(195,099)	(479,601)
Other comprehensive income/(expense):		
<i>Items that may be reclassified to profit or loss</i>		
Fair value gain/(loss) on available-for-sale financial assets	260	(2,944)
Reclassification adjustment on impairment of available-for-sale financial assets	–	2,944
Release of currency translation reserve upon disposal of subsidiaries	–	(235)
Currency translation differences	51,962	(80,133)
Other comprehensive income/(expense) for the year	52,222	(80,368)
Total comprehensive expense for the year	(142,877)	(559,969)
Attributable to:		
Owners of the Company	(159,372)	(353,110)
Non-controlling interests	16,495	(206,859)
Total comprehensive expense for the year	(142,877)	(559,969)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		329,839	336,481
Intangible assets		466,573	457,183
Investment in an associate		4,797	4,460
Investment in a joint venture		6,634	28,115
Available-for-sale financial assets		7,316	7,056
Deferred income tax assets		5,298	9,039
		820,457	842,334
Current assets			
Inventories		19,091	24,687
Accounts receivable	<i>10</i>	96,522	77,370
Prepayments, deposits and other receivables		557,213	591,232
Financial assets at fair value through profit or loss		–	315,090
Cash and bank balances		193,478	374,575
		866,304	1,382,954
Total assets		1,686,761	2,225,288
Current liabilities			
Accounts payable	<i>11</i>	5,348	5,736
Accruals and other payables		39,546	39,132
Amount due to a joint venture		6,634	7,919
Tax payable		7,752	9,477
Bank borrowings		163,699	313,378
Convertible bonds		276,630	–
		499,609	375,642
Net current assets		366,695	1,007,312
Total assets less current liabilities		1,187,152	1,849,646

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)*At 31 December 2017*

	<i>Notes</i>	2017 HK\$'000	2016 <i>HK\$'000</i>
Non-current liabilities			
Convertible bonds		–	521,520
Deferred income tax liabilities		<u>48,070</u>	<u>55,206</u>
		<u>48,070</u>	<u>576,726</u>
Net assets		<u>1,139,082</u>	<u>1,272,920</u>
Equity attributable to owners of the Company			
Share capital	12	21,388	21,388
Reserves		1,307,874	1,352,856
Accumulated losses		<u>(538,777)</u>	<u>(439,661)</u>
		790,485	934,583
Non-controlling interests		<u>348,597</u>	<u>338,337</u>
Total equity		<u>1,139,082</u>	<u>1,272,920</u>

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 and its subsidiaries (collectively referred to as the “Group”) are technology and operation service providers of lottery systems, terminal equipment and gaming products in the China’s lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game and KENO-type lottery to new media lottery.

The Company’s shares are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). 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 assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

Changes in accounting policy and disclosures

New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2017:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	Disclosure of Interests in Other Entities

The adoption of amendments to HKAS 12 and amendments to HKFRS 12 did not have any impact on the current period or any prior period and is not likely to affect future periods.

Amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities.

3. REVENUE AND SEGMENT INFORMATION

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Income from provision of lottery terminals and systems	129,114	119,138
Income from sales of equipment	107,943	80,976
Income from provision of consultancy services	795	205
	<u>237,852</u>	<u>200,319</u>

Segment information

The Group's revenue and contribution to loss were mainly derived from the provision of technology and operation service for lottery systems, terminal equipment and gaming products in the China's lottery market, which is regarded as a single operating and 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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
People's Republic of China ("PRC")	227,690	193,792
Others	10,162	6,527
	<u>237,852</u>	<u>200,319</u>

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

(b) Non-current assets

	2017		2016	
	Total non-current assets <i>HK\$'000</i>	Additions to non-current assets <i>HK\$'000</i>	Total non-current assets <i>HK\$'000</i>	Additions to non-current assets <i>HK'000</i>
PRC	642,524	35,750	655,190	43,414
Hong Kong	160,150	108	164,447	1,441
Others	5,169	383	6,602	2,473
	<u>807,843</u>	<u>36,241</u>	<u>826,239</u>	<u>47,328</u>

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

3. REVENUE AND SEGMENT INFORMATION (Cont'd)

Information about major customers

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Customer A	34,638	N/A ¹
Customer B	81,369	81,982

¹ The corresponding revenue did not contribute over 10% of the total revenue of the Group for that year.

4. OTHER INCOME

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interest income from bank deposits and other receivables	13,661	27,559

5. OTHER LOSSES — NET

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Fair value gain on financial assets at fair value through profit or loss	1,294	27,847
Fair value gain on embedded derivatives of convertible bonds	7,056	—
Gain on repurchase of convertible bonds	—	5,841
Gain on disposal of subsidiaries	—	56
Impairment of available-for-sale financial assets	—	(2,944)
Impairment of property, plant and equipment	—	(188,127)
Loss on extinguishment and redemption of convertible bonds	(25,221)	—
Loss on disposal of property, plant and equipment	(27)	(255)
Loss on disposal of intangible assets	(4,576)	—
Foreign exchange (losses)/gains	(3,420)	773
	<u>(24,894)</u>	<u>(156,809)</u>

6. OPERATING LOSS

The Group's operating loss is arrived at after charging:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Costs of sales and services		
— Depreciation of lottery terminals	28,560	128,516
— Amortisation of intangible assets	10,842	7,778
— Business tax	1,451	98
— Cost of inventories recognised as expense	75,233	58,701
— Repairs and maintenance	1,783	7,623
— Commission and handling charges	610	938
— Others	1,875	3,596
	<u>120,354</u>	<u>207,250</u>
Operating lease rentals in respect of land and buildings	16,133	17,877
Auditors' remuneration	980	980
Depreciation of other items of property, plant and equipment	<u>11,654</u>	<u>11,876</u>

7. FINANCE COSTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interest expenses on bank borrowings	3,919	10,821
Interest expenses on convertible bonds	<u>36,448</u>	<u>46,083</u>
	<u>40,367</u>	<u>56,904</u>

8. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the year. No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2017 and 2016 as the Group had no assessable profits arising in or derived from Hong Kong for both years.

The applicable enterprise income tax rate for PRC subsidiaries is 25% (2016: 25%) except for subsidiaries which are qualified as High and New Technology Enterprises and would be entitled to enjoy a beneficial tax rate of 15% (2016: 15%).

Under the Laws of the People's Republic of China on Enterprise Income Tax, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from a PRC subsidiary to non-PRC tax resident group entity in Hong Kong in respect of profits generated after 1 January 2008 shall be subject to the withholding tax at 10%, unless the Hong Kong company can be approved to enjoy a reduced rate of 5% pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income.

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
— PRC Enterprise Income Tax	13,616	12,631
— PRC Withholding Tax	10,961	48,443
— Adjustments in respect of prior years	(6,609)	(5,639)
Total current tax	17,968	55,435
Deferred tax		
— Origination and reversal of temporary differences	(2,227)	(17,534)
Income tax expense	15,741	37,901

9. LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of 8,555,307,333 (2016: 8,547,775,912) ordinary shares in issue during the year.

The computation of diluted loss per share for the years ended 31 December 2017 and 2016 did not assume the conversion of the convertible bonds and the exercise of share options since their assumed conversion and exercise would result in a decrease in loss per share.

10. ACCOUNTS RECEIVABLE

Income from provision of lottery terminals and systems 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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Less than three months	20,406	10,331
Over three months but less than one year	8,652	2,716
Over one year	67,464	64,323
	<u>96,522</u>	<u>77,370</u>

11. ACCOUNTS PAYABLE

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Less than three months	3,653	2,837
Over three months but less than one year	1,015	475
Over one year	680	2,424
	<u>5,348</u>	<u>5,736</u>

12. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.0025 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2016, 31 December 2016 and 31 December 2017	16,000,000,000	40,000
	Issued and fully paid ordinary shares of HK\$0.0025 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2016	8,531,807,333	21,330
Share options exercised	23,500,000	58
At 31 December 2016 and 31 December 2017	<u>8,555,307,333</u>	<u>21,388</u>

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged in the provision of technology and operation services for lottery systems, terminal equipments and gaming products in China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery ("VLT"), computer-generated ticket games ("CTG") and KENO-type lottery to new media lottery. By building up its technical competencies, expanding into new markets and upholding high standards of corporate governance, the Group has established a solid foundation and an outstanding corporate brand name, providing it with comprehensive capabilities for sustainable development.

China's Lottery Market

According to figures published by the Ministry of Finance ("MOF"), China's lottery market grew steadily in 2017, with total lottery sales of RMB426.67 billion, representing a year-on-year ("YOY") growth of 8.1%. Welfare Lottery sales rose 5.1% YOY to RMB216.98 billion, whereas Sports Lottery sales up 11.4% YOY to RMB209.69 billion. Lotto, which is the industry's main source of revenue, recorded 7.3% YOY sales growth, accounting for 61.5% of total lottery sales. Single Match Games ("SMG") sales surged 21.4% YOY, accounting for 21.8% of total lottery sales. VLT sales grew 3.8% YOY, accounting for 10.8% of total lottery sales. Paper-based Scratch Card sales and KENO sales declined by 13.6% YOY and 31.5% YOY, accounting for 5.8% and less than 0.1% of total lottery sales respectively. In addition to the secular rise in lottery sales in 2017, its growth rate has outperformed China's GDP growth for 2 consecutive years since 2015. China's lottery sales rose 8.1% in 2017, representing 1.2 percentage points higher than the GDP growth of 6.9%. Lottery is accountable for the Chinese social welfare, and now both Welfare Lottery and Sports Lottery are placing a greater importance on brand building, promoting its social welfare attributes. At the same time, lottery sales recorded a steady growth and slightly grow faster than China's GDP growth, fostering healthy development of lottery business in China.

Business Review and Outlook

Video Lottery Business

China Welfare Lottery Video Lottery (“Welfare VLT”) Business

As a technology-rich product, Welfare VLT plays a vital role in China’s lottery industry. The Group is the exclusive terminal equipment provider for Welfare VLT. Welfare VLT was one of the driving forces of nationwide Welfare Lottery, with its sales increased by 3.8% YOY to RMB46.21 billion, and accounted for 10.8% of the nation’s total lottery sales in 2017.

Dongguan Tianyi Electronic Company Limited (“DGTY”), a subsidiary of the Group, has been the supplier of Welfare VLT terminal for 14 years since 2003. It has unique and unmatched experience, capabilities and qualification given its continual investment in Welfare VLT terminal manufacturing and R&D. The terminal developed and manufactured by DGTY is the only Welfare VLT terminal approved and confirmed by all three ministries including the MOF, the Ministry of Public Security and the Ministry of Civil Affairs. DGTY has made three generations of Welfare VLT terminal replacements and upgrades in the last 14 years, supplying a total number of over 70,000 units of terminals. For the year ended 31 December 2017, approximately 41,500 units of the third-generation terminals have been placed in over 2,000 Welfare VLT halls across 28 provinces, cities, autonomous regions and municipalities in China, supporting the entire Welfare VLT sales nationwide.

DGTY’s Welfare VLT supply contract expired on 28 June 2015. According to the supply contract agreed by both parties, DGTY has the full ownership of the approximately 41,500 units of terminals generating all the sales of Welfare VLT. The Group decided to maintain the Welfare VLT terminals it provided in fully operational condition, so as to support the sustained and healthy growth as well as the distribution of Welfare VLT. Riding on the superb quality of DGTY’s third generation terminals, the sales of Welfare VLT has continued its upward climb and achieved satisfactory performance, notwithstanding the absence of new terminal over the last three years. DGTY was well recognised by the market thanks to its strong technological prowess and integrated service capabilities.

According to legally binding documents that the Group sent to China Welfare Lottery Center (“CWLC”) and Beijing China Lottery Online Technology Company Limited (“CLO”) along with unanimous accreditation reached by domestic civil law experts, the Group shall be paid for the provision of these terminals for Welfare VLT’s continued use after the expiry of the supply contract. In order to protect the Group’s lawful rights and interests, DGTY has filed a civil action with the People’s High Court of Beijing, claiming the compensation from CLO for the continued use of terminals after the expiry of the supply contract. The Group is awaiting the judgment of the court.

CWLC is now actively revising and smoothing out the income and expenditure arrangements of Welfare VLT, accelerating the channel expansion and strengthening the market management. The Group believes that the Welfare VLT, a flagship lottery type of Welfare Lottery, will move back into the spotlight under the management of CWLC. The Group proactively assists CWLC and provincial sales institutions, delivering better product and service to Welfare VLT, bolstering its steady, sustainable and robust growth, and making the greatest contribution to the China lottery business.

CTG Business

On the Welfare Lottery CTG side, Guangdong province, which is served by the Group, remained the largest provincial Welfare Lottery market in China with sales up by 4.7% YOY to approximately RMB14.20 billion in 2017; Chongqing Welfare Lottery CTG and Shanghai Welfare Lottery CTG, both are served by the Group, recorded sales of approximately RMB2.11 billion and RMB3.37 billion, with YOY growth of 9.2% and 7.8% respectively. Meanwhile, the Group is also responsible for the development of new high-frequency games for Guangdong Welfare Lottery, the pilot project in Shantou has already been rolled out; whereas the new generation integrated lottery information management systems, developed by the Group for Shanghai and Guangdong Welfare Lottery, have been successfully launched in 2017 respectively. The new system will lay a solid foundation for the establishment of splendid lottery electronic management for Guangdong and Shanghai Welfare Lottery.

The Group's Sports Lottery CTG terminal business grew at a robust pace in 2017. The Group won bids for the Sports Lottery CTG terminal and information display box procurement programmes of Guizhou, Guangdong, Guangxi, Jilin, Heilongjiang, Henan, Sichuan and others, expanding its business to 18 provinces, with a total order number of over 8,000 units, remained the leading position in terms of sales amount for Sports Lottery terminal. The Group has become the most important terminal provider in China's Sports Lottery market. Currently, an android terminal designed and manufactured by the group, is undergoing a third-party test by the China Sports Lottery Administration Centre, being a pioneer in passing the test would provide it greater accessibility to development opportunities. At the same time, the Group will continue to maintain and extend its collaboration with domestic and international terminal manufacturers to provide core components, including lottery terminals and scanners etc.

The Group's Cambodian CTG business, in collaboration with Khmer Pool Welfare Lottery Co., Ltd, recorded growth amidst stability in 2017, while the automatic accounts settlement system and the mobile app were launched by year end, posted a considerable sales momentum. The Group has successfully implemented mobile and internet lottery business, bringing Cambodian players more convenient betting service. In addition, a new CTG system developed by the Group for Cambodian Sports Lottery has been rolled out in the third quarter of 2017. In 2018, the Group will integrate its internal resources based on the successful experience in Cambodia, looking for changes amid development and proactively tapping other overseas markets.

New Media Lottery Business

In 2017, the Group continued to maintain its close ties with several provincial lottery authorities, constantly upgraded and enriched the telephone lottery sales management system and related products, as part of the technical and operating preparations for further expansion of its new media lottery business.

China's lottery industry is undergoing developmental revolution in terms of channel realignment and innovation. The traditional lottery sales channel already cannot meet the purchasing needs of its diversified customer base and the need for digitalized and integrated lottery retail channel is gradually arising, resulting from the rise of electronic payments and artificial intelligence. In response to these development opportunities, the Group has taken the lead to introduce the notion of new lottery retail, taking advantage of the prevalent industry development trend by product and channel innovations and making vigorous efforts to open up new ideas of lottery business expansion. The Group has stepped up its R & D efforts in artificial intelligence for lottery and others, and fully used of innovative technologies such as intelligent hardware, the Internet of Things and big data etc. across the lottery retail channels, namely operation, management, marketing and others, providing lottery authorities and retail channels with total solutions in a move to optimize and eliminate the industry sticking points as well as expand and shake up the sales channel.

The new lottery retail model enables the industry to move beyond its traditional point of sale, by leveraging intelligent lottery equipment with new diversified channels as well as the combination of online and offline purchase methods, opening up new socialized sales channel.

By years of its dedication to the lottery terminal business, the Group has developed a number of new intelligent lottery equipments with features of lightweight, portable, low cost and others, supporting sales of different lottery types, together with effective, safe and convenient operations by artificial intelligence and mobile payments, leading to a wider range of point of sale applications. We also provide software systems as well as sound lottery sales operation and management, forming a set of sophisticated new lottery retail solution, reducing lottery authorities and sales channel operators' investments in technology, personnel and management cost. The Group will shape out unparalleled new lottery retail service in the light of its sales channel particularities, experiences and capacities, reacting with prompt deployment of market expansion.

The Group is trying hard to establish a new multi-industry and multi-tiered retail channels system, consolidating resources from various kinds of channels, pursuing cross-industry partnership, and exploring new channels in tandem with buoyant sectors of business, services, financial and retail. The Group recently entered into a cooperation agreement with E-Capital Transfer Co., Ltd. The two will initiate in-depth strategic cooperation in the fields of lottery and financial securities, joint exploration of business scopes and applications and bring about new form of lottery sales. Meanwhile, the Group will explore more new form of cross-industry collaboration, tapping the great potential of lottery market in retail sphere.

The Group believes that carrying out of these new businesses, which are consistent with the strategic goal and policy requirement set by the lottery authorities, contributing to lure new group of players. The Group is working intensively on the preparatory work for those projects based on the relevant technical specifications, and thus lottery will soon be assimilated into the potential consumers' daily lives. The seamless engagement between lottery and new retail would further unlock the lottery market, playing a positive role in promoting the healthy development of Chinese lottery market.

Moreover, in a bid to execute the national strategy of "Fitness for All" and better fit the public needs of relaxation and entertainment, the State General Administration of Sports issued the guidelines of "interestingness of traditional card and board games" and "competitiveness of interesting card and board games", incorporating card and board games and the development roadmap of "Internet Plus".

The group has seized opportunities that driven by growing card and board games market, breaking into the market by "card and board games + e-sports" with a home-made online card and board game app. The Group has aggressively participated in professional card and board games tournaments and officially become the exclusive strategic partner of Jiangsu Mahjong ("江蘇麻將"), a performance event in the World Mahjong Sports Games hosted by the Mahjong International League.

Based on the survey findings, the card and board games market in China was sized at around RMB5.86 billion with 258 million users in 2016. There is tremendous potential in card and board games market with robust growth. By years of dedication to the new media lottery market, the Group has built up a large customer base and wealth of experience, fueling its swiftly market expansion and acceleration of growth.

Conclusion

Looking forward, China's annual lottery sales is expected to exceed RMB500 billion, slightly outpacing its economic growth, while the total lottery sales will exceed RMB2,000 billion during the 13th Five-Year Plan period. There is enormous potential in China's lottery market, while sustaining the healthy development of traditional lottery, there is mounting demand in new channels, channel reconstruction, new games and new gameplay to breathe new life into the sector.

The Group's focus on building its own technology and product offering has enabled it to cover VLT terminal, CTG terminal, CTG core transaction system, CTG management system, CTG game development and design, Paper-based Scratch Card integrated management system, new media lottery sales management system, new media lottery big data analysis system, and new media lottery game development and design etc. In addition, the Group has developed extensive operations and service capabilities for VLT, CTG and new media lottery.

As a leading market participant, the Group has showed its dedication to the lottery industry for over a decade with extensive investment and accountability and has amassed substantial amount of resources in government relations, technologies and customers. The Group is endeavored to explore its development strategy and execution plan in response to the guidelines on international and domestic policies set by the 19th National Congress of the Communist Party of China, rooting in China while expanding overseas market. In order to contribute to the development of a sound China's lottery ecosystem, the Group is actively engaged in allocation and development with focus on lottery games, gaming products, supporting systems, operating systems and new sales channels development, among others.

Financial Review

The Group recorded a turnover of approximately HK\$237.9 million (2016: HK\$200.3 million) for the year ended 31 December 2017, representing an increase of approximately 19% over 2016. Loss attributable to owners of the Company for the year ended 31 December 2017 amounted to approximately HK\$193 million (2016: HK\$298 million), and is mainly due to share of loss of a joint venture of approximately HK\$23.4 million (2016: HK\$2.4 million), loss on extinguishment and redemption of convertible bonds of approximately HK\$25.2 million (2016: Nil) and staff costs (excluding employee share option benefits) of approximately HK\$119.2 million (2016: HK\$126.4 million).

DGTY's Welfare VLT supply contract expired on 28 June 2015. According to the supply contract agreed by both parties, DGTY has the full ownership of the approximately 41,500 units of terminals generating all the sales of Welfare VLT. The Group decided to maintain the Welfare VLT terminals it provided in fully operational condition, so as to support the sustained and healthy growth as well as the distribution of Welfare VLT. Riding on the superb quality of DGTY's third generation terminals, the sales of Welfare VLT has continued its upward climb and achieved satisfactory performance, notwithstanding the absence of new terminal over the last three years. According to legally binding documents that the Group sent to CWLC and CLO along with unanimous accreditation reached by domestic civil law experts, the Group shall be paid for the provision of these terminals for Welfare VLT's continued use after the expiry of the supply contract. In order to protect the Group's lawful rights and interests, DGTY has filed a civil action with the People's High Court of Beijing, claiming the compensation from CLO for the continued use of terminals after the expiry of the supply contract. The Group is awaiting the judgment of the court, until then no revenue nor receivable from VLT business was recognized by the Group since the expiry of VLT supply contract.

Financial assets at fair value through profit and loss comprised of various categories of securities, they include debt securities listed in Hong Kong and outside Hong Kong, listed equity securities in Hong Kong and outside Hong Kong and unlisted fund investments (the "Financial Assets"). All the Financial Assets are liquid stocks and the Company intends to hold them as short-term investments. The Company has its treasury investment policy in place for the purpose of provision of the authority and guidelines to the Directors and management to undertake investment of surplus funds for the prudent management and control of risk in their investment portfolios. The acquisitions of the Financial Assets were conducted for the purpose of treasury activities of the Group and in accordance with the treasury investment policy of the Company. All the Financial Assets were acquired from independent third parties

of the Company. As at 31 December 2017, the assets ratio of each of the Financial Assets did not exceed 5% (as defined in the Listing Rules). During the year under review, fair value gain on financial assets at fair value through profit and loss amounted to approximately HK\$1.3 million (2016: HK\$27.8 million)

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

The Group believes that it has adequate financial resources to fund its capital and operating requirements. As at 31 December 2017, the Company had an outstanding corporate guarantee for unlimited amount for total banking facilities of property installment loans, term loan and bridging loan of approximately HK\$164.9 million (2016: HK\$153.7 million), an outstanding corporate guarantee limited to approximately HK\$17 million (2016: HK\$17 million) for a banking facility of a property installment loan of approximately HK\$17 million (2016: HK\$17 million), and an outstanding corporate guarantee for unlimited amount for credit facilities of investment purpose of US\$5 million (2016: US\$5 million) and overdraft for liquidity purpose of US\$25 million (2016: US\$25 million).

The Group had outstanding bank borrowings as at 31 December 2017 of approximately HK\$163.7 million (2016: HK\$313.4 million). As at 31 December 2017, 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\$158.7 million (2016: HK\$162.2 million); (ii) bank deposits amounting to approximately HK\$7.5 million (2016: HK\$124.6 million); (iii) financial assets of Nil (2016: HK\$300.1 million); and (iv) an unlimited personal guarantee executed by a substantial shareholder of the Company (2016: Nil).

In 2014, the Company has issued 5% convertible bonds (the “5% Convertible Bonds”) due 2019 in total aggregate principal of HK\$650 million. The Convertible Bonds would be converted into the paid ordinary shares of HK\$0.0025 each (the “Shares”) of the Company at the applicable conversion price of HK\$0.92 each. The Convertible Bonds bore interest at the rate of 5% per annum payable semi-annually in arrears. As at 1 January 2017, outstanding principal of 5% Convertible Bonds was HK\$550 million. On 10 March 2017, the Company announced proposed offer to exchange all outstanding 5% Convertible Bonds for a combination of cash and issue of new convertible bonds. Such exchange offer was completed on 7 April 2017. The 5% convertible bonds in the amount of HK\$506 million had been cancelled and exchanged for: (i) 7.5% convertible bonds due 2019 in the aggregate principal amount of HK\$175.95 million (the “New Option 1 Bonds”); (ii) 8% convertible bonds due 2019 in the aggregate principal amount of HK\$100 million (the “New Option 2 Bonds”); and (iii) cash consideration in the amount of HK\$230.05 million. The New Option 1 Bonds shall be convertible into the Shares of the Company at an initial conversion price of HK\$0.288 each. The New Option 2 Bonds shall be convertible into the Shares of the Company at an initial conversion price of HK\$0.92 each. According to the terms and condition of the 5% Convertible Bonds, the Company had redeemed and cancelled the remaining 5% Convertible Bonds in the principal amount of HK\$44 million at their principal amount together with any interest accrued but unpaid, being approximately HK\$1.1 million, on 18 April 2017 off exchange and that there is no outstanding 5% Convertible Bonds remained in issue thereafter. The withdrawal of the listing of the 5% Convertible Bonds had been effective from the close of business on 25 April 2017. With effective with 7 November 2017, the conversion price of the New Option 1 Bonds had been adjusted from HK\$0.288 to HK\$0.24 under the reset mechanism pursuant to the terms and conditions of the New Option 1 Bonds.

During the year under review, no New Option 1 Bonds and New Option 2 Bonds had been converted into the Shares by the bondholders or redeemed by the Company. As at 31 December 2017, the total outstanding principal amount of the New Option 1 Bonds and New Option 2 Bonds were HK\$175.95 million and HK\$100 million respectively, the aggregate principal amount were HK\$275.95 million. The maximum number of shares of the Company that will be issued upon conversion of all the outstanding New Option 1 Bonds and New Option 2 Bonds were 733,125,000 shares and 108,695,652 shares respectively.

During the relevant notice period ended 8 March 2018, the Company received notifications from bondholders that total principal amount of HK\$101.15 million of put options will be exercised under the terms and conditions of the New Option 1 Bonds and New Option 2 Bonds.

The Group's total equity amounted to approximately HK\$1,139.1 million at 31 December 2017 (2016: HK\$1,272.9 million). At 31 December 2017, net current assets of the Group amounted to approximately HK\$366.7 million (2016: HK\$1,007.3 million), including approximately HK\$193.5 million in cash and deposits with banks and financial institution (2016: HK\$374.6 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2017 was approximately 32.5% (2016: 42.8%).

Exposure to Exchange Rates Fluctuations

All the Group's assets, liabilities and transactions are denominated either in Hong Kong dollar, United States dollar or Renminbi. Foreign exchange risk arising from the normal course of operations is considered to be minimal.

Pledge of Assets

As at 31 December 2017, the Group's leasehold land and buildings at net book value of approximately HK\$158.7 million (2016: HK\$162.2 million) were pledged to banks to secure the bank borrowings granted to the Group. At 31 December 2017, the Group's cash deposits and financial assets at an aggregate carrying value of approximately HK\$7.5 million (2016: HK\$424.7 million) were pledged to financial institutions to secure the credit facilities granted to the Group.

Contingent Liabilities

As at 31 December 2017, the Group did not have any material contingent liabilities (2016: Nil).

Staff and Environment Policy

As at 31 December 2017, the Group employed 289 full time employees (2016: 329). The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programs for staff are provided as and when required. The Group will further strengthen its team buildup, in order to offer enhanced services for China's lottery market. The Group understands that environmental protection has a material effect on society and working environment of the staff. Therefore, the Group strives to enhance the awareness of the staff in saving energy, including implementing rules of reducing electricity consumption in the offices and arranging collection of recyclable materials.

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

Save as the redemption of the 5% Convertible Bonds mentioned above, 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 2017.

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 2017 have been reviewed by the Audit Committee.

Changes of Director

During the year ended 31 December 2017, there were changes of Director, Board's Chairperson, Chief Executive Officer, Chief Financial Officer and Board Committees' member as followings:

(i) Mr. HOONG Cheong Thard retired as director at the annual general meeting of the Company held on 1 June 2017; (ii) Ms. LAU Ting has resigned as the Board's Chairperson, Executive Director, Chief Executive Officer, Chairperson and Member of Nomination Committee and Member of Remuneration Committee of the Company with effect from 15 September 2017; (iii) Ms. CHAN Tan Na, Donna has taken over as the Board's Chairperson, Chief Executive Officer, Chairperson and Member of Nomination Committee and Member of Remuneration Committee of the Company with effect from 15 September 2017; and (iv) Mr. TAN Yung Kai, Richard has taken over as the Chief Financial Officer of the Company with effect from 15 September 2017.

Corporate Governance

The Company has complied with the code provisions of the Corporate Governance Code (the “Code”) under Appendix 14 of the Listing Rules throughout the year ended 31 December 2017, except for the deviations as disclosed below:

Code provision A.1.1 stipulates that the board should be held the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. The relevant Code provision had not been fully complied with as the Company did not announce its quarterly results and that two regular Board meetings were held during the year. Board meetings will be held on other occasions when Board decisions are required. The Chairperson of the Company, Ms. CHAN Tan Na, Donna, currently also assumes the role of the Chief Executive Officer. Also, Ms. LAU Ting assumed the roles of the Chairperson and the Chief Executive Officer before her resignation. Although the Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, the Board considers that given the nature of the Group’s businesses which requires considerable market expertise, the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management. Although some of the Non-Executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A.4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Mr. HOONG Cheong Thard, Mr. HUANG Shenglan and Ms. LAU Ting were absent from the 2017 annual general meeting of the Company as is stipulated in Code provision A.6.7 and E.1.2 respectively due to their other important engagement.

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

Required Standard of Dealing regarding Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the Model Code during the year ended 31 December 2017.

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

Hong Kong, 21 March 2018

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