

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this announcement.



China LotSynergy Holdings Limited

華彩控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 8161)

**CONTINUING CONNECTED TRANSACTION
AND
DISCLOSURE PURSUANT TO RULE 17.15**

ChinaSteel, a subsidiary of the Company which the Company indirectly holds a 50% interest, has placed the Deposit with the Financial Institution since 3 June 2002. At the beginning, the Deposit was placed with the Financial Institution as fixed deposit for an initial term of seven days and had been extended to one year since 5 January 2004 to 4 January 2006. ChinaSteel has switched the Deposit from a fixed deposit to a saving deposit since 5 January 2006. The Deposit has continually been placed with the Financial Institution at the prevailing interest rate of the PBC at the relevant time. The board of directors of ChinaSteel resolved to voluntarily liquidate ChinaSteel on 1 March 2006. There may be certain PRC regulatory restrictions on the distributions of ChinaSteel's assets during the liquidation procedures, however in any case, it is the intention of the directors of ChinaSteel to keep the Deposit as a saving deposit with the Financial Institution until completion of the liquidation procedures. Disclosure of the Deposit has been made in the Company's annual reports for each of the three financial years ended 31 March 2005 and the nine months ended 31 December 2005.

At the time when the Deposit was first placed with the Financial Institution, the Financial Institution was not a connected person of the Company pursuant to then applicable GEM Listing Rules. Since 31 March 2004, when the amendments of Chapter 20 of the GEM Listing Rules have come into effect, the Financial Institution has become a connected person of the Company as it is an associate of a substantial shareholder of ChinaSteel, namely Minmetals Development Company Ltd. (formerly Minmetal Townlord Technology Company Ltd.) who holds 50% interest in ChinaSteel. As such, the Deposit constituted a continuing connected transaction (as defined under the GEM Listing Rules) of the Company since 31 March 2004 pursuant to the amended GEM Listing Rules. Further, as the Deposit represented over 25% of the Company's net tangible assets value as at the date the Deposit was made on 3 June 2002, and as the relevant percentage ratios of the Deposit for the financial year ended 31 March 2005 exceeded 8%, accordingly, the Company should have complied with the disclosure requirement under Rule 17.15 of the GEM Listing Rules in respect of the Deposit.

Due to an oversight of the amendments to the GEM Listing Rules, the Company was not aware that the Financial Institution had become a connected person under the amended GEM Listing Rules, and therefore failed to comply with the relevant requirements under Rule 20.35 of the GEM Listing Rules by omitting to report and obtain shareholders' approval in respect of the Continuing Connected Transaction for the financial year ended 31 March 2005 and the nine months ended 31 December 2005. By virtue of the nature of the Deposit, being a deposit placed with the Financial Institution receiving interest at market rate, it has never been the intention of ChinaSteel to advance the Deposit to the Financial Institution. The Company therefore took the view and still maintains the view that, the Deposit should not be treated as an advance to an entity under Rule 17.15 of the GEM Listing Rules. However, the Stock Exchange does not agree with the Board's view as stated above and considers that the Deposit constituted an advance to an entity and the Company should comply with the disclosure obligation under Rule 17.15 of the GEM Listing Rules.

Once the Company was aware of this omission, it took steps to rectify the situation by disclosing information regarding the Continuing Connected Transaction by way of this announcement as soon as was practicable. The Company's compliance officer has taken steps to strengthen its internal compliance procedures, such as review all potential transactions that the Company will enter into which may constitute notifiable or connected transactions, review whether parties that have entered or will enter into transactions with the Company are connected persons of the Company according to the GEM Listing Rules, and increase awareness of any new amendments to the GEM Listing Rules, with a view to avoid any similar breach in the future.

The Deposit as a continuing connected transaction has been, and will continue to be, carried out in the ordinary and usual course of business and on normal commercial terms. As the Deposit was renewed on 5 January 2006, and since the percentage ratios of the Continuing Connected Transaction applicable under the GEM Listing Rules does not exceed 2.5%, the Deposit constitutes a continuing connected transaction under Rule 20.34 of the GEM Listing Rules for the coming financial years ending 31 December 2006 and 31 December 2007, and was therefore subject to the reporting and announcement requirements under Chapter 20 of the GEM Listing Rules when the Deposit Agreement was renewed.

1. INTRODUCTION

ChinaSteel, a subsidiary of the Company which the Company indirectly holds a 50% interest, has placed the Deposit with the Financial Institution since 3 June 2002. At the beginning, the Deposit was placed with the Financial Institution as fixed deposit for an initial term of seven days and had been extended to one year since 5 January 2004 to 4 January 2006. ChinaSteel has switched the Deposit from a fixed deposit to a saving deposit since 5 January 2006. The Deposit has continually been placed with the Financial Institution at the prevailing interest rate of the PBC at the relevant time. The board of directors of ChinaSteel resolved to voluntarily liquidate ChinaSteel on 1 March 2006. There may be certain PRC regulatory restrictions on the distributions of ChinaSteel's assets during the liquidation procedures, however in any case, it is the intention of the directors of ChinaSteel to keep the Deposit as a saving deposit with the Financial Institution until completion of the liquidation procedures. Disclosure of the Deposit has been made in the Company's annual reports for each of the three financial years ended 31 March 2005 and the nine months ended 31 December 2005.

At the time when the Deposit was first placed with the Financial Institution, the Financial Institution was not a connected person of the Company pursuant to then applicable GEM Listing Rules. Since 31 March 2004, when the amendments of Chapter 20 of the GEM Listing Rules have come into effect, the Financial Institution has become a connected person of the Company as it is an associate of a substantial shareholder of ChinaSteel, namely Minmetals Development Company Ltd. (formerly Minmetal Townlord Technology Company Ltd.) who holds 50% interest in ChinaSteel. As such, the Deposit has become a continuing connected transaction of the Company since 31 March 2004 pursuant to the amended GEM Listing Rules. Further, as the Deposit represented over 25% of the Company's net tangible assets value as at the date the Deposit was made on 3 June 2002, and as the relevant percentage ratios of the Deposit for the financial year ended 31 March 2005 exceeded 8%, accordingly, the Company should have complied with the disclosure requirement under Rule 17.15 of the GEM Listing Rules in respect of the Deposit.

Due to an oversight of the amendments to the GEM Listing Rules, the Company was not aware that the Financial Institution constituted a connected person under the amended GEM Listing Rules and therefore failed to comply with the relevant requirements under Rule 20.35 of the GEM Listing Rules by omitting to report and obtain shareholders' approval in respect of the Continuing Connected Transaction for the financial year ended 31 March 2005 and the nine months ended 31 December 2005. By virtue of the nature of the Deposit, being a deposit placed with the Financial Institution receiving interest at market rate, it has never been the intention of ChinaSteel to advance the Deposit to the Financial Institution. The Company therefore took the view and still maintains the view that, the Deposit should not be treated as an advance to an entity under Rule 17.15 of the GEM Listing Rules. However, the Stock Exchange does not agree with the Board's view as stated above and considers that the Deposit constituted an advance to an entity and the Company should comply with the disclosure obligation under Rule 17.15 of the GEM Listing Rules.

Once the Company was aware of this omission, it took steps to rectify the situation by disclosing information regarding the Continuing Connected Transaction by way of this announcement as soon as was practicable. The Company's compliance officer has taken steps to strengthen its internal compliance procedures, such as review all potential transactions that the Company will enter into which may constitute notifiable or connected transactions, review whether parties that have entered or will enter into transactions with the Company are connected persons of the Company according to the GEM Listing Rules, and increase awareness of any new amendments to the GEM Listing Rules, with a view to avoid any similar breach in the future.

The Deposit as a continuing connected transaction has been, and will continue to be, carried out in the ordinary and usual course of business and on normal commercial terms. As the Deposit was renewed on 5 January 2006, and since the percentage ratios of the Continuing Connected Transaction applicable under the GEM Listing Rules does not exceed 2.5%, the Deposit constitutes a continuing connected transaction under Rule 20.34 of the GEM Listing Rules for the coming financial years ending 31 December 2006 and 31 December 2007, and was therefore subject to the reporting and announcement requirements under Chapter 20 of the GEM Listing Rules when the Deposit Agreement was renewed.

2. THE CONTINUING CONNECTED TRANSACTION

ChinaSteel, a subsidiary of the Company, has placed the Deposit with the Financial Institution since 3 June 2002. At the beginning, the Deposit was placed with the Financial Institution as fixed deposit for an initial term of seven days and had been extended to one year since 5 January 2004 to 4 January 2006, and is automatically renewed at each expiration date, unless notice is otherwise given by the Company to terminate such agreement. ChinaSteel has switched the Deposit from a fixed deposit to a saving deposit since 5 January 2006. The Deposit has continually been placed with the Financial Institution at the prevailing interest rate of the PBC at the relevant time. The Continuing Connected Transaction is currently governed by the Deposit Agreement, the major terms and conditions which are as follows:

Date: 5 January 2006

Deposit Amount: RMB16 million (approximately HK\$15,385,000)

Interest Rate: Based on the prevailing interest rate of the PBC at the time of entering into the Deposit Agreement

The Deposit Agreement continues until the Deposit is withdrawn by ChinaSteel. The Deposit represents the equity capital of ChinaSteel. The Deposit was not immediately withdrawn from the Financial Institution by ChinaSteel upon the Company's realization of the breach because the Company has to consult and respect the intention of its joint venture partner (i.e. the other shareholder of ChinaSteel) as regards to where the Deposit should be placed. The board of directors of ChinaSteel resolved to voluntarily liquidate ChinaSteel on 1 March 2006. There may be certain PRC regulatory restrictions on the distributions of ChinaSteel's assets during the liquidation procedures, however in any case, it is the intention of the directors of ChinaSteel to keep the Deposit as a saving deposit with the Financial Institution until completion of the liquidation procedures which is currently expected it may take place before the end of 2007.

Disclosure of the Deposit has been made in the Company's annual reports for each of the three financial years ended 31 March 2005 and the nine months ended 31 December 2005.

3. REASONS AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTION

Proposed annual cap for the Continuing Connected Transaction for the two financial years 2006 to 2007

As the scope of business of the Financial Institution is to, amongst other things, provide deposit-taking services to other members of the group and not any other entities, the Directors consider that it is in the interest of the Company to continue the Continuing Connected Transaction because the Financial Institution tends to be more efficient in terms of processing transactions and settling funds between the accounts of members of its group held with the Financial Institution than PRC banks that perform similar services.

Based on the historical amounts of the Continuing Connected Transaction for the two financial years ended 31 March 2005, and for the nine months ended 31 December 2005 due to the change in the financial year end of the Company from 31 March to 31 December, the Directors estimate the annual cap of the Continuing Connected Transaction for both the financial years ending 31 December 2006 and 31 December 2007 to be RMB16 million (equivalent to approximately HK\$15,385,000).

4. REPORTING AND ANNOUNCEMENT REQUIREMENTS

As the current percentage ratios for the Continuing Connected Transaction do not exceed 2.5%, the Continuing Connected Transaction was subject to reporting and announcement requirements under Rule 20.34 of the GEM Listing Rules when the Deposit Agreement was renewed. The Continuing Connected Transaction for the two financial years ending 31 December 2006 and 31 December 2007 will be conducted upon the following terms:

1. the annual amount of the Continuing Connected Transaction shall not exceed RMB16 million (equivalent to approximately HK\$15,385,000);
2. (i) the Continuing Connected Transaction will be entered into in the usual and ordinary course of businesses of the Group and either (a) on normal commercial terms; or (b) if there is no available comparison, on terms no less favourable to the Group than terms available from/to (as appropriate) independent third parties; and

(ii) the Continuing Connected Transaction will be entered into in accordance with the Deposit Agreement and on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Directors, including the Independent Non-Executive Directors, are of the view that the terms of the Continuing Connected Transaction is fair and reasonable, and in the interests of the Shareholders.

The Company will comply with other applicable rules set out in Chapter 20 of the GEM Listing Rules in relation to the Continuing Connected Transaction.

5. GENERAL INFORMATION

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

The Financial Institution is a registered financial institution in the PRC, the scope of business of which includes, amongst other things, the taking of deposits from other members of its group.

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.

Solely for convenience, for the purpose of this announcement, the translations of RMB into Hong Kong dollars have been made at the rates of RMB1.04 to HK\$1.00.

6. DEFINITIONS

- “associates” has the meaning ascribed to it in the GEM Listing Rules;
- “Board” means the board of Directors of the Company, including the independent non-executive directors;

“ChinaSteel”	北京威銘商網資訊技術有限公司 (ChinaSteel.com Corporation Limited), a company incorporated in the PRC and a subsidiary of the Company;
“Company”	means China LotSynergy Holdings Limited;
“Continuing Connected Transaction”	means the Deposit which constitutes a continuing connected transaction (as defined under the GEM Listing Rules) of the Company;
“Deposit”	means a deposit of a principal sum of RMB16 million (equivalent to approximately HK\$15,385,000) placed by ChinaSteel with the Financial Institution;
“Deposit Agreement(s)”	means the agreement(s) entered into between the ChinaSteel and the Financial Institution to govern the Continuing Connected Transaction;
“Directors”	means the directors of the Company;
“Financial Institution”	means 五礦集團財務有限責任公司 (Minmetals Finance Company Limited), a registered financial institution in the PRC, which is a connected person of the Company as it is an associate of a substantial shareholder of ChinaSteel;
“GEM”	means the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited;
“GEM Listing Rules”	means the Rules Governing the Listing of Securities on GEM;
“Group”	means the Company and its subsidiaries;
“PBC”	means the People’s Bank of China, the central bank of the PRC;
“PRC”	means the People’s Republic of China;
“RMB”	means Renminbi, the lawful currency of the PRC;
“Shareholders”	means shareholders of the Company; and
“subsidiary”	has the meaning ascribed to it in the GEM Listing Rules.

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

Hong Kong, 13 April 2006

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules 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 aspects 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 website of the Growth Enterprise Market of the Stock Exchange on the “Latest Company Announcements” page for at least 7 days from the date of its posting.