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TLT LOTTOTAINMENT GROUP LIMITED

彩娛集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code : 8022)

- (1) SUPPLEMENTAL SUBSCRIPTION AGREEMENT FOR THE ISSUE OF HK\$50 MILLION CONVERTIBLE BONDS AND GRANT OF SPECIFIC MANDATE;**
- (2) CHANGE OF TERMS OF CONVERTIBLE BONDS;**
- (3) PROPOSED SHARE CONSOLIDATION; AND**
- (4) CHANGE OF BOARD LOT SIZE**

SUPPLEMENTAL SUBSCRIPTION AGREEMENT

Reference is made to the Previous Announcement, in respect of the issue of the Convertible Bonds by the Company in an aggregate principal amount of HK\$50 million.

As disclosed in the Previous Announcement, the Company will allot and issue the Conversion Shares to the Subscriber upon the exercise of the conversion rights attached to the Convertible Bonds at the Conversion Price. For illustration purposes only, subsequent to the Share Consolidation and assuming full conversion of the Convertible Bonds at the initial Conversion Price of HK\$0.30 per Conversion Share, a total of 166,666,666 Conversion Shares will be allotted and issued, representing (1) approximately 50.78% of the issued share capital of the Company as at the date the Share Consolidation has become effective (assuming there is no other change in the issued share capital of the Company and shareholding structure of the Company from the date of this announcement to the Share Consolidation has become effective); and (2) approximately 33.68% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares (assuming there is no other change in the issued share capital of the Company and shareholding structure of the Company from the date of this announcement to the Share Consolidation has become effective).

On 23 August 2011, the Company and the Subscriber entered into the Supplemental Subscription Agreement whereby the parties agreed to make the Share Consolidation as one of the conditions precedent to the completion of the Subscription Agreement.

Save and except the aforesaid amendment, the terms and conditions of the Subscription Agreement remain unchanged, and completion of the Subscription is conditional upon the above condition and all other conditions as disclosed in the Previous Announcement being fulfilled (or the waiver thereof by the Subscriber).

Some of the principal terms of the Convertible Bonds have also been amended. Among other things, the obligations of the Company under the Convertible Bonds will be secured by the Deed of Assignment to be executed by the holder of the Promissory Note in favour of the Subscriber. The holder of the Promissory Note is Premier Capital Enterprises Limited, a company incorporated in the BVI which is beneficially and wholly owned by Mr. Lam Ho Laam. As at the date of this announcement, Premier Capital Enterprises Limited is interested in 3,796,000 Shares representing approximately 0.23% of the issued share capital of the Company and convertible bonds issued by the Company in a principal amount of HK\$28,080,000. A summary of the revised principal terms of the Convertible Bonds is set out in the paragraph headed “Revised principal terms of the Convertible Bonds” in this announcement.

The Directors are of the view that the terms of the Supplemental Subscription Agreement and the Convertible Bonds are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

PROPOSED SHARE CONSOLIDATION

The Board proposes to consolidate each existing issued and unissued Share of HK\$0.01 into one Consolidated Share of HK\$0.05 each. Upon the Share Consolidation becoming effective, the authorised share capital of the Company will be HK\$100,000,000 divided into 2,000,000,000 Consolidated Shares, of which 328,235,569 Consolidated Shares will be in issue and fully paid or credited as fully paid, assuming that no further Shares will be issued or repurchased after the date of this announcement and prior to the Share Consolidation becoming effective.

The Consolidated Shares will rank *pari passu* in all respects with each other. An application will be made to the Stock Exchange for listing of, permission to deal in, the Consolidated Shares to be in issue and any new Consolidated Shares which may fall to be issued pursuant to the exercise of Options granted under the Share Option Scheme, the exercise of the conversion rights attaching to the Convertible Bonds upon the Share Consolidation becoming effective. All necessary arrangements will be made for the Consolidated Shares to be admitted into the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited.

CHANGE IN BOARD LOT SIZE

The Shares are currently traded on the Stock Exchange in board lot size of 2,000 Shares. The Board also proposes that subject to and upon the Share Consolidation becoming effective, the board lot size be changed from 2,000 Shares to 5,000 Consolidated Shares.

GENERAL

The Subscription Agreement (as supplemented by the Supplemental Subscription Agreement) and the Share Consolidation is subject to the Shareholders' approval at the EGM and no Shareholders are required to abstain from voting on the ordinary resolution(s) in relation to the Subscription Agreement (as supplemented by the Supplemental Subscription Agreement) and the Share Consolidation. The Circular containing the information regarding, among other things, details of the Subscription Agreement (as supplemented by the Supplemental Subscription Agreement), the Share Consolidation, the trading arrangements in respect of the Consolidated Shares and a notice convening the EGM will be despatched to the Shareholders as soon as practicable.

The expected timetable for the implementation of the Share Consolidation, Change in Board Lot Size, arrangement for matching odd lots of the Consolidated Shares and exchange of Share Certificates will be further announced by the Company in due course.

Reference is made to the Previous Announcement, in respect of the issue of the Convertible Bonds by TLT Lottainment Group Limited (the "**Company**") in an aggregate principal amount of HK\$50 million.

SUPPLEMENTAL SUBSCRIPTION AGREEMENT

On 23 August 2011, the Parties entered into a Supplemental Subscription Agreement whereby the parties agreed to make the Share Consolidation as one of the conditions precedent to the completion of the Subscription Agreement.

Save and except the aforesaid amendments, the terms and conditions of the Subscription Agreement remain unchanged, and completion of the Subscription is conditional upon the above condition and all other conditions as disclosed in the Previous Announcement being fulfilled (or the waiver thereof by the Subscriber).

The Directors are of the view that the terms of the Supplemental Agreement are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Capitalized terms used in this announcement shall bear the same meaning as defined in the Previous Announcement, unless the context requires otherwise.

Revised principal terms of the Convertible Bonds

The revised principal terms of the Convertible Bonds are summarised as follows:

- Issuer : The Company
- Principal amount : HK\$50 million
- Issue price : 100% of the principal amount of the Convertible Bonds
- Denomination : The Convertible Bonds will be in denominations of HK\$1,000,000 each
- Maturity : Six months from the Issue Date or extended, at the discretion of the Company by the service of the Company to the Bondholder of not less than 14 days' advance written notice, to the date falling 12 months from the Issue Date.
- Status : The obligations of the Company arising under the Convertible Bonds constitute direct, general, unconditional, unsubordinated and secured obligations of the Company and shall at all times rank pari passu and without any preference among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable laws. No application shall be made for a listing of the Convertible Bonds.
- Interest : 18% per annum on the outstanding principal amount of the Convertible Bonds calculated from the Issue Date to and including the Maturity Date calculated and compounded on annual basis, payable in arrears on the Maturity Date upon the redemption of the Convertible Bonds.
- Conversion price : The initial Conversion Price (subject to adjustment) for each Conversion Share to be paid by the Bondholders upon exercising of the conversion rights attaching to the Convertible Bonds shall be HK\$0.30, which represents:
- (i) for illustration purposes only and assuming the Share Consolidation has become effective, a discount of approximately 36.84% to the closing price of HK\$0.475 per Consolidated Share as quoted on the Stock Exchange on the Last Trading Day;

- (ii) for illustration purposes only and assuming Share Consolidation has become effective, a discount of approximately 41.18% to the average of the closing prices of HK\$0.51 per Consolidated Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and
- (iii) for illustration purposes only and assuming Share Consolidation has become effective, a discount of approximately 42.31% to the average of the closing prices of HK\$0.52 per Consolidated Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day.

The Conversion Price is subject to adjustments from time to time on the occurrence of certain events in accordance with the provision of the Instrument constituting the Convertible Bonds, including, among others, consolidation, subdivision, capitalisation of profits or reserves, capital distribution, rights issue at a price which is less than 80% of the market price, issue for cash of securities which are convertible into or exchangeable for or carry rights of subscription for new Shares or modification of rights of conversion or exchange or subscription attached to such securities such that the total effective consideration per share initially receivable for such securities is less than 80% of the market price, issue Shares for cash or acquisition of assets at a price per Share which is less than 80% of the market price

The initial Conversion Price of HK\$0.30 was determined after arm's length negotiations among the Company and the Subscriber, having considered the market condition, the recent share price performance of the Shares and liquidity of the Shares

Reset mechanism : The Conversion Price will be reset every 2 succeeding months after the Issue Date (the "Reset Date") if the arithmetic average of the closing price per Share for each day during the period of thirty (30) consecutive trading days immediately prior to the Reset Date is less than the Conversion Price in effect on the Reset Date (taking into account any adjustments which may have occurred prior to the Reset Date), the Conversion Price shall automatically be adjusted to a price equivalent to such arithmetic average of the closing price per Share (the "Reset Conversion Price") with effect from the Reset Date provided always that in the event that the Reset Conversion Price calculated based on the terms and conditions of the Instrument shall be less than HK\$0.18 (being 60% of the initial Conversion Price), the Reset Conversion Price shall be equal to and taken as HK\$0.18 and there would be no further resets to the Conversion Price under the terms and conditions of the Instrument during the remainder the Conversion Period

- Conversion : The Bondholder(s) shall have the right to convert, at any time during the period commencing after the thirtieth date from the Issue Date and ending on the date that falls on the tenth day immediately before the Maturity Date, both dates inclusive (the “Conversion Period”) the Convertible Bonds in amounts not less than a whole multiple of HK\$1,000,000 on such conversion, unless the outstanding principal amount of the Convertible Bonds held by a Bondholder is less than HK\$1,000,000, the whole (but not part only) of the outstanding principal amount of the Convertible Bonds at the Conversion Price.
- No fraction of a Share will be issued on conversion of the Convertible Bonds. Fractional entitlements shall be ignored and any sum paid shall be retained by the Company for its own benefit.
- The Bondholder(s) shall only exercise the right of conversion and the Company will issue any Conversion Shares to the extent that the public float of the Company will not be less than 25% immediately after such conversion.
- Redemption : (1) On the Maturity Date, the outstanding amount of the Convertible Bonds will be redeemed by the Company at a redemption amount that provide the Bondholder(s) with a return of 18% per annum calculated from the Issue Date to and including the Maturity Date calculated and compounded on annual basis.
- (2) Upon the occurrence of (i) delisting of the Shares; or (ii) Change of Single Largest Shareholder, the Bondholder(s) can require the Company to redeem the Convertible Bonds, in whole or in part, at the accreted principal amount, being the principal amount plus a yield accrued at 18% per annum on a compound basis on the principal amount of the Convertible Bonds (the “Accreted Principal Amount”). For the purpose of the Convertible Bonds, Change of Single Largest Shareholder shall mean the current Single Largest Shareholder ceases to be the Single Largest Shareholder.
- (3) Upon the occurrence of an Event of Default as set out in the terms of the Convertible Bonds, the Bondholder(s) can require the Company to redeem the Convertible Bonds, in whole or in part, at the Accreted Principal Amount.
- Voting rights : Before conversion of the Convertible Bonds, the Bondholders will not be entitled to attend or vote at any meetings of the Company by reason only of being the Bondholders

- Listing : The Convertible Bonds will not be listed on GEM or any other stock exchange. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be issued upon the exercise of the conversion rights attached to the Convertible Bonds
- Transferability : Save that none of the Convertible Bonds may be transferred to a connected person without consent from the Stock Exchange, the Convertible Bonds may be transferable in whole multiples of HK\$1,000,000 (or such lesser amount as may represent the entire principal amount thereof) and may be transferred to any person
- Security : The performance of all obligations of the Company under the Convertible Bonds will be secured by the Deed of Assignment. The Deed of Assignment shall be discharged as soon as reasonably practicable upon the date on which (a) the first registered Bondholder ceases to be a Bondholder; or (b) the Subscriber exercise any conversion rights attached to the Convertible Bonds; or (c) upon settlement in full by the Company the outstanding principal amount and the interest accrued thereof

The major amendments to the principal terms of the Convertible Bonds are: (i) the setting of a floor on the Conversion Price for the above reset mechanism; (ii) the payment obligations and the performance of all the obligations of the Company under the Convertible Bonds are secured by the Deed of Assignment to be executed by the holder of the Promissory Note in favour of the Subscriber; and (iii) the Subscriber has the right to nominate one executive Director for so long as the Subscriber remains as the first register holder of the Convertible Bonds and the Convertible Bonds remain outstanding.

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

For illustration purposes only, assuming full conversion of the Convertible Bonds at the Conversion Price of HK\$0.30 per Conversion Share, a total of 166,666,666 Conversion Shares will be allotted and issued and will represent (1) approximately 50.78% of the issued share capital of the Company as at the date the Share Consolidation has become effective (assuming there is no other change in the issued share capital of the Company and shareholding structure of the Company from the date of this announcement); and (2) approximately 33.68% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares (assuming there is no other change in the issued share capital of the Company and shareholding structure of the Company from the date of this announcement to the Share Consolidation has become effective).

The following chart sets out: (1) the shareholding structure of the Company as at the date of this announcement (assuming the Share Consolidation has become effective); and (2) assuming there is no other change in the issued share capital and shareholding structure of the Company from the date of this announcement, the shareholding structure of the Company immediately after the allotment and issue of the maximum number of the Conversion Shares upon full conversion of the Convertible Bonds at the initial Conversion Price; and (3) assuming there is no other change in the issued share capital of the Company and the shareholding structure of the Company from the date of this announcement, the shareholding structure of the Company immediately after the allotment and issue of the maximum number of the Conversion Shares upon full conversion of the Convertible Bonds at the minimum Conversion Price of HK\$0.18 per Conversion Share.

	As at the date of this announcement		Immediately after the allotment and issue of the maximum number of the Conversion Shares upon full conversion of the Convertible Bonds		Immediately after the allotment and issue of the maximum number of the Conversion Shares upon full conversion of the Convertible Bonds at the minimum Conversion Price of HK\$0.18 per Conversion Share	
	Shares	approximate %	Shares	approximate %	Shares	approximate %
Substantial Shareholder and Director:						
Mr. Luk Wing Kwong, Quintin	50,027,600	15.24	50,027,600	10.11	50,027,600	8.26
Chan Kin Yip (Note 1)	200,000	0.06	200,000	0.04	200,000	0.03
Public Shareholders						
The Subscriber (Note 2)	–	–	166,666,666	33.68	277,777,777	45.84
Other public shareholders	278,007,969	84.70	278,007,969	56.17	278,007,969	45.87
	<u>328,235,569</u>	<u>100</u>	<u>494,902,235</u>	<u>100</u>	<u>606,013,346</u>	<u>100</u>

Note 1: Mr. Chan Kin Yip is an executive Director.

Note 2: Upon exercise in full of the conversion rights attached to the Convertible Bonds, the Subscriber will be interested in approximately 33.68% (assuming the Conversion Price being HK\$0.3) or approximately 45.84% (assuming the Conversion Price being HK\$0.18) of the total issued share capital of the Company and will become the Company's controlling Shareholder and thereby trigger off a mandatory offer obligation under the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). In such event, the Subscriber would comply with the relevant provisions of the Takeovers Code as and when appropriate.

PROPOSED SHARE CONSOLIDATION

As at the date of this announcement, the authorised share capital of the Company is HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each, of which 1,641,177,848 Shares have been issued and are fully paid or credited as fully paid. Save for the Options and the Convertible Bonds, the Company has no outstanding warrants, convertibles, options or derivatives and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the date of this announcement. The Company will adjust the number and/or the exercise price of the Options upon the Share Consolidation becoming effective. A further announcement will be made by the Company regarding the required adjustments in due course.

The Board proposes to consolidate each existing issued and unissued Share of HK\$0.01 into one Consolidated Shares of HK\$0.05 each. Upon the Share Consolidation becoming effective, the authorised share capital of the Company will be HK\$100,000,000 divided into 2,000,000,000 Consolidated Shares, of which 328,235,569 Consolidated Shares will be in issue and fully paid or credited as fully paid, assuming that no further Shares will be issued or repurchased after the date of this announcement and prior to the Share Consolidation becoming effective.

The Consolidated Shares will rank *pari passu* in all respects with each other. An application will be made to Stock Exchange for listing of, permission to deal in, the Consolidated Shares to be in issue and any new Consolidated Shares which may fall to be issued pursuant to the exercise of Options granted under the Share Option Scheme upon the Share Consolidation becoming effective. All necessary arrangements will be made for the Consolidated Shares to be admitted into the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited.

Conditions of the Share Consolidation

The Share Consolidation is conditional on:

- (a) the passing by the Shareholders at the EGM of an ordinary resolution approving the Share Consolidation; and
- (b) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares and any new Consolidated Shares which may fall to be issued pursuant to the exercise of Options granted under the Share Option Scheme.

CHANGE IN BOARD LOT SIZE

The Shares are currently traded on the Stock Exchange in board lot size of 2,000 Shares. The Board also proposes that subject to and upon the Share Consolidation becoming effective, the board lot size be changed from 2,000 Shares to 5,000 Consolidated Shares. The Change in Board Lot Size ensures that the value of each board lot of the Consolidated Shares would be more than HK\$2,000 and minimises transaction and registration costs in respect of transfer of Consolidated Shares. The Board considers the Change in Board Lot Size to be in the interests of the Company and its Shareholders as a whole.

ARRANGEMENT FOR MATCHING ODD LOTS

In order to alleviate the difficulties arising from the odd lots of Consolidated Shares arising from the Share Consolidation, the Company has procured an agent to provide matching services for sale and purchase of odd lots of Consolidated Shares for Shareholders.

EXPECTED TIMETABLE

The expected timetable for the implementation of the Share Consolidation, Change in Board Lot Size, arrangement for matching odd lots of the Consolidated Shares and exchange of Share Certificates will be further announced by the Company in due course.

REASON FOR THE SHARE CONSOLIDATION

The proposed Share Consolidation will increase the nominal value and trading price of each Share and increase the total number of Shares in issue. The Board is of the view that the decrease in number of Shares as a result of the Share Consolidation will improve the liquidity in trading of the Consolidated Shares, thereby enabling the Company to attract more investors and broaden its Shareholders' base eventually. The Board considers that the implementation of the Share Consolidation is in the interests of the Company and its Shareholders as a whole and would not have any adverse effect on the financial position of the Company.

Other than the expenses to be incurred (including printing charges and professional fees) by the Company in relation to the Share Consolidation, the implementation thereof will not, by itself, affect the underlying assets, business operations, management or financial position of the Group or the interests of Shareholders as a whole.

GENERAL

The Circular containing the information regarding, among other things, details of the Subscription Agreement (as supplemented by the Supplemental Subscription Agreement), the Share Consolidation, the trading arrangements in respect of the Consolidated Shares and a notice convening the EGM will be despatched to the Shareholders as soon as practicable.

The EGM will be convened and held to consider and, if thought fit, approve the Share Consolidation and the matters contemplated thereunder. As no Shareholder has a material interest in the Share Consolidation which is different from other Shareholders, no Shareholder is required to abstain from voting at the EGM.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires.

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|----------------------------|---|---|
| “Change in Board Lot Size” | : | the change in the board lot size from 2,000 Shares to 5,000 Consolidated Shares upon the Share Consolidation becoming effective |
| “Conversion Price” | : | the initial conversion price of HK\$0.30 (subject to adjustment) per Conversion Share upon conversion of the Convertible Bonds |
| “Conversion Share(s)” | : | new Consolidated Share(s) falling to be allotted and issued by the Company upon exercise of the conversion rights attached to the Convertible Bonds |
| “Consolidated Share(s)” | : | ordinary share(s) of HK\$0.05 each in the share capital of the Company after the Share Consolidation having become effective |

“Circular”	:	the circular containing further details of the Share Consolidation convening the EGM, to be despatched to the Shareholders as soon as practicable
“Deed of Assignment”	:	the deed of assignment by way of security over the Promissory Note to be executed by the holder of the Promissory Note in favour of the Subscriber as security for the Convertible Bonds
“EGM”	:	the extraordinary general meeting of the Company to be held to consider and, if appropriate, approve the Subscription Agreement (as supplemented by the Supplemental Subscription Agreement) and the Share Consolidation and the matters contemplated thereunder
“Issue Date”	:	being the date of Completion and issue of the Convertible Bonds in principal amount of HK\$50,000,000 under the Instrument
“Last Trading Day”	:	8 August 2011 being the last trading day of the Shares immediately prior to the date of the Previous Announcement
“Maturity Date”	:	six months after the Issue Date or extended, at the discretion of the Company by the service of the Company to the Bondholder of not less than 14 days’ advance written notice, to the date falling 12 months from the Issue Date
“Previous Announcement”	:	announcement of the Company dated 8 August 2011 in relation to the Subscription Agreement
“Promissory Note”	:	the promissory note dated 15 April 2011 in the principal amount of HK\$106,222,355 issued by the Company in favour of Premier Capital Enterprises Limited
“Share(s)”	:	ordinary share(s) of HK\$0.01 each in the share capital of the Company (before the completion of the Share Consolidation) or ordinary share(s) of HK\$0.05 each in the share capital of the Company (after the completion of the Share Consolidation) (as the case may be)
“Share Option Scheme”	:	the share option scheme of the Company adopted on 9 May 2011
“Share Consolidation”	:	the proposed consolidation of every five Shares of HK\$0.01 each in the issued and unissued share capital of the Company into one Consolidated Share of HK\$0.05 each in the issued and unissued share capital of the Company

- “Single Largest Shareholder” : Mr. Luk Wing Kwong, Quintin
- “Subscription Agreement” : the conditional subscription agreements (as supplemented by the Supplemental Subscription Agreement) entered into between the Company and the Subscriber dated 8 August 2011 in respect of the Subscription
- “Supplemental Subscription Agreement” : the conditional supplemental subscription agreements entered into between the Company and the Subscriber dated 23 August 2011 to amend certain terms of the Subscription Agreement

By order of the Board
TLT LOTTOTAINMENT GROUP LIMITED
Cheung Man Yau, Timothy
Chief Executive Officer and Executive Director

Hong Kong, 23 August 2011

As at the date of this announcement, the executive Directors of the Company are Mr. Cheung Man Yau, Timothy, Mr. Chan Kin Yip and Mr. Lai Chun Hung; and the independent non-executive Directors of the Company are Mr. Sung Wai Tak, Herman, Mr. Wong Lit Chor, Alexis and Mr. Fung Wai Shing.

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

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