

**WorldMetal Holdings Limited**

金屬電子交易所集團有限公司

(Incorporated in Bermuda with limited liability)

Annual Report

2005

## **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.**

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*This report, for which the directors (the “Directors”) of WorldMetal 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.*

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## Corporate Information

### DIRECTORS

LAU Ting, *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*

### 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

### REGISTERED OFFICE

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1406, 14th Floor  
Office Tower  
Convention Plaza  
1 Harbour Road  
Wanchai, Hong Kong  
Tel: (852) 2136 6618  
Fax: (852) 2136 6608

### WEBSITE

[www.worldmetal.com](http://www.worldmetal.com)

### PRINCIPAL SHARE REGISTRARS

Butterfield Fund Services (Bermuda) Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke  
Bermuda

### BRANCH SHARE REGISTRARS IN HONG KONG

Computershare Hong Kong Investor Services Limited  
Shop Nos. 1712-1716, 17th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited  
The Bank of East Asia, Limited  
The Hongkong and Shanghai Banking  
Corporation Limited

## Financial Summary

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

### RESULTS

|  | Year ended 31 March |                  |                  |                  |                  |
|--|---------------------|------------------|------------------|------------------|------------------|
|  | 2005<br>HK\$'000    | 2004<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
| Turnover                                   | <b>52,641</b>       | 262,756          | 45,698           | 48,156           | 43,626           |
| (Loss)/profit before taxation              | <b>(12,390)</b>     | (4,705)          | (8,523)          | 6,133            | 6,160            |
| Taxation credit/(charge)                   | –                   | 1,500            | (1,358)          | 822              | (1,864)          |
| (Loss)/profit after taxation               | <b>(12,390)</b>     | (3,205)          | (9,881)          | 6,955            | 4,296            |
| Minority interests                         | <b>710</b>          | (1)              | 3,039            | (719)            | 188              |
| (Loss)/profit attributable to shareholders | <b>(11,680)</b>     | (3,206)          | (6,842)          | 6,236            | 4,484            |

Note:

The results of the Group for the years ended 31 March 2001 and 2002 were prepared on the assumption that the current structure of the Group had been in existence throughout those years.

### ASSETS AND LIABILITIES

|                                    | As at 31 March   |                  |                  |                  |                  |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|
|                                    | 2005<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
| Intangible assets                  | <b>1,842</b>     | 1,958            | 2,752            | 4,279            | 6,095            |
| Furniture and equipment            | <b>827</b>       | 1,256            | 3,594            | 5,573            | 7,593            |
| Long-term investment               | <b>390</b>       | 390              | 390              | 390              | –                |
| Current assets                     | <b>44,135</b>    | 57,037           | 59,476           | 64,458           | 59,469           |
| Current liabilities                | <b>(1,993)</b>   | (3,614)          | (6,461)          | (5,098)          | (31,770)         |
| Non-current liabilities            | <b>(179)</b>     | (179)            | (179)            | (580)            | (1,189)          |
| Minority interests                 | <b>(16,357)</b>  | (16,785)         | (16,555)         | (19,311)         | (18,740)         |
| Net assets                         | <b>28,665</b>    | 40,063           | 43,017           | 49,711           | 21,458           |
| Capital and reserves:              |                  |                  |                  |                  |                  |
| Share capital                      | <b>10,000</b>    | 10,000           | 10,000           | 10,000           | 19,500           |
| Reserves                           | <b>35,024</b>    | 34,742           | 34,490           | 34,342           | 2,825            |
| (Accumulated loss)/retained profit | <b>(16,359)</b>  | (4,679)          | (1,473)          | 5,369            | (867)            |
| Shareholders' equity               | <b>28,665</b>    | 40,063           | 43,017           | 49,711           | 21,458           |

Note:

The assets and liabilities of the Group as at 31 March 2001 and 2002 were prepared on the assumption that the current structure of the Group had been in existence throughout those years.

# Management Discussion and Analysis

## BUSINESS REVIEW AND OUTLOOK

The Group has been principally engaged in the businesses of providing internet metal trading platforms, ancillary value-chain services and application software development services.

### Business Review

In the year under review, both the domestic and international markets were characterized by an imbalance between the supply and demand of raw materials, as well as persistence of high oil prices. The global steel market witnessed successive price upsurges in the United States, Europe and China; however, the E-commerce industry is still subject to certain limitations, including those related to substantial on-line settlement. Therefore, in accordance with its development strategies, the Group is shifting its focus from on-line trading and other related businesses.

The Group's strategies include continued streamlining of its operations, stringent cost control, retention of resources and exploration of business restructuring possibilities.

Pursuant to these strategies, the Group implemented stringent cost control measures by revising its expenditure policy and cutting discretionary expenses, while only key personnel are retained for the core services. Such measures have proved to be effective, resulting in a 27% decrease in operating expenses (before amortisation and depreciation) compared with the last corresponding year.

Meanwhile, the management spares no effort in exploring new development possibilities for the Group. The management is pro-active and prudent in reviewing and selecting cooperation opportunities, in order to determine the Group's future direction. As disclosed in its announcement dated 10 June 2005, the Group has made some preliminary progress in its business restructuring efforts. On 8 June 2005, China LotSynergy Limited, a wholly-owned subsidiary of the Group, Tabcorp International No.1 Pty Limited, a wholly-owned subsidiary of Tabcorp Holdings Limited, a renowned gaming and entertainment group from Australia, and others entered into a Joint Venture Shareholders' Agreement with the view to bringing certain internationally advanced and developed lottery businesses to the PRC market.

### Outlook

The Group believes that China's lottery market has huge potential, and is highly confident of its business outlook.

According to statistics of the World Lottery Association, lotteries are issued in over 120 countries. In recent years, the lottery industry has been growing at an annual rate of around 18% worldwide, making it the world's sixth largest industry.

China's lottery industry is still young, where the issue of lottery is totally directed by PRC government authorities and is a lawful business of public welfare nature. In comparison, China lags considerably behind well-developed lottery industries of other countries, in terms of technology and equipment, game structure, operation and management.

According to statistics of research institutes, China is the world's ninth largest lottery issuer among the 120 lottery-issuing countries in terms of total issue volume; nevertheless, it ranks only at the 97th when it comes to lottery per capita. Given China's rapid economic growth and the increasing purchasing power of its population, the lottery market of China is endowed with enormous potential.

The Group has in-depth knowledge of the PRC market and extensive market resources, whilst Tabcorp, as Australia's largest gaming and entertainment group, has successful experience in operating an international lottery business and possesses the necessary technology and intellectual property. The Group's joint-venture to develop China's lottery market with Tabcorp will create strong synergies.

The Group is fully confident of its strengths and prospects. As always, it will dedicate itself to safeguarding shareholders' interests and maximising their return.

## Management Discussion and Analysis

### STAFF

During the year under review, the Group continued to adopt effective yet prudent measures in reducing costs and optimising resource utilisation. As at 31 March 2005, the Group employed 37 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.

### FINANCIAL REVIEW

For the year ended 31 March 2005, the Group had an audited consolidated turnover of approximately HK\$52,641,000 (2004: HK\$262,756,000). Turnover comprises income from the metal transactions, consultancy and logistics services and application software development services, representing 100%, 0% and 0% (2004: 99%, 0% and 1%) of the total turnover respectively. The audited consolidated loss attributable to shareholders amounted to approximately HK\$11,680,000 (2004: HK\$3,206,000).

The general and administrative expenses amounted to approximately HK\$2,497,000 (2004: HK\$3,594,000), a reduction of 31% as compared to the year 2004. The improvement in cost efficiency is a result of our effort in increasing efficiency and effectiveness of deploying the internal resources of the Group. Our Group believed in the importance of resources deployment and cost control for its future operations and development.

### LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 March 2005, the Group had audited net current assets of approximately HK\$42,142,000 (2004: HK\$53,423,000), including cash and deposits with banks and financial institution of approximately HK\$22,217,000 (2004: HK\$20,698,000). The audited total liabilities amounted to approximately HK\$2,172,000 (2004: HK\$3,793,000). As at 31 March 2005, the Group did not have any bank borrowings nor any banking facilities (2004: Nil).

The gearing ratio (defined as total liabilities over total assets) of the Group as at 31 March 2005 was approximately 5% (2004: 6%).

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

The Group has no material acquisitions and disposals of investments during the year under review and no significant investments were held by the Group as at 31 March 2005.

On 10 June 2005, the Company announced that 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, 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 joint venture company, namely Tabcorp International Hong Kong Limited ("TIHK"), 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 will be approximately HK\$60 million. The Company may finance such funding requirements either by equity or debt financing including, but not limited to, shareholders' loan and/or bank borrowings.

## 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 completed in 2001 and 2005.

### EXPOSURE TO EXCHANGE RATES FLUCTUATION

Majority of the revenue-generating operations of the Group 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 4 to the accounts.

### PLEDGE OF ASSET

As at 31 March 2005, the Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (2004: Nil).

### CONTINGENT LIABILITIES

As at 31 March 2005, the Group did not have any material contingent liabilities (2004: Nil).

## Biographies of Directors and Senior Management

### DIRECTORS

#### **Ms. LAU Ting, aged 48**

*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.

#### **Dr. CHEN Aizheng, aged 47**

*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 37**

*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. Prior to joining the Group, 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 Company Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom.

#### **Mr. KING Roger, aged 64**

*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 the areas of 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, a Hong Kong listed company 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 Degree in Electrical Engineering from the University of Michigan and a Master Degree in Electrical Engineering from New York University. He is also a graduate of the Harvard Business School.

## Biographies of Directors and Senior Management

### DIRECTORS (Cont'd)

#### **Mr. HUANG Shenglan, aged 53**

*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 30**

*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 China 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 and provided legal services to the establishment of a Sino-foreign joint venture public securities investment fund, which is the first of its kind in China. Mr. Li graduated from Zhongnan University of Economic and Law and is a member of Beijing Bar Association and All-China Lawyers Association.

### SENIOR MANAGEMENT

#### **Ms. NG Lai Ping, Grace, aged 35**

Ms. Ng is the Company Secretary of the Company, responsible for the Group's company secretarial, compliance and legal affairs. 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 an associate member of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

#### **Mr. TAN Yung Kai, Richard, aged 33**

Mr. Tan is the Qualified Accountant of the Company. He is 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 accounts of WorldMetal Holdings Limited (the “Company”) and its subsidiaries (collectively known as the “Group”) for the year ended 31 March 2005.

### **FINANCIAL RESULTS**

Details of the Group’s results for the year ended 31 March 2005 are set out in the consolidated profit and loss account on page 20.

The respective state of affairs of the Group and the Company as at 31 March 2005 are set out in the balance sheets on pages 21 and 22.

The Group’s cash flows are set out in the consolidated cash flow statement on page 24.

### **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, provision of consultancy and logistics services and application software development services.

Analysis of the Group’s turnover and operating results by business and geographical segments for the year ended 31 March 2005 are set out in note 4 to the accounts on pages 31 to 34.

### **DIVIDEND**

No interim dividend was paid during the year.

The Directors do not recommend the payment of a final dividend for the year ended 31 March 2005 (2004: Nil).

### **MAJOR SUPPLIERS AND CUSTOMERS**

The Group’s five largest customers accounted for about 100% of its turnover for the year. In addition, the largest customer of the Group accounted for about 54% of the Group’s turnover.

The Group’s five largest suppliers accounted for about 99% of its purchases for the year. In addition, the largest supplier of the Group accounted for about 24% of the Group’s purchases.

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 year.

### **FURNITURE AND EQUIPMENT**

Details of movements in furniture and equipment during the year are set out in note 12 to the accounts on page 39.

## Report of the Directors

### SUBSIDIARIES

The particulars of the Company's principal subsidiaries as at 31 March 2005 are set out in note 13 to the accounts on pages 39 to 41.

### SHARE CAPITAL

Details of the share capital of the Company as at 31 March 2005 are set out in note 20 to the accounts on page 43.

### RESERVES

Details of movements in reserves during the year are set out in note 22 to the accounts on page 44.

### DISTRIBUTABLE RESERVES

As at 31 March 2005, there was no distributable reserve to shareholders in accordance with the Companies Act 1981 of Bermuda (2004: HK\$10,428,000).

### 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.

### 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 year ended 31 March 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 new requirements of Chapter 23 of the Rules Governing the Listing of Securities on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "GEM Listing Rules").

No options had been granted, exercised nor cancelled since the adoption of the Option Scheme. 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 100,000,000 shares, representing approximately 8.33% 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

### DIRECTORS

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

#### Executive Directors:

Ms. LAU Ting  
Mr. CHEN Aizheng  
Mr. NG Man Fai, Matthew  
Mr. YU Wing Keung, Dicky – resigned on 11 April 2005  
Mr. CHOW Kin Wa – resigned on 1 January 2005

#### Independent Non-Executive Directors:

Mr. KING Roger  
Mr. HUANG Shenglan  
Mr. LI Xiaojun – appointed on 30 September 2004  
Mr. LU Zhi Fang – resigned on 30 September 2004

In accordance with bye-laws 99 and 102 of the Bye-laws of the Company, Mr. HUANG Shenglan and Mr. LI Xiaojun retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Company received from each of the Independent Non-Executive Directors a confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all the Independent Non-Executive Directors to be independent.

Biographical details of the Directors of the Company are set out on pages 7 and 8.

### SENIOR MANAGEMENT

Biographical details of the senior management of the Group are set out on page 8.

## Report of the Directors

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

As at 31 March 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:

#### Interests in Shares

(A) *The Company*

| Name of Director              | Personal interests | Number of ordinary shares |                         |                         | Total  | Approximate percentage interest in the Company's issued share capital | Approximate percentage interest in the Company's issued share capital upon completion of the Placing (Note 5) |
|-------------------------------|--------------------|---------------------------|-------------------------|-------------------------|--------|---|---|
|                               |                    | Family interests          | Corporate interests     |                         |        |   |   |
| LAU Ting                      | 50,288,803         | 72,951,773<br>(Note 1)    | 485,746,308<br>(Note 2) | 608,986,884<br>(Note 3) | 60.90% | 50.75%  |   |
| YU Wing Keung, Dicky (Note 4) | 28,100,000         | –                         | –                       | 28,100,000              | 2.81%  | 2.34%   |   |
| CHEN Aizheng                  | 2,310,000          | 330,000                   | –                       | 2,640,000               | 0.26%  | 0.22%   |   |
| NG Man Fai, Matthew           | 660,000            | –                         | –                       | 660,000                 | 0.07%  | 0.06%   |   |

#### Notes:

- These shares were owned by Mr. CHAN Shing, the spouse of Ms. LAU Ting.
- 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. 463,831,074 shares were held by Burwill Holdings Limited ("Burwill"), which is owned as to 21.48% by Hang Sing, as to 20.10% by Strong Purpose, as to 2.07% by Ms. LAU Ting and as to 1.24% by Mr. CHAN Shing.
- The interests of Ms. LAU Ting and Mr. CHAN Shing were duplicated.
- Mr. YU Wing Keung, Dicky resigned as an Executive Director of the Company, effective 11 April 2005.
- On 7 March 2005, the Company entered into two placing agreements with Centrix Investments Limited ("Centrix") and Wealthmost Holdings Limited ("Wealthmost") respectively for the placing of an aggregate of 200,000,000 new ordinary shares of the Company to the said places (the "Placing"). Upon completion of the Placing which took place on 8 April 2005, 200,000,000 new shares of the Company were issued and allotted to the places and accordingly the number of issued shares of the Company was then increased from 1,000,000,000 shares to 1,200,000,000 shares.

## Report of the Directors

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

#### Interests in Shares (Cont'd)

(B) Associated Corporation – Burwill Holdings Limited

| Name of Director              | Personal interests | Number of ordinary shares |                         |                         | Total  | Approximate percentage interest in the issued share capital of Burwill |
|-------------------------------|--------------------|---------------------------|-------------------------|-------------------------|--------|--|
|                               |                    | Family interests          | Corporate interests     |                         |        |  |
| LAU Ting                      | 21,776,072         | 13,035,472<br>(Note 1)    | 438,304,701<br>(Note 2) | 473,116,245<br>(Note 3) | 44.88% |  |
| YU Wing Keung, Dicky (Note 4) | 4,789,778          | –                         | –                       | 4,789,778               | 0.45%  |  |

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. The interests of Ms. LAU Ting and Mr. CHAN Shing were duplicated.
4. Mr. YU Wing Keung, Dicky resigned as an Executive Director of the Company, effective 11 April 2005.

Save as otherwise disclosed above, as at 31 March 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 Part XV 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 March 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:

#### Interests in Shares

| Name of shareholder | Personal interests      | Number of ordinary shares |                              | Total                   | Approximate percentage interest in the Company's issued share capital | Approximate percentage interest in the Company's issued share capital upon completion of the Placing (Note 4) |
|---------------------|-------------------------|---------------------------|------------------------------|-------------------------|---|---|
|                     |                         | Family interests          | Corporate interests          |                         |   |   |
| CHAN Shing          | 72,951,773              | 50,288,803<br>(Note 1)    | 485,746,308<br>(Note 2)      | 608,986,884<br>(Note 3) | 60.90%  | 50.75%  |
| Burwill             | 463,831,074             | –                         | –                            | 463,831,074<br>(Note 3) | 46.38%  | 38.65%  |
| YU Man Yiu, Park    | 658,500                 | –                         | 147,800,860<br>(Notes 4 & 5) | 148,459,360<br>(Note 6) | –   | 12.37%  |
| Centrix             | 100,000,000<br>(Note 4) | –                         | –                            | 100,000,000<br>(Note 6) | –   | 8.33%   |
| DANG Xinhua         | –                       | –                         | 100,000,000                  | 100,000,000<br>(Note 7) | –   | 8.33%   |
| Wealthmost          | 100,000,000<br>(Note 4) | –                         | –                            | 100,000,000<br>(Note 7) | –   | 8.33%   |

## Report of the Directors

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

#### Interests in Shares (Cont'd)

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. 463,831,074 shares were held by Burwill, which is owned as to 21.48% by Hang Sing, as to 20.10% by Strong Purpose, as to 2.07% by Ms. LAU Ting and as to 1.24% by Mr. CHAN Shing.
3. The interests of Mr. CHAN Shing, Ms. LAU Ting and Burwill were duplicated.
4. On 7 March 2005, the Company entered into two placing agreements with Centrix and Wealthmost respectively for the placing of an aggregate of 200,000,000 new ordinary shares of the Company to the said placees (the "Placing"). Upon completion of the Placing which took place on 8 April 2005, 200,000,000 new shares of the Company were issued and allotted to the placees and accordingly the number of issued shares of the Company was then increased from 1,000,000,000 shares to 1,200,000,000 shares.
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 100,000,000 shares were held by Centrix, a company which is wholly owned by Mr. YU Man Yiu, Park.
6. The interests of Mr. YU Man Yiu, Park and Centrix were duplicated.
7. These shares were held by Wealthmost which is wholly owned by Mr. DANG Xinhua. The interests of Mr. DANG Xinhua and Wealthmost were duplicated.

Save as disclosed above, as at 31 March 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 accounts, 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 year or at any time during the year.

#### 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.

## Report of the Directors

### ISSUE OF SHARES

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 to the Placees on 8 April 2005 upon completion thereof. Total net proceeds from the placing of approximately HK\$5.1 million have been used as the Group's general working capital as intended.

### MAJOR TRANSACTION – 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 8 June 2005, the date of announcement, approving the Agreement.

### 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 27 to the accounts on page 47.

### 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.

### COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

In the opinion of the Directors, the Company has complied with Rules 5.34 to 5.45 in force prior to 1 January 2005 of the GEM Listing Rules concerning board practices and procedures throughout the year ended 31 March 2005.

## Report of the Directors

### REQUIRED STANDARD OF DEALING REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

### AUDIT COMMITTEE

The Company has established an Audit Committee in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The Audit Committee comprises the three Independent Non-Executive Directors of the Company, Mr. HUANG Shenglan, Mr. KING Roger and Mr. LI Xiaojun. Its principal duties include the review of the Company's annual report and accounts, half-year report and quarterly reports, and review and supervision of the Company's financial reporting and internal control procedures.

During the year, the Audit Committee has met four 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. The audited accounts for the year ended 31 March 2005 have been reviewed by the Audit Committee.

### 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, 23 June 2005

## Report of the Auditors



Chartered Accountants  
Certified Public Accountants

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

### **TO THE SHAREHOLDERS OF WORLDMETAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

We have audited the accounts on pages 20 to 48 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 accounts which give a true and fair view. In preparing accounts 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 accounts 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 Statements of Auditing Standards 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### **OPINION**

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2005 and of the Group's loss and cash flows for the year then ended 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, 23 June 2005

## Consolidated Profit and Loss Account

For the year ended 31 March 2005

|  | Note | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|--|------|------------------|------------------|
| Turnover   | 4    | 52,641           | 262,756          |
| Cost of merchandise sold                           |      | (52,363)         | (256,591)        |
| Staff costs  | 9    | (3,938)          | (5,185)          |
| Amortisation of intangible assets                  |      | (116)            | (800)            |
| Depreciation                                       |      | (429)            | (1,944)          |
| Advertising and promotion expenses                 |      | –                | (2)              |
| (Provision for)/Reversal of bad and doubtful debts |      | (6,260)          | 1                |
| Write-off of accounts receivable                   |      | –                | (2)              |
| General and administrative expenses                |      | (2,497)          | (3,594)          |
| Loss from operations                               |      | (12,962)         | (5,361)          |
| Other revenues                                     | 4    | 572              | 590              |
| Gain on disposal of subsidiaries                   |      | –                | 66               |
| Loss before taxation                               | 5    | (12,390)         | (4,705)          |
| Taxation credit                                    | 6    | –                | 1,500            |
| Loss after taxation                                |      | (12,390)         | (3,205)          |
| Minority interests                                 |      | 710              | (1)              |
| Loss attributable to shareholders                  | 7    | (11,680)         | (3,206)          |
| Loss per share – Basic                             | 8    | (1.17) HK cent   | (0.32) HK cent   |

## Balance Sheets

As at 31 March 2005

|   | Note  | Group            |                  | Company          |                  |
|---|-------|------------------|------------------|------------------|------------------|
|   |       | 2005<br>HK\$'000 | 2004<br>HK\$'000 | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| <b>Non-current assets</b>                   |       |                  |                  |                  |                  |
| Intangible assets                           | 11    | 1,842            | 1,958            | –                | –                |
| Furniture and equipment                     | 12    | 827              | 1,256            | –                | –                |
| Investments in subsidiaries                 | 13    | –                | –                | 27,430           | 37,608           |
| Long-term investment                        | 14    | 390              | 390              | –                | –                |
| Total non-current assets                    |       | 3,059            | 3,604            | 27,430           | 37,608           |
| <b>Current assets</b>                       |       |                  |                  |                  |                  |
| Accounts receivable                         | 15    | 18,699           | 30,214           | –                | –                |
| Prepayments, deposits and other receivables |       | 1,662            | 6,125            | –                | –                |
| Amount due from a related company           | 17    | 1,557            | –                | –                | –                |
| Deposit with a financial institution        | 18&19 | 15,095           | 15,095           | –                | –                |
| Cash and bank balances                      | 19    | 7,122            | 5,603            | 1,785            | 2,785            |
| Total current assets                        |       | 44,135           | 57,037           | 1,785            | 2,785            |
| <b>Current liabilities</b>                  |       |                  |                  |                  |                  |
| Accounts payable                            | 16    | –                | (95)             | –                | –                |
| Accruals and other payables                 |       | (1,304)          | (1,678)          | (50)             | (100)            |
| Amounts due to related companies            | 17    | (193)            | (1,345)          | –                | –                |
| Taxation payable                            |       | (496)            | (496)            | –                | –                |
| Total current liabilities                   |       | (1,993)          | (3,614)          | (50)             | (100)            |
| Net current assets                          |       | 42,142           | 53,423           | 1,735            | 2,685            |
| Total assets less current liabilities       |       | 45,201           | 57,027           | 29,165           | 40,293           |

## Balance Sheets

As at 31 March 2005

|                                | Note | Group            |                  | Company          |                  |
|--------------------------------|------|------------------|------------------|------------------|------------------|
|                                |      | 2005<br>HK\$'000 | 2004<br>HK\$'000 | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| Representing:                  |      |                  |                  |                  |                  |
| Share capital                  | 20   | 10,000           | 10,000           | 10,000           | 10,000           |
| Reserves                       | 22   | 35,024           | 34,742           | 36,074           | 36,074           |
| Accumulated loss               | 23   | (16,359)         | (4,679)          | (16,909)         | (5,781)          |
| Shareholders' funds            |      | 28,665           | 40,063           | 29,165           | 40,293           |
| <b>Non-current liabilities</b> |      |                  |                  |                  |                  |
| Deferred taxation              | 24   | 179              | 179              | –                | –                |
| Total non-current liabilities  |      | 179              | 179              | –                | –                |
| <b>Minority interests</b>      |      |                  |                  |                  |                  |
|                                |      | 16,357           | 16,785           | –                | –                |
|                                |      | 45,201           | 57,027           | 29,165           | 40,293           |

**LAU TING**  
Chairman

**NG MAN FAI, MATTHEW**  
Director

## Consolidated Statement of Changes in Equity

For the year ended 31 March 2005

|  | <i>Note</i> | <b>2005</b><br><b>HK\$'000</b> | 2004<br>HK\$'000 |
|--|-------------|--------------------------------|------------------|
| Total equity as at 1 April   |             | <b>40,063</b>                  | 43,017           |
| Exchange differences arising on translation of the<br>accounts of foreign subsidiaries | 22          | <b>282</b>                     | 252              |
| Loss for the year  | 23          | <b>(11,680)</b>                | (3,206)          |
| Total equity as at 31 March  |             | <b>28,665</b>                  | 40,063           |

## Consolidated Cash Flow Statement

For the year ended 31 March 2005

|   | Note  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>Net cash inflow/(outflow) from operations</b>    | 25(a) | <b>628</b>       | (10,985)         |
| Hong Kong profits tax refunded                      |       | –                | 6                |
| Net cash inflow/(outflow) from operating activities |       | <b>628</b>       | (10,979)         |
| <b>Investing activities</b>                         |       |                  |                  |
| Sale of furniture and equipment                     |       | –                | 43               |
| Interest income from bank deposits                  |       | <b>327</b>       | 343              |
| Disposal of subsidiaries                            | 25(b) | –                | 300              |
| Decrease in pledged bank deposits                   |       | –                | 124              |
| Net cash inflow from investing activities           |       | <b>327</b>       | 810              |
| Increase/(decrease) in cash and cash equivalents    |       | <b>955</b>       | (10,169)         |
| Cash and cash equivalents as at 1 April             |       | <b>20,698</b>    | 30,420           |
| Effect of foreign exchange rate changes             |       | <b>564</b>       | 447              |
| Cash and cash equivalents as at 31 March            |       | <b>22,217</b>    | 20,698           |
| Analysis of balances of cash and cash equivalents   |       |                  |                  |
| Cash and bank balances                              |       | <b>7,122</b>     | 5,603            |
| Deposit with a financial institution                |       | <b>15,095</b>    | 15,095           |
|   |       | <b>22,217</b>    | 20,698           |

## Notes to the Accounts

### 1. CORPORATE INFORMATION

The Company was incorporated in Bermuda with limited liability. 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.

### 2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs"), which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 March 2005. These new HKFRSs may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

### 3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

#### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKICPA. They have been prepared under the historical cost convention.

#### (b) Group accounting

##### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

## Notes to the Accounts

### 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### (b) Group accounting (Cont'd)

##### (i) Consolidation (Cont'd)

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.

##### (ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

#### (c) Intangible assets

##### (i) 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 a period of twenty years.

##### (ii) 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 expected useful lives of the portals.

Research and other portal maintenance costs are expensed as incurred.

##### (iii) Impairment of intangible assets

The Directors and management review and evaluate, taking into consideration current results and future prospects, the carrying value of intangible assets periodically and provision is made for impairment loss where appropriate.

## Notes to the Accounts

### 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### (d) Furniture and equipment

Furniture and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

##### (i) Depreciation

Furniture and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

Improvements are capitalised and depreciated over their expected useful lives to the Group.

##### (ii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that furniture and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a furniture and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

#### (e) Assets under leases

##### (i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

## Notes to the Accounts

### 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### (e) Assets under leases (Cont'd)

##### (ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

#### (f) Investments in securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to their fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

#### (g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

#### (h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and financial institutions, and bank overdrafts.

#### (i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

## Notes to the Accounts

### 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### (j) Employee benefits

##### (i) 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.

##### (ii) 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.

##### (iii) 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.

#### (k) Taxation

The charge for taxation in the income statement for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Initial recognition of assets or liabilities that affect neither accounting nor taxable profit is regarded as a temporary difference which is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## Notes to the Accounts

### 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### (l) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

#### (m) Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following bases:

- (i) Income from sale of merchandise is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers.
- (ii) Advertising income is recognised when the advertisements are published.
- (iii) Commission income is recognised when the related services are rendered.
- (iv) Application software development service fees, net of applicable business tax, are recognised by reference to the stage of completion of the related development work. Stage of completion is generally determined by reference to the services performed to date as a proportion of total services to be performed. No work-in-progress was recognised as at 31 March 2004 and 2005 as there were no material direct costs attributable to these services.
- (v) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

#### (n) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

#### (o) Segment reporting

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.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, furniture and equipment, inventories, receivables and operating cash, and mainly exclude investments in securities. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditure comprises additions to intangible assets and furniture and equipment.

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.

## Notes to the Accounts

### 4. 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.

Revenues recognised during the year are as follows:

|   | <b>2005</b>     | 2004     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| Turnover                                      |                 |          |
| Sales of merchandise                          | <b>52,637</b>   | 257,878  |
| Advertising income                            | <b>4</b>        | –        |
| Commission income                             | –               | 3,856    |
| Application software development service fees | –               | 1,022    |
|   | <b>52,641</b>   | 262,756  |
| Other revenues                                |                 |          |
| Interest income from bank deposits            | <b>327</b>      | 343      |
| Others  | <b>245</b>      | 247      |
|   | <b>572</b>      | 590      |
| Total revenues                                | <b>53,213</b>   | 263,346  |

## Notes to the Accounts

### 4. TURNOVER, REVENUES AND SEGMENT INFORMATION (Cont'd)

#### (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.

|   | Metal<br>exchange<br>portals<br>HK\$'000 | Metal<br>trading<br>HK\$'000 | 2005<br>Consultancy<br>and<br>logistics<br>services<br>HK\$'000 | Application<br>software<br>development<br>services<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|------------------------------|---|--|-------------------|
| Turnover                                  | 4  | 52,637                       | –   | –  | 52,641            |
| Segment results                           | (3,879)                                  | (938)                        | –   | –  | (4,817)           |
| Unallocated corporate expenses            |  |                              |   |  | (8,145)           |
| Other revenues                            |  |                              |   |  | 572               |
| Taxation                                  |  |                              |   |  | –                 |
| Loss after taxation                       |  |                              |   |  | (12,390)          |
| Minority interests                        |  |                              |   |  | 710               |
| Loss attributable to shareholders         |  |                              |   |  | (11,680)          |
| <b>Balance sheet</b>                      |  |                              |   |  |                   |
| 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             |
| <b>Other information</b>                  |  |                              |   |  |                   |
| Capital expenditures                      | –  | –                            | –   | –  | –                 |
| Depreciation and amortisation             | 410                                      | 7                            | –   | –  | 417               |
| Unallocated depreciation and amortisation |  |                              |   |  | 128               |
|   |  |                              |   |  | 545               |

## Notes to the Accounts

### 4. TURNOVER, REVENUES AND SEGMENT INFORMATION (Cont'd)

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

|   | Metal<br>exchange<br>portals<br>HK\$'000 | Metal<br>trading<br>HK\$'000 | 2004<br>Consultancy<br>and<br>logistics<br>services<br>HK\$'000 | Application<br>software<br>development<br>services<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|------------------------------|---|--|-------------------|
| Turnover                                  | 3,856                                    | 257,878                      | –   | 1,022  | 262,756           |
| Segment results                           | (2,744)                                  | (158)                        | –   | (180)  | (3,082)           |
| Unallocated corporate expenses            |  |                              |   |  | (2,279)           |
| Other revenues                            |  |                              |   |  | 590               |
| Gain on disposal of subsidiaries          |  |                              |   |  | 66                |
| Taxation                                  |  |                              |   |  | 1,500             |
| Loss after taxation                       |  |                              |   |  | (3,205)           |
| Minority interests                        |  |                              |   |  | (1)               |
| Loss attributable to shareholders         |  |                              |   |  | (3,206)           |
| <b>Balance sheet</b>                      |  |                              |   |  |                   |
| Segment assets                            | 26,455                                   | 5,434                        | –   | 1,064  | 32,953            |
| Unallocated assets                        |  |                              |   |  | 27,688            |
| Total assets                              |  |                              |   |  | 60,641            |
| Segment liabilities                       | 2,383                                    | 198                          | –   | 96   | 2,677             |
| Unallocated liabilities                   |  |                              |   |  | 1,116             |
| Total liabilities                         |  |                              |   |  | 3,793             |
| <b>Other information</b>                  |  |                              |   |  |                   |
| Capital expenditures                      | –  | –                            | –   | –  | –                 |
| Depreciation and amortisation             | 2,009                                    | 483                          | –   | 122  | 2,614             |
| Unallocated depreciation and amortisation |  |                              |   |  | 130               |
|   |  |                              |   |  | 2,744             |

There are no sales or transactions among the business segments.

## Notes to the Accounts

### 4. TURNOVER, REVENUES AND SEGMENT INFORMATION (Cont'd)

#### (b) Secondary reporting format – geographical segments

The Group has business operations in Korea, Hong Kong and Mainland China. An analysis by geographical location is as follows:

|                      | 2005              |                       |                               | Total<br>HK\$'000 |
|----------------------|-------------------|-----------------------|-------------------------------|-------------------|
|                      | Korea<br>HK\$'000 | Hong Kong<br>HK\$'000 | Mainland<br>China<br>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 | –                 | –                     | –                             | –                 |
|                      | 2004              |                       |                               |                   |
|                      | Korea<br>HK\$'000 | Hong Kong<br>HK\$'000 | Mainland<br>China<br>HK\$'000 | Total<br>HK\$'000 |
| Turnover             | 257,959           | 4,140                 | 657                           | 262,756           |
| Operating results    | (159)             | (4,938)               | (264)                         | (5,361)           |
| Total assets         | 5,436             | 31,601                | 23,604                        | 60,641            |
| Capital expenditures | –                 | –                     | –                             | –                 |

There are no sales between the geographical segments.

## Notes to the Accounts

### 5. LOSS BEFORE TAXATION

Loss before taxation is stated after charging and crediting the following:

|   | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|---|------------------|------------------|
| <i>Charging</i>                             |                  |                  |
| Depreciation of owned assets                | 429              | 1,944            |
| Loss on disposal of furniture and equipment | –                | 247              |
| Operating lease rentals in respect of       |                  |                  |
| – a motor vehicle                           | –                | 44               |
| – land and buildings                        | 168              | 1,521            |
| Auditors' remuneration                      | 250              | 200              |
| Amortisation of intangible assets           |                  |                  |
| – domain names and trademarks               | 116              | 118              |
| – portal development costs                  | –                | 682              |
| Provision for bad and doubtful debts        | 6,260            | –                |
| Write-off of accounts receivable            | –                | 2                |
| Net exchange losses                         | 269              | 49               |
|   | –                | –                |
| <i>Crediting</i>                            |                  |                  |
| Reversal of bad and doubtful debts          | –                | 1                |
|   | –                | 1                |

### 6. TAXATION CREDIT

The amount of taxation credited to the consolidated profit and loss account represents:

|  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|--|------------------|------------------|
| Current taxation                                   |                  |                  |
| – Hong Kong profits tax                            | –                | –                |
| – People's Republic of China enterprise income tax | –                | –                |
| – overseas taxation                                | –                | –                |
| Over provisions in prior years                     | –                | 1,500            |
|  | –                | 1,500            |
|  | –                | 1,500            |

The Company is incorporated in Bermuda and is exempted from taxation in Bermuda until 2016. The Company's subsidiaries established in the British Virgin Islands are 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. No provision for Hong Kong profits tax has been made as the Group has no assessable profits for both the current and prior years.

## Notes to the Accounts

### 6. TAXATION CREDIT (Cont'd)

SteelMetal.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 SteelMetal.com Limited incurred a taxation loss for the years ended 31 March 2004 and 2005.

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 People's Republic of China (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 year ended 31 March 2005 and last year was the third year of profitable operations after offsetting prior year losses.

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 years ended 31 March 2004 and 2005.

### 7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of approximately HK\$11,128,000 (2004: HK\$1,768,000) dealt with in the accounts of the Company.

### 8. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of approximately HK\$11,680,000 (2004: HK\$3,206,000) and the weighted average number of 1,000,000,000 ordinary shares in issue (2004: 1,000,000,000 shares) during the year.

No diluted loss per share is presented as there were no dilutive potential ordinary shares in issue during the years ended 31 March 2004 and 2005.

### 9. STAFF COSTS

Staff costs including directors' remuneration comprise:

|  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|--|------------------|------------------|
| Wages and salaries                         | 3,763            | 5,036            |
| Unutilised annual leave                    | –                | (100)            |
| Social security costs                      | 15               | 23               |
| Pension costs – defined contribution plans | 90               | 186              |
| Provision for long service payment         | 45               | 18               |
| Other staff welfare                        | 25               | 22               |
|  | 3,938            | 5,185            |

## Notes to the Accounts

### 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to Directors of the Company during the year are as follows:

|  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|--|------------------|------------------|
| Fees for Non-Executive Directors   | 360              | 360              |
| Other emoluments to Executive Directors                                      |                  |                  |
| Basic salaries, housing allowances, other allowances<br>and benefits in kind | 892              | 1,788            |
| Contributions to pensions schemes for Directors                              | 24               | 60               |
|  | 1,276            | 2,208            |

No Director waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any Directors during the year.

The emoluments of the Directors fell within the following bands:

| Emoluments bands         | Number of Directors |      |
|--------------------------|---------------------|------|
|                          | 2005                | 2004 |
| HK\$ nil – HK\$1,000,000 | 9                   | 10   |

For the year ended 31 March 2005, the Non-Executive Directors received individual emoluments of HK\$120,000 (2004: HK\$120,000), HK\$120,000 (2004: HK\$120,000), HK\$60,000 (2004: HK\$Nil) and HK\$60,000 (2004: HK\$120,000) respectively, while the Executive Directors received individual emoluments of approximately HK\$9 (2004: HK\$14), HK\$Nil (2004: HK\$385,000), HK\$Nil (2004: HK\$556,000), HK\$13 (2004: HK\$14), HK\$529,000 (2004: HK\$539,000), HK\$387,000 (2004: HK\$368,000) and HK\$13 (2004: HK\$14) respectively.

## Notes to the Accounts

### 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

#### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (2004: three) were Directors of the Company whose emoluments are included in Note 10(a) to the accounts. The emoluments of the remaining three (2004: two) individuals were as follows:

|   | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|---|------------------|------------------|
| Basic salaries, housing allowances, other allowances and benefits in kind | 1,237            | 780              |
| Contributions to pensions schemes   | 48               | 36               |
|   | <b>1,285</b>     | <b>816</b>       |

Their emoluments were within the following bands:

| Emoluments bands         | Number of employees |      |
|--------------------------|---------------------|------|
|                          | 2005                | 2004 |
| HK\$ nil – HK\$1,000,000 | 3                   | 2    |

### 11. INTANGIBLE ASSETS

|                                  | Domain names<br>and trademarks<br>HK\$'000 | Group<br>Portal<br>development<br>costs<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------------------|--|---|-------------------|
| For the 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             |
| As at 31 March 2004              |  |   |                   |
| Cost                             | 2,347                                      | 5,422   | 7,769             |
| Accumulated amortisation         | (389)                                      | (5,422)   | (5,811)           |
| Net book amount                  | 1,958                                      | –   | 1,958             |

## Notes to the Accounts

### 12. FURNITURE AND EQUIPMENT

|                                 | Leasehold<br>improvements<br>HK\$'000 | Computer<br>equipment<br>and<br>software<br>HK\$'000 | Group<br>Office<br>equipment<br>and<br>furniture<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Total<br>HK\$'000 |
|---------------------------------|---------------------------------------|--|--|-------------------------------|-------------------|
| <b>Cost</b>                     |                                       |  |  |                               |                   |
| As at 1 April 2004              | 46                                    | 5,981  | 865  | 296                           | 7,188             |
| Translation adjustments         | –                                     | 63   | 1  | –                             | 64                |
| <b>As at 31 March 2005</b>      | <b>46</b>                             | <b>6,044</b>   | <b>866</b>   | <b>296</b>                    | <b>7,252</b>      |
| <b>Accumulated depreciation</b> |                                       |  |  |                               |                   |
| As at 1 April 2004              | 25                                    | 5,436  | 308  | 163                           | 5,932             |
| Charge for the year             | 15                                    | 273  | 88   | 53                            | 429               |
| Translation adjustments         | –                                     | 63   | 1  | –                             | 64                |
| <b>As at 31 March 2005</b>      | <b>40</b>                             | <b>5,772</b>   | <b>397</b>   | <b>216</b>                    | <b>6,425</b>      |
| <b>Net book value</b>           |                                       |  |  |                               |                   |
| <b>As at 31 March 2005</b>      | <b>6</b>                              | <b>272</b>   | <b>469</b>   | <b>80</b>                     | <b>827</b>        |
| As at 31 March 2004             | 21                                    | 545  | 557  | 133                           | 1,256             |

### 13. INVESTMENTS IN SUBSIDIARIES

|                          | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|--------------------------|------------------|------------------|
| Unlisted shares, at cost | 23,909           | 23,909           |
| Provision for impairment | (10,000)         | –                |
|                          | <b>13,909</b>    | 23,909           |
| Due from subsidiaries    | 13,521           | 13,699           |
|                          | <b>27,430</b>    | 37,608           |

The underlying value of investments in subsidiaries is, in the opinion of the directors, not less than their carrying value as at 31 March 2005.

The amounts due from subsidiaries are unsecured, interest-free and are not repayable within the next twelve months from the balance sheet date.

## Notes to the Accounts

### 13. INVESTMENTS IN SUBSIDIARIES (Cont'd)

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

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

## Notes to the Accounts

### 13. INVESTMENTS IN SUBSIDIARIES (Cont'd)

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 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 year ended 31 March 2005.

### 14. LONG-TERM INVESTMENT

|                                  | <b>Group</b>    |          |
|----------------------------------|-----------------|----------|
|                                  | <b>2005</b>     | 2004     |
|                                  | <b>HK\$'000</b> | HK\$'000 |
| Unlisted guarantee fund, at cost | <b>390</b>      | 390      |

The underlying value of long-term investment was, in the opinion of the directors, not less than the carrying value of the investment as at 31 March 2005.

## Notes to the Accounts

### 15. 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 March 2005, the ageing analysis of the accounts receivable was as follows:

|  | <b>Group</b>    |          |
|--|-----------------|----------|
|  | <b>2005</b>     | 2004     |
|  | <b>HK\$'000</b> | HK\$'000 |
| 0 – 90 days                                | –               | 3,250    |
| 91 – 180 days                              | –               | 400      |
| 181 days – one year                        | –               | 2,221    |
| Over one year and less than two years      | <b>639</b>      | 13,662   |
| Over two years                             | <b>32,995</b>   | 19,356   |
|  | <b>33,634</b>   | 38,889   |
| Less: Provision for bad and doubtful debts |                 |          |
| – on amounts due from related companies    | <b>(8,929)</b>  | (8,422)  |
| – on others                                | <b>(6,006)</b>  | (253)    |
|  | <b>(14,935)</b> | (8,675)  |
|  | <b>18,699</b>   | 30,214   |

### 16. ACCOUNTS PAYABLE

As at 31 March 2005, the ageing analysis of the accounts payable was as follows:

|             | <b>Group</b>    |          |
|-------------|-----------------|----------|
|             | <b>2005</b>     | 2004     |
|             | <b>HK\$'000</b> | HK\$'000 |
| 0 – 90 days | –               | 95       |

### 17. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

The amounts due are unsecured, interest-free and have no fixed repayment terms.

### 18. DEPOSIT WITH A FINANCIAL INSTITUTION

This represents a fixed deposit (in Renminbi) placed with a registered financial institution in the PRC. This deposit bears interest rate of 1.6% per annum.

## Notes to the Accounts

### 19. CASH AND CASH EQUIVALENTS

As at 31 March 2005, the Group had deposit placed with a financial institution (see Note 18) and other cash and bank balances of approximately HK\$15,389,000 (2004: HK\$15,452,000) 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.

### 20. SHARE CAPITAL

|  | <b>2005</b>     | 2004     |
|--|-----------------|----------|
|  | <b>HK\$'000</b> | HK\$'000 |
| <i>Authorised:</i>                             |                 |          |
| 2,000,000,000 ordinary shares of HK\$0.01 each | <b>20,000</b>   | 20,000   |
| <i>Issued and fully paid:</i>                  |                 |          |
| 1,000,000,000 ordinary shares of HK\$0.01 each | <b>10,000</b>   | 10,000   |

### 21. EMPLOYEE SHARE OPTIONS

At the annual general meeting of the Company held on 30 July 2002, 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 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.

No share options were granted under the Option Scheme its adoption.

## Notes to the Accounts

### 22. RESERVES

|   | Group                        |  |  | Total<br>HK\$'000 |
|---|------------------------------|--|--|-------------------|
|   | Share<br>premium<br>HK\$'000 | Capital<br>reserve<br>(Note (b))<br>HK\$'000 | Cumulative<br>translation<br>reserve<br>HK\$'000 |                   |
| As at 1 April 2003                      | 19,865                       | 15,158                                       | (533)  | 34,490            |
| Translation adjustments                 | –                            | –  | 252  | 252               |
| As at 31 March 2004 and<br>1 April 2004 | 19,865                       | 15,158                                       | (281)  | 34,742            |
| Translation adjustments                 | –                            | –  | 282  | 282               |
| <b>As at 31 March 2005</b>              | <b>19,865</b>                | <b>15,158</b>                                | <b>1</b>   | <b>35,024</b>     |

|   | Company<br>Contributed       |                                   | Total<br>HK\$'000 |
|---|------------------------------|-----------------------------------|-------------------|
|   | Share<br>premium<br>HK\$'000 | surplus<br>(Note (c))<br>HK\$'000 |                   |
| <b>As at 1 April 2003, 31 March 2004 and 2005</b> | <b>19,865</b>                | <b>16,209</b>                     | <b>36,074</b>     |

Notes:

- (a) 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.
- (b) 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.
- (c) 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.

### 23. ACCUMULATED LOSS

|                   | Group            |                  | Company          |                  |
|-------------------|------------------|------------------|------------------|------------------|
|                   | 2005<br>HK\$'000 | 2004<br>HK\$'000 | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| As at 1 April     | (4,679)          | (1,473)          | (5,781)          | (4,013)          |
| Loss for the year | (11,680)         | (3,206)          | (11,128)         | (1,768)          |
| As at 31 March    | <b>(16,359)</b>  | (4,679)          | <b>(16,909)</b>  | (5,781)          |

## Notes to the Accounts

### 24. DEFERRED TAXATION

|                                      | <b>Group</b>    |          |
|--------------------------------------|-----------------|----------|
|                                      | <b>2005</b>     | 2004     |
|                                      | <b>HK\$'000</b> | HK\$'000 |
| As at 1 April 2004 and 31 March 2005 | <b>179</b>      | 179      |

Deferred taxation represents the taxation effect of accelerated depreciation allowances.

As at 31 March 2005, deferred tax assets not recognised in respect of tax losses amounted to approximately HK\$1,000,000 (2004: HK\$190,000).

### 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of loss before taxation to net cash inflow/(outflow) from operations

|  | <b>2005</b>     | 2004     |
|--|-----------------|----------|
|  | <b>HK\$'000</b> | HK\$'000 |
| Loss before taxation                             | <b>(12,390)</b> | (4,705)  |
| Depreciation                                     | <b>429</b>      | 1,944    |
| Amortisation of intangible assets                | <b>116</b>      | 800      |
| Loss on disposal of furniture and equipment      | –               | 247      |
| Interest income from bank deposits               | <b>(327)</b>    | (343)    |
| Gain on disposal of subsidiaries                 | –               | (66)     |
| Loss before taxation and working capital changes | <b>(12,172)</b> | (2,123)  |
| Working capital changes:                         |                 |          |
| – Inventories                                    | –               | 2,018    |
| – Accounts receivable                            | <b>11,515</b>   | (5,198)  |
| – Prepayments, deposits and other receivables    | <b>4,463</b>    | (5,028)  |
| – Amount due from a related company              | <b>(1,557)</b>  | 617      |
| – Accounts payable                               | <b>(95)</b>     | (1,810)  |
| – Accruals and other payables                    | <b>(374)</b>    | 420      |
| – Amounts due to related companies               | <b>(1,152)</b>  | 119      |
| Net cash inflow/(outflow) from operations        | <b>628</b>      | (10,985) |

## Notes to the Accounts

### 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

#### (b) Disposal of subsidiaries

For the year ended 31 March 2004, the Group disposed of its entire equity interests in Everfame Technologies Limited and its subsidiary at a consideration of approximately HK\$370,000.

Summary of the effects of disposal of subsidiaries is as follows:

|   | 2004<br>HK\$'000 |
|---|------------------|
| Furniture and equipment                     | 108              |
| Accounts receivable                         | 236              |
| Prepayments, deposits and other receivables | 11               |
| Cash and bank balances                      | 7                |
| Accruals and other payables                 | (82)             |
| Cumulative translation reserve              | 24               |
|   | <hr/>            |
|   | 304              |
| Gain on disposal of subsidiaries            | 66               |
|   | <hr/>            |
|   | 370              |
|   | <hr/>            |
| Satisfied by:                               |                  |
| Cash  | 307              |
| Consideration receivable                    | 63               |
|   | <hr/>            |
|   | 370              |
|   | <hr/>            |
| Net cash inflow arising from disposal:      |                  |
| Cash and bank balances disposed of          | (7)              |
| Cash consideration received                 | 307              |
|   | <hr/>            |
|   | 300              |
|   | <hr/>            |

## Notes to the Accounts

### 26. COMMITMENTS

As at 31 March 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

|   | <b>Land and buildings</b> |          | <b>A motor vehicle</b> |          |
|---|---------------------------|----------|------------------------|----------|
|   | <b>2005</b>               | 2004     | <b>2005</b>            | 2004     |
|   | <b>HK\$'000</b>           | HK\$'000 | <b>HK\$'000</b>        | HK\$'000 |
| Not later than one year                           | –                         | 81       | –                      | 46       |
| Later than one year and not later than five years | –                         | –        | –                      | 85       |
|   | –                         | 81       | –                      | 131      |

The Company does not have significant operating lease commitments as at 31 March 2005 (2004: Nil).

### 27. 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 labour 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.

During the year, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately HK\$90,000 (2004: HK\$186,000), with approximately HK\$12,000 (2004: Nil) deduction of forfeited contributions. As at 31 March 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 March 2005 (2004: Nil).

## Notes to the Accounts

### 28. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (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   | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|---|------------------|------------------|
| Commission income earned from subsidiaries of a substantial shareholder | –                | 3,775            |
| Purchases from a subsidiary's minority shareholder and its subsidiaries | 12,366           | 38,562           |
| Sales to a subsidiary's minority shareholder and its subsidiaries       | –                | 13,252           |

- (b) Included in accounts receivable as at 31 March 2005 are accounts receivable balances due from related companies of approximately HK\$27,628,000 (2004: HK\$32,797,000). As at 31 March 2005, provisions of approximately HK\$8,929,000 (2004: HK\$8,422,000) were made on accounts receivable balance due from related companies. All outstanding balances with related companies are unsecured and non-interest bearing.

### 29. POST BALANCE SHEET EVENTS

The following events occurred subsequent to 31 March 2005 and up to the date of approval of these accounts by the board of directors:

- (i) On 7 March 2005, the Company entered into the placing agreements with Wealthmost Holdings Limited and Centrix Investments Limited (the "Placees"), pursuant to which the Company agreed conditionally to issue and allot an aggregate of 200,000,000 ordinary shares to the Placees at a price of HK\$0.026 per share. Completion of the placing took place on 8 April 2005.
- (ii) 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, pursuant to which CLL and TI agreed to form a joint venture company namely Tabcorp International Hong Kong Limited to provide certain advanced and developed lottery operating systems, terminals, proprietary intellectual property rights and other technological support services to, and cooperate with, the PRC government authorised organisation(s) for issuance of lottery and operation of a lottery business. Further details of the aforesaid transaction are set out in the announcement of the Company dated 10 June 2005.

### 30. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 23 June 2005.