Annual Report 2005

For the period from 1 April 2005 to 31 December 2005

China LotSynergy Holdings Limited

華彩控股有限公司

(Incorporated in Bermuda with limited liability)

Stock code: 8161

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This report, for which the directors (the "Directors") of China LotSynergy Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONTENTS

CORPORATE INFORMATION

DIRECTORS
LAU Ting, *Chairman*
SUN Ho, *Deputy Chairman*
CHEN Aizheng, *Executive Director*
NG Man Fai, Matthew, *Executive Director*
KING Roger, *Independent Non-Executive Director*
HUANG Shenglan, *Independent Non-Executive Director*
LI Xiaojun, *Independent Non-Executive Director*

CHIEF EXECUTIVE OFFICER
SUN Ho

COMPANY SECRETARY
NG Lai Ping, Grace

QUALIFIED ACCOUNTANT
TAN Yung Kai, Richard

COMPLIANCE OFFICER
NG Man Fai, Matthew

AUTHORISED REPRESENTATIVES
NG Man Fai, Matthew
NG Lai Ping, Grace

AUDIT COMMITTEE
HUANG Shenglan
KING Roger
LI Xiaojun

AUDITORS
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

LEGAL ADVISERS
Appleby Spurling Hunter
Baker & McKenzie
Haiwen & Partners

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183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia) Limited

FINANCIAL SUMMARY

A summary of results and the assets and liabilities of China LotSynergy Holdings Limited (formerly known as WorldMetal Holdings Limited) and its subsidiaries (collectively the "Group") are as follows:–

RESULTS

	Nine month period ended 31 December	Year ended 31 March			
	2005	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**12,040**	52,641	262,756	45,698	48,156
(Loss)/profit before income tax	**(42,438)**	(12,390)	(4,705)	(8,523)	6,133
Income tax	**179**	–	1,500	(1,358)	822
(Loss)/profit for the period/year	**(42,259)**	(12,390)	(3,205)	(9,881)	6,955
Attributable to:					
Equity holders of the Company	**(42,146)**	(11,680)	(3,206)	(6,842)	6,236
Minority interests	**(113)**	(710)	1	(3,039)	719
	(42,259)	(12,390)	(3,205)	(9,881)	6,955

Note:

The results of the Group for the year ended 31 March 2002 were prepared on the assumption that the current structure of the Group has been in existence throughout the year.

FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	As at 31 December	As at 31 March			
	2005	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**4,626**	3,059	3,604	6,736	10,242
Current assets	**308,416**	44,135	57,037	59,476	64,458
Total assets	**313,042**	47,194	60,641	66,212	74,700
Current liabilities	**(7,928)**	(1,993)	(3,614)	(6,461)	(5,098)
Non-current liabilities	**–**	(179)	(179)	(179)	(580)
Net assets	**305,114**	45,022	56,848	59,572	69,022
Capital and reserves:					
Share Capital	**14,300**	10,000	10,000	10,000	10,000
Reserves	**332,757**	35,024	34,742	34,490	34,342
(Accumulated losses)/retained profit	**(58,505)**	(16,359)	(4,679)	(1,473)	5,369
Capital and reserves attributable to equity holders of the Company	**288,552**	28,665	40,063	43,017	49,711
Minority interests	**16,562**	16,357	16,785	16,555	19,311
Total equity	**305,114**	45,022	56,848	59,572	69,022

Note:

The assets and liabilities of the Group as at 31 March 2002 were prepared on the assumption that the current structure of the Group had been in existence throughout the year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in investment, project development and the provision of technologies and equipments and consultancy services in public welfare lottery business and related sectors.

Review of business

During the period under review, the management of the Group made aggressive efforts in transformation and achieved progress in the development of lottery-related business, establishing the foundation for the future growth of the Group.

1. As regards TIHK Joint Venture and TCA Contract

   In June 2005, the Group entered into a shareholders' agreement with a subsidiary of Tabcorp Holdings Limited ("Tabcorp") in Australia. Pursuant to the agreement, the Group and the Tabcorp Group formed a joint venture company, namely Tabcorp International Hong Kong Limited ("TIHK"), which is owned as to 33% by the Group and 67% by the Tabcorp Group.

   In July 2005, TIHK and Beijing Lottery Online Technology Co., Ltd. ("CLO") entered into a Technical Cooperation Agreement ("TCA Contract"), pursuant to which TIHK would provide equipment (including sales terminals), software (including source codes) and relevant technical services for a term of ten years.

   The Tabcorp Group is a renowned gaming and entertainment group in Australia. It manages a number of leading customer brands in Australia, including Star City and Jupiters casinos and TAB, Tabaret, KENO and TAB Sportsbet.

   CLO is an advanced technology company established with the approval of the Ministry of Civil Affairs. It is controlled by China Welfare Lottery Issuance and Administration Centre of the PRC and is licensed to operate and run 中福在線 (the China Welfare Lottery Online) instant lottery (including VLT and KENO) technical and sales system in the PRC.

2. As regards Video Lottery Business

   On 9 January 2006, the Group and Corich International Limited ("Corich") entered into a subscription agreement, pursuant to which the Group would subscribe for 1,000,000 shares of Corich, representing either approximately 33.3% or 50% (depending on whether the redemption rights under the agreement will be exercised) in the issued share capital of Corich as a result of the subscription, for a consideration of HK$980 million to be satisfied by way of cash and issue of shares.

   Dongguan Tianyi Electronics Company Limited ("Tianyi Electronics"), a wholly-owned subsidiary of Corich, is principally engaged in the manufacturing, and is a provider, of video lottery terminals ("VLT"). In 2005, Tianyi Electronics and CLO entered into an agreement, pursuant to which Tianyi Electronics would provide VLTs to the Lottery Online Halls（「中福在線」即開型彩票銷售廳）for a term of ten years.

3. As regards Placing

   To satisfy its capital commitments and the consideration for the subscription under the above agreements, and to provide working capital for its future operations, the Group successfully completed two placing exercises. In August 2005, a total proceeds of approximately HK$270 million was raised from a placing of shares of the Company at the price of HK$1.29 per share. In January 2006, a total proceeds of approximately HK$630 million was raised from a placing of shares of the Company at the price of HK$3.675 per share.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Cont'd)*

Business Outlook

The Group keeps a close eye on the developments in the PRC's welfare lottery market and is confident in the prospect of its business operations.

In China, the issue of lottery is a business of public welfare nature and is totally directed by PRC government authorities. At present, the issuance and operation of lotteries in China are restricted to the government or government-authorised organisations. Participation of foreign enterprises in the PRC lottery industry is limited to provision of equipment and technical support only.

Lottery business had a late start in the PRC. Compared with well-developed lottery industries of other countries, China considerably lags behind in various aspects such as the technology and equipment and the game structure, particularly the increasingly popular video lottery games.

Emerging along with development in modern telecommunication and networking technologies, video lottery games enjoy growing prevalence and a bright prospect in the development of the global lottery sector. VLTs are capable of executing an extensive range of games featuring immense entertainment, amusement and interactivity and are thus very popular among players.

Despite its late start, the instant lottery sector in the PRC exhibited robust growth potential. The issuance and sales of instant lottery products are restricted to the Lottery Online Halls, which are directly invested, set up and operated by the provincial and municipal lottery welfare centres (彩票福利中心). At present, there are over 230 approved Lottery Online Halls and more than 5,000 VLTs, which are exclusively manufactured and provided by the Corich Group, throughout the PRC. Given the political backdrop where the PRC government severely combat illegal lottery, underground casino and online betting on the one hand, and aggressively promotes welfare lottery on the other, the prospects of the video lottery business are encouraging.

The acquisition of the Corich Group further expanded and reinforced the Group's core business in participating in the PRC's welfare lottery market. At the same time, with an international vision, the Group actively sought after suitable business partners or targets for mergers or acquisitions in appropriate business sectors. In January 2006, China LotSynergy Group Limited, a wholly-owned subsidiary of the Group, entered into a heads of agreement with Octavian International Limited ("Octavian"), a company headquartered in the United Kingdom, in respect of the possible acquisition of equity interests in Octavian. Pursuant to this heads of agreement, the Group intended to acquire 90% equity interests in Octavian by way of cash and issue of shares. Headquartered in the United Kingdom, Octavian operates sales offices and technical centres in Argentina, Colombia, India, Italy, Russia and Spain. It boasts a management team of advanced technology and extensive experience appropriate to its lottery business. In case of successful acquisition of Octavian, the Group will create synergy among various aspects such as specialists of the business, expertise and the foreign and domestic markets. Building on this basis, it is committed to improving the design and quality of the VLTs and enriching game offerings and contents to cater to the specific needs of the PRC market. In addition, it is the Group's intention to continue to boost its capability of production and provision of VLTs, and to capitalize on the market position of Octavian in Russia, Europe, South America and Asia for exploring the international market for VLTs.

The Group is committed to provide strong support to the welfare lottery sector by focusing on the development of its lottery business. The Group is fully confident in its competitive advantage and future prospect. As always, it is dedicated to endeavouring for the sustained and steady growth of return to its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded an audited consolidated turnover of approximately HK$12,040,000 for the nine month period ended 31 December 2005 (Year ended 31 March 2005: HK$52,641,000). The audited consolidated loss attributable to equity holders of the Company for the nine month period ended 31 December 2005 amounted to approximately HK$42,146,000 (Year ended 31 March 2005: HK$11,680,000).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

The Group's total equity increased to HK$305,114,000 at 31 December 2005 from HK$45,022,000 at 31 March 2005. The net current assets of the Group were approximately HK$300,488,000 (As at 31 March 2005: HK$42,142,000) as at 31 December 2005, including cash and deposits with banks and financial institution of approximately HK$258,042,000 (As at 31 March 2005: HK$22,217,000). At 31 December 2005, the Group had no banking facilities nor bank borrowings (As at 31 March 2005: Nil and Nil).

The gearing ratio (defined as total liabilities over total assets) of the Group as at 31 December 2005 was approximately 2.5% (As at 31 March 2005: 4.6%).

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENT

China LotSynergy Limited, a wholly-owned subsidiary of the Company, and Tabcorp International No.1 Pty Limited, a wholly-owned subsidiary of Tabcorp Holdings Limited ("Tabcorp") in Australia, and others entered into a shareholders' agreement on 8 June 2005 for the formation of a joint venture company, namely Tabcorp International Hong Kong Limited ("TIHK"), which is owned as to 33% by the Group and 67% by Tabcorp Group. The total capital commitment in respect of the formation of TIHK is approximately HK$180 million, of which the Group's contribution is approximately HK$59 million.

On 23 July 2005, TIHK entered into a technical cooperation agreement with Beijing Lottery Online Technology Co., Ltd. ("CLO") and Tabcorp International Pty Limited, under which TIHK would assist CLO to build and develop the first nationwide unified platform for lottery operation that is suitable for use throughout the PRC. Pursuant to the agreement, TIHK will provide CLO with software, central system, terminals and other technical support for its operation and other ancillary training and marketing and promotion assistance. TIHK will initially utilize funding from its share capital in connection with the provision of the abovementioned services. The board of TIHK will decide as and when necessary when further fundings will be required in the future under the agreement.

China LotSynergy Group Limited ("CLG"), a wholly-owned subsidiary of the Company, and Corich International Limited ("Corich") and others entered into a subscription agreement on 9 January 2006, pursuant to which the Group would subscribe for 1,000,000 shares of Corich, representing either approximately 33.3% or 50% (depending on whether the redemption rights under the agreement will be exercised) in the issued share capital of Corich as a result of the subscription, for a consideration of HK$980 million, to be satisfied as to HK$500 million by cash and as to HK$480 million by the allotment and issue of 200,000,000 shares of the Company. An initial deposit of HK$10 million was paid on 20 December 2005 and a further deposit of HK$20 million was paid on 12 January 2006 in accordance with the agreement. The Group has completed a placing and top-up subscription of 180,000,000 shares of the Company in January 2006, raising a net proceeds of approximately HK$631.8 million which are intended to be partly used to settle the cash element of the consideration of HK$470 million.

On 10 January 2006, CLG entered into a heads of agreement, pursuant to which the Group intended to acquire 90% interest in Octavian International Limited by way of cash and issue of shares. The proposed acquisition is subject to the entering into of a formal agreement between the parties.

To reflect its business transformation, the Group will proceed to settle its existing business when appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

The Directors believe that the Group has sufficient working capital which will be generated from operations and funded by the net proceeds from the placing of shares in 2005 and 2006.

EXPOSURE TO EXCHANGE RATES FLUCTUATION

Majority of the revenue-generating operations of the Group during the period are transacted in USD and Korean WON, both of which are freely convertible currencies. Historical exchange rates of these two currencies have been stable. The Group is in the view that exposure to exchange rate risks is considered very minimal. The Group did not enter any foreign forward contracts to hedge against exchange rates fluctuations.

SEGMENT INFORMATION

The Group's business segments consist operations in metal exchange portals, metal trading, provision of consultancy and logistics services and application software development services. Details of the business segments are set out in note 5 to the financial statements.

PLEDGE OF ASSET

As at 31 December 2005, the Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (As at 31 March 2005: Nil).

CONTINGENT LIABILITIES

As at 31 December 2005, the Group did not have any material contingent liabilities (As at 31 March 2005: Nil).

STAFF

As at 31 December 2005, the Group employed 27 staff members. The management is strongly convinced 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 and medical insurance. 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.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Ms. LAU Ting, aged 49
Chairman

Ms. Lau is the Chairman of the Company and a co-founder of the Group. Ms. Lau is responsible for the business planning and overall development of the Group. She is also in charge of the financial planning, corporate finance, human resources, and strategic planning of the Group. She has over 10 years of experience in business development, merger and acquisition, property investment and financial management. Ms. Lau is also an executive director of Burwill Holdings Limited.

Mr. SUN Ho, aged 37
Deputy Chairman and Chief Executive Officer

Mr. Sun is the Deputy Chairman and the Chief Executive Officer of the Company. Mr. Sun has extensive experience in corporate financial management. Prior to joining the Group, Mr. Sun was an executive director of Burwill Holdings Limited, where he was responsible for the corporate finance, merger and acquisition affairs, and PRC project investments activities, and worked for KPMG, an international accounting firm, where he was involved in the auditing and due diligence activities for the listing, merger and acquisition activities of international finance groups and multinational enterprises. Mr. Sun holds a bachelor's degree in Economics from the University of Sydney in Australia and a master's degree in Corporate Finance from the Hong Kong Polytechnic University. He is a member of the Australian Society of Certified Practising Accountants and the Hong Kong Institute of Certified Public Accountants and is a researcher of China Center for Lottery Studies, Peking University.

Dr. CHEN Aizheng, aged 48
Executive Director

Dr. Chen joined the Group in June 2000 and is an Executive Director and the Chief Information Officer of the Company overseeing ICP division. Prior to joining the Group, he worked in the area of international trading and also as an investment consultant in Canada. He holds a BA degree and MA degree from Nanjing University, the PRC. He is also a graduate from Goettingen University, Germany with a Ph.D in Comparative linguistics and literature. Dr. Chen is the brother-in-law of Ms. Lau Ting.

Mr. NG Man Fai, Matthew, aged 38
Executive Director

Mr. Ng joined the Group in June 2000 and is an Executive Director, the Compliance Officer and the Financial Controller of the Company. He is responsible for the financial planning of the Group and the supervision of its accounting and financial activities. Mr. Ng had over 15 years' experience in the fields of auditing, finance and accounting in international certified public accounting firms, financial institutions and listed companies in Hong Kong. Mr. Ng holds a bachelor's degree in Business Administration from the University of East Asia in Macau and a master's degree in Accountancy from the Charles Sturt University in Australia. At present, he is a Certified Public Accountant (Practising) in Hong Kong, a fellow member of the Association of Chartered Certified Accountants and is a member of the Hong Kong Institute of Certified Public Accountants, the Taxation Institute of Hong Kong, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Cont'd)*

Mr. KING Roger, aged 65

Independent Non-Executive Director

Mr. King joined the Group in December 2000 and is an Independent Non-Executive Director. Mr. King has extensive experience in corporate management, computing engineering and management consultancy. He was the chief executive officer and an executive director of SaSa International Holdings Limited, a Hong Kong listed company offering beauty and health products and services in Asia, during the period from 1999 to April 2002. He is a non-executive director of Orient Overseas International Ltd, an independent non-executive director of Sincere Watch (Hong Kong) Limited, both are Hong Kong listed companies and a director of Arrow Electronics Inc., a US listed company. Mr. King also served as the executive chairman of System-Pro Computers Ltd., a major Hong Kong personal computer retailer. He holds a bachelor's degree in electrical engineering from the University of Michigan and a master's degree in electrical engineering from New York University. He is also a graduate of the Harvard Business School.

Mr. HUANG Shenglan, aged 54

Independent Non-Executive Director

Mr. Huang joined the Group in October 2002 and is an Independent Non-Executive Director. Mr. Huang was an executive director and the deputy governor of China Everbright Bank, Head Office and was an executive director and the general manager of China Everbright Technology Limited. Mr. Huang holds a diploma in Arts from Huazhong Normal University and in International Economics from Huadong Normal University and a certificate in International Economic Law from Xiamen University and in Advanced Management Programme from the Business School of Harvard University, USA. Mr. Huang is also an independent non-executive director of Burwill Holdings Limited and Chongqing Road & Bridge Co. Ltd.

Mr. LI Xiaojun, aged 31

Independent Non-Executive Director

Mr. Li joined the Group in September 2004 and is an Independent Non-Executive Director. Mr. Li is a practising lawyer in the Beijing PRC at East Associates, focusing his area of practice in corporate and capital market matters and has represented a number of domestic state-owned enterprises, private-owned enterprises and foreign invested companies in restructuring and reorganisation, mergers and acquisitions, and initial public offerings exercises. Mr. Li serves as legal counsel for the first Sino-foreign fund management company, where he has been engaged in the invention and development of investment funds, providing legal service for issuances of the first domestic Umbrella Fund, QDII Fund, Money Market Fund and other mutual funds. Mr. Li has also successfully participated in the project regarding disposition of bad assets of state-owned commercial bank. In addition, he has also been focusing his work on business strategy formulation and alliance for wholly foreign-owned commercial enterprises in China. Mr. Li has proven ability and experience in various areas in the legal profession. Mr. Li graduated from Zhongnan University of Economic and Law and is a member of All-China Lawyers Association and Beijing Bar Association.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms. NG Lai Ping, Grace, aged 36

Ms. Ng is the Company Secretary of the Company, responsible for the Group's company secretarial affairs and compliance matters. Prior to joining the Group in May 2000, she worked for an international accounting firm and for listed companies with extensive experience in company secretarial work for private and listed companies. Ms. Ng is a member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Mr. TAN Yung Kai, Richard, aged 34

Mr. Tan is the Qualified Accountant of the Company, responsible for the overall financial accounting of the Company. He has over 10 years of experience in the audit and the accounting fields. Prior to joining the Group in July 2000, he worked for Deloitte Touche Tohmatsu, an international accounting firm involved in the various auditing and due diligence activities. He holds a Bachelor Degree in Commerce from McGill University, Canada and a master's degree in Corporate Finance from the Hong Kong Polytechnic University. Mr. Tan is a member of the Hong Kong Institute of Certified Public Accountants and American Institution of Certified Public Accountants.

REPORT OF THE DIRECTORS

The Directors are presenting to the shareholders their report together with the audited financial statements of China LotSynergy Holdings Limited (formerly known as WorldMetal Holdings Limited) (the "Company") and its subsidiaries (collectively known as the "Group") for the nine month period ended 31 December 2005.

FINANCIAL RESULTS

Details of the Group's results for the nine month period ended 31 December 2005 are set out in the consolidated income statement on page 31.

The respective state of affairs of the Group and the Company as at 31 December 2005 are set out in the balance sheets on pages 32 and 33.

The Group's cash flows are set out in the consolidated cash flow statement on page 35.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding.

The principal activities of the Group are provision of metal exchange portals for metal trading and ancillary value-chain services, metal trading, provision of consultancy and logistics services and application software development services. The Group is transforming its principal business to engage in investment, project development and the provision of technologies and equipments and consultancy services in public welfare lottery business and related sectors.

Analysis of the Group's turnover and operating results by business and geographical segments for the nine month period ended 31 December 2005 are set out in note 5 to the financial statements on pages 51 to 53.

DIVIDEND

No interim dividend was paid during the period.

The Directors do not recommend the payment of a final dividend for the nine month period ended 31 December 2005 (Year ended 31 March 2005: Nil).

MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest customers accounted for about 100% of its turnover for the period. In addition, the largest customer of the Group accounted for about 100% of the Group's turnover.

The Group's five largest suppliers accounted for about 100% of its purchases for the period. In addition, the largest supplier of the Group accounted for about 100% of the Group's purchases.

Save as disclosed above, none of the Directors, their respective associates nor shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the above customers and suppliers at any time during the period.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the period are set out in note 13 to the financial statements on pages 60 and 61.

SUBSIDIARIES

The particulars of the Company's subsidiaries as at 31 December 2005 are set out in note 14 to the financial statements on pages 61 to 63.

SHARE CAPITAL

Details of movements in share capital during the period are set out in note 24 to the financial statements on page 67.

RESERVES

Details of movements in reserves during the period are set out in note 26 to the financial statements on page 69.

DISTRIBUTABLE RESERVES

As at 31 December 2005, there was no distributable reserve to shareholders in accordance with the Companies Act of 1981 of Bermuda (As at 31 March 2005: Nil).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there is no statutory restriction against the granting of such rights under the laws of Bermuda.

RESIGNATION OF DIRECTOR

Mr. YU Wing Keung, Dicky had resigned as an Executive Director of the Company with effect from 11 April 2005.

APPOINTMENT OF DEPUTY CHAIRMAN, EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. SUN Ho was appointed as the Chief Executive Officer of the Company on 1 August 2005 and was appointed as the Deputy Chairman and an Executive Director of the Company on 3 October 2005.

CHANGE OF COMPANY NAME

The Company had changed its name from "WorldMetal Holdings Limited" to "China LotSynergy Holdings Limited" with effect from 11 October 2005 and had adopted "華彩控股有限公司" as its Chinese name with effect from 22 October 2005.

REPORT OF THE DIRECTORS

CHANGE OF HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

The head office and principal place of business of the Company was changed to Unit 3206, 32/F., Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong with effect from 28 October 2005.

CHANGE OF FINANCIAL YEAR END DATE

The financial year end date of the Company be changed from 31 March to 31 December commencing from the financial year 2005. Accordingly, the current financial period will cover a nine month period from 1 April 2005 to 31 December 2005.

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 securities during the nine months ended 31 December 2005.

The Company repurchased a total of 8,168,000 shares in the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in February 2006 pursuant to the general mandate granted by the shareholders at the annual general meeting held on 29 September 2005.

SHARE OPTION SCHEME

At the 2002 Annual General Meeting of the Company held on 30 July 2002, a new share option scheme (the "Option Scheme") was adopted by the shareholders to comply with the requirements of Chapter 23 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"). As at 31 December 2005, there were options for 32,600,000 ordinary shares of HK$0.01 each in the share capital of the Company (the "Share(s)") granted by the Company pursuant to the Option Scheme which are valid and outstanding.

Summary of the principal terms of the Option Scheme is as follows:–

(i) Purpose of the Option Scheme

The purpose of the Option Scheme is to provide incentives to Participants (as stated in paragraph (ii)) to contribute to the Group and to enable the Group to recruit high-calibre employees and attract resources that are valuable to the Group.

(ii) Participants

Any person being an employee, officer, buying agent, selling agent, consultant, sales representative, marketing representative, business representative of, or supplier or provider of goods or services to, the Group or its holding company, including any executive or non-executive director of the Group or its holding company or subsidiary.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Cont'd)*

(iii) Maximum number of shares

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option schemes of the Company and/or its holding company and/or its subsidiary must not exceed 30% of the number of issued shares from time to time. The total number of shares available for issue under the Option Scheme as at the date of this report is 67,400,000 shares, representing approximately 4.21% of the issued share capital of the Company as of that date.

(iv) Maximum entitlement of each Participant

Unless approved by shareholders of the Company in general meeting, no Participant shall be granted an option which would result in the total number of shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such Participant in any 12-month period up to and including the proposed date of grant for such options would exceed 1% of the number of shares in issue as at the proposed date of grant.

(v) Option period

An option may be exercised in accordance with the terms of the Option Scheme at any time during a period of not exceeding 10 years to be notified by the Board to the grantee, such period to commence on the date of grant or such later date as the Board may determine and expiring on the last day of the said period. Under the Option Scheme, the Board may, at its discretion, prescribe a minimum period for which an option must be held before it can be exercised.

(vi) Payment on acceptance of option

HK$1.00 in cash is payable by the Participant who accepts the grant of an option in accordance with the terms of the Option Scheme on acceptance of the grant of an option.

(vii) Subscription price

The subscription price for the shares under the options to be granted under the Option Scheme will be a price determined by the Board and notified to a Participant at the time the grant of the options is made to (and subject to acceptance by) the Participant and will be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant (subject to acceptance) of the option, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant (subject to acceptance) of the option; and (c) the nominal value of the shares.

(viii) The life of the Option Scheme

The Option Scheme shall be valid and effective for a period of ten years commencing on 30 July 2002, after which period no further options will be granted or accepted but the provisions of the Option Scheme shall remain in full force and effect in all other respects.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Cont'd)*

Movement of share options granted under the Option Scheme during the nine month period ended 31 December 2005:

		No. of Shares under the options held as at 01/04/2005	granted during the period *(Note 1)*	held as at 31/12/2005 *(Note 2)*	Date of grant	Exercise price per share HK$ *(Note 3)*	Exercise period from	until
(i)	**Name of Substantial Shareholder**							
	CHAN Shing	–	500,000	500,000	01/09/2005	1.96	31/10/2005	30/10/2007
		–	500,000	500,000	01/09/2005	1.96	31/10/2006	30/10/2007
(ii)	**Name of Director**							
	LAU Ting	–	500,000	500,000	01/09/2005	1.96	31/10/2005	30/10/2007
		–	500,000	500,000	01/09/2005	1.96	31/10/2006	30/10/2007
	SUN Ho	–	6,900,000	6,900,000	01/09/2005	1.96	31/10/2005	30/10/2007
		–	6,900,000	6,900,000	01/09/2005	1.96	31/10/2006	30/10/2007
	CHEN Aizheng	–	4,500,000	4,500,000	01/09/2005	1.96	31/10/2005	30/10/2007
		–	4,500,000	4,500,000	01/09/2005	1.96	31/10/2006	30/10/2007
	HUANG Shenglan	–	500,000	500,000	01/09/2005	1.96	31/10/2005	30/10/2007
		–	500,000	500,000	01/09/2005	1.96	31/10/2006	30/10/2007
	KING Roger	–	250,000	250,000	01/09/2005	1.96	31/10/2005	30/10/2007
		–	250,000	250,000	01/09/2005	1.96	31/10/2006	30/10/2007
	LI Xiaojun	–	250,000	250,000	01/09/2005	1.96	31/10/2005	30/10/2007
		–	250,000	250,000	01/09/2005	1.96	31/10/2006	30/10/2007
(iii)	**Continuous contract employees**	–	600,000	600,000	01/09/2005	1.96	31/10/2005	30/10/2007
		–	600,000	600,000	01/09/2005	1.96	31/10/2006	30/10/2007
		–	1,500,000	1,500,000	15/12/2005	2.70	15/12/2006	14/12/2008
(iv)	**Other participants**	–	1,550,000	1,550,000	01/09/2005	1.96	31/10/2005	30/10/2007
		–	1,550,000	1,550,000	01/09/2005	1.96	31/10/2006	30/10/2007
	Total:	–	32,600,000	32,600,000				

Notes:

1. The options are recognised as expenses in the accounts in accordance with Hong Kong Financial Reporting Standard 2. Other details of share options granted by the Company are set out in note 25 to the financial statements.

2. No options had been exercised, lapsed nor cancelled under the Option Scheme during the nine months ended 31 December 2005.

3. (i) The closing market price per Share immediately before 1 September 2005, the date on which share options were granted, was HK$1.96; (ii) The closing market price per Share immediately before 15 December 2005, the date on which share options were granted, was HK$2.70.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors of the Company during the period and up to the date of this report were:

Executive Directors:

Ms. LAU Ting	
Mr. SUN Ho	– appointed on 3 October 2005
Mr. CHEN Aizheng	
Mr. NG Man Fai, Matthew	
Mr. YU Wing Keung, Dicky	– resigned on 11 April 2005

Independent Non-Executive Directors:

Mr. KING Roger
Mr. HUANG Shenglan
Mr. LI Xiaojun

In accordance with bye-laws 99 and 102 of the Bye-laws of the Company, Mr. SUN Ho, Mr. CHEN Aizheng and Mr. KING Roger retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election, except Mr. KING Roger, due to his other personal commitments, will not offer himself for re-election.

Biographical details of the Directors of the Company are set out on pages 9 to 10.

SENIOR MANAGEMENT

Biographical details of the senior management of the Group are set out on page 11.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(1) Interests in Shares

(A) The Company

Name of Director	Personal interests	Number of Shares Family interests	Corporate interests	Total	Approximate percentage interest in the Company's issued share capital
LAU Ting	50,288,803	72,951,773 *(Note 1)*	405,746,308 *(Note 2)*	528,986,884 *(Note 3)*	36.99%
SUN Ho	2,800,000	30,000	–	2,830,000	0.20%
CHEN Aizheng	2,310,000	156,000	–	2,466,000	0.17%
NG Man Fai, Matthew	660,000	–	–	660,000	0.05%

Notes:

1. These Shares were owned by Mr. CHAN Shing, the spouse of Ms. LAU Ting.

2. 11,320,192 Shares were held by Hang Sing Overseas Limited ("Hang Sing") which is owned as to 51% by Orient Strength Limited ("Orient Strength"), a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 10,595,042 Shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 383,831,074 Shares were held by Burwill Holdings Limited ("Burwill"), which is owned as to 21.94% by Hang Sing, as to 20.53% by Strong Purpose, as to 2.11% by Ms. LAU Ting and as to 1.26% by Mr. CHAN Shing.

3. As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same Shares.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES *(Cont'd)*

(1) Interests in Shares *(Cont'd)*

(B) Associated Corporation - Burwill Holdings Limited

Name of Director	Number of ordinary shares Personal interests	Family interests	Corporate interests	Total	Approximate percentage interest in the issued share capital of Burwill
LAU Ting	21,776,072	13,035,472 *(Note 1)*	438,304,701 *(Note 2)*	473,116,245 *(Note 3)*	45.84%
SUN Ho	200,000	–	–	200,000	0.02%

Notes:

1. These shares were owned by Mr. CHAN Shing, the spouse of Ms. LAU Ting.

2. 226,403,853 shares were held by Hang Sing which is owned as to 51% by Orient Strength, a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 211,900,848 shares were held by Strong Purpose, a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing.

3. As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same shares.

(2) Interests in underlying Shares

As at 31 December 2005, the interests of the Directors and chief executive of the Company in options for Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealings by directors of the listed issuer as referred to in Rule 5.46 of the GEM Listing Rules were as disclosed in the previous section headed "Share Option Scheme" of this report.

Save as otherwise disclosed above, as at 31 December 2005, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2005, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the Shares and underlying Shares of the Company:

(1) Interests in Shares

Name of shareholder	Number of Shares Personal interests	Family interests	Corporate interests	Total	Approximate percentage interest in the Company's issued share capital
CHAN Shing	72,951,773	50,288,803 *(Note 1)*	405,746,308 *(Note 2)*	528,986,884 *(Note 3)*	36.99%
Burwill	383,831,074	–	–	383,831,074 *(Notes 2 & 4)*	26.84%
YU Man Yiu, Park	658,500	–	117,800,860 *(Note 5)*	118,459,360	8.28%

Notes:

1. These Shares were owned by Ms. LAU Ting, the spouse of Mr. CHAN Shing and a Director of the Company.

2. 11,320,192 Shares were held by Hang Sing which is owned as to 51% by Orient Strength, a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 10,595,042 Shares were held by Strong Purpose, a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 383,831,074 Shares were held by Burwill, which is owned as to 21.94% by Hang Sing, as to 20.53% by Strong Purpose, as to 2.11% by Ms. LAU Ting and as to 1.26% by Mr. CHAN Shing.

3. As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same Shares.

4. These Shares formed part of the interests of Mr. CHAN Shing and Ms. LAU Ting.

5. 47,800,860 Shares were held by Good Talent Trading Limited which is owned as to 35% by Mr. YU Man Yiu, Park and 70,000,000 Shares were held by Centrix Investments Limited, a company which is wholly-owned by Mr. YU Man Yiu, Park.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES *(Cont'd)*

(2) Interests in Underlying Shares

As at 31 December 2005, the interests of the substantial shareholders (other than the Directors and chief executive of the Company) in options for Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as disclosed in the previous section headed "Share Option Scheme" of this report.

Save as disclosed above, as at 31 December 2005, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the financial statements, there was no contracts of significance (as defined in Rule 18.25 of the GEM Listing Rules) in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any Directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

SERVICE CONTRACTS WITH DIRECTORS

Each of the Executive Directors of the Company has entered into a service contract with the Company with an initial term of two years from the date of appointment and will continue thereafter until terminated by not less than three to six months (subject to individual contract) notice in writing served by either party on the other. The term of office of each Independent Non-Executive Director is the period up to his retirement by rotation in accordance with the Bye-laws of the Company.

Save as disclosed above, none of the Directors offering themselves for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

PLACING OF SHARES

(1) Pursuant to the two placing agreements dated 7 March 2005, the Company issued and allotted a total of 200,000,000 new shares of the Company to the relevant placees on 8 April 2005 upon completion thereof. Total net proceeds from the placing of approximately HK$5 million was used as the Group's general working capital as intended.

The above placing shares were issued pursuant to the general mandate to allot, issue and deal with shares granted to the Directors of the Company by resolution of the shareholders passed at the annual general meeting of the Company held on 3 August 2004.

REPORT OF THE DIRECTORS

PLACING OF SHARES *(Cont'd)*

(2) Pursuant to the subscription agreements dated 9 August 2005, the Company issued and allotted a total of 230,000,000 new shares of the Company at a subscription price of HK$1.29 per subscription share to the subscribers on 19 August 2005 following the completion of the placing agreements for the placing of 400,000,000 existing shares. The Company raised a sum of approximately HK$271 million through the said placing and subscription and the fund was intended to be used: (i) as to approximately HK$59 million to pay up the capital commitment of TIHK; and the remaining balance be used (ii) for investing in other relevant business opportunities that may arise in the future; and (iii) for the Company's general working capital.

The above subscription shares were issued pursuant to the general mandate to allot, issue and deal with shares granted to the Directors of the Company by resolution of the shareholders passed at the special general meeting of the Company held on 4 July 2005.

(3) Pursuant to the subscription agreements dated 17 January 2006, the Company issued and allotted a total of 180,000,000 new shares of the Company at a subscription price of HK$3.675 per subscription share to the subscribers on 27 January 2006 following the completion of the placing agreements for the placing of 180,000,000 existing shares. The Company raised a sum of approximately HK$631.8 million through the said placing and subscription and the fund is intended to be used: (i) as to approximately HK$470 million to pay the cash consideration under the subscription agreement amongst the Company, Corich International Limited and others dated 9 January 2006; and (ii) for the Company's general working capital.

The above subscription shares were issued pursuant to the general mandate to allot, issue and deal with shares granted to the Directors of the Company by resolution of the shareholders passed at the annual general meeting of the Company held on 29 September 2005.

ISSUE OF SHARES

The Company issued a total of 120,000 new shares of the Company upon the exercise of share options by the optionholders in January 2006.

REPORT OF THE DIRECTORS

MAJOR TRANSACTION

1. Formation of a joint venture

On 8 June 2005, China Lotsynergy Limited ("CLL"), a wholly-owned subsidiary of the Company, Tabcorp International No. 1 Pty Limited ("TI"), a wholly-owned subsidiary of Tabcorp Holdings Limited in Australia, and others entered into a shareholders' agreement (the "Agreement") for the formation of joint venture company namely Tabcorp International Hong Kong Limited ("TIHK"), which is owned as to 33% by CLL and 67% by TI, for the purpose of providing certain advanced and developed lottery operating systems, terminals, proprietary intellectual property rights and other technological support services to, and cooperating with, PRC government authorised organisation(s) for issuance of lottery and operation of a lottery business. The total capital commitment in respect of the formation of TIHK is approximately HK$180 million, of which the Group's contribution will be approximately HK$60 million.

The entering into of the Agreement constituted a major transaction for the Company and required shareholders' approval under the GEM Listing Rules. Pursuant to Rule 19.44 of the GEM Listing Rules, written approvals were received from a closely allied group of shareholders who in aggregate owned more than 50% of the issued share capital of the Company as at the date of the relevant announcement, approving the Agreement.

2. Subscription of interest in provider of video lottery terminals

On 9 January 2006, China LotSynergy Group Limited, a wholly-owned subsidiary of the Company, and Corich International Limited ("Corich") and others entered into a subscription agreement, pursuant to which the Group would subscribe for 1,000,000 shares of Corich (the "Subscription"), representing either approximately 33.3% or 50% (depending on whether the redemption rights under the agreement will be exercised) in the issued share capital of Corich as a result of the subscription, for a consideration of HK$980 million, to be satisfied as to HK$500 million by cash and as to HK$480 million by the allotment and issue of 200,000,000 shares of the Company (the "Consideration Shares").

The Subscription constituted a major transaction for the Company under the GEM Listing Rules. The Subscription as well as the allotment and issue of the Consideration Shares was approved pursuant to the ordinary resolution passed by the shareholders at the special general meeting held on 21 March 2006 and completion of the transaction is conditional upon the fulfillment or waiver of certain conditions precedent, details of which are set out in the Company's circular dated 1 March 2006.

CONTINUING CONNECTED TRANSACTION

As at 31 December 2005, the Group had placed a deposit amounted to approximately HK$15,385,000 (As at 31 March 2005: HK$15,095,000) with Minmetals Finance Company Limited (五礦集團財務有限責任公司) ("Minmetals Finance"), which is an associate of a substantial shareholder of the Group's subsidiary. Minmetals Finance is a registered financial institution in the PRC. Its scope of business is to, among other things, provide deposit taking services to other members of its group. The deposit has continually been placed with Minmetals Finance at the prevailing interest rate of the People's Bank of China. For the period ended 31 December 2005, total interest received from Minmetals Finance in respect of the said deposit amounted to approximately HK$346,000 (Year ended 31 March 2005: HK$299,000).

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

A summary of results, assets and liabilities of the Group is set out on page 3.

EMPLOYEE RETIREMENT BENEFIT

Details of the retirement benefit schemes of the Group and the employee retirement benefit costs charged to the consolidated profit and loss account for the year are set out in note 31 to the financial statements on pages 72 to 73.

COMPETING INTERESTS

The Directors believe that none of the Directors, the management shareholders of the Company (as defined in the GEM Listing Rules) and their respective associates had an interest, directly or indirectly, in a business which competes or may compete with the business of the Group.

AUDIT COMMITTEE

The Company has established an Audit Committee which comprises the three Independent Non-Executive Directors of the Company, Mr. HUANG Shenglan, Mr. KING Roger and Mr. LI Xiaojun. The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial results of the Group for the period ended 31 December 2005 have been reviewed by the Audit Committee.

During the period ended 31 December 2005, the Audit Committee has met three times to review the Company's financial reports, review and supervise the financial reporting process, and to provide advices and recommendations to the Board of Directors.

AUDITORS

PricewaterhouseCoopers were auditors of the Company for the year ended 31 March 2003.

HLB Hodgson Impey Cheng, who was appointed as auditors of the Company in 2004, will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
LAU Ting
Chairman

Hong Kong, 28 March 2006

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Directors believe that good corporate governance is an essential element in enhancing the confidence of shareholders, investors, employees, business partners and the community as a whole and also the performance of the Group.

In the opinion of the Directors, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the period under review, except for the deviations as disclosed in this report. The board of Directors of the Company (the "Board") will review the corporate governance structure and practices from time to time and shall make necessary arrangements to ensure business activities and decision making processes are made in a proper and prudent manner.

DIRECTORS' SECURITIES TRANSACTIONS

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 required standard of dealings set out in the Code of Conduct throughout the period ended 31 December 2005.

BOARD OF DIRECTORS

The Directors of the Company during the period ended 31 December 2005 were:

Executive Directors
Ms. Lau Ting *(Chairman)*
Mr. Sun Ho *(Deputy Chairman & Chief Executive Officer) (appointed on 3 October 2005)*
Mr. Chen Aizheng
Mr. Ng Man Fai, Matthew
Mr. Yu Wing Keung, Dicky *(resigned on 11 April 2005)*

Independent Non-Executive Directors
Mr. Huang Shenglan
Mr. King Roger
Mr. Li Xiaojun

As at the date of this report, the Board comprised seven Directors, four of whom are Executive Directors (including the Chairman and the Chief Executive Officer) and three of whom are Independent Non-Executive Directors. Details of backgrounds and qualifications of each Director are set out on the section headed "Biographies of Directors and Senior Management" of this annual report. The Company has arranged appropriate insurance cover in respect of legal actions against the Directors.

The Board is responsible for the overall strategic development of the Group. It also monitors the financial performance and the internal controls of the Group's business operations. Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The day-to-day running of the Company is delegated to the management with department heads responsible for different aspects of the business/functions.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Cont'd)*

The Independent Non-Executive Directors serve the relevant function of bringing independent judgement on the development, performance and risk management of the Group through their contributions in board meetings.

The Board considers that each Independent Non-Executive Director of the Company is independent in character and judgement. The Company has received from each Independent Non-executive Director a written confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules.

The Board meets at least four times each year at approximately quarterly intervals to discuss the Group's business development, operation and financial performance. Notice of at least 14 days is given to all Directors for all regular board meetings to give all Directors an opportunity to attend. All regular board meetings adhere to a formal agenda in which a schedule of matters is addressed to the Board. All Directors have access to board papers and related materials, and are provided with adequate information which enable the Board to make an informed decision on the matters to be discussed and considered at the board meetings. Minutes of board meetings are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

To the best knowledge of the Directors, there is no financial, business and family relationship among the members of the Board except for the in-law relationship between Ms. Lau Ting and Mr. Chen Aizheng.

During the period under review, three full board meetings were held. Details of the attendance of the Directors are as follows:–

	Directors' Attendance
Executive Directors	
Ms. Lau Ting *(Chairman)*	2/3
Mr. Sun Ho *(Deputy Chairman & Chief Executive Officer)*	1/1
Mr. Chen Aizheng	3/3
Mr. Ng Man Fai, Matthew	3/3
Independent Non-Executive Directors	
Mr. Huang Shenglan	1/3
Mr. King Roger	1/3
Mr. Li Xiaojun	0/3

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Board and the Chief Executive Officer are held separately by two individuals to ensure their respective independence, accountability and responsibilities. The Chairman, Ms. Lau Ting, is responsible for overseeing the function of the Board, and formulating overall strategies of and organising the implementation structure for the Company. The Chief Executive Officer, Mr. Sun Ho, is responsible for managing the Group's overall business operations.

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTORS

The Non-Executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A4.1, but are subject to retirement by rotation in accordance with the Bye-laws of the Company (the "Bye-laws"). The Directors have not been required by the Bye-laws to retire by rotation at least once every three years. However, in accordance with Bye-law 99 of the Bye-laws, at each annual general meeting of the Company one-third of the Directors for the time being or, if their number is not a multiple of three, the number nearest to one-third, shall retire from office by rotation save any Director holding office as Chairman or Managing Director. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairman or Managing Director, by rotation at least once every three years in order to comply with Code provisions. The Chairman will not be subject to retirement by rotation as is stipulated in Code provision A4.2, as the Board considered that the continuity of office of the Chairman provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Mr. Sun Ho, Mr. Chen Aizheng and Mr. King Roger are subject to retirement by rotation at the forthcoming annual general meeting in accordance with the Company's Bye-laws.

REMUNERATION OF DIRECTORS

During the period under review, the Company has not established a remuneration committee with specific written terms of reference which deal clearly with its authority and duties as set out in Code provision B1.1. Nevertheless, a committee comprising the Chairman, the Chief Executive Officer and the Head of Personnel Department (the "Committee") has been responsible for determining and reviewing the Group's overall remuneration policy and structure for the remuneration of the Directors, but no Director will be involved in deciding his own remuneration. The Board considers to establish a remuneration committee as soon as practicable in order to comply with Code provision B1.1.

In determining the emolument payable to Directors, the Committee takes into consideration factors such as time commitment and responsibilities of the Directors, performance and contribution of the Directors to the Group, the performance and profitability of the Group, the remuneration benchmark in the industry, the prevailing market/employment conditions and the desirability of performance-based remuneration.

The Committee meets at least once a year to determine the policy for the remuneration of Directors and consider and review the terms of service contract of the Directors. During the period under review, one Committee meeting was held. Details of the attendance of the Directors in the Committee meeting are as follows:

	Directors' Attendance
Ms. Lau Ting *(Chairman)*	1/1
Mr. Sun Ho *(Deputy Chairman and Chief Executive Officer)*	1/1

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a director, and approving and terminating the appointment of a director. During the period under review, the Company has not established a nomination committee with specific written terms of reference which deal clearly with its authority and duties. The Chairman is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Chairman will propose the appointment of such candidates to the Board for consideration and the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background.

During the period under review, a meeting of the Board regarding the nomination and appointment of Mr. Sun Ho as the Deputy Chairman and an Executive Director was held on 3 October 2005. Details of the attendance of the meeting are as follows:

	Directors' Attendance
Ms. Lau Ting *(Chairman)*	1/1
Mr. Chen Aizheng	1/1
Mr. Ng Man Fai, Matthew	1/1
Mr. Huang Shenglan	0/1
Mr. King Roger	0/1
Mr. Li Xiaojun	0/1

AUDITORS' REMUNERATION

For the nine months ended 31 December 2005, the Group had engaged the Group's external auditors, HLB Hodgson Impey Cheng, to provide the following services and their respective fees charged are set out as below:

	Fee Charged	
	For the period ended 31 December 2005	For the year ended 31 March 2005
	HK$	*HK$*
Types of Services		
Audit for the Group	**250,000**	250,000
Non-audit services		
– Advisory services	**5,000**	–
– Professional services on acting as reporting accountants	**40,000**	–

AUDIT COMMITTEE

The Audit Committee was established in 2001. The Audit Committee currently comprises three members, Mr. Huang Shenglan, Mr. King Roger, and Mr. Li Xiaojun. All of them are Independent Non-Executive Directors. The chairman of the Audit Committee is Mr. Huang Shenglan. The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, legal, accounting and financial management in the Audit Committee.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE *(Cont'd)*

The Audit Committee's functions includes:

- to review and monitor financial reporting and the reporting judgement contained in them; and
- to review financial and internal controls, accounting policies and practices with management, internal and external auditors.

The Audit Committee held three meetings during the period under review, one of which was attended by the external auditors, HLB Hodgson Impey Cheng. Details of the attendance of the Audit Committee meetings are as follows:

	Members' Attendance
Mr. Huang Shenglan	3/3
Mr. King Roger	3/3
Mr. Li Xiaojun	3/3

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial results of the Group for the nine months ended 31 December 2005 have been reviewed by the Audit Committee.

DIRECTORS' AND AUDITORS RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors' responsibilities for the financial statements and the responsibilities of the external auditors to the shareholders are set out on page 30.

INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal controls system to safeguard the interests of shareholders and the assets of the Group. The Board has delegated to the management the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management functions.

INVESTORS RELATIONS

The Company is committed to maintain an open and effective investors relations policy and to update investors on relevant information/developments in a timely manner, subject to relevant regulatory requirements. Briefings and meetings with institutional investors and analysts are conducted from time to time. The Company also replied the enquiries from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries.

The corporate website of the Company has provided an effective communication platform via which the public and investor community can enjoy fast, easy access to up-to-date information regarding the Group.

REPORT OF THE AUDITORS

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street, Central
Hong Kong

TO THE SHAREHOLDERS OF
CHINA LOTSYNERGY HOLDINGS LIMITED
(Formerly known as WorldMetal Holdings Limited)
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 31 to 74 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's loss and cash flows for the period from 1 April 2005 to 31 December 2005 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 28 March 2006

CONSOLIDATED INCOME STATEMENT

For the period ended 31 December 2005

	Note	Period ended 31 December 2005 HK$'000	Year ended 31 March 2005 HK$'000
Turnover	5	**12,040**	52,641
Cost of merchandise sold		**(11,906)**	(52,363)
Staff costs	10	**(33,163)**	(3,938)
Amortisation of intangible assets		**(88)**	(116)
Depreciation of property, plant and equipment		**(180)**	(429)
Advertising and promotion expenses		**(213)**	–
Provision for impairment of receivables		**–**	(6,260)
General and administrative expenses		**(13,202)**	(2,497)
Loss from operations		**(46,712)**	(12,962)
Other revenues	5	**4,274**	572
Loss before income tax	6	**(42,438)**	(12,390)
Income tax	7	**179**	–
Loss for the period/year		**(42,259)**	(12,390)
Attributable to:			
Equity holders of the Company		**(42,146)**	(11,680)
Minority interests		**(113)**	(710)
		(42,259)	(12,390)
Loss per share for loss attributable to the equity holders of the Company during the period/year			
Loss per share – Basic and diluted	9	**(3.22) HK cent**	(1.17) HK cent

BALANCE SHEETS

As at 31 December 2005

		Group		Company	
		As at 31 December 2005	As at 31 March 2005	**As at 31 December 2005**	As at 31 March 2005
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Non-current assets					
Intangible assets	*12*	**1,754**	1,842	**–**	–
Property, plant and equipment	*13*	**2,480**	827	**284**	–
Investments in subsidiaries	*14*	**–**	–	**296,218**	27,430
Investment in an associate	*15*	**2**	–	**–**	–
Available-for-sale financial asset/Long-term investment	*16*	**390**	390	**–**	–
Total non-current assets		**4,626**	3,059	**296,502**	27,430
Current assets					
Accounts receivable	*17*	**14,524**	18,699	**–**	–
Prepayments, deposits and other receivables	*18*	**34,253**	1,662	**–**	–
Amount due from an associate	*15*	**10**	–	**–**	–
Amount due from a related company	*19*	**1,587**	1,557	**–**	–
Deposit with a financial institution	*20&21*	**15,385**	15,095	**3,282**	–
Cash and bank balances	*21*	**242,657**	7,122	**1,621**	1,785
Total current assets		**308,416**	44,135	**4,903**	1,785
Total assets		**313,042**	47,194	**301,405**	29,215
***Less:* Current liabilities**					
Accruals and other payables	*22*	**7,235**	1,304	**6,907**	50
Amount due to a related company	*23*	**197**	193	**–**	–
Income tax payable		**496**	496	**–**	–
Total current liabilities		**7,928**	1,993	**6,907**	50
Net current assets/(liabilities)		**300,488**	42,142	**(2,004)**	1,735
Total assets less current liabilities		**305,114**	45,201	**294,498**	29,165
***Less:* Non – current liabilities**					
Deferred income tax liabilities	28	**–**	179	**–**	–
Net assets		**305,114**	45,022	**294,498**	29,165

BALANCE SHEETS

As at 31 December 2005

		Group		Company	
		As at 31 December 2005	As at 31 March 2005	**As at 31 December 2005**	As at 31 March 2005
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Capital and reserves					
Share capital	*24*	**14,300**	10,000	**14,300**	10,000
Reserves	*26*	**332,757**	35,024	**333,807**	36,074
Accumulated losses	*27*	**(58,505)**	(16,359)	**(53,609)**	(16,909)
Capital and reserves attributable to equity holders of the Company		**288,552**	28,665	**294,498**	29,165
Minority interests		**16,562**	16,357	**–**	–
Total equity		**305,114**	45,022	**294,498**	29,165

LAU TING
Chairman

NG MAN FAI, MATTHEW
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 2005

	Attributable to equity holders of the Company				
	Share capital HK$'000 *(Note 24)*	**Reserves** HK$'000 *(Note 26)*	**Accumulated losses** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
Balance as at 1 April 2004, as previously reported as equity	10,000	34,742	(4,679)	–	40,063
Balance as at 1 April 2004, as previously separately reported as minority interests	–	–	–	16,785	16,785
Balance as at 1 April 2004, as restated	10,000	34,742	(4,679)	16,785	56,848
Currency translation differences	–	282	–	282	564
Net income recognised directly in equity	–	282	–	282	564
Loss for the year	–	–	(11,680)	(710)	(12,390)
Total recognised income/(expense) for the year	–	282	(11,680)	(428)	(11,826)
Balance as at 31 March 2005, as restated	10,000	35,024	(16,359)	16,357	45,022
As at 1 April 2005, as per above	10,000	35,024	(16,359)	16,357	45,022
Currency translation differences	–	–	–	318	318
Net income recognised directly equity	–	–	–	318	318
Loss for the period	–	–	(42,146)	(113)	(42,259)
Total recognised income/(expense) for the period	–	–	(42,146)	205	(41,941)
Share option scheme:					
– value of employee services	–	22,820	–	–	22,820
– value of other participants' services	–	3,459	–	–	3,459
Issue of shares	4,300	297,600	–	–	301,900
Share issue expenses	–	(26,146)	–	–	(26,146)
	4,300	297,733	–	–	302,033
Balance as at 31 December 2005	**14,300**	**332,757**	**(58,505)**	**16,562**	**305,114**

CONSOLIDATED CASH FLOW STATEMENT

For the period ended 31 December 2005

	Note	Period ended 31 December 2005 HK$'000	Year ended 31 March 2005 HK$'000
Cash flows from operating activities			
Net cash (used in)/generated from operating activities	*29*	**(32,601)**	628
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,052)**	–
Proceeds from sale of property, plant and equipment		**144**	–
Payment of initial deposit in connection with the subscription of interest in Corich International Limited ("Corich")	*18*	**(10,000)**	–
Capital contributed to an associate		**(2)**	–
Advance to an associate		**(10)**	–
Interest income from time deposits		**4,274**	327
Net cash (used in)/generated from investing activities		**(7,646)**	327
Cash flows from financing activities			
Proceeds from issue of shares		**301,900**	–
Share issue expenses		**(26,146)**	–
Net cash generated from financing activities		**275,754**	–
Net increase in cash and cash equivalents		**235,507**	955
Cash and cash equivalents at beginning of the period/year		**7,122**	5,603
Effect of foreign exchange rate changes		**28**	564
Cash and cash equivalents at end of the period/year		**242,657**	7,122
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**242,657**	7,122

NOTES TO THE FINANCIAL STATEMENTS

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 was formerly known as WorldMetal Holdings Limited. Pursuant to the special resolution passed by the shareholders at the special general meeting held on 29 September 2005, the Company changed its name from WorldMetal Holdings Limited to China LotSynergy Holdings Limited with effect from 11 October 2005 and adopted 華彩控股有限公司 as its Chinese name with effect from 22 October 2005.

The shares of the Company are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) operation of metal exchange portals for the provision of online steel trading services, (ii) metal trading, (iii) provision of consultancy and logistics services, and (iv) provision of application software development services. The Group is transforming its principal business to engage in investment, project development and the provision of technologies and equipments and consultancy services in public welfare lottery business and related sectors.

These financial statements are presented in Hong Kong dollars (HK$), unless otherwise stated. These financial statements were approved and authorised for issue by the board of directors on 28 March 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. The financial statements have been prepared under the historical cost convention, as modified by the measurement of available-for-sale financial assets at fair value.

The Company announced on 18 November 2005 that the financial year end date of the Company was changed from 31 March to 31 December commencing from the financial year 2005. Accordingly, the financial statements for the current period cover the 9 month period from 1 April 2005 to 31 December 2005. The corresponding amounts shown for the consolidated income statement, statement of changes in equity, cash flow statement and related notes cover the 12 month period from 1 April 2004 to 31 March 2005 and therefore may not be comparable with the amounts shown for the current period.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 to the financial statements.

Adoption of new/revised HKFRS and changes in accounting policies

In the current period, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

Adoption of new/revised HKFRS and changes in accounting policies (Cont'd)

(i) The adoption of new/revised HKASs 1, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 24, 27, 28, 33, 36, 37, 38 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net results of associates and other disclosures.

– HKASs 7, 8, 10, 12, 14, 16, 17, 18, 19, 27, 28, 33, 36 and 37 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related party disclosures.

– The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this assessment.

(ii) The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.

(iii) The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 March 2005, the provision of share options to employees or other participants did not result in an expense in the income statements. Effective on 1 April 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods. As the Group did not have any share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not vested as at 1 January 2005, the adoption of HKFRS 2 had had no impact on the accumulated losses as at 31 March 2004 and 2005. The Group has recognised the cost of options which were granted during the period in the current period's income statement in accordance with the revised accounting policy.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 38 – prospectively after the adoption date;

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

Adoption of new/revised HKFRS and changes in accounting policies (Cont'd)

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

– HKFRS 3 – prospectively after 1 January 2005.

	Period ended 31 December 2005 HK$'000	Year ended 31 March 2005 HK$'000
The adoption of HKFRS 2 resulted in:		
Increase in accumulated losses	**26,279**	–
Increase in staff costs	**22,820**	–
Increase in general and administrative expenses	**3,459**	–
Increase in loss per share	**2.01 HK cent**	–
The adoption of HKAS 39 resulted in:		
Increase in available-for-sale financial asset	**390**	–
Decrease in long-term investment	**390**	–

The Group has not applied the following new/revised HKFRSs, that have been issued but are not yet effective, to these financial statements:

HKAS 1 (Amendment)	Capital Disclosures *(note i)*
HKAS 21 (Amendment)	Net Investment in a Foreign Operation *(note ii)*
HKAS 39 (Amendment)	The Fair Value Option *(note ii)*
HKFRS 7	Financial Instruments: Disclosures *(note i)*

Notes:

(i) Effective for accounting periods beginning on or after 1 January 2007

(ii) Effective for accounting periods beginning on or after 1 January 2006

The Group has already commenced an assessment of these HKFRSs which are effective for accounting periods beginning on or after 1 January 2006 but is not yet in a position to state whether these HKFRSs would have a significant impact on its results of operations and financial position.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.2 Consolidation *(Cont'd)*

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associate's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the balance sheet date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.3 Foreign currency translation *(Cont'd)*

(c) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.4 Intangible assets

(a) Domain names and trademarks

Acquisition costs of domain names and legal costs related to the registration of trademarks are capitalised and amortised on a straight-line basis over their estimated useful lives of twenty years.

(b) Portal development costs

Costs directly associated with the development of internal-use portals, which include the external direct cost of materials and services consumed in developing or obtaining portals, are capitalised. The capitalisation of such costs ceases no later than the point at which the portals are substantially completed and ready for their intended purpose. Portal development costs are amortised on a straight-line basis over a period of three years, which represents the estimated useful lives of the portals.

Research and other portal maintenance costs are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated, using the straight-line method, to allocate cost to their residual values over their estimated useful lives at the following principal annual rates:

Leasehold improvements	10% – 50% (over the period of leases)
Computer equipment and software	20% – 25%
Office equipment and furniture	10% – 25%
Motor vehicles	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

2.6 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.7 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

2.8 Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets held for trading are included in the category "financial assets at fair value through profit or loss". A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the period, the Group did not hold any investments in this category.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.8 Investments *(Cont'd)*

Purchases and sales of investments are recognised on trade-date-the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise.

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and financial institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.11 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.12 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.13 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.13 Employee benefits *(Cont'd)*

(b) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(c) Retirement benefits

The Group operates a number of defined contribution plans. The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in independently administered funds.

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.14 Deferred income tax *(Cont'd)*

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Income from sale of merchandise is recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Advertising income is recognised when the advertisements are published.

(iii) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(iv) Dividend income is recognised when the right to receive payment is established.

2.16 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. It has policies in place to ensure that credits are granted to customers with an appropriate credit history. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure the adequate impairment losses are made for irrecoverable amounts.

The Group has maintained relationship with various financial institutions, and has policies that limit the amount of credit exposure to any financial institution.

(ii) Liquidity risk

The Group's liquidity risk management includes diversifying the funding sources. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(b) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date.

The nominal value less estimated impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) The Group tests annually whether intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2.4. Determining whether intangible assets are impaired requires an estimate of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(ii) The Group's management determines the impairment of accounts receivable on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of accounts receivable at the balance sheet date.

5. TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in operations of metal exchange portals for metal trading and ancillary value – chain services, metal trading, provision of consultancy and logistics services and application software development services.

Revenue recognised during the period/year are as follows:

	Period ended 31 December 2005 HK$'000	Year ended 31 March 2005 HK$'000
Turnover		
Sales of merchandise	**12,040**	52,637
Advertising income	**–**	4
	12,040	52,641
Other revenues		
Interest income from time deposits	**4,274**	327
Others	**–**	245
	4,274	572
Total revenues	**16,314**	53,213

NOTES TO THE FINANCIAL STATEMENTS

5. TURNOVER, REVENUES AND SEGMENT INFORMATION *(Cont'd)*

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

(a) Primary reporting format – business segments

The Group is organised into four main business segments namely (i) operations of metal exchange portals for metal trading and ancillary value-chain services; (ii) metal trading; (iii) provision of consultancy and logistics services; and (iv) provision of application software development services.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, receivables and operating cash, and mainly exclude available-for-sale financial assets. Segment liabilities comprise operating liabilities and exclude items such as income tax. Capital expenditure comprises additions to intangible assets and property, plant and equipment.

	Period ended 31 December 2005				
	Metal exchange portals HK$'000	Metal trading HK$'000	Consultancy and logistics services HK$'000	Application software development services HK$'000	Total HK$'000
Turnover	–	12,040	–	–	12, 040
Segment results	–	127	–	–	127
Unallocated corporate expenses					(46,839)
Other revenues					4,274
Income tax					179
Loss for the period					(42,259)
Balance sheet					
Segment assets	–	–	–	–	–
Unallocated assets					313,042
Total assets					313,042
Segment liabilities	–	–	–	–	–
Unallocated liabilities					7,928
Total liabilities					7,928
Other information					
Capital expenditures	–	–	–	–	–
Unallocated capital expenditures					2,052
					2,052
Depreciation and amortisation	–	–	–	–	–
Unallocated depreciation and amortisation					268
					268

NOTES TO THE FINANCIAL STATEMENTS

5. TURNOVER, REVENUES AND SEGMENT INFORMATION *(Cont'd)*

(a) Primary reporting format – business segments *(Cont'd)*

	Year ended 31 March 2005				
	Metal exchange portals HK$'000	Metal trading HK$'000	Consultancy and logistics services HK$'000	Application software development services HK$'000	Total HK$'000
Turnover	4	52,637	–	–	52,641
Segment results	(3,879)	(938)	–	–	(4,817)
Unallocated corporate expenses					(8,145)
Other revenues					572
Income tax					–
Loss for the year					(12,390)
Balance sheet					
Segment assets	21,515	4,909	–	–	26,424
Unallocated assets					20,770
Total assets					47,194
Segment liabilities	876	20	–	–	896
Unallocated liabilities					1,276
Total liabilities					2,172
Other information					
Capital expenditures	–	–	–	–	–
Depreciation and amortisation	410	7	–	–	417
Unallocated depreciation and amortisation					128
					545

There are no sales or transactions among the business segments.

NOTES TO THE FINANCIAL STATEMENTS

5. TURNOVER, REVENUES AND SEGMENT INFORMATION *(Cont'd)*

(b) Secondary reporting format – geographical segments

In respect of geographical segment reporting, sales are based on the destination of delivery of merchandise or where services are delivered. Total assets and capital expenditure are where the assets are located.

The Group has business operations in Korea, Hong Kong and the People's Republic of China (the "PRC"). An analysis by geographical location is as follows:

	As at 31 December 2005			
	Korea	**Hong Kong**	**PRC**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Turnover	**–**	**–**	**12,040**	**12,040**
Operating results	**(66)**	**(46,041)**	**(605)**	**(46,712)**
Total assets	**4,833**	**288,746**	**19,463**	**313,042**
Capital expenditures	**–**	**2,052**	**–**	**2,052**

	As at 31 March 2005			
	Korea	Hong Kong	PRC	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	52,637	4	–	52,641
Operating results	(938)	(10,971)	(1,053)	(12,962)
Total assets	4,909	23,257	19,028	47,194
Capital expenditures	–	–	–	–

There are no sales between the geographical segments.

NOTES TO THE FINANCIAL STATEMENTS

6. EXPENSES BY NATURE

	Period ended 31 December 2005 HK$'000	Year ended 31 March 2005 HK$'000
Depreciation of owned assets	**180**	429
Loss on disposal of property, plant and equipment	**81**	–
Operating lease rentals in respect of land and buildings	**693**	168
Auditors' remuneration	**250**	250
Amortisation of intangible assets in respect of domain names and trademarks	**88**	116
Foreign exchange differences, net	**(17)**	269

7. INCOME TAX

The amount of income tax credited to the consolidated income statement represents:

	Period ended 31 December 2005 HK$'000	Year ended 31 March 2005 HK$'000
Current income tax		
– Hong Kong profits tax	**–**	–
– PRC enterprise income tax	**–**	–
– overseas taxation	**–**	–
	–	–
Deferred income tax *(Note 28)*	**(179)**	–
	(179)	–

Overseas income tax

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda and accordingly is exempted from income tax in Bermuda until 2016. The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Act of the British Virgin Islands and, accordingly, are exempted from the payment of British Virgin Islands income taxes.

SteelnMetal.com Limited, an equity joint venture established and operating in Korea, is subject to Korean corporation income tax at a rate of 15% on the first 100 million Korean WON taxable income and 27% on the remaining amount. No corporation income tax has been provided as SteelnMetal.com Limited incurred taxation loss for the period ended 31 December 2005 and the year ended 31 March 2005.

NOTES TO THE FINANCIAL STATEMENTS

7. INCOME TAX *(Cont'd)*

Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in or derived from Hong Kong for both the current and prior periods.

PRC enterprise income tax

北京威銘商網資訊技術有限公司 ("北京威銘"), a Sino-foreign equity joint venture established and operating in the PRC, is subject to PRC enterprise income tax. As 北京威銘 is qualified as "high technology enterprise" in the PRC, it is allowed to apply for exemption from PRC enterprise income tax for three years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. No enterprise income tax has been provided as 北京威銘 incurred a taxation loss for the period ended 31 December 2005 and the year ended 31 March 2005.

上海漢絡馬口鐵貿易有限公司 ("上海漢絡"), a wholly foreign owned enterprise established and operating in the PRC, is subject to PRC enterprise income tax at a rate of 15%. No enterprise income tax has been provided as 上海漢絡 incurred a taxation loss for the period ended 31 December 2005 and the year ended 31 March 2005.

8. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$36,700,000 (Year ended 31 March 2005: HK$11,128,000).

9. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company of approximately HK$42,146,000 (Year ended 31 March 2005: HK$11,680,000) by the weighted average number of 1,307,818,182 ordinary shares in issue (Year ended 31 March 2005: 1,000,000,000 shares) during the period. The computation of diluted loss per share has not assumed the exercise of options outstanding during the period because their exercise would reduce loss per share.

NOTES TO THE FINANCIAL STATEMENTS

10. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	Period ended 31 December 2005 HK$'000	Year ended 31 March 2005 HK$'000
Wages and salaries	**10,174**	3,763
Employee share option benefits	**22,820**	–
Social security costs	**20**	15
Pension costs – defined contribution plans	**140**	90
Provision for long service payment	**–**	45
Other staff welfare	**9**	25
	33,163	3,938

11. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	Period ended 31 December 2005 HK$'000	Year ended 31 March 2005 HK$'000
Short-term employee benefits	**8,354**	1,252
Post-employment benefits	**90**	24
Employee share option benefits	**21,778**	–
	30,222	1,276

NOTES TO THE FINANCIAL STATEMENTS

11. COMPENSATION TO KEY MANAGEMENT PERSONNEL *(Cont'd)*

(a) Directors' emoluments

The remuneration of every director of the Company for the period ended 31 December 2005 is set out below:

Name of director	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employee share option benefits	Contributions to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors						
Ms. Lau Ting	–	–	3,000	844	–	3,844
Mr. Sun Ho *(Note i)*	–	1,440	3,000	11,649	72	16,161
Mr. Chen Aizheng	–	365	–	7,597	9	7,971
Mr. Ng Man Fai, Matthew	–	259	–	–	9	268
Mr. Yu Wing Keung, Dicky *(Note ii)*	–	–	–	–	–	–
Independent non-executive directors						
Mr. King Roger	90	–	–	422	–	512
Mr. Huang Shenglan	110	–	–	844	–	954
Mr. Li Xiaojun	90	–	–	422	–	512
	290	2,064	6,000	21,778	90	30,222

The remuneration of every director of the Company for the year ended 31 March 2005 is set out below:

Name of director	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employee share option benefits	Contributions to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors						
Ms. Lau Ting	–	–	–	–	–	–
Mr. Chen Aizheng	–	517	–	–	12	529
Mr. Ng Man Fai, Matthew	–	346	29	–	12	387
Mr. Yu Wing Keung, Dicky	–	–	–	–	–	–
Mr. Chow Kin Wa *(Note iii)*	–	–	–	–	–	–
Independent non-executive directors						
Mr. King Roger	120	–	–	–	–	120
Mr. Huang Shenglan	120	–	–	–	–	120
Mr. Li Xiaojun *(Note iv)*	60	–	–	–	–	60
Mr. Lu Zhi Fang *(Note v)*	60	–	–	–	–	60
	360	863	29	–	24	1,276

NOTES TO THE FINANCIAL STATEMENTS

11. COMPENSATION TO KEY MANAGEMENT PERSONNEL *(Cont'd)*

(a) Directors' emoluments *(Cont'd)*

Notes:

(i) Appointed on 3 October 2005

(ii) Resigned on 11 April 2005

(iii) Resigned on 1 January 2005

(iv) Appointed on 30 September 2004

(v) Resigned on 30 September 2004

During the period ended 31 December 2005, 25,800,000 share options were granted to certain directors of the Company under the share option scheme approved on 30 July 2002 (Year ended 31 March 2005: Nil).

None of the directors of the Company waived or agreed to waive any emoluments during the period ended 31 December 2005 (Year ended 31 March 2005: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the period ended 31 December 2005 included five (Year ended 31 March 2005: two) directors of the Company, whose emoluments are set out above. The emoluments payable to the remaining three non-director, highest paid individuals for the year ended 31 March 2005 are as follows:

	Period ended 31 December 2005 HK$'000	Year ended 31 March 2005 HK$'000
Basic salaries, other allowances and benefits in kind	**–**	1,237
Contributions to pension schemes	–	48
	–	1,285

Their emoluments fell within the following bands:

Emoluments bands	**Number of employees**	
	Period ended 31 December 2005	Year ended 31 March 2005
HK$ nil – HK$1,000,000	–	3

NOTES TO THE FINANCIAL STATEMENTS

11. COMPENSATION TO KEY MANAGEMENT PERSONNEL *(Cont'd)*

(c) During the period ended 31 December 2005, no emoluments were paid by the Group to the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (Year ended 31 March 2005: Nil).

12. INTANGIBLE ASSETS

	Group		
	Domain names and trademarks	**Portal development costs**	**Total**
	HK$'000	HK$'000	HK$'000
As at 1 April 2004			
Cost	2,347	5,422	7,769
Accumulated amortisation	(389)	(5,422)	(5,811)
Net book amount	1,958	–	1,958
Year ended 31 March 2005			
Opening net book amount	1,958	–	1,958
Amortisation charge	(116)	–	(116)
Closing net book amount	1,842	–	1,842
As at 31 March 2005			
Cost	2,347	5,422	7,769
Accumulated amortisation	(505)	(5,422)	(5,927)
Net book amount	1,842	–	1,842
Period ended 31 December 2005			
Opening net book amount	1,842	–	1,842
Amortisation charge	(88)	–	(88)
Closing net book amount	1,754	–	1,754
As at 31 December 2005			
Cost	2,347	5,422	7,769
Accumulated amortisation	(593)	(5,422)	(6,015)
Net book amount	1,754	–	1,754

NOTES TO THE FINANCIAL STATEMENTS

13. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Leasehold improvements	Computer equipment and software	Office equipment and furniture	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 April 2004					
Cost	46	5,981	865	296	7,188
Accumulated depreciation	(25)	(5,436)	(308)	(163)	(5,932)
Net book amount	21	545	557	133	1,256
Year ended 31 March 2005					
Opening net book amount	21	545	557	133	1,256
Depreciation	(15)	(273)	(88)	(53)	(429)
Closing net book amount	6	272	469	80	827
As at 31 March 2005					
Cost	46	6,044	866	296	7,252
Accumulated depreciation	(40)	(5,772)	(397)	(216)	(6,425)
Net book amount	6	272	469	80	827
Period ended 31 December 2005					
Opening net book amount	6	272	469	80	827
Exchange differences	–	5	–	1	6
Additions	1,301	176	575	–	2,052
Disposals	–	–	(225)	–	(225)
Depreciation	(5)	(59)	(75)	(41)	(180)
Closing net book value	1,302	394	744	40	2,480
As at 31 December 2005					
Cost	1,347	6,225	1,033	297	8,902
Accumulated depreciation	(45)	(5,831)	(289)	(257)	(6,422)
Net book amount	1,302	394	744	40	2,480

NOTES TO THE FINANCIAL STATEMENTS

13. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

		Company	
	Leasehold improvements	**Office equipment and furniture**	**Total**
	HK$'000	HK$'000	HK$'000
As at 1 April 2004 and 31 March 2005			
Cost	–	–	–
Accumulated depreciation	–	–	–
Net book amount	–	–	–
Period ended 31 December 2005			
Opening net book amount	–	–	–
Additions	174	110	284
Closing net book value	174	110	284
As at 31 December 2005			
Cost	174	110	284
Accumulated depreciation	–	–	–
Net book amount	174	110	284

14. INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES

	As at 31 December 2005	As at 31 March 2005
	HK$'000	HK$'000
Unlisted shares, at cost	**23,909**	23,909
Provision for impairment	**(10,000)**	(10,000)
	13,909	13,909
Due from subsidiaries	**282,309**	13,521
	296,218	27,430

The amounts due from subsidiaries as shown on the Company's balance sheet are unsecured, interest-free and are not repayable within the next twelve months from the balance sheet date.

The fair values of the amounts due at the balance sheet date approximate the corresponding carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

14. INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES *(Cont'd)*

The following is a list of the subsidiaries as at 31 December 2005:

Name of company	Place of incorporation/ establishment Kind of legal entity *(Note (iv))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held directly:				
Harrogate Group Limited	British Virgin Islands, Limited liability company	US$2,500,000	100%	Investment holding
Profit Talent Investments Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Onwealth Holdings Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Held indirectly:				
Flynn Technology Limited	British Virgin Islands, Limited liability company	US$1,000	100%	Investment holding
WorldMetal.com Limited	Hong Kong, Limited liability company	US$500,000	100%	Operation of a metal exchange portal
WorldMetal Logistics Limited	Hong Kong, Limited liability company	HK$2	100%	Provision of ancillary value-chain services
Rusmet.com Limited	Hong Kong, Limited liability company	US$2	100%	Operation of a metal exchange portal
SteelnMetal.com Limited *(Note (i))*	Korea, Limited liability company	Won1,000,000,000	50% *(Note (v))*	Operation of a metal exchange portal and metal trading
北京威銘商網資訊技術有限公司 ("北京威銘") *(Note (ii))*	PRC, Limited liability company	US$4,080,000	50% *(Note (v))*	Provision of consultancy services for e-commerce technology
上海漢絡馬口鐵貿易有限公司 ("上海漢絡") *(Note (iii))*	PRC, Limited liability company	US$200,000	100%	Inactive

NOTES TO THE FINANCIAL STATEMENTS

14. INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES *(Cont'd)*

Name of company	Place of incorporation/ establishment Kind of legal entity *(Note (iv))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held indirectly: (Cont'd)				
China LotSynergy Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding
China LotSynergy Limited	British Virgin Islands, Limited liability company	US$100	100%	Investment holding
China LotSynergy Group Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding

Notes:

(i) SteelnMetal.com Limited is an equity joint venture established in Korea.

(ii) 北京威銘 is a Sino-foreign equity joint venture established in the PRC to be operated for a period of 30 years up to October 2030.

(iii) 上海漢絡 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 50 years up to September 2052.

(iv) The subsidiaries operate principally in their respective places of incorporation/establishment.

(v) The Company has the power to control the composition of the respective boards of directors and govern the financial and operating policies of these companies. Accordingly, these companies are considered as subsidiaries.

(vi) None of the subsidiaries had any loan capital in issue at any time during the period ended 31 December 2005.

15. INVESTMENT IN AN ASSOCIATE

	Group	
	As at 31 December 2005 HK$'000	As at 31 March 2005 HK$'000
Share of net assets	**2**	–

NOTES TO THE FINANCIAL STATEMENTS

15. INVESTMENT IN AN ASSOCIATE *(Cont'd)*

Particulars of the associate of the Group are as follows:

Name of company	Particulars of issued shares held by the Group	Place of incorporation	Interest held	Principal activities
Tabcorp International Hong Kong Limited ("TIHK")	330 ordinary shares of A$1 each	British Virgin Islands	33%	Development of nationwide unified platform for lottery operation

The amount due from the associate is unsecured, interest-free and repayable on demand. The fair values of the amount due at the balance sheet date approximate the corresponding carrying amounts.

The following table illustrates the summarised financial information of the associate of the Group as extracted from its unaudited management accounts:

	As at 31 December 2005 HK$'000	As at 31 March 2005 HK$'000
Total assets	**28**	–
Total liabilities	**(22)**	–
Revenue	**–**	–
Profit/(loss)	**–**	–

TIHK was incorporated in the British Virgin Islands with limited liability on 26 April 2005 under the International Business Companies Act of the British Virgin Islands. Pursuant to the shareholders' agreement entered into amongst Tabcorp International No. 1 Pty Limited ("TI"), China LotSynergy Limited ("CLL"), a wholly-owned subsidiary of the Company, TIHK, Tabcorp International Pty Limited and the Company on 8 June 2005 (the "JV Shareholders' Agreement"), CLL and TI agreed, *inter alia*, to form a joint venture company namely TIHK which is owned as to approximately 33% by CLL and approximately 67% by TI, and to cooperate to develop a nationwide lottery related business in the PRC. Since its incorporation and up to 31 December 2005, TIHK has not yet commenced operations.

As at 31 December 2005, the Group was committed to contributing to TIHK by way of equity in cash the amount of A$9,899,670 (equivalent to approximately HK$59,398,000), of which A$4,949,670 (equivalent to approximately HK$29,698,000) has been paid by the Group subsequent to the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS/LONG-TERM INVESTMENT

	Group	
	As at 31 December 2005 HK$'000	As at 31 March 2005 HK$'000
Unlisted guarantee fund, at fair value	**390**	390

17. ACCOUNTS RECEIVABLE

The Group offers an average credit period ranging from one month to three months to its trade customers who have good payment records and well-established relationships with the Group. As at 31 December 2005, the ageing analysis of the accounts receivable is as follows:

	Group	
	As at 31 December 2005 HK$'000	As at 31 March 2005 HK$'000
Over one year and less than two years	**1,154**	639
Over two years	**28,305**	32,995
	29,459	33,634
Less: Provision for impairment of receivables		
– on amounts due from related companies	**(8,929)**	(8,929)
– on others	**(6,006)**	(6,006)
	(14,935)	(14,935)
	14,524	18,699

The fair values of the Group's accounts receivable included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

On 13 January 2006, the Company announced that the Group entered into the subscription agreement on 9 January 2006, pursuant to which the Group has conditionally agreed to subscribe for and Corich has conditionally agreed to issue 1,000,000 ordinary shares of US$1 each in the share capital of Corich for an aggregate consideration of HK$980,000,000. Corich and its subsidiaries are principally engaged in the provision of video lottery terminals to Beijing Lottery Online Technology Co., Ltd., which is a company established in the PRC and controlled by the China Welfare Lottery Issuance and Administration Centre of the PRC. The transaction was approved pursuant to the special resolution passed by the shareholders at the special general meeting held on 21 March 2006 and completion of the transaction is conditional upon the fulfillment or waiver of certain conditions precedent, details of which are set out in the Company's circular dated 1 March 2006. Included in the balance of prepayments, deposits and other receivables of the Group as at 31 December 2005 is an initial deposit of HK$10 million paid by the Group upon entering into a heads of agreement on 20 December 2005 in connection with the subscription of interest in Corich.

The fair values of the Group's and the Company's prepayments, deposits and other receivables included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

19. AMOUNT DUE FROM A RELATED COMPANY

The amount represents amount due from a subsidiary of a substantial shareholder of the Company. The amount due is unsecured, interest-free and has no fixed repayment terms. The maximum amount outstanding during the period was approximately HK$1,587,000.

The fair values of the amount due at the balance sheet date approximate the corresponding carrying amount.

20. DEPOSIT WITH A FINANCIAL INSTITUTION

The balance represents a deposit (denominated in Renminbi) placed with 五礦集團財務有限責任公司 ("五礦財務"), a registered financial institution in the PRC. 五礦財務 is a fellow subsidiary of a minority shareholder of a non-wholly owned subsidiary of the Company. This deposit bears interest at a rate of 2.25% per annum as at 31 December 2005 (As at 31 March 2005: 1.6% per annum) and matures in January 2006. For the period ended 31 December 2005, total interest income from 五礦財務 in respect of the said deposit amounted to approximately HK$346,000 (Year ended 31 March 2005: HK$299,000).

21. CASH AND BANK BALANCES

As at 31 December 2005, the Group had a deposit placed with a financial institution (see Note 20) and other cash and bank balances of approximately HK$15,642,000 (As at 31 March 2005: HK$15,389,000) which are denominated in Renminbi. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

22. ACCRUALS AND OTHER PAYABLES

The fair values of the Group's and the Company's other payables and accruals included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

23. AMOUNT DUE TO A RELATED COMPANY

The amount due is unsecured, interest-free and has no fixed repayment terms.

The fair values of the amount due at the balance sheet date approximate the corresponding carrying amount.

24. SHARE CAPITAL

	Authorised Ordinary shares of HK$0.01 each	
	Number of shares	HK$'000
As at 1 April 2004, 31 March 2005 and 31 December 2005	2,000,000,000	20,000

	Issued and fully paid Ordinary shares of HK$0.01 each	
	Number of shares	HK$'000
As at 1 April 2004 and 31 March 2005	1,000,000,000	10,000
New issue of shares *(Note (i))*	200,000,000	2,000
New issue of shares *(Note (ii))*	230,000,000	2,300
As at 31 December 2005	1,430,000,000	14,300

Notes:

(i) Pursuant to the two placing agreements dated 7 March 2005 entered with Centrix Investments Limited and Wealthmost Holdings Limited respectively (together, the "Placees"), the Company issued and allotted a total of 200,000,000 new ordinary shares of HK$0.01 each in the share capital of the Company (the "Shares") to the Placees on 8 April 2005 upon the completion thereof at a placing price of HK$0.026 per Share. The closing price per Share on 7 March 2005 as quoted on the Stock Exchange was HK$0.031 and the net price of the issue to the Company was HK$0.025 per Share. Total net proceeds from the placing of approximately HK$5 million was used as the Group's general working capital as intended.

(ii) Pursuant to the subscription agreements dated 9 August 2005, the Company issued and allotted a total of 230,000,000 new Shares (the "Subscription Share(s)") at a subscription price of HK$1.29 per Subscription Share to the subscribers on 19 August 2005, following the completion of the placing agreement for the placing of a total of 400,000,000 existing Shares (the "Top-up Placing") to more than six placees at a placing price of HK$1.29 per Share. The closing price per Share on 9 August 2005 as quoted on the Stock Exchange was HK$1.43 and the net price of the issue to the Company was HK$1.18 per Share. The Company raised a sum of approximately HK$271 million through the Top-up Placing and the fund is intended to be used: (i) as to approximately HK$59 million to pay up the capital commitment of TIHK; and the remaining balance will be used (ii) for investing in other relevant business opportunities that may arise in the future; and (iii) for the Company's general working capital.

NOTES TO THE FINANCIAL STATEMENTS

25. SHARE OPTION SCHEME

At the annual general meeting of the Company held on 30 July 2002, the shareholders of the Company approved the adoption of a share option scheme (the "Option Scheme") in compliance with the amended Chapter 23 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

Under the Option Scheme, the Company may grant options to employees (including executive directors) of the Group and other participants to subscribe for shares in the Company, subject to a maximum of 30% of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options. The subscription price will be determined by the Company's board of directors and will not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the option, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (iii) the nominal value of the shares. A nominal consideration at HK$1 is payable for each of the options granted. Share options can be exercised within a period of not exceeding 10 years commencing on the date of grant or such later date as the board of directors may determine and expiring on the last day of the period.

Detail of share options granted under the Option Scheme of the Company and the share options outstanding as at 31 December 2005 are as follows:

Date of grant	Exercise price HK$	Exercisable period	As at 1 April 2005	Granted during the period	As at 31 December 2005
1 September 2005	1.96	31 October 2005 to 30 October 2007	–	15,550,000	15,550,000
1 September 2005	1.96	31 October 2006 to 30 October 2007	–	15,550,000	15,550,000
15 December 2005	2.70	15 December 2006 to 14 December 2008	–	1,500,000	1,500,000

The vesting period of the options is from the date of the grant until the commencement of the exercisable period. No options under the Option Scheme were exercised, expired or forfeited during the period ended 31 December 2005.

The fair value of the options granted during the period was estimated as at the date of grant using the Black-Scholes options pricing model with the following assumptions:

(i) Risk-free interest rate – the yield of three years Exchange Fund Notes;

(ii) Expected volatility of share price – annualised volatility for three months immediately preceding the date of grant; and

(iii) Expected life of share options – one to two years.

NOTES TO THE FINANCIAL STATEMENTS

25. SHARE OPTION SCHEME *(Cont'd)*

The Company's share prices over the one year immediately preceding the date of grant were extraordinarily volatile. It is considered that using the share prices over the three months immediately preceding the date of grant is more appropriate for calculating the expected volatility of options granted. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. According to the Black-Scholes options pricing model, the fair value of the options granted during the period ended 31 December 2005 was approximately HK$38,837,000 and the amount expensed in the income statement for the period ended 31 December 2005 was approximately HK$26,279,000.

If the annualised volatility of share prices over the one year immediately preceding the date of grant is used, the value of the options granted during the period ended 31 December 2005, using the Black-Scholes options pricing model, would be approximately HK$62,598,000.

As at 31 December 2005, the Company had 32,600,000 options outstanding under the Option Scheme. The exercise in full of the remaining options would, under the present capital structure of the Company, result in the issue of 32,600,000 additional ordinary shares of the Company and additional share capital of HK$326,000 and share premium of approximately HK$90,959,000 (before issue expenses).

26. RESERVES

			Group		
	Share premium	**Capital reserve**	**Cumulative translation reserve**	**Share-based compensation reserve**	**Total**
	HK$'000	HK$'000 *(Note (ii))*	HK$'000	HK$'000	HK$'000
As at 1 April 2004	19,865	15,158	(281)	–	34,742
Currency translation differences	–	–	282	–	282
As at 31 March 2005 and 1 April 2005	19,865	15,158	1	–	35,024
Share option scheme					
– value of employee services	–	–	–	22,820	22,820
– value of other participants' services	–	–	–	3,459	3,459
Issue of shares	271,454	–	–	–	271,454
As at 31 December 2005	291,319	15,158	1	26,279	332,757

NOTES TO THE FINANCIAL STATEMENTS

26. RESERVES *(Cont'd)*

	Company			
	Share premium HK$'000	Contributed surplus HK$'000 *(Note (iii))*	Share-based compensation reserve HK$'000	Total HK$'000
As at 31 March 2005 and 1 April 2005	19,865	16,209	–	36,074
Share option scheme				
– value of employee services	–	–	22,820	22,820
– value of other participants' services	–	–	3,459	3,459
Issue of shares	271,454	–	–	271,454
As at 31 December 2005	291,319	16,209	26,279	333,807

Notes:

(i) On 6 September 2001, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation (the "Reorganisation") at the time of listing of the Company's shares on GEM.

(ii) Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the share capital of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.

(iii) Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.

27. ACCUMULATED LOSSES

	Company	
	HK$'000	HK$'000
As at 1 April 2005/2004	(16,909)	(5,781)
Loss for the period/year	(36,700)	(11,128)
As at 31 December 2005/31 March 2005	(53,609)	(16,909)

NOTES TO THE FINANCIAL STATEMENTS

28. DEFERRED INCOME TAX LIABILITIES

	Group	
	HK$'000	HK$'000
As at 1 April 2005/2004	**179**	179
Deferred taxation credited to the income statement	**(179)**	–
As at 31 December 2005/31 March 2005	**–**	179

The balance of deferred tax liabilities as at 31 March 2005 represented the tax effect of accelerated depreciation allowances.

As at 31 December 2005, the Group has unrecognised tax losses of approximately HK$1,232,000 (As at 31 March 2005: HK$1,000,000), which can be carried forward to offset against future taxable profit. The deferred tax benefit of such tax losses was not recognised as it was not probable that future taxable profit will be available to utilise the unused tax losses.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss before income tax to net cash (used in)/generated from operating activities

	Period ended 31 December 2005 HK$'000	Year ended 31 March 2005 HK$'000
Cash flows from operating activities		
Loss before income tax	**(42,438)**	(12,390)
Adjustment for:		
Depreciation	**180**	429
Amortisation of intangible assets	**88**	116
Loss on disposal of property, plant and equipment	**81**	–
Share-based compensation expenses	**26,279**	–
Interest income from time deposits	**(4,274)**	(327)
Operating cash flows before movement in working capital	**(20,084)**	(12,172)
– Accounts receivable	**4,175**	11,515
– Prepayments, deposits and other receivables	**(22,591)**	4,463
– Amount due from a related company	–	(1,557)
– Accounts payable	–	(95)
– Accruals and other payables	**5,899**	(374)
– Amount due to a related company	–	(1,152)
Net cash (used in)/generated from operating activities	**(32,601)**	628

NOTES TO THE FINANCIAL STATEMENTS

30. OPERATING LEASE COMMITMENTS

As at 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	As at 31 December 2005 HK$'000	As at 31 March 2005 HK$'000
Not later than one year	**2,349**	–
Later than one year and not later than five years	**2,957**	–
	5,306	–

The Company does not have significant operating lease commitments as at 31 December 2005 (As at 31 March 2005: Nil).

31. EMPLOYEE RETIREMENT BENEFITS

The Group has arranged for its Hong Kong employees to participate in a defined contribution retirement scheme (the "Original Scheme"), which is managed by independently administered funds. The Group's monthly contributions are based on 5% of employees' monthly salaries. The employees are entitled to receive 100% of the Group's contribution and the accrued interest thereon upon retirement or leaving the Group after completing ten years of service or at a reduced scale of 30% to 90% after completing three to nine years of services.

For the Hong Kong employees employed after 1 December 2000, the Group has arranged for these employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a maximum of HK$1,000 per month per employee.

As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement plans for its employees in the PRC. The Group contributes to the retirement plans at rates ranging from approximately 8% to 19% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

As stipulated by Korean labor law, employees with more than one year of service are entitled to receive a lump sum payment upon voluntary or involuntary termination of their employment. The amount of the benefit is based on the terminated employee's length of employment and rate of pay prior to termination. The Group records the vested benefit obligation assuming all employees were to terminate their employment at balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

31. EMPLOYEE RETIREMENT BENEFITS *(Cont'd)*

During the year, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately HK$147,000 (Year ended 31 March 2005: HK$90,000), with HK$7,000 (Year ended 31 March 2005: HK$12,000) deduction of forfeited contributions. As at 31 December 2005, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods.

The Group did not have contribution payable as at 31 December 2005 (As at 31 March 2005: Nil).

32. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group has conducted the following material related party transactions during the period ended 31 December 2005:

(a) Material related party transactions, which were carried out in the normal course of the Group's business and in accordance with terms as agreed with the related parties, are as follows:

Nature of transaction	**Period ended 31 December 2005 HK$'000**	Year ended 31 March 2005 HK$'000
Purchases from a subsidiary's minority shareholder and its subsidiaries	–	12,366

(b) Included in accounts receivable as at 31 December 2005 are accounts receivable balances due from related companies of approximately HK$23,453,000 (As at 31 March 2005: HK$27,628,000). As at 31 December 2005, provisions of approximately HK$8,929,000 (As at 31 March 2005: HK$8,929,000) were made on accounts receivable balance due from related companies. All outstanding balances with related companies are unsecured and non-interest bearing.

33. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2005, the following significant events took place:

(a) Heads of agreement for the proposed acquisition of 90% interest in Octavian International Limited ("Octavian")

On 10 January 2006, China LotSynergy Group Limited ("CLG"), a wholly-owned subsidiary of the Company and a shareholder of Octavian (the "Vendor") entered into a heads of agreement pursuant to which the Group intends to acquire 90% equity interest in Octavian by way of cash and issue of shares. Octavian is an international provider of networked gaming systems and solutions. The proposed acquisition is subject to the entering into by the parties of a formal agreement. Further details of the aforesaid transaction are set out in the Company's announcement dated 11 January 2006.

NOTES TO THE FINANCIAL STATEMENTS

33. POST BALANCE SHEET EVENTS *(Cont'd)*

(b) Placing and top-up subscription

On 17 January 2006, the Company announced the placing of 180,000,000 existing shares at HK$3.675 each and the top-up subscription of the same number of shares at the same price. The placing was completed on 20 January 2006 and the top-up subscription was completed on 27 January 2006. The net proceeds raised from the top-up subscription amounted to approximately HK$631.8 million which are intended to be partly used to settle the cash element of the consideration of HK$470 million for the subscription of interest in Corich (Note 18) and as the Group's general working capital.

(c) Increase in authorised share capital of the Company

Pursuant to the special resolution passed by the shareholders at the special general meeting held on 21 March 2006, the authorised share capital of the Company was increased from HK$20,000,000 to HK$40,000,000 by the creation of additional 2,000,000,000 shares of HK$0.01 each in the capital of the Company.

(d) Repurchase of own shares

Subsequent to 31 December 2005 and up to the date of approval of these financial statements, the Company has repurchased a total of 8,168,000 of its own shares (the "Share Repurchases"), pursuant to the repurchase mandate granted to the board of directors of the Company at the annual general meeting of the Company held on 29 September 2005. The Share Repurchases have been funded from internal resources of the Company. The details are as follows:

Trading date	Number of shares repurchased	Highest price paid	Lowest price paid	Total paid
		HK$	HK$	HK$
7 February 2006	6,120,000	2.950	2.775	17,898,750
8 February 2006	1,400,000	2.875	2.800	3,981,250
14 February 2006	438,000	2.55	2.50	1,108,350
16 February 2006	210,000	2.500	2.475	522,250
Total	8,168,000			23,510,600