THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China LotSynergy Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities in China LotSynergy Holdings Limited.

China LotSynergy

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
INCREASE IN AUTHORISED SHARE CAPITAL

Financial adviser to China LotSynergy Holdings Limited

SOMERLEY LIMITED

A notice convening a special general meeting of China LotSynergy Holdings Limited to be held at Concord Rooms 2 & 3, 8/F., Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong at 10:30 a.m. on Tuesday, 21 March 2006 is set out on pages 112 to 113 of this circular. Whether or not you intend to be present at the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the principal place of business of China LotSynergy Holdings Limited at Unit 3206, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof (as the case may be). Completion and return of the accompanying form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof (as the case may be) should you so wish.

This circular 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.

1 March 2006

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.

CONTENTS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

"associates"	has the meaning ascribed to it under the GEM Listing Rules
"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
"Capital Increase"	the proposed increase in the authorised share capital of the Company from HK$20,000,000 to HK$40,000,000 by the creation of an additional 2,000,000,000 Shares
"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 from the VLT sales system of CLO in the PRC
"Company"	China LotSynergy Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on GEM
"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
"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
"Enlarged Group"	the Group as enlarged by the Subscription
"GEM"	The Growth Enterprise Market of the Stock Exchange
"GEM Listing Committee"	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
"GEM Listing Rules"	The Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"Hang Sing"	Hang Sing Overseas Limited, a company indirectly owned as to 51% by Mrs. Chan and Mr. Chan
"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 for suspension of trading in the Shares pending the release of the announcement of the Company dated 13 January 2006 relating to the Subscription
"Latest Practicable Date"	24 February 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"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 4.55%, a family interest of approximately 3.20% and corporate interests of approximately 25.33% in the issued share capital of the Company as at the Latest Practicable Date

"Mrs. Chan"	Lau Ting, the spouse of Mr. Chan, a substantial Shareholder and a Director, who has a personal interest of approximately 3.20%, a family interest of approximately 4.55% and corporate interests of approximately 25.33% in the issued share capital of the Company as at the Latest Practicable Date
"PRC" or "China"	People's Republic of China
"Pro Rata Basis"	basis as referred to in the Subscription Agreement, i.e. 93% for Toward Plan Investments Limited and 7% for Win Key Development Limited, both being the Warrantors
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held at Concord Rooms 2 & 3, 8/F., Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong at 10:30 a.m. on Tuesday, 21 March 2006 for the purpose of considering and, if thought fit, approving the Subscription, the allotment and issue of the Consideration Shares and the Capital Increase
"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
"Strong Purpose"	Strong Purpose Corporation, a company wholly-owned by Mrs. Chan and Mr. Chan
"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
"Subscription"	the subscription by CLG of the Corich Subscription Shares
"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
"VLT"	video lottery terminals
"Warrantors"	Toward Plan Investments Limited and Win Key Development Limited
"Warrantors' Redemption Right"	a right granted by Corich to the Warrantors whereby, provided that 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
"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.

China LotSynergy Holdings Limited

華彩控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 8161)

Executive Directors:
LAU Ting *(Chairman)*
SUN Ho *(Deputy Chairman and Chief Executive Officer)*
CHEN Aizheng
NG Man Fai, Matthew

Independent non-executive Directors:
KING Roger
HUANG Shenglan
LI Xiaojun

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Head office and principal place of business:
Unit 3206, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

1 March 2006

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION SUBSCRIPTION OF INTEREST IN PROVIDER OF VIDEO LOTTERY TERMINALS AND INCREASE IN AUTHORISED SHARE CAPITAL

INTRODUCTION

On 13 January 2006, the Board announced the entering into of the Subscription Agreement on 9 January 2006 whereby the Group has conditionally agreed to subscribe for 1,000,000 Corich Shares for an aggregate Consideration of HK$980,000,000. Depending on whether the Corich Preference Shares in the issued share capital of Corich will be redeemed, the Group will be either interested in approximately 33.3% or 50% of the issued share capital of Corich as a result of the Subscription. The Subscription constitutes a major transaction for the Company under the GEM Listing Rules and is subject to the approval of the Shareholders at the SGM.

The Board further proposes the Capital Increase whereby the authorised share capital of the Company will be increased from HK$20,000,000 to HK$40,000,000 by the creation of an additional 2,000,000,000 Shares.

The SGM will be held to consider and, if thought fit, approve the ordinary resolutions in respect of (i) the Subscription, the allotment and issue of the Consideration Shares; and (ii) the Capital Increase.

This circular provides you with, among others, (i) further information on the Subscription; (ii) information on the Capital Increase; (iii) financial information on the Corich Group; (iv) pro forma financial information on the Enlarged Group; and (v) the notice of the SGM.

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.

Based on the information provided by the Warrantors, the sole shareholder and sole director of TPI is Mr. Lim Loong Keng ("Mr. Lim") and the sole shareholder and sole director of Win Key is Mr. Meng Xin ("Mr. Meng"). Details of the Warrantors' shareholding in Corich are set out under the paragraph headed "Corich Subscription Shares" below.

Mr. Lim was educated in Singapore, Australia and the United States, and obtained his MBA from the University of Arkansas, United States. He is currently a director of Corich and is involved in the overall planning and strategy formulation for the Corich Group. Mr. Lim has extensive business interests and experience in Asia and North America and has built a career in property development with over 25 years of experience. He is currently the chairman, president and chief executive officer of a company listed on the Toronto Stock Exchange, which is primarily involved in real estate development. He is currently also the chairman of a private property development company with major projects in China with its head office in Beijing, China. Mr. Lim intends to remain as a director of Corich upon Completion.

Mr. Meng, educated in China, is a director of Corich and the general manager of Tianyi Electronics. He is responsible for the day-to-day operations of Tianyi Electronics. Mr. Meng has extensive business and management experience in information technologies, in particular, he has more than 10 years' experience in electronic parts sourcing, assembling, organising hardware production and IT servicing/developments in the electronics manufacturing industry. Prior to joining Tianyi Electronics in 2004, he was the general manager for a private computing company in Beijing for four years and a private technology development company in Beijing for another four years. Mr. Meng intends to remain as a director of Corich and the general manager for Tianyi Electronics upon Completion.

Apart from the Warrantors, Corich has another director, Mr. Wang Taoguang, who has no equity interest in Corich.

Mr. Wang Taoguang, a director and company secretary of Corich, holds a PhD in economics from Peking University, masters degrees from Bowling Green State University, United States and Peking University and a law degree from Peking University. He has about 20 years' experience in the legal profession, finance, investment and business management. Mr. Wang has held directorship and senior management positions for listed companies in the PRC and overseas. Currently he is a director of a private property development company with major projects in China with its head office in Beijing, China. Mr. Wang is involved in the overall strategy formulation for the Corich Group and its investment activities. He intends to remain as a director and company secretary of Corich upon Completion.

It is the intention of the Directors, the Warrantors and Corich that a service contract shall be entered into between Corich and each of Mr. Lim, Mr. Meng and Mr. Wang.

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 Latest Practicable Date, the issued share capital of Corich comprised 1,000,000 Corich Shares and 1,000,000 Corich Preference Shares of which TPI held 930,000 Corich Shares and 930,000 Corich Preference Shares and Win Key held 70,000 Corich Shares and 70,000 Corich Preference Shares. Accordingly, TPI and Win Key were respectively interested in 93% and 7% of the existing issued share capital of Corich. The issue of the Corich Preference Shares was 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 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 payable by CLG to Corich will be retained by Corich. The Directors therefore consider that the above arrangement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

An announcement will be made by the Company in the event that either the Subscriber's Redemption Right or Warrantors' Redemption Right is exercised or becomes expired.

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	
	Number of shares	*%*	*Number of shares*	*%*	*Number of shares*	*%*	*Number of shares*	*%*
Corich Shares								
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	1,000,000	50.0	2,000,000	66.7	2,000,000	100.0	3,000,000	100.0
Corich Preference Shares								
TPI	930,000	46.5	930,000	31.0	–	–	–	–
Win Key	70,000	3.5	70,000	2.3	–	–	–	–
Sub-total	1,000,000	50.0	1,000,000	33.3	–	–	–	–
Total	2,000,000	100.0	3,000,000	100.00	2,000,000	100.0	3,000,000	100.0

The redemption mechanism is incorporated in the Subscription Agreement and the articles of association of Corich, being part of the terms of the Corich Preference Shares. Such mechanism, on the one hand, serves as a mechanism whereby 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, subject to the Corich Preference Shares being automatically converted into Corich Shares.

On the other hand, the redemption mechanism also enables the Warrantors to decide whether to realise part of their initial investment in Corich and have their shareholdings in Corich be diluted to 50% or continue to hold their investment and retain their effective shareholding at approximately 66.7%. The operations of Corich under the CLO Contract are at its early stage and the Directors consider that the flexibility afforded by the aforesaid redemption mechanism is beneficial to 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 prices of HK$3.15 per Share on the Last Trading Day and HK$2.2 per Share as at the Latest Practicable Date, the Consideration Shares had a market value of HK$630 million and HK$440 million respectively.

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

(i) the total asset value of the Corich Group was not less than HK$55,000,000; and

(ii) the net asset value of the Corich Group was not less than HK$25,000,000.

In the event that the audited net asset value of the Corich Group as at 31 December 2005 was less than HK$24,000,000, the Warrantors shall jointly and severally compensate Corich for the shortfall (being the amount of HK$24,000,000 less such audited net asset value) by cash. As set out in the accountants' report in Appendix II to this circular, the audited net asset value of the Corich Group as at 31 December 2005 was approximately RMB26,600,000 (equivalent to approximately HK$25,600,000).

(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, in particular, 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 VLT by Tianyi Electronics to CLO in the PRC under the CLO Contract for a term of 10 years thereby receiving a fee of fixed percentage (such percentage being 2% (inclusive of a maintenance fee of 0.4%) of the CLO Revenue), and the exclusive rights of CLO in the instant lottery products in the welfare lottery market in the PRC;

(iii) the plans of CLO for rolling out the deployment of VLT in the PRC; and

(iv) the developing stage at which the PRC's lottery market is now and the future growth potential of the PRC instant welfare lottery market.

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

Pursuant to the CLO Contract, 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 service fee of 2% (inclusive of a maintenance fee of 0.4%) 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, the 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 (ranked 35th) as compared to US$160 for the United States (ranked 16th) and US$683 for Singapore (ranked 1st) in 2004. The Directors believe that the PRC's lottery market has a significant growth 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 the Enlarged 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.

Due diligence on the Corich Group

In deciding to subscribe for the Corich Subscription Shares, the Directors and representatives of the Group 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 as mentioned under the section headed "Information on Corich" below 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 operations of Tianyi Electronics;

(iv) conducted site visits of "中福在綫即開型彩票銷售廳"(Lottery Online Halls) in Hebei and Qingdao 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.

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 are performing and will continue to perform the necessary due diligence on the Corich Group to its satisfaction prior to Completion, in particular, on the validity and enforceability of the CLO Contract. Subsequent to the entering into of the Subscription Agreement, the Directors and representatives of the Group have performed the following additional due diligence procedures on Corich and Tianyi Electronics:

(i) appointed independent reporting accountants to prepare, and have themselves reviewed, the accountants' report on the Corich Group as set out in Appendix II to this circular;

(ii) discussed with the management of the Corich Group the long outstanding accounts receivables of the Corich Group as at 31 December 2005 and assessed the recoverability thereof;

(iii) engaged independent legal advisers to conduct legal due diligence of the Corich Group, including reviewing material contracts of the Corich Group, reviewing the incorporation and regulatory documents of the Corich Group (including statutory and corporate records, minutes of board meetings, and memorandum and articles of association, business licence and approval certificates), and made enquiries by way of detailed legal due diligence questionnaire and reviewed replies, verifying licences and approvals from relevant regulatory authorities;

(iv) carried out independent searches for registration documents with the Administration for Industry and Commerce in Dongguan, China;

(v) carried out site inspections to the operations of Tianyi Electronics, interviewed the management staff of Tianyi Electronics (including the legal representative and the finance manager of Tianyi Electronics); and

(vi) continued to monitor the business and financial affairs of the Corich Group, including the production orders placed by CLO for VLT under the CLO Contract, the revenue generated from the VLT operated by CLO, production and delivery of VLT and controls on operating costs.

Based on the legal due diligence performed up to the Latest Practicable Date, the Directors consider that the legality of the operations of the Corich Group to be satisfactory and the operations of the Corich Group are in compliance with the necessary regulatory requirements in the PRC and the British Virgin Islands (being the place of incorporation of Corich). Up to the Latest Practicable Date, the Directors were not aware of any material matters arisen from the due diligence work on the Corich Group that would result in the Group deciding to exercise its discretion to rescind the Subscription Agreement.

In the meantime, prior to Completion, 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.

(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 12.5% of the existing issued share capital of the Company and approximately 11.1% 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 premium of approximately 9.1% over the closing price of HK$2.2 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) 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;

(iii) 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;

(iv) 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

(v) 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 on 20 December 2005 was HK$2.70 per Share and the issue price per Consideration Share represented a discount of approximately 11.1% to such closing price. The Directors consider that such discount is 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 has been made by the Company to the Stock Exchange for the listing of and the permission to deal in the Consideration Shares.

(F) Lock-up 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, 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 GEM 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 confirm 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 (or such other date as the parties may agree in writing). As at the Latest Practicable Date, 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.

Since the allotment and issue of the Consideration Shares under the Subscription Agreement does not require any approval from the Bermuda Monetary Authority, condition (iii) above is not applicable.

On 17 January 2006, the Board announced the placing of 180,000,000 existing Shares at HK$3.675 each and the top-up subscription of the same number of Shares at the same price. The placing was completed on 20 January 2006 and the top-up subscription was completed on 27 January 2006. The net proceeds raised from the top-up subscription amounted to approximately HK$631.8 million which are intended to be partly used to settle the cash element of the Consideration of HK$470 million and as the Group's general working capital. Therefore, condition (iv) above has been fulfilled.

The Company is still in the process of conducting due diligence on Corich and Tianyi Electronics (details of which are set out under the sub-paragraph headed "Due diligence on the Corich Group" above) and obtaining the relevant legal opinion on the Corich Preference Shares. Up to the Latest Practicable Date, conditions (v) to (viii) were yet to be fulfilled or waived.

(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 such number of directors to the board of directors of Corich whereby the total number of directors appointed by CLG will outnumber the number of remaining directors by one. It is expected that CLG will appoint four members to, and have control of, 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 the Corich Group, CLG intends to exercise the Subscriber's Redemption Right after Completion. 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 shareholders of Corich on a pro rata basis.

The Directors consider that since the Corich Preference Shares shall either be redeemed or automatically be 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.

Such automatic conversion mechanism is captured in the Subscription Agreement whereby 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, which is expected to be 6 months after Completion.

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

INFORMATION ON CORICH

1. Background of Corich

Corich was incorporated on 8 August 2002 and its principal business activity is investment holding. The Corich Group through its wholly-owned subsidiary, Tianyi Electronics, is principally engaged in the provision of VLT. Save for its interest in Tianyi Electronics, Corich has no other material assets. Tianyi Electronics was established on 10 June 2003 for the production and manufacture of electronics products, including the development and organising the manufacture of VLT. Tianyi Electronics is involved in the component procurement, quality assurance, system synchronising, product testing and logistics processes, while product assembling is outsourced to external manufacturers. The production facilities engaged by Tianyi Electronics are situated in Dongguan, Guangdong, PRC. Prior to commercial production of VLT under the CLO Contract, Tianyi Electronics has, since its establishment, been engaged in the development in conjunction with CLO of the hardware for VLT. As a result of the successful development of the VLT, CLO granted the CLO Contract to Tianyi Electronics for the supply and maintenance of the VLT. The Corich Group and its shareholders are not connected with CLO. With a view to handling increasing demand for the production of VLT, Tianyi Electronics is contemplating the establishment of its own production base to construct a production line meeting the demand from the CLO Contract within Dongguan, Guangdong, PRC.

2. Management of Corich

The management of the Corich Group is led by Mr. Lim, Mr. Meng and Mr. Wang with a team of 21 professionals (including 2 senior managers and 19 technical staff and personnel in finance and administration) responsible for the areas of procurement and logistics, quality control, installation and maintenance and financial management as well as working with a team for the production and assembling activities. With a view to assisting the Corich Group in enhancing its technical expertise to meet the international standards, the Group intends to appoint additional directors to the board of Corich and assemble a team of specialist technical professionals from Octavian International Limited ("Octavian"), a European company which the Company proposes to acquire (details relating to Octavian are set out under the section headed "Information on the Group"). Taking into account the relevant experience of the management team of the Corich Group, the Group's experience gained through supplying hardware for the lottery products through its joint venture with the Tabcorp Group, and the Group's strategic planning and development, the Directors are confident in the future management of the Corich Group.

3. VLT

VLT refer to electronic lottery games of chance played on video screens. A number of lottery games are downloaded into VLT whereby customers can choose which lottery game to play. Those lottery games often simulate popular games such as poker. VLT are linked up to the centralised operating system to download the result of the next draw. The frequency of draws is as fast as the player pushes a button. VLT can be found in many parts of the world including the United States, Canada, Europe and Australia. Each of VLT supplied by Tianyi Electronics essentially comprises four key components, including a card reader for recording payment and winnings, a personal computer terminal linked up to the central system, a display monitor and the cabinet.

4. Information on CLO

CLO is a State-controlled advanced technology company established with the approval of the Ministry of Civil Affairs. It is controlled by China Welfare Lottery Issuance and Administration Centre of the PRC and is exclusively licensed as a specialised entity to operate and run the instant lottery (including VLT and KENO) technical sales system in the PRC. The issue of lottery is totally directed by PRC government authorities and is a lawful business of public welfare nature. At present, the issuance and operation of lotteries in China are restricted to the government or government-authorised organisations. Participation of foreign enterprises in the PRC lottery industry is limited to provision of equipment and technical support only. CLO currently has approximately 230 approved outlets throughout the PRC under the name of "中福在綫即開型彩票銷售廳" (Lottery Online Halls) whereby VLT and KENO terminals are installed for distribution of its VLT games and KENO games respectively. Each customer playing VLT games purchases a magnetic card to pay for games and collection of winnings. KENO and VLT represent the only instant lottery games available at the Lottery Online Halls.

5. CLO Contract

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. As confirmed by the PRC legal opinions as stated below, there are no existing laws and regulations that govern the provision of technical services and facilities to lottery business in the PRC. In consideration for the provision of VLT by Tianyi Electronics, CLO has agreed to pay to Tianyi Electronics a service fee of 2.0% (inclusive of a maintenance fee of 0.4%) of the CLO Revenue. The managements of the Group and the Corich Group consider that the repair and maintenance of the VLT may be outsourced to a third party service provider. In such event, the managements of the Group and the Corich Group expect that the cost of outsourcing such service would amount to approximately 0.4% of the CLO Revenue. The CLO Contract shall operate for a period of 10 years. The renewal or extension for the CLO Contract will be subject to further agreement between the parties.

Up to the Latest Practicable Date, based on information provided by Corich, more than 5,000 VLT had been delivered by Tianyi Electronics to the Lottery Online Halls. VLT delivered under the CLO Contract will remain assets of the Corich Group. VLT delivered to the Lottery Online Halls will be linked up to the central system operated by CLO, utilising the software games operated by CLO. For the year ended 31 December 2005, an aggregate of approximately RMB13 million was recorded as revenue of the Corich Group, of which approximately RMB1.3 million has been received from CLO to date.

The Company has been provided with PRC legal opinions from 北京市君佑律師事務所 (Beijing Junyou Law Firm), which was engaged by CLG and is independent of the Group and is not connected with any members of the Group and their connected persons, 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.

The Directors consider that the CLO Contract is the core element of the business of Corich. The future success of the Corich Group relies on the performance of the CLO Contract as well as the continuation of the business relationship between Tianyi Electronics and CLO. However, the Directors consider that such business risk reflects the exclusivity of the business of operation of lottery in the PRC market, and is inevitable.

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

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Turnover	0	0	12,935
Profits/(losses) before tax *(note)*	(3,606)	(1,191)	24,217
Profits/(losses) after tax *(note)*	(3,606)	(1,191)	24,217

Note: There were no extraordinary items for each of the respective years.

As at 31 December 2005, the audited net asset value of the Corich Group was approximately RMB26,600,000.

Details of the financial information relating to the Corich Group for each of the three years ended 31 December 2003, 2004 and 2005 are set out in the accountants' report contained in Appendix II to this circular.

6. Management discussion and analysis

Below is the management discussion and analysis on the performance of the Corich Group for each of the three years ended 31 December 2003, 2004 and 2005.

Financial year ended 31 December 2003

During the year ended 31 December 2003, development of VLT by the Corich Group commenced in conjunction with CLO. The Corich Group did not have any turnover for the year ended 31 December 2003. Accordingly, no segment analysis is provided. Included in other revenues was net gain of approximately RMB411,000 from the disposal of components. The consolidated loss after taxation was approximately RMB3,606,000 for the year under 31 December 2003. The Directors consider that the results of the Corich Group for the year ended 31 December 2003 reflected the initial set-up stage of the operations of the Corich Group, which were focused on the development of VLT. The loss incurred was the result of operating expenses and was mainly attributable to the impairment of other receivables amounted to approximately RMB3,078,000.

As at 31 December 2003, the Corich Group had net current liabilities of approximately RMB15,453,000 including cash and bank balances of approximately RMB613,000 and accounts payable of approximately RMB2,970,000 which mainly related to the purchase of materials for the development of VLT. As at 31 December 2003, the current ratio of the Corich Group was approximately 9%. The gearing ratio (defined as total liabilities over total assets) of the Corich Group as at 31 December 2003 was approximately 136%. The issued share capital of Corich Group was US$1 throughout the year ended 31 December 2003. There were no other loan stocks, preference shares or convertibles issued and outstanding as at 31 December 2003.

No significant investments were held by the Corich Group as at 31 December 2003. During the year under review, Tianyi Electronics was formed in the PRC with registered capital and paid up capital of HK$5,000,000. The Corich Group had no material acquisitions and disposals of investment during the year ended 31 December 2003.

As at 31 December 2003, the Corich Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets. As at 31 December 2003, the Corich Group did not have any material contingent liabilities.

There was no exposure to exchange rate fluctuation risk since the business operation of the Corich Group was carried out in the PRC, substantial receipts and payments in relation to operation were denominated in Renminbi, which was not freely convertible into foreign currencies. All foreign exchange transactions must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The Corich Group did not enter any foreign forward contracts to hedge against exchange rate fluctuations.

The total number of employees of the Corich Group as at 31 December 2003 was 30.

Financial year ended 31 December 2004

During the year ended 31 December 2004, the Corich Group continued the development of VLT. The Corich Group did not have any turnover for the year ended 31 December 2004. Accordingly, no segment analysis is provided. Included in other revenues was net gain of approximately RMB502,000 from the disposal of components. The consolidated loss after taxation was approximately RMB1,191,000 for the year ended 31 December 2004. The Directors consider the loss incurred for the year was attributable to the operating expenses incurred for the development of VLT including staff costs of approximately RMB470,000 and depreciation charge of approximately RMB929,000.

As at 31 December 2004, the Corich Group had net current liabilities of approximately RMB15,302,000 including cash and bank balance of approximately RMB1,209,000 and accounts payable of approximately RMB2,059,000 which mainly related to the purchase of materials for the development of VLT. As at 31 December 2004, the current ratio of the Corich Group was approximately 12%. The gearing ratio (defined as total liabilities over total assets) of the Corich Group as at 31 December 2004 was approximately 149%. The issued share capital of Corich Group was US$1 throughout the year ended 31 December 2004. There were no other loan stocks, preference shares or convertibles issued and outstanding as at 31 December 2004.

No significant investments were held by the Corich Group as at 31 December 2004. During the year under review, the Corich Group had no material acquisitions and disposals of investment.

As at 31 December 2004, the Corich Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets. As at 31 December 2004, the Corich Group did not have any material contingent liabilities.

There was no exposure to exchange rate fluctuation risk since the business operation of the Corich Group was carried out in the PRC, substantial receipts and payments in relation to operation were denominated in Renminbi, which was not freely convertible into foreign currencies. All foreign exchange transactions must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The Corich Group did not enter any foreign forward contracts to hedge against exchange rate fluctuations.

The total number of employees of the Corich Group as at 31 December 2004 was 18.

Financial year ended 31 December 2005

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 PRC. The turnover for the year ended 31 December 2005 was approximately RMB12,935,000 which represented the income from the provision of VLT to CLO. Up to 31 December 2005, over 4,000 VLT had been delivered to CLO by the Corich Group. The consolidated profit after taxation was approximately RMB24,217,000 for the year ended 31 December 2005. Excluding the waiver of shareholders' loans and impairment of other receivables of an aggregate of approximately RMB16,332,000, the consolidated profit after taxation amounted to approximately RMB7,885,000 for the year ended 31 December 2005. The major expense to the Corich Group was depreciation for VLT, which is calculated on a five years straight-line basis. In view of the early stage in the development of the businesses of the Corich Group under the CLO Contract, the performance of the Corich Group for the year ended 31 December 2005 reflected such early development. Both the managements of the Group and the Corich Group believe that China's lottery market has huge potential in the longer term, and as an exclusive VLT provider to CLO, the demand for VLT from CLO would continue to be strong.

As at 31 December 2005, the Corich Group had net current liabilities of approximately RMB1,579,000 including cash and bank balances of approximately RMB9,763,000 and accounts receivable from CLO of approximately RMB13,673,000. In addition, as at 31 December 2005, there was an accrued input Value Added Tax of approximately RMB1,894,000 in relation to the purchase of materials for the production of VLT included in the balance of prepayments, deposits and other receivables of approximately RMB3,638,000. In view of the backing of CLO by the official lottery operator in the PRC, the Directors are of the view that the accounts receivable from CLO will be received. Therefore, no provision for such receivable was considered necessary. As at 31 December 2005, the current ratio of the Corich Group was 95%. The gearing ratio (defined as total liabilities over total assets) of the Corich Group as at 31 December 2005 was approximately 52%. The issued share capital of Corich Group increased from US$1 to US$1,000,000 during the year ended 31 December 2005. There were no other loan stocks, preference shares or convertibles issued and outstanding as at 31 December 2005.

No significant investments were held by the Corich Group as at 31 December 2005. During the year under review, another wholly foreign owned enterprise named Hainan Tianyi Rishing Electronic Equipment Leasing Company Limited ("Tianyi Leasing") was formed in the PRC with registered capital of HK$20,000,000 and paid up capital of HK$14,000,000. During the year, Tianyi Leasing did not generate any revenue for the Corich Group. Furthermore, Tianyi Electronics increased its registered capital and paid up capital from HK$5,000,000 to HK$8,000,000 during the year. The Corich Group had no material acquisitions and disposals of investment during the year ended 31 December 2005.

As at 31 December 2005, the Corich Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets. As at 31 December 2005, the Corich Group did not have any material contingent liabilities.

There was no exposure to exchange rate fluctuation risk since the business operation of the Corich Group is carried out in the PRC, substantial receipts and payments in relation to operation are denominated in Renminbi, which is not freely convertible into foreign currencies. All foreign exchange transactions must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The Corich Group did not enter any foreign forward contracts to hedge against exchange rate fluctuations.

The total number of employees of the Corich Group as at 31 December 2005 was 49.

SHAREHOLDING IN THE COMPANY

The shareholdings in the Company as at the Latest Practicable Date, and after the redemption or automatic conversion of the Corich Preference Shares are expected to be as follows:

Shareholders	As at the Latest Practicable Date		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	23.96	383,831,074	21.30	383,831,074	21.30
Mr. Chan	72,951,773	4.55	72,951,773	4.05	72,951,773	4.05
Mrs. Chan	51,288,803	3.20	51,288,803	2.84	51,288,803	2.84
Hang Sing	11,320,192	0.71	11,320,192	0.63	11,320,192	0.63
Strong Purpose	10,595,042	0.66	10,595,042	0.59	10,595,042	0.59
Sub-total	529,986,884	33.08	529,986,884	29.41	529,986,884	29.41
Corich	–	–	–	–	200,000,000	11.10
Warrantors	–	–	200,000,000	11.10	–	–
Directors other than Mrs. Chan	5,956,000	0.37	5,956,000	0.33	5,956,000	0.33
Public Shareholders	1,066,009,116	66.55	1,066,009,116	59.16	1,066,009,116	59.16
Total	1,601,952,000	100.00	1,801,952,000	100.00	1,801,952,000	100.00

FINANCIAL IMPACT OF THE SUBSCRIPTION

Set out in Appendix III to this circular is the unaudited pro forma financial information on the Enlarged Group which illustrates the financial impact of the Subscription on the assets and liabilities of the Group, assuming the Subscription had been completed as at 30 September 2005.

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 (taking into account the Corich Preference Shares) and 50% of the total issued Corich Shares. Pursuant to the Subscription Agreement, so long as CLG is interested in 50% or more of the issued Corich Shares, CLG shall be entitled to appoint such number of directors to the board of directors of Corich whereby the total number of directors appointed by CLG will outnumber the number of remaining directors by one and therefore obtain control of the board of directors of Corich. Accordingly, the Group's interest in Corich will be consolidated into the financial statements of the Group as a subsidiary immediately upon Completion.

Upon exercise of either the Subscriber's Redemption Right or the Warrantor's Redemption Right, the Group will be interested in 50% of the total enlarged issued share capital of Corich. Corich will therefore remain as a subsidiary of the Company and the Group's interest in Corich will be consolidated into the financial statements of the Group.

As set out under scenario A in the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix III to this circular, a goodwill of approximately HK$967 million would be generated as a result of the Subscription where Corich would become a subsidiary of the Company. The unaudited pro forma consolidated net assets of the Group would increase from approximately HK$314 million as at 30 September 2005 to approximately HK$1,439 million as the Enlarged Group, taking into account (i) the Subscription where Corich would become a subsidiary of the Company; and (ii) the placing of 180,000,000 existing Shares at HK$3.675 each and the top-up subscription of the same number of Shares at the same price in January 2006, which have raised net proceeds of approximately HK$631.8 million for the Group.

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.

As set out under scenario B in the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix III to this circular, a goodwill of approximately HK$645 million would be generated as a result of the Subscription where Corich would become an associated company of the Company, and interests in associates of approximately HK$335 million would be recorded. The unaudited pro forma consolidated net assets of the Group would increase from approximately HK$314 million as at 30 September 2005 to approximately HK$1,426 million, taking into account (i) the Subscription where Corich would become an associated company of the Company; and (ii) the placing of 180,000,000 existing Shares at HK$3.675 each and the top-up subscription of the same number of Shares at the same price in January 2006, which have raised net proceeds of approximately HK$631.8 million for the Group.

Shareholders should note that the goodwill arising from the Subscription represents the excess of the cost of the Subscription over the Group's interest in the estimated fair value of the identifiable assets, liabilities and contingent liabilities of the Corich Group. Such amount will be maintained as an intangible asset in the consolidated balance sheet of the Enlarged Group and subject to impairment test annually as stipulated under the Hong Kong Financial Reporting Standards. The carrying amount of goodwill from time to time represents its cost less any accumulated impairment losses. Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet, whereas such amount arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of investment of the relevant associate.

In the event that any impairment loss on goodwill is identified, such loss will be recognised in the income statement in the period such loss is identified. Based on the historic performance of the Corich Group, and taking into account the potential benefits of the future strategy of the Enlarged Group regarding the VLT, the Directors are confident in the prospects of the Corich Group. However, in view of the early stage for the development and the supply of VLT under the CLO Contract, the Directors consider that it is not in a position to assess the likelihood that any provision for impairment will be required in the next financial year end after Completion of 31 December 2006. In addition, the Directors believe that the Subscription will contribute to the earnings base of the Group but the quantification of such impact will depend on the future performance of the Corich Group.

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 the trial run of KENO game on the PRC's nationwide high frequency lottery system has been successful.

On 11 January 2006, the Group announced its intention to acquire 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. Octavian's innovative product portfolio includes highly creative casino, arcade and AWP (Amusements With Prizes) games, server-based downloadable games systems, lottery systems and advanced ACP (Accounting, Control, Progressives) slot machine management systems that are an essential backbone of modern, networked gaming organisations.

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 exclusively licensed as a specialised entity to operate and run the instant lottery (including VLT and KENO) technical sales system in the PRC. At present, the issuance and operation of lotteries in China are restricted to the government or government-authorised organisations. Participation of foreign enterprises in the PRC lottery industry is limited to provision of equipment and technical support only.

The Subscription represents an opportunity for the Group to further participate 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 the Lottery Online Halls 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 Corich Group is currently principally engaged in the supply of VLT to CLO. The Directors formulated the strategy to acquire Corich and Octavian concurrently with a view to capitalising on the synergies that could arise from the integration of the operations of the two groups. The Directors intend that as the number of VLT delivered by Corich increases, the integrated operations of Corich and Octavian will work with CLO towards upgrading of the centralised operating system for VLT and the VLT games offered by CLO. At the same time, upon upgrading the production capacity of Corich, the Group shall seek to distribute VLT through the customer base of Octavian in Russia, Europe, South America and Asia.

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 as a whole.

RISK FACTORS

The Directors would like to draw the attention of Shareholders to the following risk factors relating to the operations of the Corich Group in the future:

1. Reliance on CLO Contract

The principal operations of the Corich Group are the supply of the VLT to CLO pursuant to the CLO Contract. As described above, it is the management's intentions to leverage on the distribution network of Octavian to distribute VLT to customers of Octavian in the future. However, in the short term, CLO represents the only major customer of Corich. Accordingly, in the event that that the CLO Contract is terminated or not renewed at its expiry, the Corich Group's earnings will be substantially reduced. The future success of the Corich Group therefore relies significantly on the continuously successful supply of VLT to CLO.

2. Redemption of the Corich Preference Shares

The Subscriber's Redemption Right serves as a mechanism whereby, among others, the Group can decide, after Completion and depending on the performance of Corich under the CLO Contract, whether to increase its stake in Corich to 50% of the enlarged issued share capital of Corich or alternatively limit its stake at approximately 33.3% of the enlarged issued share capital of Corich on a fully diluted basis. However, Shareholders should note that the Subscription Agreement also encompasses the Warrantors' Redemption Right whereby the Warrantors have the right to request Corich to redeem the Corich Preference Shares in exchange for the Consideration Shares and the cash in the amount of HK$500 million. Accordingly, in the event that the performance of Corich does not meet the standard expected by the Directors and the Directors decide not to exercise the Subscriber's Redemption Right, the Corich Preference Shares may still be redeemed as a result of the Warrantors exercising the Warrantor's Redemption Right and the interest of the Group will still be increased to 50% of the enlarged issued share capital of Corich. As a result, the redemption mechanism may not serve the purpose of limiting the Group's exposure to an under performance of the Corich Group.

3. Reliance on and retaining existing management

The operations of Corich are currently managed by Mr. Lim, Mr. Meng and Mr. Wang who are the key senior management of the Corich Group. It is the intention of the Directors, the Warrantors and Corich that a service contract shall be entered into between Corich and each of Mr. Lim, Mr. Meng and Mr. Wang. In addition, the Group intends to appoint a total number of four members to the board of directors of Corich upon Completion. Despite such initiatives, the future success of the Corich Group will remain reliant on the continued service by Mr. Lim, Mr. Meng and Mr. Wang. If the Corich Group is unable to retain Mr. Lim, Mr. Meng and Mr. Wang, its operations may be adversely affected.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group has successfully transformed itself to be 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 the PRC. As mentioned above, in June 2005, the Group and the Tabcorp Group entered into a joint venture agreement to form TIHK as a joint venture company which in turn entered into a technical cooperation agreement with CLO 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. In January 2006, the Group announced the entering into of the heads of agreement regarding the possible acquisition of 90% interest in Octavian. The Subscription further reinforces the development of the core business of the Group. With the synergetic edge derived from the above international and domestic developments, the Group is well positioned to play a role in the PRC's lottery market as a provider of VLT. Given the growth potential of the PRC's lottery market as discussed above, the Directors are positive about the financial and business prospects of the Enlarged Group.

CAPITAL INCREASE

As at the Latest Practicable Date, the authorised share capital of the Company comprised 2,000,000,000 Shares of which 1,601,952,000 Shares were in issue. In order to facilitate the issue of further new Shares, the Directors propose to increase the authorised share capital of the Company from HK$20,000,000 to HK$40,000,000 by the creation of an additional 2,000,000,000 Shares. Such new Shares will rank pari passu in all aspects with the existing issued Shares.

IMPLICATIONS OF THE GEM LISTING RULES

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. As none of Corich, the Warrantors, their ultimate beneficial owners and their respective associates is a Shareholder, no Shareholder is required to abstain from voting on the ordinary resolution to be proposed at the SGM to approve the Subscription as well as the allotment and issue of the Consideration Shares.

There is no Shareholder required to abstain from voting on the ordinary resolution to be proposed at the SGM to approve the Capital Increase.

Burwill, Mr. Chan, Mrs. Chan, Hang Sing and Strong Purpose, holding an aggregate of 529,986,884 Shares representing approximately 33.08% of the existing issued share capital of the Company, have stated that they will vote in favour of the resolutions to be proposed at the SGM approving the Subscription, the allotment and issue of the Consideration Shares as well as the Capital Increase.

SGM

Notice of the SGM is set out on pages 112 to 113 of this circular for the purpose of considering and, if thought fit, approving the transactions contemplated under the Subscription Agreement, the allotment and issue of the Consideration Shares and the Capital Increase. A form of proxy for use at the SGM is accompanied with this circular. Information on your right to demand a poll on the resolutions, where applicable, at the SGM is set out in Appendix IV to this circular.

Whether or not you intend to be present at the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the principal place of business of the Company at Unit 3206, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof (as the case may be). Completion and return of the accompanying form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof (as the case may be) should you so wish.

RECOMMENDATION

The Directors are of the opinion that the Subscription, the allotment and issue of the Consideration Shares and the Capital Increase are in the interests of the Company and the Shareholders as a whole, and accordingly recommend the Shareholders vote in favour of all the resolutions set out in the notice of the SGM contained herein.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
China LotSynergy Holdings Limited
LAU Ting
Chairman

1. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was, and upon the issue of the Consideration Shares and as a result of the Capital Increase will be, as follows:

Authorised:		*HK$*
2,000,000,000	Shares	20,000,000
2,000,000,000	Shares as a result of the Capital Increase	20,000,000
4,000,000,000		40,000,000
Issued and fully paid:		*HK$*
1,601,952,000	Shares	16,019,520
200,000,000	Consideration Shares	2,000,000
1,801,952,000		18,019,520

2. SUMMARY OF FINANCIAL INFORMATION

An unqualified opinion in respect of the audit of the financial statements of the Group has been issued for each of the three years ended 31 March 2003, 2004 and 2005. A summary of the results, assets and liabilities of the Group as extracted from the annual and interim reports of the Company is set out below:

RESULTS

	Six months ended 30 September		Year ended 31 March		
	2005	**2004**	**2005**	**2004**	**2003**
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	6,087	49,024	52,641	262,756	45,698
Loss before taxation	(19,090)	(2,685)	(12,390)	(4,705)	(8,523)
Taxation credit/(charge)	–	–	–	1,500	(1,358)
Loss after taxation	(19,090)	(2,685)	(12,390)	(3,205)	(9,881)
Minority interests	154	273	710	(1)	3,039
Loss attributable to Shareholders	(18,936)	(2,412)	(11,680)	(3,206)	(6,842)
Dividends	–	–	–	–	–
Loss per Share (HK cents)	(1.52)	(0.24)	(1.17)	(0.32)	(0.68)
Dividend per Share	–	–	–	–	–

ASSETS AND LIABILITIES

	As at 30 September	As at 31 March		
	2005	**2005**	**2004**	**2003**
	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	318,342	47,194	60,641	66,212
Total liabilities	(4,265)	(2,172)	(3,793)	(6,640)
Minority interests	(16,521)	(16,357)	(16,785)	(16,555)
Shareholders' funds	297,556	28,665	40,063	43,017

3. AUDITED FINANCIAL STATEMENTS

Set out below are the audited consolidated financial statements of the Group together with accompanying notes as extracted from the annual report of the Company for the year ended 31 March 2005. References to page numbers in the below extract are made to the page numbers of such annual report of the Company.

Consolidated Profit and Loss Account

For the year ended 31 March 2005

	Note	**2005** HK$'000	**2004** HK$'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

		Group		Company	
		2005	**2004**	**2005**	**2004**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
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
Current assets					
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
Current liabilities					
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

		Group		Company	
		2005	**2004**	**2005**	**2004**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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
Non-current liabilities					
Deferred taxation	*24*	179	179	–	–
Total non-current liabilities		179	179	–	–
Minority interests		16,357	16,785	–	–
		45,201	57,027	29,165	40,293

Consolidated Statement of Changes in Equity
For the year ended 31 March 2005

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

Consolidated Cash Flow Statement

For the year ended 31 March 2005

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

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.

(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.

(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.

(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.

(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.

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:

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

(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.

			2005		
	Metal exchange portals	**Metal trading**	**Consultancy and logistics services**	**Application software development services**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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)
Balance sheet					
Segment assets	21,515	4,909	–	–	26,424
Unallocated assets					20,770
Total assets					47,194
Segment liabilities	876	20	–	–	896
Unallocated liabilities					1,276
Total liabilities					2,172
Other information					
Capital expenditures	–	–	–	–	–
Depreciation and amortisation	410	7	–	–	417
Unallocated depreciation and amortisation					128
					545

2004

	Metal exchange portals HK$'000	Metal trading HK$'000	Consultancy and logistics services HK$'000	Application software development services HK$'000	Total HK$'000
Turnover	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)
Balance sheet					
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
Other information					
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.

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

		2004		
	Korea	**Hong Kong**	**Mainland China**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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.

5. LOSS BEFORE TAXATION

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

	2005	2004
	HK$'000	*HK$'000*
Charging		
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
Crediting		
Reversal of bad and doubtful debts	–	1

6. TAXATION CREDIT

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

	2005	2004
	HK$'000	*HK$'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

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.

SteelnMetal.com Limited, an equity joint venture established and operating in Korea, is subject to Korean corporation income tax at a rate of 15% on the first 100 million Korean WON taxable income and 27% on the remaining amount. No corporation income tax has been provided as SteelnMetal.com Limited incurred 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	**2004**
	HK$'000	*HK$'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

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	2004
	HK$'000	*HK$'000*
Fees for Non-Executive Directors	360	360
Other emoluments to Executive Directors		
Basic salaries, housing allowances, other allowances 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.

(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	2004
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	1,237	780
Contributions to pensions schemes	48	36
	1,285	816

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

		Group	
	Domain names and trademarks	**Portal development costs**	**Total**
	HK$'000	*HK$'000*	*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

12. FURNITURE AND EQUIPMENT

			Group		
	Leasehold improvements	Computer equipment and software	Office equipment and furniture	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
As at 1 April 2004	46	5,981	865	296	7,188
Translation adjustments	–	63	1	–	64
As at 31 March 2005	46	6,044	866	296	7,252
Accumulated depreciation					
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
As at 31 March 2005	40	5,772	397	216	6,425
Net book value					
As at 31 March 2005	6	272	469	80	827
As at 31 March 2004	21	545	557	133	1,256

13. INVESTMENTS IN SUBSIDIARIES

	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	23,909	23,909
Provision for impairment	(10,000)	–
	13,909	23,909
Due from subsidiaries	13,521	13,699
	27,430	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.

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

Name of company	Place of incorporation/ establishment *(Note (iv))*	Issued and fully paid up share capital/ 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
SteelnMetal.com Limited *(Note (i))*	Korea	Won1,000,000,000	50% *(Note (v))*	Operation of a metal exchange portal and metal trading
北京威銘商網資訊技術有限公司 (“北京威銘”) *(Note (ii))*	PRC	US$4,080,000	50% *(Note (v))*	Provision of consultancy services for e-commerce technology
上海漢絡馬口鐵貿易有限公司 (“上海漢絡”) *(Note (iii))*	PRC	US$200,000	100%	Inactive/dormant

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

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Unlisted guarantee fund, at cost	390	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.

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:

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

16. ACCOUNTS PAYABLE

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

	Group	
	2005	**2004**
	HK$'000	*HK$'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.

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

	2005	**2004**
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.01 each	20,000	20,000
Issued and fully paid:		
1,000,000,000 ordinary shares of HK$0.01 each	10,000	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.

22. RESERVES

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

	Company		
	Share premium	Contributed surplus *(Note (c))*	Total
	HK$'000	*HK$'000*	*HK$'000*
As at 1 April 2003, 31 March 2004 and 2005	19,865	16,209	36,074

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	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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	(16,359)	(4,679)	(16,909)	(5,781)

24. DEFERRED TAXATION

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
As at 1 April 2004 and 31 March 2005	179	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

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

(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
	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
	304
Gain on disposal of subsidiaries	66
	370
Satisfied by:	
Cash	307
Consideration receivable	63
	370
Net cash inflow arising from disposal:	
Cash and bank balances disposed of	(7)
Cash consideration received	307
	300

26. COMMITMENTS

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

	Land and buildings		**A motor vehicle**	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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).

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** *HK$'000*	**2004** *HK$'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.

4. INTERIM FINANCIAL STATEMENTS

Set out below are the unaudited condensed consolidated financial statements of the Group together with accompanying notes as extracted from the interim report of the Company for the six months ended 30 September 2005. References to page numbers in the below extract are made to the page numbers of such interim report of the Company.

Condensed Consolidated Income Statement

		Unaudited			
		Three months ended 30 September		Six months ended 30 September	
		2005	**2004**	**2005**	**2004**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*3*	1,773	9,560	6,087	49,024
Cost of merchandise sold		(1,745)	(9,410)	(6,015)	(48,537)
Staff costs	*4*	(11,717)	(801)	(12,376)	(1,609)
Amortisation of intangible assets		(29)	(30)	(58)	(59)
Depreciation		(52)	(55)	(109)	(320)
Advertising and promotion expenses		(47)	–	(47)	–
General and administrative expenses		(5,237)	(654)	(7,460)	(1,206)
Operating loss	*3&5*	(17,054)	(1,390)	(19,978)	(2,707)
Other revenues		879	14	888	22
Share of profit less loss of an associate		–	–	–	–
Loss before taxation		(16,175)	(1,376)	(19,090)	(2,685)
Taxation	*6*	–	–	–	–
Loss for the period		(16,175)	(1,376)	(19,090)	(2,685)
Attributable to:					
Equity holders of the Company		(16,096)	(1,216)	(18,936)	(2,412)
Minority interest		(79)	(160)	(154)	(273)
		(16,175)	(1,376)	(19,090)	(2,685)
Basic loss per share	*7*	(1.23) HK Cent	(0.12) HK Cent	(1.52) HK Cent	(0.24) HK Cent

Condensed Consolidated Balance Sheet

	Notes	Unaudited 30 September 2005 HK$'000	Audited 31 March 2005 HK$'000
NON-CURRENT ASSETS			
Intangible assets		1,787	1,842
Furniture and equipment		1,009	827
Investment in an associate		2	–
Long-term investment		390	390
		3,188	3,059
CURRENT ASSETS			
Accounts receivable	*8*	19,147	18,699
Prepayments, deposits and other receivables		7,553	1,662
Amount due from an associate		11	–
Amount due from a related company		1,587	1,557
Deposit with a financial institution		15,385	15,095
Cash and bank balances		271,471	7,122
		315,154	44,135
CURRENT LIABILITIES			
Accounts payable	*9*	1,745	–
Accruals and other payables		538	1,304
Amounts due to related companies		1,307	193
Taxation payable		496	496
		4,086	1,993
NET CURRENT ASSETS		311,068	42,142
TOTAL ASSETS LESS CURRENT LIABILITIES		314,256	45,201
NON-CURRENT LIABILITIES			
Deferred taxation		179	179
		314,077	45,022

	Notes	Unaudited 30 September 2005 HK$'000	Audited 31 March 2005 HK$'000
CAPITAL AND RESERVES			
Share capital	*10*	14,300	10,000
Reserves		318,551	35,024
Accumulated loss		(35,295)	(16,359)
Total equity attributable to equity holders of the Company		297,556	28,665
Minority interest		16,521	16,357
		314,077	45,022

Condensed Consolidated Statement of Changes in Equity

	Unaudited six months ended 30 September 2005							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Capital reserve	Cumulative translation reserve	Share-based compensation reserve	Accumulated losses	Minority interest	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005, as previously reported as equity	10,000	19,865	15,158	1	–	(16,359)	–	28,665
At 1 April 2005, as previously reported as minority interest	–	–	–	–	–	–	16,357	16,357
At 1 April 2005, as restated	10,000	19,865	15,158	1	–	(16,359)	16,357	45,022
Currency translation differences	–	–	–	111	–	–	318	429
Net income recognised directly in equity	–	–	–	111	–	–	318	429
Loss for the period	–	–	–	–	–	(18,936)	(154)	(19,090)
Total recognised income/(loss) for the six months ended 30 September 2005	–	–	–	111	–	(18,936)	164	(18,661)
Share option scheme								
– value of employee services	–	–	–	–	10,385	–	–	10,385
– value of other participants' services	–	–	–	–	1,577	–	–	1,577
Issue of shares	4,300	297,600	–	–	–	–	–	301,900
Issuing expenses	–	(26,146)	–	–	–	–	–	(26,146)
	4,300	271,454	–	–	11,962	–	–	287,716
At 30 September 2005	14,300	291,319	15,158	112	11,962	(35,295)	16,521	314,077

	Unaudited six months ended 30 September 2004							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Capital reserve	Cumulative translation reserve	Share-based compensation reserve	Accumulated losses	Minority interest	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004, as previously reported as equity	10,000	19,865	15,158	(281)	–	(4,679)	–	40,063
At 1 April 2004, as previously reported as minority interest	–	–	–	–	–	–	16,785	16,785
At 1 April 2004, as restated	10,000	19,865	15,158	(281)	–	(4,679)	16,785	56,848
Loss for the period	–	–	–	–	–	(2,412)	(273)	(2,685)
Total recognised loss for the six months ended 30 September 2004	–	–	–	–	–	(2,412)	(273)	(2,685)
At 30 September 2004	10,000	19,865	15,158	(281)	–	(7,091)	16,512	54,163

Condensed Consolidated Cash Flow Statement

	Unaudited Six months ended 30 September	
	2005	**2004**
	HK$'000	*HK$'000*
Net cash (used in)/generated from operating activities	(11,787)	1,814
Net cash generated from investing activities	376	22
Net cash generated from financing activities	275,754	–
Net increase in cash and cash equivalents	264,343	1,836
Effect of foreign exchange rate changes	296	–
Cash and cash equivalents, beginning of period	22,217	20,698
Cash and cash equivalents, end of period	286,856	22,534
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	271,471	7,439
Deposit with a financial institution	15,385	15,095
	286,856	22,534

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The unaudited condensed financial statements has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants, and Chapter 18 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements should be read in conjunction with the 2005 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. Changes in accounting policies

Beginning from 1 April 2005, the Group adopted the new HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKFRS 2	Share-based payment

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 24, 27, 28, 33, 36 and 38 did not result in substantial changes to the Group's accounting policies. In summary:

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

– HKASs 2, 7, 8, 10, 16, 21, 27, 28, 33, 36 and 38 has no material effect on the Group's policies.

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

The Group did not grant any share option prior to the adoption of HKFRS 2. HKFRS 2 requires the expensing of share options and other share-based incentives by using an option-pricing model.

3. Segment information

(a) Primary reporting format – business segments

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

	Unaudited Six months ended 30 September 2005			
	Metal exchange portals	**Metal trading**	**Application software development services**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	–	6,087	–	6,087
Segment results	–	70	–	70
Unallocated corporate expenses				(20,048)
Other revenues				888
Share of profit less loss of an associate				–
Taxation				–
Loss after taxation				(19,090)
Minority interests				154
Loss attributable to equity holders of the Company				(18,936)

	Unaudited Six months ended 30 September 2004			
	Metal exchange portals	**Metal trading**	**Application software development services**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	–	49,024	–	49,024
Segment results	–	(171)	–	(171)
Unallocated corporate expenses				(2,536)
Other revenues				22
Taxation				–
Profit after taxation				(2,685)
Minority interests				273
Loss attributable to equity holders of the Company				(2,412)

(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:

	Unaudited Six months ended 30 September 2005 HK$'000	2004 HK$'000
Turnover		
– Korea	–	49,024
– Hong Kong	–	–
– Mainland China	6,087	–
	6,087	49,024
Operating results		
– Korea	(47)	(171)
– Hong Kong	(19,740)	(2,234)
– Mainland China	(191)	(302)
	(19,978)	(2,707)

4. Staff costs

	Unaudited Three months ended 30 September 2005 HK$'000	2004 HK$'000	Unaudited Six months ended 30 September 2005 HK$'000	2004 HK$'000
Staff costs (including directors' remuneration)				
– salaries, bonuses, allowances and benefits in kind	1,332	801	1,991	1,609
– expenses in relation to the grant of share options	10,385	–	10,385	–
	11,717	801	12,376	1,609

5. Operating loss

	Unaudited Three months ended 30 September 2005 HK$'000	2004 HK$'000	Unaudited Six months ended 30 September 2005 HK$'000	2004 HK$'000
Operating loss is stated after charging:				
Amortisation of intangible assets				
– domain names and trademarks	29	30	58	59
Depreciation of furniture and equipment	52	55	109	320

6. Taxation

No provision for Hong Kong and overseas profits tax has been made as the Group had no assessable profit during the three months and six months ended 30 September 2005 (2004 – Nil and Nil).

7. Basic loss per share

The calculation of the basic loss per share for the three months and six months ended 30 September 2005 is based on the respective unaudited consolidated loss attributable to equity holders of the Company of approximately HK$16,096,000 and HK$18,936,000 (2004 – HK$1,216,000 and HK$2,412,000) and the respective weighted average number of approximately 1,307,500,000 and 1,246,393,000 ordinary shares in issue during the periods (2004 – 1,000,000,000 and 1,000,000,000 ordinary shares).

No diluted loss per share for the three months and six months ended 30 September 2005 is presented as the effect of any dilution is anti-dilutive. No diluted loss per share for the three months and six months ended 30 September 2004 is presented as there were no potential dilutive ordinary shares in issue during such periods.

8. Accounts receivable

The Group generally 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.

Ageing analysis of accounts receivable is as follows:

	Unaudited 30 September 2005 *HK$'000*	**Audited 31 March 2005** *HK$'000*
0 – 90 days	1,773	–
91 – 180 days	–	–
181 days – one year	–	–
Over one year and less than two years	–	639
Over two years	32,309	32,995
	34,082	33,634
Less: Provision for bad and doubtful debts		
– on amounts due from related companies	(8,929)	(8,929)
– on others	(6,006)	(6,006)
	(14,935)	(14,935)
	19,147	18,699

9. Accounts payable

The entire balance of accounts payable was aged within three months as at 30 September 2005 and 31 March 2005.

10. Share capital

	Unaudited	
	Number of shares	Nominal value
	'000	*HK$'000*
Authorised – ordinary shares of $0.01 each:		
At 1 April 2005 and 30 September 2005	2,000,000	20,000
Issued and fully paid – ordinary shares of $0.01 each:		
At 1 April 2005	1,000,000	10,000
Issue of shares through placing	430,000	4,300
At 30 September 2005	1,430,000	14,300

11. Share options

Details of share options granted under the share option scheme of the Company and the share options outstanding at 30 September 2005 were as follows:

			Number of ordinary shares under the options				
Date of grant	Exercise price	Exercisable period	At 1/4/2005	Granted	Exercised	Lapsed	At 30/9/2005
1/9/2005	HK$1.96	31/10/2005 – 30/10/2007	–	15,550,000	–	–	15,550,000
1/9/2005	HK$1.96	31/10/2006 – 30/10/2007	–	15,550,000	–	–	15,550,000

The fair value of the options granted was determined using the Black-Scholes valuation model with the following assumptions:

(a) Risk-free rate – the yield of 3-year Exchange Fund Notes
(b) Expected volatility of share price – annualized volatility for 3 months immediately preceding the date of grant
(c) Expected life of share options – 1 to 2 years

The Company's share prices over the one year immediately preceding the date of grant were extraordinarily volatile. It is considered that using the share prices over the 3 months immediately preceding the date of grant is more appropriate for calculating expected volatility of options granted. According to Black-Scholes valuation model, the value of the options granted on 1 September 2005 was HK$37,787,000 and the amount expensed in the income statement for the six months ended 30 September 2005 was HK$11,962,000.

If annualized volatility of share prices over the one year immediately preceding the date of grant is used, the value of the options granted on 1 September 2005, using the Black-Scholes valuation model, would be HK$60,956,000.

12. Commitments

(a) Operating lease commitment

At 30 September 2005, the Group had future aggregate minimum lease payments in respect of rented premises under non-cancellable operating lease as follows:

	Unaudited 30 September 2005 *HK$'000*	Audited 31 March 2005 *HK$'000*
Not later than one year	–	–
Later than one year and not later than five years	2,880	–
	2,880	–

(b) Capital commitment

At 30 September 2005, the Group had capital commitment contracted for, pursuant to the shareholders' agreement for incorporated joint venture dated 8 June 2005, amounting to A$9,899,670 (or HK$59,398,020) (31 March 2005 – Nil).

5. INDEBTEDNESS

Borrowings and contingent liabilities

As at the close of business on 31 December 2005, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had no outstanding borrowings or material contingent liabilities.

Capital commitment

As at the close of business on 31 December 2005, the Enlarged Group had capital commitment to contributing to TIHK by way of equity in cash an amount of A$9,899,670 (equivalent to HK$59,398,020).

Disclaimer

Save as disclosed above and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have, as at the close of business on 31 December 2005, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debentures or other similar indebtedness, liabilities under acceptance (other than normal trade bills), acceptance credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

Material change

As at 27 January 2006, the Enlarged Group contributed A$4,949,670 (equivalent to HK$29,950,020) in cash to the paid up capital of TIHK.

Save as aforesaid, the Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Enlarged Group since 31 December 2005.

6. WORKING CAPITAL

The Directors are of the opinion that, in the absence of unforeseen circumstances, the Enlarged Group will have sufficient working capital for its requirements in the next twelve months from the date of this circular.

7. MATERIAL ADVERSE CHANGE

Save as disclosed in the Company's interim report for the six months ended 30 September 2005, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong. As described in the paragraph headed "Documents Available for Inspection" in Appendix IV, a copy of the following accountants' report is available for inspection.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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

1 March 2006

The Directors
China LotSynergy Holdings Limited

INTRODUCTION

We set out below our audit report on the financial information regarding Corich International Limited ("Corich") and its subsidiaries (hereinafter collectively referred to as the "Corich Group"), including the consolidated balance sheets of the Corich Group and the balance sheets of Corich as at 31 December 2003, 2004 and 2005, the consolidated profit and loss accounts, consolidated cash flow statements and consolidated statements of changes in equity of the Corich Group for the years ended 31 December 2003, 2004 and 2005 (the "Relevant Periods"), and the notes thereto (the "Financial Information"), for inclusion in the circular of China LotSynergy Holdings Limited dated 1 March 2006 (the "Circular").

CORPORATE INFORMATION OF THE CORICH GROUP

Corich was incorporated in the British Virgin Islands with limited liability on 8 August 2002. The Corich Group is principally engaged in the provision of video lottery terminals ("VLT") to Beijing Lottery Online Technology Co., Ltd. ("CLO"), which is a company established in the People's Republic of China (the "PRC") and controlled by the China Welfare Lottery Issuance and Administration Centre of the PRC.

As at the date of this report, Corich had direct interests in the following wholly-owned subsidiaries which were established by Corich:

Name of company	Place of establishment/ Legal form	Date of establishment	Paid up registered capital as at 31 December 2005	Principal activities and principal place of operations
東莞天意電子有限公司 Dongguan Tianyi Electronics Company Limited ("Tianyi Electronics")	PRC/ Wholly foreign owned enterprise	10 June 2003	Registered capital of HK$8,000,000	Provision of VLT in the PRC
海南天意日盛電子設備租賃有限公司 Hainan Tianyi Rishing Electronic Equipment Leasing Company Limited ("Tianyi Leasing")	PRC/ Wholly foreign owned enterprise	2 August 2005	Registered capital of HK$14,000,000	Provision of VLT in the PRC

BASIS OF PREPARATION

No audited financial statements have been prepared for Corich as Corich was incorporated in a country where there is no statutory audit requirement. We have, however, reviewed all significant transactions of Corich for the Relevant Periods.

The PRC statutory financial statements of Tianyi Electronics for the period from 10 June 2003 (date of establishment) to 31 December 2003 and the year ended 31 December 2004 were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC. The PRC statutory financial statements of Tianyi Electronics for the period from 10 June 2003 (date of establishment) to 31 December 2003 and the year ended 31 December 2004 were audited by 東莞市忠証會計師事務所 Dongguan Loyal CPA Firm and 東莞市華瑞會計師事務所 Dongguan Huarui Certified Public Accountants, respectively, which were certified public accountants registered in the PRC. As of the date of this report, the PRC statutory financial statements of Tianyi Electronics for the year ended 31 December 2005 and the PRC statutory financial statements of Tianyi Leasing for the period from 2 August 2005 (date of establishment) to 31 December 2005 have not yet been audited.

Each of Corich, Tianyi Electronics and Tianyi Leasing has adopted 31 December as their financial year-end date.

For the purpose of this report, the directors of Corich (the "Corich Directors") have prepared the unaudited consolidated management accounts of the Corich Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKFRS Consolidated Management Accounts") for which the Corich Directors are solely responsible. The HKFRS Consolidated Management Accounts have been prepared based on the audited financial statements or, where appropriate, unaudited management accounts of the companies comprising the Corich Group and on the accounting policies of the Corich Group as referred to in Note 3 below. The Financial Information has been prepared by the Corich Directors based on the HKFRS Consolidated Management Accounts.

RESPECTIVE RESPONSIBILITIES OF CORICH DIRECTORS AND REPORTING ACCOUNTANTS

The Corich Directors are responsible for the preparation of the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of China LotSynergy Holdings Limited are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have audited the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the reporting accountant" issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the Corich Directors in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the circumstances of the Corich Group, consistently applied and adequately disclosed.

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

OPINION

In our opinion, for the purposes of this report, the Financial Information gives a true and fair view of the consolidated results and the consolidated cash flows of the Corich Group for each of the Relevant Periods, and of the consolidated balance sheets of the Corich Group and the balance sheets of Corich as at 31 December 2003, 2004 and 2005.

1. THE FINANCIAL INFORMATION

A. Consolidated balance sheets of the Corich Group

	Notes	As at 31/12/2003 RMB	As at 31/12/2004 RMB	As at 31/12/2005 RMB
Non-current assets				
Property, plant and equipment	4	10,958,404	9,617,154	28,181,435
Current assets				
Accounts receivable	6	–	–	13,673,172
Prepayments, deposits and other receivables		475,522	437,770	3,638,329
Value Added Tax recoverable		484,595	382,963	694,591
Cash and bank balances		613,008	1,209,410	9,762,627
		1,573,125	2,030,143	27,768,719
Total assets		12,531,529	11,647,297	55,950,154
Current liabilities				
Accounts payable	7	2,969,885	2,059,267	7,217,007
Accruals and other payables		66,788	55,472	7,436,339
Deposit received from China LotSynergy Holdings Limited	8	–	–	10,403,000
Amount due to a related company	9	7,800,188	9,028,909	3,874,932
Amount due to a Corich Director	9	–	–	416,120
Shareholders' loans	10	6,188,863	6,188,863	–
		17,025,724	17,332,511	29,347,398
Net current liabilities		(15,452,599)	(15,302,368)	(1,578,679)
Net assets/(liabilities)		(4,494,195)	(5,685,214)	26,602,756
Capital and reserves attributable to the equity holders of Corich				
Share capital	11	8	8	8,070,000
Accumulated profits/(losses)		(4,591,703)	(5,782,722)	18,434,506
Foreign currency translation reserve		97,500	97,500	98,250
		(4,494,195)	(5,685,214)	26,602,756

B. Consolidated profit and loss accounts

	Notes	Year ended 31/12/2003 RMB	Year ended 31/12/2004 RMB	Year ended 31/12/2005 RMB
Turnover	12	–	–	12,934,821
Other revenue and other net gains		423,934	502,670	85,971
Waiver of shareholders' loans	10	–	–	17,892,247
Staff costs		(360,424)	(469,965)	(620,717)
Depreciation of owned property, plant and equipment	4	(191,348)	(928,794)	(2,990,988)
Impairment of other receivables		(3,078,394)	–	(1,560,450)
Other operating expenses		(399,949)	(294,930)	(1,523,656)
Profit/(Loss) before income tax	13	(3,606,181)	(1,191,019)	24,217,228
Income tax expense	15	–	–	–
Net profit/(loss) for the year		(3,606,181)	(1,191,019)	24,217,228

Net profit/loss for the year attributable to the equity holders of Corich

The net loss attributable to shareholders of Corich dealt with in the financial statements of Corich amounted to RMB9,339 and nil for the two years ended 31 December 2004, respectively. The net profit attributable to shareholders of Corich dealt with in the financial statements of Corich amounted to RMB16,253,550 for year ended 31 December 2005.

C. Consolidated statements of changes in equity

	Attributable to the equity holders of Corich				
	Issued share capital	**Foreign currency translation reserve**	**Accumulated profits/ (losses)**	**Total reserves**	**Total equity**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Balance as at 01/01/2003	8	97,500	(985,522)	(888,022)	(888,014)
Net loss for the year	–	–	(3,606,181)	(3,606,181)	(3,606,181)
Balance as at 31/12/2003	8	97,500	(4,591,703)	(4,494,203)	(4,494,195)
Net loss for the year	–	–	(1,191,019)	(1,191,019)	(1,191,019)
Balance as at 31/12/2004	8	97,500	(5,782,722)	(5,685,222)	(5,685,214)
Foreign currency translation adjustment	–	750	–	750	750
Issue of Corich Shares *(Note 11)*	8,069,992	–	–	–	8,069,992
Net profit for the year	–	–	24,217,228	24,217,228	24,217,228
Balance as at 31/12/2005	8,070,000	98,250	18,434,506	18,532,756	26,602,756

D. Consolidated cash flow statements

	Year ended 31/12/2003 *RMB*	Year ended 31/12/2004 *RMB*	Year ended 31/12/2005 *RMB*
Cash flows from operating activities			
Profit/(Loss) before income tax	(3,606,181)	(1,191,019)	24,217,228
Adjustments for:			
(Gain)/Loss on disposal of property, plant and equipment	(410,863)	(502,058)	8,614
Depreciation of property, plant and equipment	191,348	928,794	2,990,988
Waiver of shareholders' loans	–	–	(17,892,247)
Interest income	(13,071)	(612)	(29,561)
Operating profit/(loss) before changes in working capital	(3,838,767)	(764,895)	9,295,022
Changes in accounts receivable	–	–	(13,673,172)
Changes in prepayments, deposits and other receivables	(475,522)	37,752	(3,200,559)
Changes in Value Added Tax recoverable	(484,595)	101,632	(311,628)
Changes in accounts payable, accruals and other payables	3,031,264	(921,934)	12,538,607
Changes in amount due to a Corich Director	–	–	416,120
Cash generated from/(used in) operations	(1,767,620)	(1,547,445)	5,064,390
Interest received	13,071	612	29,561
Net cash generated from/(used in) operating activities	(1,754,549)	(1,546,833)	5,093,951
Cash flows from investing activities			
Purchases of property, plant and equipment *(Note 4)*	(12,085,043)	(100,443)	(21,563,883)
Proceeds from sale of property, plant and equipment	1,346,154	1,014,957	–
Net cash generated from/(used in) investing activities	(10,738,889)	914,514	(21,563,883)
Cash flows from financing activities			
Deposit received from China LotSynergy Holdings Limited	–	–	10,403,000
Changes in amount due to a related company	7,800,188	1,228,721	(5,153,977)
Changes in shareholders' loans	–	–	11,703,384
Issue of Corich Shares *(Note 11)*	–	–	8,069,992
Net cash generated from financing activities	7,800,188	1,228,721	25,022,399
Net increase/(decrease) in cash and cash equivalents	(4,693,250)	596,402	8,552,467
Effect of exchange rate changes on balances held in foreign currencies	97,500	–	750
Cash and cash equivalents brought forward	5,208,758	613,008	1,209,410
Cash and cash equivalents carried forward, representing cash and bank balances	613,008	1,209,410	9,762,627

E. Company balance sheets of Corich

	Notes	As at 31/12/2003 RMB	As at 31/12/2004 RMB	As at 31/12/2005 RMB
Non-current assets				
Investments in subsidiaries, at cost		5,201,500	5,201,500	22,886,600
Current assets				
Prepayments, deposits and other receivables		–	–	1,560,450
Amount due from a subsidiary	5	–	–	1,268,625
Cash and bank balances		2,382	2,382	8,441,996
		2,382	2,382	11,271,071
Current liabilities				
Accruals and other payables		9,872	9,872	9,862
Deposit received from China LotSynergy Holdings Limited	8			10,403,000
Amount due to a Corich Director	9	–	–	416,120
Shareholders' loans	10	6,188,863	6,188,863	–
		6,198,735	6,198,735	10,828,982
Net current assets/(liabilities)		(6,196,353)	(6,196,353)	442,089
Net assets/(liabilities)		(994,853)	(994,853)	23,328,689
Capital and reserves attributable to the equity holders of Corich				
Share capital	11	8	8	8,070,000
Accumulated profits/(losses)		(994,861)	(994,861)	15,258,689
		(994,853)	(994,853)	23,328,689

2. CORPORATE INFORMATION

Corich was incorporated in the British Virgin Islands with limited liability on 8 August 2002. The registered office of Corich is located at Sea Meadow House, Blackburne Highway, (P.O. Box 116), Road Town, Tortola, British Virgin Islands. The principal activity of Corich is investment holding. The Corich Group is principally engaged in the provision of VLT to CLO in the PRC.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Financial Information, which has been prepared on a historical cost basis and in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), includes the consolidated balance sheets of the Corich Group and the balance sheets of Corich as at 31 December 2003, 2004 and 2005, the consolidated profit and loss accounts, consolidated cash flow statements and consolidated statements of changes in equity of the Corich Group for the Relevant Periods, and the notes thereto.

The preparation of financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(b) Basis of consolidation

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

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

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

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

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

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Corich Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi (RMB), which is the Corich Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

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

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the profit and loss account as part of the gain or loss on sale.

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

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corich Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

–	VLT leased to third parties under operating leases	5 years
–	Computers and office equipment	5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3(f)).

(f) Impairment of assets

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

(g) Trade and other receivables

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

(h) Cash and cash equivalents

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

(i) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities (Note 3(j)). Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(j) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognized in the profit and loss account as interest expense.

Borrowings are classified as current liabilities unless the Corich Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(k) Deferred income tax

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

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

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

(l) Provisions

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

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

(m) Operating leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the profit and loss account on a straight-line basis over the period of the lease.

(n) Retirement benefits

Employees in the Corich Group's subsidiaries established in the PRC are required to participate in defined contribution retirement schemes operated by local municipal government. The PRC subsidiaries are required to contribute certain percentages of the employee payroll to the schemes in accordance with the relevant regulations in the PRC and such contributions are charged to the profit and loss account as incurred.

4. PROPERTY, PLANT AND EQUIPMENT

Corich Group	VLT leased to third parties under operating leases	VLT under construction	Computers and office equipment	Total
	RMB	*RMB*	*RMB*	*RMB*
Cost:				
Balance as at 01/01/2003	–	–	–	–
Additions	–	11,630,066	454,977	12,085,043
Transfers	2,729,760	(2,729,760)	–	–
Disposals	–	(935,291)	–	(935,291)
Balance as at 31/12/2003	2,729,760	7,965,015	454,977	11,149,752
Additions	–	100,443	–	100,443
Transfers	100,443	(100,443)	–	–
Disposals	–	(512,899)	–	(512,899)
Balance as at 31/12/2004	2,830,203	7,452,116	454,977	10,737,296
Additions	–	21,113,983	449,900	21,563,883
Transfers	20,037,304	(20,037,304)	–	–
Disposals	–	–	(14,250)	(14,250)
Balance as at 31/12/2005	22,867,507	8,528,795	890,627	32,286,929
Accumulated depreciation:				
Balance as at 01/01/2003	–	–	–	–
Charge for the year	182,921	–	8,427	191,348
Balance as at 31/12/2003	182,921	–	8,427	191,348
Charge for the year	846,846	–	81,948	928,794
Balance as at 31/12/2004	1,029,767	–	90,375	1,120,142
Charge for the year	2,899,886	–	91,102	2,990,988
Disposals	–	–	(5,636)	(5,636)
Balance as at 31/12/2005	3,929,653	–	175,841	4,105,494
Net book value:				
Balance as at 31/12/2005	18,937,854	8,528,795	714,786	28,181,435
Balance as at 31/12/2004	1,800,436	7,452,116	364,602	9,617,154
Balance as at 31/12/2003	2,546,839	7,965,015	446,550	10,958,404

5. AMOUNT DUE FROM A SUBSIDIARY

The amount due from a subsidiary as shown on the balance sheet of Corich is unsecured, interest-free and has no fixed terms of repayment.

6. ACCOUNTS RECEIVABLE

Income from provision of VLT is billed on a monthly basis and is due 15 days after month-end.

Aging analyses of accounts receivable as at the end of each of the Relevant Periods are as follows:

	As at 31/12/2003	**As at 31/12/2004**	**As at 31/12/2005**
	RMB	*RMB*	*RMB*
0 – 30 days	–	–	3,745,669
31 – 60 days	–	–	2,451,325
61 – 90 days	–	–	1,986,540
91 – 120 days	–	–	1,568,986
Over 120 days	–	–	3,920,652
	–	–	13,673,172

7. ACCOUNTS PAYABLE

Aging analyses of accounts payable as at the end of each of the Relevant Periods are as follows:

	As at 31/12/2003	**As at 31/12/2004**	**As at 31/12/2005**
	RMB	*RMB*	*RMB*
0 – 30 days	2,969,885	–	143,500
31 – 60 days	–	–	4,497,397
Over 60 days	–	2,059,267	2,576,110
	2,969,885	2,059,267	7,217,007

8. DEPOSIT RECEIVED FROM CHINA LOTSYNERGY HOLDINGS LIMITED

On 9 January 2006, China LotSynergy Holdings Limited and its wholly-owned subsidiary, China LotSynergy Group Limited ("CLG"), entered into the Subscription Agreement (as defined in the Circular) under which CLG has conditionally agreed to subscribe for and Corich has conditionally agreed to issue 1,000,000 Corich Subscription Shares (as defined in the Circular) for an aggregate consideration of HK$980,000,000.

The balance as at 31 December 2005 represents the initial deposit of HK$10,000,000 (equivalent to RMB10,403,000) received from China LotSynergy Holdings Limited upon entering into a heads of agreement amongst CLG and the Warrantors (as defined in the Circular) on 20 December 2005 in relation to the Subscription.

9. AMOUNT DUE TO A RELATED COMPANY/A CORICH DIRECTOR

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

10. SHAREHOLDERS' LOANS

The shareholders' loans were unsecured, interest-free and had no fixed terms of repayment. On 31 December 2005, the shareholders' loans were waived and the credit arising was taken to the profit and loss account for the year ended 31 December 2005.

11. SHARE CAPITAL

	As at 31/12/2003 *RMB*	As at 31/12/2004 *RMB*	As at 31/12/2005 *RMB*
Authorized:			
50,000/50,000/2,000,000 Corich Shares of US$1 each	403,500	403,500	16,140,000
Nil/Nil/1,000,000 Corich Preference Shares of US$1 each	–	–	8,070,000
	403,500	403,500	24,210,000
Issued and fully paid:			
1/1/1,000,000 Corich Shares of US$1 each	8	8	8,070,000

The Company was incorporated on 8 August 2002 with an authorized capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. Upon incorporation, Corich issued 1 ordinary share to the subscriber at par for cash to provide the initial capital of Corich.

Pursuant to the resolution passed by the Corich Director on 20 July 2005, the memorandum and articles of association of Corich were amended such that the authorized capital of Corich was US$3,000,000 comprising 3,000,000 ordinary shares with a par value of US$1 each. On 22 July 2005, 999,999 ordinary shares were issued at par for cash (equivalent to approximately RMB8,069,992) to increase the capital of Corich.

Pursuant to the resolution passed by the Corich Directors on 30 December 2005, the memorandum and articles of association of Corich were amended such that the authorized capital of Corich was US$3,000,000, which was made up of two classes and series of shares divided into 2,000,000 ordinary shares of US$1 par value ("Corich Shares" and as defined in the Circular) and 1,000,000 redeemable preferred shares of US$1 par value ("Corich Preference Shares" and as defined in the Circular).

Subsequent to 31 December 2005, on 9 January 2006, Corich issued 930,000 and 70,000 Corich Preference Shares to Toward Plan Investments Limited ("TPI") and Win Key Development Limited ("Win Key") respectively at an issue price of US$1 each. The special features of the Corich Preference Shares are set out in the Circular.

12. TURNOVER, REVENUE AND SEGMENT INFORMATION

The principal 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 a contract with CLO (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 service fee of 2% (inclusive of a maintenance fee of 0.4%) of the total revenue generated from the VLT sales system of CLO in the PRC ("CLO Revenue"). The CLO Contract shall operate for a period of 10 years.

	Year ended 31/12/2003	**Year ended 31/12/2004**	**Year ended 31/12/2005**
	RMB	*RMB*	*RMB*
Income for provision of VLT	–	–	10,938,538
Income for repair and maintenance of VLT	–	–	2,734,634
	–	–	13,673,172
Less: Business tax	–	–	(738,351)
Turnover	–	–	12,934,821

The CLO Contract is an agreement whereby Tianyi Electronics (as the lessor) conveys to CLO (as the lessee) in return for payments the right to use the VLT for an agreed period of time. As the significant portion of the risks and rewards of ownership are retained by the Corich Group, the CLO Contract is accounted for as an operating lease. As the CLO Contract does not specify minimum lease payments, the income for provision of VLT has been accounted for in accordance with the terms of the CLO Contract and recognized as contingent-based rentals receivable under operating lease. There were no future minimum lease payments receivable under non-cancellable operating leases as at 31 December 2005.

Segment reporting

During the Relevant Periods, all of the turnover of the Corich Group was derived from the provision of VLT in the PRC. Accordingly, no segment analysis is provided.

13. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is stated after charging/(crediting) the following:

	Year ended 31/12/2003 *RMB*	Year ended 31/12/2004 *RMB*	Year ended 31/12/2005 *RMB*
Salaries, allowances and benefits-in-kind	358,665	461,647	609,469
Retirement scheme contributions	1,759	8,318	11,248
Total staff costs	360,424	469,965	620,717
Operating lease rentals for rented premises	37,792	95,162	90,104
Interest income	(13,071)	(612)	(29,561)
(Gain)/Loss on disposal of property, plant and equipment	(410,863)	(502,058)	8,614

14. CORICH DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

Corich Directors' remuneration

	Year ended 31/12/2003 *RMB*	Year ended 31/12/2004 *RMB*	Year ended 31/12/2005 *RMB*
Fees	–	–	–
Salaries, allowances and benefits-in-kind	–	–	160,000
Retirement scheme contributions	–	–	–
Discretionary bonuses	–	–	–
Total	–	–	160,000

	Year ended 31/12/2003 *RMB*	Year ended 31/12/2004 *RMB*	Year ended 31/12/2005 *RMB*
Individual emoluments			
Wang Taoguang	–	–	40,000
Meng Xin	–	–	120,000
Lim Loong Keng	–	–	–
Guo Pu Yu	–	–	–
Total	–	–	160,000

	Number of Corich Director	Number of Corich Director	Number of Corich Directors
Nil to HK$1,000,000	1	1	4

There were no amounts paid during the Relevant Periods to the Corich Directors in connection with an inducement to join. There were no amounts paid for compensation for loss of office.

Except as disclosed above, no remuneration has been provided as payable in respect of the Relevant Periods by Corich to the Corich Directors.

Senior executives' remuneration

The five highest paid employees in the Corich Group included none, none and 2 Corich Directors for each of the three years ended 31 December 2005 respectively and information relating to their emoluments has been disclosed above. The emoluments of the remaining highest paid, non- Corich Director individuals are as follows:

	Year ended 31/12/2003 *RMB*	Year ended 31/12/2004 *RMB*	Year ended 31/12/2005 *RMB*
Salaries, allowances and benefits-in-kind	199,989	224,038	350,870
Retirement scheme contributions	1,179	5,073	4,176
Total	201,168	229,111	355,046

	Number of employees	Number of employees	Number of employees
Nil to HK$1,000,000	5	5	3

15. INCOME TAX EXPENSE

Corich was incorporated under the International Business Companies Act of the British Virgin Islands and, accordingly, is exempted from the payment of British Virgin Islands income taxes.

No provision for Hong Kong profits tax has been made as the Corich Group has no assessable profits derived in or arising in Hong Kong for the Relevant Periods.

Tianyi Electronics and Tianyi Leasing, both being wholly foreign owned enterprises established and operating in the PRC, are subject to PRC enterprise income tax. No enterprise income tax has been provided for Tianyi Electronics for the period from 10 June 2003 (date of establishment) to 31 December 2003 and the year ended 31 December 2004 as Tianyi Electronics incurred taxation losses for both periods. No enterprise income tax has been provided for Tianyi Electronics for the year ended 31 December 2005 as Tianyi Electronics had losses brought forward to set off against the estimated assessable profits. No enterprise income tax has been provided for Tianyi Leasing for the period from 2 August 2005 (date of establishment) to 31 December 2005 as Tianyi Leasing incurred a taxation loss for that period.

As at the end of each of the Relevant Periods, the Corich Group had no material unprovided deferred tax.

16. EARNINGS/(LOSS) PER SHARE

Earnings/(loss) per share is not presented for the Relevant Periods as such information is not meaningful having regard to the purpose of this report.

17. RELATED PARTY TRANSACTIONS

For the purposes of the Financial Information, 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.

Save as disclosed elsewhere in the Financial Information, the Corich entered into the following significant related party transactions for the Relevant Periods:

(i) For the years ended 31 December 2003 and 2004, the Corich Group disposed of property, plant and equipment to related parties for aggregate consideration of RMB1,346,154 and RMB1,014,957, respectively, on mutually agreed terms. The above resulted in gains on disposals of property, plant and equipment of RMB410,863 and RMB502,058 for the years ended 31 December 2003 and 2004, respectively.

(ii) Details of balances with related parties as at the end of each of the Relevant Periods are set out in Notes 5, 9 and 10.

18. COMMITMENTS

Capital commitments of Corich

	As at 31/12/2003 *RMB*	As at 31/12/2004 *RMB*	As at 31/12/2005 *RMB*
Authorized and contracted for:			
Contribution to the registered capital to Tianyi Leasing	–	–	6,240,000

Operating lease commitment of the Corich Group

As at the end of each of the Relevant Periods, the Corich Group had commitments for future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	As at 31/12/2003 *RMB*	As at 31/12/2004 *RMB*	As at 31/12/2005 *RMB*
Within 1 year	37,440	37,440	17,100
More than 1 year but not exceeding 2 years	37,440	9,360	–
More than 2 years but not exceeding 5 years	9,360	–	–
	84,240	46,800	17,100

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments

The principal financial assets of the Corich Group include trade and other receivables, and cash and bank balances.

The principal financial liabilities of the Corich Group include trade and other payables, and amounts due to related parties. The Corich Group did not hold nor issue any financial instruments for trading purposes during the Relevant Periods. The Corich Group did not hold any positions in derivative contracts during the Relevant Periods.

(a) Foreign currency risk

Substantially all the revenue-generating operations of the Corich Group are transacted in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions must take place through the People's Bank of China ("PBOC") or other institutions authorized to buy and sell foreign currencies. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that are determined largely by supply and demand.

(b) Credit risk

As at 31 December 2005, the Corich Group has significant concentration of credit risk as a result of few number of counterparties. If the relationship with these parties is terminated, it could materially and adversely affect the Corich Group's results.

(c) Interest rate risk

The Corich Group did not expose to any interest rate risk during the Relevant Periods.

(d) Fair value

As at 31 December 2003, 2004 and 2005, the fair values of all financial instruments approximate their carrying amounts due to the nature or short-term maturity of these instruments.

20. SUBSEQUENT EVENTS

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

On 9 January 2006, Corich issued 930,000 and 70,000 Corich Preference Shares to TPI and Win Key respectively at an issue price of US$1 each.

Pursuant to the written resolutions passed by the Corich Directors on 9 January 2006, it was resolved that a dividend (the "Dividend") in the aggregate amount of US$1,000,000 be declared and approved and that the Dividend be paid to the shareholders of Corich whose names appeared on the share register of Corich at the closing of business day on 8 January 2006 or to whom they may direct out of the surplus of Corich in such manner as determined by the Corich Directors to be appropriate. It was further resolved that the Dividend amounts of US$930,000 and US$70,000 payable to TPI and Win Key be applied towards satisfaction of the subscription price of US$930,000 and US$70,000 payable by TPI and Win Key for the 930,000 and 70,000 Corich Preference Shares respectively applied for forthwith upon the allotment and issue of the Corich Preference Shares.

Save as disclosed above and elsewhere in the Financial Information, there were no significant events subsequent to 31 December 2005.

21. SUBSEQUENT CONSOLIDATED FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared by the Corich Group in respect of any period subsequent to 31 December 2005.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

1. UNAUDITED PRO FORMA STATEMENTS OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following are the unaudited pro forma statements of assets and liabilities of the Enlarged Group assuming that the Subscription had been completed as at 30 September 2005. The unaudited pro forma statements of assets and liabilities were prepared based on the unaudited consolidated balance sheet of the Group as at 30 September 2005 as extracted from the interim report of the Group for the period ended 30 September 2005 (as set out in Appendix I to this circular) and the audited consolidated balance sheet of the Corich Group as at 31 December 2005 extracted from the financial information on the Corich Group (as set out in Appendix II to this circular) and with adjustments to reflect the effects of the Subscription.

Pursuant to the Subscription Agreement, depending on whether the Corich Preference Shares will be redeemed, the Group will be either interested in approximately 33.3% or 50% of the then issued share capital of Corich as a result of the Subscription. The effects of the Subscription were illustrated by the following unaudited pro forma statements of assets and liabilities of the Enlarged Group under each of the following two scenarios:

A. After Completion and immediately after either the Subscriber's Redemption Right or the Warrantor's Redemption Right being exercised

B. After Completion and immediately after expiry of the Warrantors' Redemption Right and automatic conversion of the Corich Preference Shares into Corich Shares

The unaudited pro forma statements of assets and liabilities were prepared for illustrative purposes only and because of their nature, they do not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or results of:

- the Enlarged Group had the Subscription actually completed at the dates indicated therein; or

- the Enlarged Group at any future date or for any future periods.

A. After Completion and immediately after either the Subscriber's Redemption Right or the Warrantor's Redemption Right being exercised

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 and the Group will be interested in 50% of the then issued Corich Shares. Pursuant to the Subscription Agreement, the Group 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 this case, the Consideration payable by the Group to Corich for the Subscription will effectively be transferred from Corich to the Warrantors on a Pro Rata Basis.

The effects of the Subscription were illustrated by the following unaudited pro forma statement of assets and liabilities of the Enlarged Group under this scenario:

	The Group as at 30/09/2005 *HK$'000* (Unaudited)	The Corich Group as at 31/12/2005 *RMB'000* (Audited) *Note A1*	The Corich Group as at 31/12/2005 *HK$'000* (Audited) *Note A1*	Pro forma adjustments *HK$'000*	*Notes*	Pro forma Enlarged Group *HK$'000* (Unaudited)
Non-current assets						
Intangible assets	1,787	–	–			1,787
Properties, plant and equipment	1,009	28,181	27,097			28,106
Goodwill	–	–	–	967,210	*A5*	967,210
Interests in associates	2	–	–			2
Long-term investment	390	–	–	480,000	*A3*	390
				(480,000)	*A4*	
	3,188	28,181	27,097			997,495
Current assets						
Accounts receivable	19,147	13,673	13,147			32,294
Prepayments, deposits and other receivables	7,553	4,333	4,166			11,719
Amount due from an associate	11	–	–			11
Amount due from a related company	1,587	–	–			1,587
Deposit with a financial institution	15,385	–	–			15,385
Cash and bank balances	271,471	9,763	9,388	490,000	*A3, A7(i)*	402,659
				(500,000)	*A4*	
				(10,000)	*A7(i)*	
				(20,000)	*A7(ii)*	
				631,800	*A7(iii)*	
				(470,000)	*A7(iii)*	
	315,154	27,769	26,701			463,655
Current liabilities						
Accounts payable	1,745	7,217	6,940			8,685
Accruals and other payables	538	7,436	7,152			7,690
Deposit received from China LotSynergy Holdings Limited	–	10,403	10,000	(10,000)	*A3, A7(i)*	–
Amounts due to related parties	1,307	4,291	4,126			5,433
Mandatorily redeemable preference shares classified as liabilities	–	–	–	7,760	*A2*	–
				(7,760)	*A4*	
Income tax payable	496	–	–			496
	4,086	29,347	28,218			22,304
Non-current liabilities						
Deferred taxation	179	–	–			179
Net assets	314,077	26,603	25,580			1,438,667
Capital and reserves						
Share capital	14,300	8,070	7,760	7,760	*A3*	18,100
				(15,520)	*A6*	
				1,800	*A7(iii)*	
				2,000	*A7(iv)*	
Reserves	318,551	98	94	972,240	*A3*	1,426,551
				(972,240)	*A4*	
				(94)	*A6*	
				630,000	*A7(iii)*	
				478,000	*A7(iv)*	
Accumulated profits / (losses)	(35,295)	18,435	17,726	(17,726)	*A2, A6*	(35,295)
Total equity attributable to equity holders of the Company	297,556	26,603	25,580			1,409,356
Minority interests	16,521	–	–	12,790	*A6*	29,311
	314,077	26,603	25,580			1,438,667

Notes:

A1 For the purpose of the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the audited consolidated balance sheet of the Corich Group as at 31 December 2005 has been translated into Hong Kong Dollars at an exchange rate of HK$1 to RMB1.04.

A2 The adjustments were made to the consolidated balance sheet of the Corich Group as at 31 December 2005 to adjust for the issue of the Corich Preference Shares before Completion.

A3 The adjustments were made to the consolidated balance sheet of the Corich Group as at 31 December 2005 to adjust for the issue of the Corich Subscription Shares at Completion.

A4 The adjustments were made to the consolidated balance sheet of the Corich Group as at 31 December 2005 to reflect the redemption of the Corich Preference Shares by Corich out of its surplus pursuant to either the Subscriber's Redemption Right or the Warrantors' Redemption Right after Completion, whereby 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.

A5 The adjustment reflects the goodwill of approximately HK$967,210,000 with the assumption that the fair values of the assets and liabilities of the Corich Group are the same as the carrying amounts of its assets and liabilities as at 31 December 2005. Since the fair values of the assets and liabilities of the Corich Group at the effective date of acquisition may be different from their fair values used in the preparation of the unaudited pro forma statement of assets and liabilities of the Enlarged Group presented above, the actual goodwill arising from the acquisition, if any, may be different from the estimated amount shown in this Appendix.

A6 The adjustments reflect the elimination of share capital and pre-acquisition reserves of the Corich Group, and the recording of 50% minority shareholders' interests in the net assets of the Corich Group as at 31 December 2005.

A7 The adjustment reflects the settlement of the Consideration as if the Subscription had taken place on 30 September 2005 in the following manner:

(i) HK$10 million in cash was paid as the initial deposit upon entering into a heads of agreement amongst the Group and the Warrantors on 20 December 2005. Such deposit was included in the consolidated balance sheet of the Corich Group as at 31 December 2005.

(ii) HK$20 million in cash was paid as a further deposit on 12 January 2006.

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

(iv) 200,000,000 Consideration Shares with a nominal value of HK$0.01 each will be allotted and issued at the issue price of HK$2.40 each as part of the Consideration under the Subscription Agreement 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.

B. After Completion and immediately after expiry of the Warrantors' Redemption Right and automatic conversion of the Corich Preference Shares into Corich Shares

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 and 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 Group. In this case, the Consideration contributed, being the Consideration Shares and the HK$500 million in cash, will be retained by Corich.

The effects of the Subscription were illustrated by the following unaudited pro forma statement of assets and liabilities of the Enlarged Group under this scenario:

	The Group as at 30/09/2005 *HK$'000* (Unaudited)	**Pro forma adjustments** *HK$'000*	*Notes*	**Pro forma Enlarged Group** *HK$'000* (Unaudited)
Non-current assets				
Intangible assets	1,787			1,787
Properties, plant and equipment	1,009			1,009
Goodwill	–	645,142	*B1*	645,142
Interests in associates	2	334,858	*B2*	334,860
Long-term investment	390			390
	3,188			983,188
Current assets				
Accounts receivable	19,147			19,147
Prepayments, deposits and other receivables	7,553			7,553
Amount due from an associate	11			11
Amount due from a related company	1,587			1,587
Deposit with a financial institution	15,385			15,385
Cash and bank balances	271,471	(10,000)	*B3(i)*	403,271
		(20,000)	*B3(ii)*	
		631,800	*B3(iii)*	
		(470,000)	*B3(iii)*	
	315,154			446,954
Current liabilities				
Accounts payable	1,745			1,745
Accruals and other payables	538			538
Amounts due to related parties	1,307			1,307
Income tax payable	496			496
	4,086			4,086
Non-current liabilities				
Deferred taxation	179			179
Net assets	314,077			1,425,877
Capital and reserves				
Share capital	14,300	1,800	*B3(iii)*	18,100
		2,000	*B3(iv)*	
Reserves	318,551	630,000	*B3(iii)*	1,426,551
		478,000	*B3(iv)*	
Accumulated profits / (losses)	(35,295)			(35,295)
Total equity attributable to equity holders of the Company	297,556			1,409,356
Minority interests	16,521			16,521
	314,077			1,425,877

Notes:

B1 The adjustment reflects the goodwill of approximately HK$645,142,000 with the assumption that the fair values of the net assets of the Corich Group are the same as the carrying amounts of its net assets as at 31 December 2005. Since the fair values of the net assets of the Corich Group at the effective date of acquisition may be different from their fair values used in the preparation of the unaudited pro forma statement of assets and liabilities of the Enlarged Group presented above, the actual goodwill arising from the acquisition, if any, may be different from the estimated amount shown in this Appendix.

B2 The amount represents the Group's share of 33.3% of the net assets of the Corich Group as at 31 December 2005, adjusted for the issue of the Corich Preference Shares before Completion, the issue of the Corich Subscription Shares upon Completion and immediately after expiry of the Warrantors' Redemption Right and automatic conversion of the Corich Preference Shares into the Corich Shares on a one-to-one basis. For the purpose of the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the audited consolidated balance sheet of the Corich Group as at 31 December 2005 has been translated into Hong Kong Dollars at an exchange rate of HK$1 to RMB1.04.

B3 The adjustment reflects the settlement of the Consideration as if the Subscription had taken place on 30 September 2005 in the following manner:

(i) HK$10 million in cash was paid as the initial deposit upon entering into a heads of agreement amongst the Group and the Warrantors on 20 December 2005. Such deposit was included in the consolidated balance sheet of the Corich Group as at 31 December 2005.

(ii) HK$20 million in cash was paid as a further deposit on 12 January 2006.

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

(iv) 200,000,000 Consideration Shares with a nominal value of HK$0.01 each will be allotted and issued at the issue price of HK$2.40 each as part of the Consideration under the Subscription Agreement 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.

2. COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a comfort letter, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong. As described in the paragraph headed "Documents Available for Inspection" in Appendix IV, a copy of the following comfort letter is available for inspection.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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

1 March 2006

The Directors
China LotSynergy Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information of China LotSynergy Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group"), comprising the unaudited pro forma statements of assets and liabilities of the Group and Corich International Limited and its subsidiaries (collectively, the "Corich Group") (hereinafter referred to as the "Enlarged Group"), as set out on pages 96 to 100 under the heading "Pro Forma Financial Information" in Appendix III of the Company's circular dated 1 March 2006 (the "Circular") in connection with the subscription of interest in provider of video lottery terminals (the "Subscription"). The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Subscription might have affected the relevant financial information of the Group as at 30 September 2005.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with Rule 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

It is our responsibility to form an opinion, as required by Rule 7.31(7) of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work does not constitute an audit or a review in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information. The unaudited pro forma financial information has been prepared on the basis set out on pages 96 to 100 of the Circular for illustrative purposes only and, because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or results of:

- the Enlarged Group had the Subscription actually completed at the dates indicated therein; or
- the Enlarged Group at any future date or for any future periods.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 7.31(1) of the GEM Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

RESPONSIBILITY STATEMENT

This circular, 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 Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this circular is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this circular misleading; and (iii) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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

As at the Latest Practicable Date, 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 SFO) in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(1) Interests in Shares

(A) The Company

	Number of Shares				Approximate percentage interest in the Company's issued share capital
Name of Director	Personal interests	Family interests	Corporate interests	Total	
LAU Ting	51,288,803	72,951,773 *(Note 1)*	405,746,308 *(Note 2)*	529,986,884 *(Note 3)*	33.08%
SUN Ho	2,800,000	30,000	–	2,830,000	0.18%
CHEN Aizheng	2,310,000	156,000	–	2,466,000	0.15%
NG Man Fai, Matthew	660,000	–	–	660,000	0.04%

Notes:

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

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

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

(B) Associated corporation – Burwill

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

Notes:

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

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

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

(2) Interest in share options in the Company

Name of Director	Date of grant	Number of Shares to be issued upon exercise of the share options	Exercise price per Share *HK$*
LAU Ting	1 September 2005	1,000,000	1.96
SUN Ho	1 September 2005	13,800,000	1.96
CHEN Aizheng	1 September 2005	9,000,000	1.96
HUANG Shenglan	1 September 2005	1,000,000	1.96
KING Roger	1 September 2005	500,000	1.96
LI Xiaojun	1 September 2005	500,000	1.96

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

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

As at the Latest Practicable Date, 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:

(1) Interests in Shares

Name of Shareholder	Number of Shares				Approximate percentage interest in the Company's issued share capital
	Personal interests	Family interests	Corporate interests	Total	
CHAN Shing	72,951,773	51,288,803 *(Note 1)*	405,746,308 *(Note 2)*	529,986,884 *(Note 3)*	33.08%
Burwill	383,831,074	–	–	383,831,074 *(Notes 2 & 4)*	23.96%

Notes:

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

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

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

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

(2) Interest in share options in the Company

Name of Shareholder	Date of grant	Number of Shares to be issued upon exercise of the share options	Exercise price per Share *HK$*
CHAN Shing	1 September 2005	1,000,000	1.96

Save as disclosed above, as at the Latest Practicable Date, 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 as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

PROCEDURES BY WHICH A POLL MAY BE DEMANDED

Pursuant to bye-law 70 of the bye-laws of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(i) by the chairman of the meeting; or

(ii) by at least three Shareholders present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or

(iii) by any Shareholder or Shareholders present in person or by its duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(iv) by any Shareholder or Shareholders present in person or by its duly authorised corporate representative or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

Unless a poll be so demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

EXPERTS AND CONSENTS

HLB Hodgson Impey Cheng ("HLB") is a firm of chartered accountants and certified public accountants. 北京市君佑律師事務所 (Beijing Junyou Law Firm) is a firm of PRC legal advisers. Each of HLB and Beijing Junyou Law Firm has given its opinion(s) contained in this circular.

Each of HLB and Beijing Junyou Law Firm has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its reports or opinions as set out in this circular and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of HLB and Beijing Junyou Law Firm was not beneficially interested in the share capital of any member of the Enlarged Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, nor did it have any interest, either direct or indirect, in any assets which had been since 31 March 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group.

COMPETING INTERESTS

The Directors believe that none of the Directors, the management Shareholders (as defined under the GEM Listing Rules) and their respective associates had any interest, directly or indirectly, in a business which competes or may compete with the business of the Group as at the Latest Practicable Date.

LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, were entered into by the Enlarged Group within two years immediately preceding the Latest Practicable Date, and are or may be material:

(i) the placing agreement dated 7 March 2005 entered into between the Company and Wealthmost Holdings Limited for the placing of 100,000,000 Shares;

(ii) the placing agreement dated 7 March 2005 entered into between the Company and Centrix Investments Limited for the placing of 100,000,000 Shares;

(iii) the shareholders' agreement entered into on 8 June 2005 amongst the Company, China LotSynergy Limited, Tabcorp International No. 1 Pty Limited, Tabcorp International Pty Limited and TIHK in relation to the formation of TIHK as a joint venture company (as amended by an amendment agreement entered into amongst the same parties and Tabcorp Holdings Limited on 28 October 2005);

(iv) CLO Contract;

(v) the placing agreement dated 9 August 2005 amongst Burwill, the Company and Deutsche Bank AG, Hong Kong Branch relating to placing of certain Shares;

(vi) the subscription agreement dated 9 August 2005 between Mr. Chan and the Company relating to the subscription of 72,300,000 Shares;

(vii) the subscription agreement dated 9 August 2005 between Mrs. Chan and the Company relating to the subscription of 49,200,000 Shares;

(viii) the subscription agreement dated 9 August 2005 between Centrix Investments Limited and the Company relating to the subscription of 70,000,000 Shares;

(ix) the subscription agreement dated 9 August 2005 between Good Talent Trading Limited and the Company relating to the subscription of 38,500,000 Shares;

(x) the service agreement entered into on 28 October 2005 between China LotSynergy Limited and TIHK in relation to provision of certain services by China LotSynergy Limited to TIHK;

(xi) the heads of agreement entered into on 20 December 2005 amongst CLG and the Warrantors in relation to the Subscription;

(xii) a deed of waiver in respect of certain shareholder's loan dated 31 December 2005 between Win Key and Corich;

(xiii) a deed of waiver in respect of certain shareholder's loan dated 31 December 2005 between TPI and Corich;

(xiv) the Subscription Agreement;

(xv) the heads of agreement entered into on 10 January 2006 between the Group and the existing shareholder of Octavian in relation to the potential acquisition of 90% interest in Octavian;

(xvi) the subscription agreement dated 17 January 2006 between Mr. Chan and the Company relating to the subscription of 70,000,000 Shares;

(xvii) the subscription agreement dated 17 January 2006 between Mrs. Chan and the Company relating to the subscription of 40,000,000 Shares; and

(xviii) the subscription agreement dated 17 January 2006 between Centrix Investments Limited and the Company relating to the subscription of 70,000,000 Shares.

AUDIT COMMITTEE

In compliance with Rules 5.28 and 5.29 of the GEM Listing Rules, the Company has established an audit committee which comprises all of the three independent non-executive Directors. Its principal duties include the review of the Company's annual report and accounts, half-yearly report and quarterly reports, and review and supervision of the Company's financial reporting and internal control procedures.

Biographies of the members of the audit committee

Mr. KING Roger, aged 65, joined the Group in December 2000. Mr. KING has extensive experience in corporate management, computing engineering and management consultancy. He was the chief executive officer and an executive director of SaSa International Holdings Limited, a Hong Kong listed company offering beauty and health products and services in Asia, during the period from 1999 to April 2002. He is a non-executive director of Orient Overseas International Ltd, an independent non-executive director of Sincere Watch (Hong Kong) Limited, both are Hong Kong listed companies and a director of Arrow Electronics Inc., a US listed company. Mr. KING also served as the executive chairman of System-Pro Computers Ltd., a major Hong Kong personal computer retailer. He holds a bachelor's degree in electrical engineering from the University of Michigan and a master's degree in electrical engineering from New York University. He is also a graduate of the Harvard Business School.

Mr. HUANG Shenglan, aged 54, joined the Group in October 2002. 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. LI Xiaojun, aged 30, joined the Group in September 2004. Mr. LI is a practising lawyer in the Beijing PRC at East Associates, focusing his area of practice in corporate and capital market matters and has represented a number of domestic state-owned enterprises, private-owned enterprises and foreign invested companies in restructuring and reorganisation, mergers and acquisitions, and initial public offerings exercises. Mr. LI serves as legal counsel for the first Sino-foreign fund management company, where he has been engaged in the invention and development of investment funds, providing legal service for issuances of the first domestic Umbrella Fund, QDII Fund, Money Market Fund and other mutual funds. Mr. LI has also successfully participated in the project regarding disposition of bad assets of state-owned commercial bank. In addition, he has also been focusing his work on business strategy formulation and alliance for wholly foreign-owned commercial enterprises in China. Mr. LI has proven ability and experience in various areas in the legal profession. Mr. LI graduated from Zhongnan University of Economic and Law and is a member of All-China Lawyers Association and Beijing Bar Association.

GENERAL

(i) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shop Nos. 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(ii) The compliance officer of the Company is Mr. NG Man Fai, Matthew, an executive Director, who holds a bachelor's degree in business administration from the University of East Asia in Macau and a master's degree in accountancy from Charles Sturt University in Australia. Mr. NG is also a certified public accountant, a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants, the Taxation Institute of Hong Kong, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administration in the United Kingdom.

(iii) The company secretary of the Company is Ms. NG Lai Ping, Grace, who is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

(iv) The qualified accountant of the Company is Mr. TAN Yung Kai, Richard, who holds a bachelor's degree in commerce from McGill University, Canada and a master's degree in corporate finance from the Hong Kong Polytechnic University. Mr. TAN is also an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants.

(v) Save as disclosed in this circular:

(a) none of the Directors has any direct or indirect interest in any assets which were, since 31 March 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up) to the Latest Practicable Date, acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and

(b) none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

(vi) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text thereof in case of inconsistency.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Unit 3206, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekdays other than public holidays up to and including 21 March 2006:

(i) the memorandum of association and the bye-laws of the Company;

(ii) the accountants' report on the Corich Group, the text of which is set out in Appendix II to this circular;

(iii) the comfort letter from HLB on the unaudited pro forma statements of assets and liabilities of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(iv) the written consents as referred to in the paragraphs headed "Experts and consents" in this appendix;

(v) the material contracts as referred to in the paragraphs headed "Material contracts" in this appendix;

(vi) the annual reports of the Company for the two years ended 31 March 2004 and 2005;

(vii) the interim reports of the Company for the six months ended 30 September 2004 and 2005; and

(viii) a copy of each circular issued pursuant to the requirements set out in Chapters 19 and/or 20 since 31 March 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

China LotSynergy

China LotSynergy Holdings Limited

華彩控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 8161)

Notice is hereby given that a special general meeting of China LotSynergy Holdings Limited (the "Company") will be held at Concord Rooms 2 & 3, 8/F., Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong at 10:30 a.m. on Tuesday, 21 March 2006 for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**

(A) the subscription agreement entered into amongst the Company, China LotSynergy Group Limited, Toward Plan Investments Limited and Win Key Development Limited and Corich International Limited on 9 January 2006 (the "**Subscription Agreement**") (a copy of which has been produced to this meeting marked "A" and, for the purpose of identification, signed by the Chairman of this meeting), pursuant to which, inter alia, China LotSynergy Group Limited has conditionally agreed to subscribe for and Corich International Limited has conditionally agree to issue and allot 1,000,000 ordinary shares of US$1.00 each in the capital of Corich International Limited for a total consideration of HK$980 million which will be settled partly by China LotSynergy Group Limited in cash and partly by the Company by issuing 200,000,000 shares of HK$0.01 each in the capital of the Company (the "**Consideration Shares**"), and the other transactions contemplated therein be and are hereby approved, ratified and confirmed;

(B) subject to the Company obtaining the approval from The Stock Exchange of Hong Kong Limited for the listing of and permission to deal in the Consideration Shares, the Directors of the Company be and are hereby authorised to issue and allot the Consideration Shares pursuant to the terms and subject to the conditions of the Subscription Agreement; and

(C) the Directors of the Company be and are hereby authorised to take such other actions and execute such further documents or deeds as they may consider necessary or desirable for the purpose of implementing and giving effect to the transactions contemplated under the Subscription Agreement."

2 “**THAT** the authorised share capital of the Company be hereby increased from HK$20,000,000 to HK$40,000,000 by the creation of additional 2,000,000,000 shares of HK$0.01 each in the capital of the Company and the Company Secretary of the Company be hereby authorised to take all such actions as she may consider necessary or desirable for the purpose of giving effect to such increase in the authorised share capital of the Company.”

By Order of the Board
NG Lai Ping, Grace
Company Secretary

Hong Kong, 1 March 2006

Notes:

1. A member entitled to attend and vote at the special general meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a member of the Company. In the event that a member appoints more than one proxy, on a show of hands, all such proxies shall collectively have one vote unless otherwise provided for in the bye-laws of the Company.

2. A form of proxy for use at the special general meeting is enclosed. To be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed or notarially certified copy thereof must be deposited at the principal place of business of the Company at Unit 3206, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong as soon as possible and, in any event, not less than 48 hours before the time appointed for the holding of the meeting. Completion and deposit of the form of proxy will not preclude a member from attending and voting in person.

3. If two or more persons are joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the share.