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China LotSynergy Holdings Limited

華彩控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8161)

**MAJOR TRANSACTION
SUBSCRIPTION OF INTEREST IN PROVIDER OF
VIDEO LOTTERY TERMINALS
AND
RESUMPTION OF TRADING**

The Board is pleased to announce that the Company and its wholly-owned subsidiary, CLG, entered into the Subscription Agreement on 9 January 2006 under which CLG has conditionally agreed to subscribe for and Corich has conditionally agreed to issue 1,000,000 Corich Shares for an aggregate consideration of HK\$980,000,000. Immediately after Completion, the Corich Subscription Shares will represent approximately 33.3% of the enlarged issued share capital of Corich on a fully diluted basis. In the event that the Corich Preference Shares are redeemed by Corich pursuant to either the Subscriber's Redemption Right or the Warrantors' Redemption Right after Completion, the Corich Subscription Shares will represent 50% of the enlarged issued share capital of Corich. In the event that the Corich Preference Shares are not redeemed upon expiry of the period by which the Warrantors' Redemption Right may be exercised, the Corich Preference Shares will be automatically converted into Corich Shares on a one to one basis and the Corich Subscription Shares will represent approximately 33.3% of the then enlarged issued share capital of Corich.

The Consideration will be satisfied as to HK\$500 million by cash and as to HK\$480 million by the allotment and issue of the Consideration Shares. The Subscription as well as the allotment and issue of the Consideration Shares shall be subject to the approval of the Shareholders at the SGM.

The Corich Group is principally engaged in the provision of video lottery terminals (VLT) to CLO. On 29 June 2005, Tianyi Electronics, a wholly-owned subsidiary of Corich, executed the CLO Contract under which Tianyi Electronics provides CLO with VLT on an exclusive basis in the PRC. In consideration for the provision of VLT by Tianyi Electronics, CLO has agreed to pay to Tianyi Electronics a fee of 1.6% of the CLO Revenue. The CLO Contract shall operate for a period of 10 years.

The Subscription constitutes a major transaction for the Company under the GEM Listing Rules. The SGM will be convened to consider and, if thought fit, approve the Subscription as well as the allotment and issue of the Consideration Shares. Burwill, Mr. Chan, Mrs. Chan, Hang Sing Overseas Limited and Strong Purpose Corporation, holding an aggregate of 528,986,884 Shares representing approximately 36.99% of the existing issued share capital of the Company, will vote in favour of the resolution(s) to be proposed at the SGM approving the Subscription as well as the allotment and issue of the Consideration Shares.

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on Tuesday, 10 January 2006 pending the release of this announcement and another announcement of the Company which was released on Wednesday, 11 January 2006. Application has been made to the Stock Exchange for resumption of trading in the Shares on the Stock Exchange from 9:30 a.m. on Monday, 16 January 2006.

THE SUBSCRIPTION AGREEMENT

1. Date

9 January 2006

2. Parties

- (i) The Company as the issuer of the Consideration Shares;
- (ii) CLG, a wholly-owned subsidiary of the Company, as the subscriber for the Corich Subscription Shares;
- (iii) Corich as the issuer of the Corich Subscription Shares; and
- (iv) Toward Plan Investments Limited (“TPI”) and Win Key Development Limited (“Win Key”) as the Warrantors.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, each of Corich, the Warrantors, their ultimate beneficial owners and their respective subsidiaries is independent of the Company and its connected persons.

3. Principal terms of the Subscription Agreement

(A) Corich Subscription Shares

Pursuant to the Subscription Agreement, CLG will subscribe for 1,000,000 Corich Shares for the aggregate Consideration of HK\$980,000,000.

As at the date of this announcement, the issued share capital of Corich comprises 1,000,000 Corich Shares of which TPI holds 930,000 Corich Shares and Win Key holds 70,000 Corich Shares, representing 93% and 7% respectively of the existing issued share capital of Corich. Before Completion, Corich will issue 930,000 and 70,000 Corich Preference Shares to TPI and Win Key respectively at an issue price of US\$1.00 each. As at the date of this announcement, the Company has been informed by the Warrantors that Corich has completed all the necessary filing procedures for the allotment and issue of the Corich Preference Shares. The issue of the Corich Preference Shares is part of an internal capital reorganisation of Corich to protect the interest of the Warrantors, being the existing shareholders of Corich, and facilitate the introduction of new shareholders of Corich. Details of the special features of the Corich Preference Shares are set out under the section headed “The Corich Preference Shares” below.

Immediately after Completion, the Corich Subscription Shares will represent approximately 33.3% of the enlarged issued share capital of Corich on a fully diluted basis. In the event that the Corich Preference Shares are redeemed by Corich pursuant to either the Subscriber’s Redemption Right or the Warrantors’ Redemption Right after Completion, the Corich Subscription Shares will represent 50% of the enlarged issued share capital of Corich. In the event the Corich Preference Shares are not redeemed upon expiry of the period by which the Warrantors’ Redemption Right may be exercised, the Corich Preference Shares will be automatically converted into Corich Shares on a one to one basis and the Corich Subscription Shares will represent approximately 33.3% of the then enlarged issued share capital of Corich. Accordingly, depending on whether the Corich Preference Shares will be redeemed, CLG will be either interested in approximately 33.3% or 50% of the then issued share capital of Corich as a result of the Subscription, but the Consideration contributed by the Group would remain HK\$980,000,000. As referred to under the paragraphs headed “Subscriber’s Redemption Right” and “Warrantors’ Redemption Right” below, in the event that either of the Subscriber’s Redemption Right or the Warrantors’ Redemption Right is exercised, CLG will have acquired 50% interest in Corich but the Consideration payable by CLG to Corich for the Subscription will effectively be transferred from Corich to the Warrantors on a pro rata basis. On the other hand, if neither the Subscriber’s Redemption Right nor the Warrantors’ Redemption Right is exercised, as referred to under the sub-section headed “Automatic conversion into Corich Shares”, CLG will have acquired approximately 33.3% interest in Corich after Completion but the Consideration contributed, being the Consideration Shares and the HK\$500 million in cash, will be retained by Corich. The Directors therefore consider that the arrangement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Set out below is a summary of the shareholdings in Corich before and after Completion, and after the redemption or automatic conversion of the Corich Preference Shares:

	Immediately prior to Completion		Upon Completion		Immediately after either the Subscriber's Redemption Right or the Warrantors' Redemption Right being exercised		Immediately after expiry of the Warrantors' Redemption Right and automatic conversion of the Corich Preference Shares into Corich Shares	
	<i>Number of shares</i>	<i>%</i>	<i>Number of shares</i>	<i>%</i>	<i>Number of shares</i>	<i>%</i>	<i>Number of shares</i>	<i>%</i>
<i>Corich Shares</i>								
TPI	930,000	46.5	930,000	31.0	930,000	46.5	1,860,000	62.0
Win Key	70,000	3.5	70,000	2.4	70,000	3.5	140,000	4.7
CLG	–	–	1,000,000	33.3	1,000,000	50.0	1,000,000	33.3
Sub-total	<u>1,000,000</u>	<u>50.0</u>	<u>2,000,000</u>	<u>66.7</u>	<u>2,000,000</u>	<u>100.0</u>	<u>3,000,000</u>	<u>100.0</u>
<i>Corich Preference Shares</i>								
TPI	930,000	46.5	930,000	31.0	–	–	–	–
Win Key	70,000	3.5	70,000	2.3	–	–	–	–
Sub-total	<u>1,000,000</u>	<u>50.0</u>	<u>1,000,000</u>	<u>33.3</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total	<u><u>2,000,000</u></u>	<u><u>100.0</u></u>	<u><u>3,000,000</u></u>	<u><u>100.00</u></u>	<u><u>2,000,000</u></u>	<u><u>100.0</u></u>	<u><u>3,000,000</u></u>	<u><u>100.0</u></u>

The redemption mechanism incorporated in the Subscription Agreement and the articles of association of Corich, being part of the terms of the Corich Preference Shares, as well as the associated allotment and issue of the Corich Preference Shares serve as a mechanism whereby (i) the Group can decide, after Completion and depending on the performance of Corich under the CLO Contract, whether the Group would increase its stake in Corich to 50% of the Corich Shares or alternatively limit its stake at approximately 33.3% of the Corich Shares; and (ii) the Warrantors would be further diluted to 50% or remained as approximately 66.7% shareholdings of Corich. The operation of Corich under the CLO Contract is in its early stage and the Directors consider the flexibility afforded by the aforesaid redemption mechanism to be for the benefit of both the Group and the Warrantors.

(B) Consideration

HK\$980,000,000, to be satisfied as to HK\$500 million by cash and as to HK\$480 million by the allotment and issue of 200,000,000 Consideration Shares at an issue price of HK\$2.40 each. Based on the closing price of HK\$3.15 per Share on the Last Trading Day, the Consideration Shares had a market value of HK\$630 million.

The Warrantors have jointly and severally warranted to CLG that as at 31 December 2005:

- (i) the total assets of the Corich Group were not less than HK\$55,000,000; and
- (ii) the net assets of the Corich Group were not less than HK\$25,000,000.

In the event that the audited net assets of the Corich Group as at 31 December 2005 were less than HK\$24,000,000, the Warrantors will jointly and severally compensate Corich for the shortfall (being the amount of HK\$24,000,000 less such audited net assets) by cash.

(C) Basis of the Consideration

The Consideration was arrived at after arm's length negotiations amongst the parties to the Subscription Agreement taking into account the future growth prospects and earnings capability of the Corich Group, based on the following principal factors:

- (i) the terms of the CLO Contract and the basis of determining the revenue of Tianyi Electronics;
- (ii) the exclusive and nationwide nature of the supply of video lottery terminals ("VLT") in the PRC to CLO and the exclusive rights of CLO in the welfare lottery market in the PRC;
- (iii) the plans for rolling out the deployment of VLT in the PRC; and
- (iv) the developing stage at which the PRC's lottery market is in and future growth potential of the PRC instant welfare lottery market.

In addition, the Group has also considered the competing offers available to Corich and the Warrantors.

Pursuant to the CLO Contract, the Corich Group provides CLO with VLT on an exclusive basis in the PRC. In consideration for the provision of VLT by Tianyi Electronics, CLO has agreed to pay to Tianyi Electronics a fee of 1.6% of the CLO Revenue. The exclusive CLO Contract will ensure that the Corich Group will be the sole supplier of VLT to the nation's welfare lottery system. The CLO Contract shall operate for a period of 10 years.

The lottery industry in China is still at its developing stage. In terms of technology and equipment and game structure, China lags behind other countries. According to La Fleuf's World Lottery Almanac, in 2004, total lottery sales in the PRC amounted to US\$4.6 billion while the United States and Italy amounted to US\$47.4 billion and US\$20.3 billion respectively. However, lottery spending per capita in the PRC was only approximately US\$4 as compared to US\$160 for the United States (which ranked 16th) and US\$683 for Singapore (which ranked 1st) in 2004. The Directors believe that the PRC's lottery market has a huge potential.

Of the aggregate Consideration of HK\$980,000,000, an amount of HK\$480 million will be satisfied by the allotment and issue of 200,000,000 Consideration Shares at an issue price of HK\$2.40 each. The issue price of the Consideration Shares and the Consideration, both representing a significant premium to the underlying unaudited net asset values of the Company (being HK\$0.21 per Share as at 30 September 2005) and Corich (being RMB26.8 million as at 30 November 2005), are indicative of the confidence of the respective managements of Corich and the Group of the future prospects of both Corich and the Group. The structure of issuing Consideration Shares reduces the cash element and will limit the financial burden on the Group, which is reflective of the intentions of both parties to foster a long-term relationship and commitment to contributing to the development of the operations of the Corich Group.

Based on the above, the Directors consider that the Consideration is fair and reasonable in so far as the Company and the Shareholders are concerned and the Subscription is in the interests of the Company and the Shareholders as a whole.

In deciding to subscribe for the Corich Shares, the Directors and representatives of the Group have performed the following due diligence procedures on Corich and Tianyi Electronics:

- (i) verified directly with CLO the existence and validity of the CLO Contract;
- (ii) obtained satisfactory PRC legal opinions regarding the validity and legal enforceability of the CLO Contract, the validity of the corporate structure of the Corich Group and ascertaining whether the services to be provided by Tianyi Electronics to CLO under the CLO Contract are subject to any legal or regulatory requirements;
- (iii) conducted site visits of the production operations of Tianyi Electronics;
- (iv) conducted site visits of the lottery sales venues in Hebei and Qingdao operated by CLO with VLT being installed and operating;
- (v) met with the senior management of Corich and the Warrantors; and
- (vi) reviewed unaudited financial statements of the Corich Group.

In the meantime, the management of the Group continues to monitor the operations and development of the businesses of the Corich Group, in particular with respect to the delivery and installation of VLT.

Pursuant to the Subscription Agreement, it is a condition that CLG be reasonably satisfied with the results of due diligence on the Corich Group. The management and advisers of the Group will continue to perform the necessary due diligence on the Corich Group to its satisfaction prior to Completion.

(D) Payment of the Consideration

The Consideration shall be payable in the following manner:

- (i) HK\$10 million in cash was paid as the initial deposit upon entering into a heads of agreement amongst CLG and the Warrantors on 20 December 2005;
- (ii) HK\$20 million in cash was paid as a further deposit on 12 January 2006, i.e. within 3 days from the date of the Subscription Agreement;
- (iii) HK\$470 million in cash will be paid at Completion; and
- (iv) the Consideration Shares will be allotted and issued to (a) Corich on the fifth day after expiry of the period by which the Warrantors' Redemption Right may be exercised; or (b) the Warrantors on a pro rata basis at the time when either of the Subscriber's Redemption Right or the Warrantors' Redemption Right is exercised.

(E) Consideration Shares

The Consideration Shares represent approximately 14.0% of the existing issued share capital of the Company and approximately 12.3% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. The allotment and issue of the Consideration Shares shall be subject to the approval of the Shareholders at the SGM.

The issue price of HK\$2.40 per Consideration Share represents:

- (i) a discount of approximately 23.8% to the closing price of HK\$3.15 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 11.8% to the average closing price of approximately HK\$2.72 per Share for the last 30 trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 11.1% to the average closing price of approximately HK\$2.70 per Share for the last 60 trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 1,042.9% over the unaudited net tangible assets of approximately HK\$0.21 per Share as at 30 September 2005.

When the parties entered into the negotiations in relation to the Subscription, the principal terms were agreed and set out in a heads of agreement dated 20 December 2005. The issue price of the Consideration Shares was agreed at that time based on the closing price and the average of the closing prices for a 30-day period and 60-day period ending on such date. The closing price of the Shares on 20 December 2005 was HK\$2.70 and the issue price represented a discount of approximately 11.1% to such closing price. The Directors consider such discount to be comparable to the discount applicable to an issue of securities by the Company of a comparable magnitude and accordingly, is fair and reasonable.

The price of the Shares had gone through an upward movement during the period leading up to the date on which the Subscription Agreement was executed, i.e. on 9 January 2006. The Directors consider that such movement is reflective of the overall conditions of the stock market during such period. The Directors consider that the agreed price of HK\$2.40 per Share for the issue of the Consideration Shares being based on the average of the prices over a longer period would better reflect the value of the Shares.

Application will be made by the Company to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

(F) Lockup of the Consideration Shares

Pursuant to the Subscription Agreement, each of the Warrantors has undertaken to CLG that in the event the Corich Preference Shares are redeemed pursuant either to the Subscriber's Redemption Right or the Warrantors' Redemption Right, and the Consideration Shares are issued to them on a pro rata basis pursuant to the Subscription Agreement, each of the Warrantors shall maintain their holdings of at least 40% of the Consideration Shares issued to them respectively within a period of one year from Completion.

Further, pursuant to the Subscription Agreement, Corich has undertaken to CLG that in the event the Corich Preference Shares are not redeemed pursuant to the Subscriber's Redemption Right or the Warrantors' Redemption Right and the Consideration Shares are issued to Corich, Corich shall maintain its holding of at least 40% of the Consideration Shares within a period of one year from Completion.

(G) Conditions precedent:

Completion is conditional upon:–

- (i) if required, the transactions contemplated under the Subscription Agreement including the allotment and issue of the Consideration Shares being approved by Shareholders in general meeting;
- (ii) the Listing Committee of the Stock Exchange granting the approval for the listing of, and the permission to deal in, the Consideration Shares;
- (iii) if applicable, the Bermuda Monetary Authority granting necessary approvals for the allotment and issue of the Consideration Shares under the Subscription Agreement;

- (iv) the Company being able to raise sufficient funding to satisfy the cash element of the Consideration;
- (v) CLG being reasonably satisfied with the results of due diligence on the Corich Group;
- (vi) a legal opinion being issued to the satisfaction of CLG, confirming the Corich Preference Shares have been duly issued and such issuance of the Corich Preference Shares and the redemption provisions under the Subscription Agreement are valid and legal;
- (vii) the representations and warranties given by the Warrantors remaining true and not misleading from the date of the Subscription Agreement up to the date of Completion; and
- (viii) all necessary consents and approval in connection with the entering into of, and performance by the parties to, the Subscription Agreement, including but not limited to consents, authorisations or approvals from any regulatory or other government authorities as may be required being obtained.

Completion shall take place within 5 business days or such other date as the parties may agree after the fulfillment or waiver of the above conditions (conditions (i), (ii) and (iii) cannot be waived), and in any event, on or before the Long Stop Date of 30 June 2006. As at the date of this announcement, none of the parties intend to waive any of the above conditions. In the event that any of conditions above is not fulfilled or waived before the Long Stop Date other than as a result of default of CLG, Corich shall refund all the deposits previously paid to CLG within 3 business days after the Long Stop Date.

In the event that any of conditions (v) to (viii) (in so far as those relating to Corich or the Warrantors) above is not fulfilled before the Long Stop Date as a result of default of Corich or the Warrantors, Corich and the Warrantors shall jointly and severally pay HK\$30 million in cash to CLG as compensation within 5 business days after the Long Stop Date, and Corich shall refund to CLG all the deposits previously paid.

In the event that any of conditions (i) to (iv) and (viii) (in so far as those relating to CLG or the Company) is not fulfilled before the Long Stop Date as a result of default of CLG or the Company, Corich is entitled to forfeit all the deposits previously paid.

(H) Board representation

After Completion, so long as CLG is interested in 50% or more of the issued Corich Shares, CLG shall be entitled to appoint one director more than the total number of existing directors of Corich. It is expected that four members will be appointed by CLG to the board of directors of Corich upon Completion.

(I) Right of first refusal

Each of the Warrantors has undertaken to CLG that at any time within a period of 3 years from the date of Completion, CLG will have the right of first refusal to acquire from the Warrantors any of the remaining interest in the share capital of Corich held by them if the Warrantors intend to dispose of such interest to a third party, at a price and terms no less favourable than those offered to such third party.

(J) Subscriber's Redemption Right

Corich has granted a right to CLG whereby CLG may, within a period of 3 months from Completion, request Corich to redeem all (but not part) of the Corich Preference Shares held by the Warrantors. In the event that this right is exercised by CLG, Corich shall pay to the Warrantors HK\$500 million in cash and instruct the Company to issue the Consideration Shares to the Warrantors on a pro rata basis. In the event that CLG is satisfied with the performance of Corich during the period of 3 months from Completion, CLG intends to exercise the Subscriber's Redemption Right.

The Warrantors have undertaken to be bound by the Subscriber's Redemption Right by delivering the Corich Preference Shares held by them to Corich in the event that the right is exercised by CLG.

(K) Warrantors' Redemption Right

Corich has granted a right to the Warrantors whereby, provided the Subscriber's Redemption Right has not been exercised, the Warrantors may, within a period of 3 months from the expiry of the period within which the Subscriber's Redemption Right can be exercised, request Corich to redeem all (but not part) of the Corich Preference Shares held by the Warrantors. In the event that this right is exercised by the Warrantors, Corich shall pay to the Warrantors HK\$500 million in cash and instruct the Company to issue the Consideration Shares to the Warrantors on a pro rata basis.

THE CORICH PREFERENCE SHARES

Set out below are the special features of the Corich Preference Shares:

1. Voting right

The Corich Preference Shares have a nominal value of US\$1.00 each and shall carry the same voting rights as the Corich Shares.

2. Dividend right

The holders of the Corich Preference Shares will be entitled to a total dividend of HK\$1 billion declared and paid by Corich before holders of the Corich Shares. Thereafter, Corich shall be obliged to pay out not less than 60% of its profits derived in any financial year to all the holders of the Corich Preference Shares and the Corich Shares on a pro rata basis.

The Directors consider that since the Corich Preference Shares shall either be redeemed or automatically converted into Corich Shares and therefore cease to exist within 6 months from Completion, the restrictions on dividend are not expected to have a material effect on the dividend receivable by the Group in the long term.

3. New shareholder's redemption right

Any new shareholder of Corich which beneficially holds 50% or more of the total issued Corich Shares may, within 3 months from the date on which such new shareholder becomes the beneficial owner of such shares, request Corich to redeem all (but not part) of the Corich Preference Shares on terms and conditions to be agreed by the new shareholder, Corich and the holders of the Corich Preference Shares. Such redemption right is captured in the Subscription Agreement by way of the Subscriber's Redemption Right which is described above.

4. Corich Preference Share holders' redemption right

The holders of the Corich Preference Shares may, within a period of 3 months from the expiry of the period within which the abovementioned new shareholder's redemption right can be exercised, request Corich to redeem all (but not part) of the Corich Preference Shares on terms and conditions to be agreed by the abovementioned new shareholder, Corich and the holders of the Corich Preference Shares. Such redemption right is captured in the Subscription Agreement by way of the Warrantors' Redemption Right which is described above.

5. Automatic conversion into Corich Shares

In the event that neither of the above new shareholder's redemption right nor the Corich Preference Share holders' redemption right is exercised, then the Corich Preference Shares will be automatically converted into Corich Shares on a one to one basis.

Save as described above, the Corich Preference Shares shall have the same right as the Corich Shares.

FUNDING OF THE CONSIDERATION

Pursuant to the Subscription Agreement, the Group is committed to paying the Consideration partially by cash in the amount of HK\$500 million. As at the date of this announcement, the Group has bank balances of approximately HK\$229 million, no outstanding bank borrowings and no available credit facilities. The Directors are considering to finance the settlement of the cash element of the Consideration by either bank borrowings or an equity issue or a combination of both. The Directors have yet to decide which method to adopt or the amount from each source as the Directors are considering options available to the Group in this regard. The Directors are in discussions with investment banks in preparation of such funding and the Board is confident that sufficient funds can be raised given the current market conditions. A decision will depend on the then available terms of bank borrowings and capital market conditions. In the event that the Company cannot raise sufficient funds to fulfill its obligations under the Subscription Agreement, condition (iv) above would not be fulfilled and the Subscription will not proceed and the deposits previously paid by the Company would be forfeited.

Shareholders should note that if the Company issues further equity to fund the Subscription, further dilution to their shareholding may result.

INFORMATION ON CORICH

The principal business activity of Corich is investment holding. The Corich Group through its wholly-owned subsidiary, Tianyi Electronics is principally engaged in the provision of VLT. On 29 June 2005, Tianyi Electronics entered into the CLO Contract with CLO under which Tianyi Electronics provides CLO with VLT on an exclusive basis in the PRC. In consideration for the provision of VLT by Tianyi Electronics, CLO has agreed to pay to Tianyi Electronics a fee of 1.6% of the CLO Revenue. In addition, Tianyi Electronics is entitled to a fee of 0.4% of the CLO Revenue for the repair and maintenance of the VLT which will be outsourced to a third party service provider at approximately the cost equal to the fee of 0.4% of the CLO Revenue. The CLO Contract shall operate for a period of 10 years.

The following is a summary of the unaudited financial results of the Corich Group:

	Year ended 31 December 2004 <i>RMB'000</i>	11 months ended 30 November 2005 <i>RMB'000</i>
Turnover	0	9,928
Profits/(losses) before tax (<i>note</i>)	(2,122)	4,800
Profits/(losses) after tax (<i>note</i>)	(2,122)	4,800

Note: There were no extraordinary items for each of the respective year and period.

As at 30 November 2005, the unaudited net asset value of the Corich Group was approximately RMB26.8 million.

Immediately upon Completion, the Group will be interested in approximately 33.3% of the enlarged issued share capital of Corich on a fully diluted basis. In this case, Corich will become an associated company of the Company and its results will be equity accounted for in the financial statements of the Company.

Upon exercise of either the Subscriber's Redemption Right or the Warrantor's Redemption Right, the Group will be interested in 50% of the then issued Corich Shares. Pursuant to the Subscription Agreement, CLG shall be entitled to appoint a majority of the directors on the board of Corich. Accordingly, the Group's interest in Corich will be consolidated into the financial statements of the Group as a subsidiary.

In the event that the Corich Preference Shares are fully converted into the Corich Shares upon expiry of the Warrantors' Redemption Right, the Group will be interested in approximately 33.3% of the then issued Corich Shares. As such Corich will become an associated company of the Company and the results of which will be equity accounted for in the financial statements of the Company.

The Company has been provided with PRC legal opinions confirming that (i) the CLO Contract is valid and legally enforceable; and (ii) the establishment of Tianyi Electronics complies with the relevant laws and regulatory requirements of the PRC. In particular, the PRC legal opinion confirms that there are no existing laws and regulations that govern the provision of technical services and facilities to lottery business in the PRC.

SHAREHOLDING IN THE COMPANY

The shareholdings in the Company before and after Completion, and after the redemption or automatic conversion of the Corich Preference Shares are expected to be as follows:

Shareholders	Immediately before and after Completion		Immediately after either the Subscriber's Redemption Right or the Warrantors' Redemption Right being exercised		Immediately after expiry of the Warrantors' Redemption Right and automatic conversion of the Corich Preference Shares into Corich Shares	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Burwill	383,831,074	26.84	383,831,074	23.55	383,831,074	23.55
Mr. Chan	72,951,773	5.10	72,951,773	4.48	72,951,773	4.48
Mrs. Chan	50,288,803	3.52	50,288,803	3.08	50,288,803	3.08
Hang Sing Overseas Limited	11,320,192	0.79	11,320,192	0.69	11,320,192	0.69
Strong Purpose Corporation	10,595,042	0.74	10,595,042	0.65	10,595,042	0.65
Sub-total	<u>528,986,884</u>	<u>36.99</u>	<u>528,986,884</u>	<u>32.45</u>	<u>528,986,884</u>	<u>32.45</u>
Corich	–	–	–	–	200,000,000	12.27
Warrantors	–	–	200,000,000	12.27	–	–
Other non-public Shareholders (Note)	124,415,360	8.70	124,415,360	7.63	124,415,360	7.63
Public Shareholders	<u>776,597,756</u>	<u>54.31</u>	<u>776,597,756</u>	<u>47.65</u>	<u>776,597,756</u>	<u>47.65</u>
Total	<u><u>1,430,000,000</u></u>	<u><u>100.00</u></u>	<u><u>1,630,000,000</u></u>	<u><u>100.00</u></u>	<u><u>1,630,000,000</u></u>	<u><u>100.00</u></u>

Note: The interests held by other non-public Shareholders in the share capital of the Company consist of the interests held by other substantial Shareholder and the Directors other than Mrs. Chan.

Burwill, Mr. Chan, Mrs. Chan, Hang Sing Overseas Limited and Strong Purpose Corporation, holding an aggregate of 528,986,884 Shares representing approximately 36.99% of the existing issued share capital of the Company, will vote in favour of the resolution(s) to be proposed at the SGM approving the Subscription as well as the allotment and issue of the Consideration Shares.

INFORMATION ON THE GROUP

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

In June 2005, the Group entered into a joint venture agreement with a subsidiary of Tabcorp Holdings Limited in Australia with a view to bringing certain internationally advanced and developed lottery business to the PRC market. Pursuant to the same joint venture agreement, the Group and the Tabcorp Group formed a joint venture company, namely Tabcorp International Hong Kong Limited (“TIHK”) which is owned as to 33% by the Group and 67% by the Tabcorp Group. In July 2005, TIHK and CLO entered into a technical cooperation agreement where TIHK would assist CLO to build and develop a nationwide unified platform for lottery operations and introduce new lottery products to the lottery market in the PRC. On 8 January 2006, the Group announced that trial run of KENO game on PRC’s nationwide high frequency lottery system has been successful.

On 11 January 2006, the Group announced the intention to acquire Octavian International Limited (“Octavian”), subject to contract. The Group intends to acquire 90% interest in Octavian for an aggregate consideration comprising (i) the issue and allotment of 60,000,000 new Shares at HK\$3.15 each; and (ii) the payment of US\$2 million in cash upon completion. Octavian is an international provider of networked gaming systems and software solutions. Headquartered in the United Kingdom, Octavian operates offices and technical centres in Argentina, Colombia, India, Italy, Russia and Spain and provides products and a range of professional services. Octavian develops, supplies and supports gaming systems and games that help gaming companies and lottery operators to reduce costs, increase revenue and profits, enhance security and attract and retain customers.

REASONS FOR THE SUBSCRIPTION

The issue of lottery is totally directed by PRC government authorities and is a lawful business of public welfare nature. CLO is licensed as an instant lottery operator to exclusively operate and run instant lottery technical and sales system in the PRC. At present, the issuance and operation of lotteries in China are restricted to the government or government-authorized organizations. Participation of foreign enterprises in the PRC lottery industry is limited to provision of equipments and technical support only.

The Subscription represents an opportunity for the Group to participate further in the PRC lottery market by subscribing for a stake in a key player in the provision of VLT. The VLT provided under the CLO Contract are deployed in lottery sales venues operated by CLO for distribution of a variety of lottery games that are different to the KENO game under the abovementioned joint venture agreement with the Tabcorp Group. The increased participation will strengthen the Group’s long-term development of its related business.

The Directors consider that the terms of the Subscription Agreement are fair and reasonable and the Subscription is in the interests of the Company and the Shareholders.

GENERAL

The Subscription constitutes a major transaction for the Company under the GEM Listing Rules and is subject to the disclosure and shareholder approval requirements stipulated thereunder. The SGM will be convened to consider and, if thought fit, approve the Subscription as well as the allotment and issue of the Consideration Shares. A circular containing details of, among other things, the Subscription Agreement, financial information on the Group and the Corich Group and a notice to convene the SGM will be despatched to the Shareholders as soon as practicable.

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on Tuesday, 10 January 2006 pending the release of this announcement and another announcement of the Company which was released on Wednesday, 11 January 2006. Application has been made to the Stock Exchange for resumption of trading in the Shares on the Stock Exchange from 9:30 a.m. on Monday, 16 January 2006.

As at the date of this announcement, the Board comprises Ms. Lau Ting, Mr. Sun Ho, Mr. Chen Aizheng and Mr. Ng Man Fai, Matthew as Executive Directors and Mr. King Roger, Mr. Huang Shenglan and Mr. Li Xiaojun as Independent Non-Executive Directors.

DEFINITIONS

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

“Board”	the board of Directors
“Burwill”	Burwill Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange and Singapore Exchange Securities Trading Limited
“CLG”	China LotSynergy Group Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“CLO”	Beijing Lottery Online Technology Co., Ltd., a company established in the PRC and controlled by the China Welfare Lottery Issuance and Administration Centre of the PRC
“CLO Contract”	the contract entered into between CLO and Tianyi Electronics on 29 June 2005 in relation to the provision of VLT by Tianyi Electronics to CLO on an exclusive basis in the PRC
“CLO Revenue”	the total revenue generated by CLO from its VLT sales system in the PRC
“Company”	China LotSynergy Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange

“Completion”	completion of the Subscription Agreement
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Consideration”	the aggregate consideration of HK\$980,000,000 for the Subscription pursuant to the Subscription Agreement
“Consideration Shares”	200,000,000 Shares to be issued as part of the Consideration under the Subscription Agreement
“Corich”	Corich International Limited, a company incorporated in the British Virgin Islands with limited liability
“Corich Group”	Corich and its subsidiaries, including Tianyi Electronics
“Corich Preference Shares”	redeemable convertible preference shares of nominal value of US\$1.00 each in the share capital of Corich to be issued to the Warrantors before Completion
“Corich Share(s)”	ordinary share(s) of US\$1.00 each in the share capital of Corich
“Corich Subscription Shares”	1,000,000 Corich Shares to be issued by Corich to CLG pursuant to the Subscription Agreement
“Director(s)”	the director(s) of the Company
“GEM Listing Rules”	The Rules Governing the Listing of Securities on The Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Last Trading Day”	9 January 2006, being the last trading day immediately preceding the date of the Subscription Agreement
“Long Stop Date”	30 June 2006 or such other date as the parties to the Subscription Agreement may agree in writing
“Mr. Chan”	Chan Shing, the spouse of Mrs. Chan, a substantial Shareholder, who has a personal interest of approximately 5.10%, a family interest of approximately 3.52% and corporate interests of approximately 28.37% in the issued share capital of the Company as at the date of this announcement

“Mrs. Chan”	Lau Ting, the spouse of Mr. Chan, a substantial Shareholder and a Director, who has a personal interest of approximately 3.52%, a family interest of approximately 5.10% and corporate interests of approximately 28.37% in the issued share capital of the Company as at the date of this announcement
“PRC” or “China”	The People’s Republic of China
“SGM”	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Subscription as well as the allotment and issue of the Consideration Shares
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber’s Redemption Right”	a right granted by Corich to CLG whereby CLG may, within a period of 3 months from Completion, request Corich to redeem all (but not part) of the Corich Preference Shares held by the Warrantors, details of which are set out under the paragraph headed “Subscriber’s Redemption Right” in this announcement
“Subscription”	the subscription by CLG of the Corich Subscription Shares pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 9 January 2006 entered into amongst the Company, CLG, the Warrantors and Corich in relation to the Subscription
“Tabcorp Group”	Tabcorp Holdings Limited and its subsidiaries, where Tabcorp Holdings Limited is a company incorporated in Australia, the shares of which are listed on the Australian Stock Exchange
“Tianyi Electronics”	Dongguan Tianyi Electronics Company Limited, a company incorporated in the PRC and a wholly-owned subsidiary of Corich
“Warrantors”	Toward Plan Investments Limited and Win Key Development Limited
“Warrantors’ Redemption Right”	a right granted by Corich to the Warrantors whereby, provided the Subscriber’s Redemption Right has not been exercised, the Warrantors may, within a period of 3 months from the expiry of the period within which the Subscriber’s Redemption Right can be exercised, request Corich to redeem all (but not part) of the Corich Preference Shares held by the Warrantors, details of which are set out under the paragraph headed “Warrantors’ Redemption Right” in this announcement

“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollar(s), the lawful currency of the United States of America
“%”	per cent.

By Order of the Board
China LotSynergy Holdings Limited
Ng Lai Ping, Grace
Company Secretary

Hong Kong, 13 January 2006

This announcement, for which the Directors 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting.