



China
LotSynergy Interim Report 2005/06

China LotSynergy Holdings Limited

華彩控股有限公司

(Incorporated in Bermuda with limited liability)



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

INTERIM FINANCIAL STATEMENTS

The Directors of China LotSynergy Holdings Limited (formerly WorldMetal Holdings Limited) (the "Company") hereby present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 September 2005, together with the comparative unaudited figures for the corresponding periods in 2004, as follows:

Condensed Consolidated Income Statement

| | Notes | Unaudited | | | |
|---|-------|--|------------------|--|------------------|
| | | Three months ended 30 September 2005 | | Six months ended 30 September 2005 | |
| | | 2005 HK\$'000 | 2004 HK\$'000 | 2005 HK\$'000 | 2004 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

| | | Unaudited 30 September 2005 HK\$'000 | Audited 31 March 2005 HK\$'000 |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| 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 |

| | | 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) |
| | | <hr/> | <hr/> |
| Total equity attributable to equity holders of the Company | | 297,556 | 28,665 |
| Minority interest | | 16,521 | 16,357 |
| | | <hr/> | <hr/> |
| | | 314,077 | 45,022 |
| | | <hr/> <hr/> | <hr/> <hr/> |

Condensed Consolidated Statement of Changes in Equity

Unaudited six months ended 30 September 2005
Attributable to equity holders of the Company

| | Share capital HK\$'000 | Share premium HK\$'000 | Capital reserve HK\$'000 | Cumulative translation reserve HK\$'000 | Share-based compensation reserve HK\$'000 | Accumulated losses HK\$'000 | Minority interest HK\$'000 | Total 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 <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Capital reserve <i>HK\$'000</i> | Cumulative translation reserve <i>HK\$'000</i> | Share-based compensation reserve <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Minority interest <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|-------------------------------------|---------------------------------------|---|---|--|---|--------------------------|
| 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 | – |
| | <hr/> | <hr/> |
| 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 |
| | <hr/> | <hr/> |
| Cash and cash equivalents, end of period | 286,856 | 22,534 |
| | <hr/> | <hr/> |
| 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 |
| | <hr/> | <hr/> |
| | 286,856 | 22,534 |
| | <hr/> | <hr/> |

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 | | | Total HK\$'000 |
|---|---|---------------------------|--|-------------------|
| | Metal exchange portals HK\$'000 | Metal trading HK\$'000 | Application software development services 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 | | | | <u>(18,936)</u> |

| | Unaudited Six months ended 30 September 2004 | | | Total HK\$'000 |
|---|---|---------------------------|--|-------------------|
| | Metal exchange portals HK\$'000 | Metal trading HK\$'000 | Application software development services 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 | | | | <u>(2,412)</u> |

(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 | – |
| | <u>6,087</u> | <u>49,024</u> |
| Operating results | | |
| – Korea | (47) | (171) |
| – Hong Kong | (19,740) | (2,234) |
| – Mainland China | (191) | (302) |
| | <u>(19,978)</u> | <u>(2,707)</u> |

4. Staff costs

| | Unaudited Three months ended 30 September | | Unaudited Six months ended 30 September | |
|--|---|-------------------|---|---------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 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 | – |
| | <u>11,717</u> | <u>801</u> | <u>12,376</u> | <u>1,609</u> |

5. Operating loss

| | Unaudited Three months ended 30 September | | Unaudited Six months ended 30 September | |
|--|---|------------------|---|-------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 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 |
| | <u>52</u> | <u>55</u> | <u>109</u> | <u>320</u> |

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 | <u>32,309</u> | <u>32,995</u> |
| | 34,082 | 33,634 |
| Less: Provision for bad and doubtful debts | | |
| – on amounts due from related companies | (8,929) | (8,929) |
| – on others | <u>(6,006)</u> | <u>(6,006)</u> |
| | (14,935) | (14,935) |
| | <u>19,147</u> | <u>18,699</u> |

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 '000 | Nominal value HK\$'000 |
| Authorised – ordinary shares of \$0.01 each: | | |
| At 1 April 2005 and 30 September 2005 | <u>2,000,000</u> | <u>20,000</u> |
| Issued and fully paid – ordinary shares of \$0.01 each: | | |
| At 1 April 2005 | 1,000,000 | 10,000 |
| Issue of shares through placing | <u>430,000</u> | <u>4,300</u> |
| At 30 September 2005 | <u>1,430,000</u> | <u>14,300</u> |

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:

| Date of grant | Exercise price | Exercisable period | Number of ordinary shares under the options | | | | At 30/9/2005 |
|---------------|----------------|-------------------------|---|------------|-----------|--------|--------------|
| | | | At 1/4/2005 | Granted | Exercised | Lapsed | |
| 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:

- Risk-free rate – the yield of 3-year Exchange Fund Notes
- Expected volatility of share price – annualized volatility for 3 months immediately preceding the date of grant
- 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 | <u>2,880</u> | – |
| | <u>2,880</u> | <u>–</u> |

(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).

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2005 (2004 – Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

The Group is transforming its business to engage in the investment and project development, as well as the provision of technologies and equipments and consultancy services, in the gaming industry and related sectors in the PRC.

Review

During the period under review, the Group achieved substantial progress in introducing advanced and developed lottery technologies and products into China, with the cooperation of the Tabcorp Group, an internationally renowned gaming and entertainment group in Australia, and 北京中彩在線科技有限責任公司 (Beijing Lottery Online Technology Co., Ltd.) ("Beijing Lottery"), a company under 中國福利彩票發行管理中心 (China Welfare Lottery Issue and Administration Centre) ("CWLC").

On 8 June 2005, China LotSynergy Limited, a wholly-owned subsidiary of the Group, and Tabcorp International No.1 Pty Limited ("TI"), a wholly-owned subsidiary of the Tabcorp Group, entered into a Joint Venture Shareholders' Agreement for the formation of a joint venture named Tabcorp International Hong Kong Limited ("TIHK").

On 23 July 2005, TIHK, Beijing Lottery and TI entered into a Technical Cooperation Agreement ("TCA"), pursuant to which TIHK would assist Beijing Lottery to build and develop a nationwide unified platform for lottery operation in the PRC and provide various nationwide lottery products for such platform system, in consideration for a service fee in a fixed proportion of the sales revenue generated from the lottery products operating on the platform. The first lottery product introduced under the TCA is the KENO game, the contract term of the KENO game is for 10 years.

The Tabcorp Group is the largest gaming and entertainment group in Australia. It manages a number of leading customer brands in Australia, including Star City and Jupiters casinos and TAB, Tabaret, KENO and TAB Sportsbet. The Tabcorp Group's wagering division operates totalisator and fixed odds betting in 566 retail outlets and 2,095 retail outlets respectively in the States of Victoria and New South Wales in Australia. Services are also rendered through channels including on-course, Internet and phone. The Tabcorp Group launched KENO of its own version in Australia in 1991, which gradually developed into the world's largest online KENO game with terminals in 2,019 casinos and clubhouses located in three states of Australia. KENO is a popular instant lottery game that runs in 3 to 10-minute intervals.

Beijing Lottery is a state-owned advanced technology holding company engaged in the development, establishment, operation and maintenance of lottery sales system and is exclusively licensed by CWLC as a specialised entity to operate and run 中福在線 (the China Welfare Lottery Online) instant lottery technical and sales system in the PRC.

Outlook

The Group has perfect confidence in the huge potential of China's lottery market and the profitability prospects of the relevant businesses of the Group.

In China, the lottery business is lawful and is of a public welfare nature, enjoying rapid development and an expanding market ever since lottery was first issued in 1987. According to statistics, the total domestic lottery sales in 2004 was approximately RMB38 billion (US\$4.6 billion), representing only 0.28% of the GDP. A comparison with the figures in other countries with a more developed lottery industry, such as the United States (approximately US\$50 billion in lottery sales, representing 0.43% of the GDP), Italy (approximately US\$14 billion in lottery sales, representing 0.84% of the GDP), and France (approximately US\$8.5 billion in lottery sales, representing 0.42% of the GDP) reveals that there is still much room for China's lottery industry to develop.

The Group would introduce advanced and developed international lottery technology and equipment and provide consultancy services and implementation solutions, as well as training, technical and marketing support in relation to specific projects, to the lottery issue and administration department in China.

The Group is dedicated to promoting the healthy growth of China's lottery industry by investing in and serving the lottery-welfare business in China in a pragmatic, yet innovative approach with constant pursuit for excellence. The Group will capitalize on all available opportunities to enhance its future development. In anticipation of the establishment of the unified lottery operation platform and the launch of KENO, as well as other gaming products in future, under the TCA, the Group believes that the business will deliver satisfactory investment return to the shareholders.

Financial Review

The Group recorded an unaudited consolidated turnover of approximately HK\$6,087,000 (2004 – HK\$49,024,000) for the six months ended 30 September 2005. The unaudited consolidated loss attributable to equity holders of the Company for the six months ended 30 September 2005 amounted to approximately HK\$18,936,000 (2004 – HK\$2,412,000).

Liquidity, Financial Resources and Gearing Ratio

The Group's total equity increased to approximately HK\$314,077,000 at 30 September 2005 from HK\$45,022,000 at 31 March 2005. The net current assets of the Group were approximately HK\$311,068,000 (31 March 2005 – HK\$42,142,000) as at 30 September 2005, including cash and deposits with banks and financial institution of approximately HK\$286,856,000 (31 March 2005 – HK\$22,217,000). At 30 September 2005, the Group had no banking facilities nor bank borrowings (31 March 2005 – Nil and Nil).

The gearing ratio (defined as total liabilities over total assets) of the Group on 30 September 2005 was approximately 1.3% (31 March 2005 – 4.6%).

Material Acquisitions and Disposals of Investments and Future Plans for Material Investment

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

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

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

Capital Structure

The Directors believe that the Group has sufficient working capital which will be generated from operations and funded by the net proceeds from the placing of shares completed in 2001 and 2005.

Exposure to Exchange Rates Fluctuation

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

Pledge of Asset

As at 30 September 2005, the Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (31 March 2005: Nil).

Contingent Liabilities

As at 30 September 2005, the Group did not have any material contingent liabilities (31 March 2005 – Nil).

Staff

As at 30 September 2005, the Group employed 36 staff members. The management is strongly convinced that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund and medical insurance. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programmes for staff are provided as and when required.

APPOINTMENT OF DEPUTY CHAIRMAN, EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

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

CHANGE OF COMPANY NAME

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

CHANGE OF HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

SHARE OPTION SCHEME

At the 2002 Annual General Meeting of the Company held on 30 July 2002, a new share option scheme (the “Option Scheme”) was adopted by the shareholders to comply with the new requirements of Chapter 23 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “GEM Listing Rules”). As at 30 September 2005, there were options for 31,100,000 ordinary shares of HK\$0.01 each in the share capital of the Company (the “Share(s)”) granted by the Company pursuant to the Option Scheme which are valid and outstanding.

Movement of share options granted under the Option Scheme during the six months ended 30 September 2005:

| | No. of Shares under the options | | | Date of grant | Exercise price per share HK\$ | Exercise period | |
|--|---------------------------------|---|--------------------------------|---------------|-------------------------------|-----------------|------------|
| | held as at 01/04/2005 | granted during the period (Notes 1 & 3) | held as at 30/09/2005 (Note 2) | | | from | until |
| (i) Name of Substantial Shareholder | | | | | | | |
| CHAN Shing | – | 500,000 | 500,000 | 01/09/2005 | 1.96 | 31/10/2005 | 30/10/2007 |
| | – | 500,000 | 500,000 | 01/09/2005 | 1.96 | 31/10/2006 | 30/10/2007 |
| (ii) Name of Director | | | | | | | |
| LAU Ting | – | 500,000 | 500,000 | 01/09/2005 | 1.96 | 31/10/2005 | 30/10/2007 |
| | – | 500,000 | 500,000 | 01/09/2005 | 1.96 | 31/10/2006 | 30/10/2007 |
| SUN Ho | – | 6,900,000 | 6,900,000 | 01/09/2005 | 1.96 | 31/10/2005 | 30/10/2007 |
| | – | 6,900,000 | 6,900,000 | 01/09/2005 | 1.96 | 31/10/2006 | 30/10/2007 |
| CHEN Aizheng | – | 4,500,000 | 4,500,000 | 01/09/2005 | 1.96 | 31/10/2005 | 30/10/2007 |
| | – | 4,500,000 | 4,500,000 | 01/09/2005 | 1.96 | 31/10/2006 | 30/10/2007 |
| HUANG Shenglan | – | 500,000 | 500,000 | 01/09/2005 | 1.96 | 31/10/2005 | 30/10/2007 |
| | – | 500,000 | 500,000 | 01/09/2005 | 1.96 | 31/10/2006 | 30/10/2007 |
| KING Roger | – | 250,000 | 250,000 | 01/09/2005 | 1.96 | 31/10/2005 | 30/10/2007 |
| | – | 250,000 | 250,000 | 01/09/2005 | 1.96 | 31/10/2006 | 30/10/2007 |
| LI Xiaojun | – | 250,000 | 250,000 | 01/09/2005 | 1.96 | 31/10/2005 | 30/10/2007 |
| | – | 250,000 | 250,000 | 01/09/2005 | 1.96 | 31/10/2006 | 30/10/2007 |
| (iii) Continuous contract employees | – | 600,000 | 600,000 | 01/09/2005 | 1.96 | 31/10/2005 | 30/10/2007 |
| | – | 600,000 | 600,000 | 01/09/2005 | 1.96 | 31/10/2006 | 30/10/2007 |
| (iv) Other participants | – | 1,550,000 | 1,550,000 | 01/09/2005 | 1.96 | 31/10/2005 | 30/10/2007 |
| | – | 1,550,000 | 1,550,000 | 01/09/2005 | 1.96 | 31/10/2006 | 30/10/2007 |
| Total: | – | <u>31,100,000</u> | <u>31,100,000</u> | | | | |

Notes:

- The closing market price per Share immediately before the date on which the share options were granted was HK\$1.96.
- No options had been exercised, lapsed nor cancelled under the Option Scheme during the six months ended 30 September 2005.
- The options are recognised as expenses in the accounts in accordance with Hong Kong Financial Reporting Standard 2. Other details of share options granted by the Company are set out in note 11 to the interim financial statements.

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

As at 30 September 2005, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO") in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(1) Interests in Shares

(A) The Company

| Name of Director | Number of Shares | | | Total | Approximate percentage interest in the Company's issued share capital |
|---------------------|--------------------|------------------------|-------------------------|-------------------------|---|
| | Personal interests | Family interests | Corporate interests | | |
| LAU Ting | 50,288,803 | 72,951,773 (Note 1) | 405,746,308 (Note 2) | 528,986,884 (Note 3) | 36.99% |
| SUN Ho | 4,040,000 | 30,000 | - | 4,070,000 | 0.28% |
| CHEN Aizheng | 2,310,000 | 330,000 | - | 2,640,000 | 0.18% |
| NG Man Fai, Matthew | 660,000 | - | - | 660,000 | 0.05% |

Notes:

- These Shares were owned by Mr. CHAN Shing, the spouse of Ms. LAU Ting.
- 11,320,192 Shares were held by Hang Sing Overseas Limited ("Hang Sing") which is owned as to 51% by Orient Strength Limited ("Orient Strength"), a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 10,595,042 Shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 383,831,074 Shares were held by Burwill Holdings Limited ("Burwill"), which is owned as to, as at 30 September 2005, 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.
- 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 Holdings Limited

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

Notes:

1. These shares were owned by Mr. CHAN Shing, the spouse of Ms. LAU Ting.
2. 226,403,853 shares were held by Hang Sing which is owned as to 51% by Orient Strength, a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 211,900,848 shares were held by Strong Purpose, a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing.
3. As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same shares.

(2) Interests in underlying Shares

As at 30 September 2005, the interests of the Directors and chief executive of the Company in options for Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 of the GEM Listing Rules were as disclosed in the previous section headed "Share Option Scheme" of this report.

Save as otherwise disclosed above, as at 30 September 2005, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules.

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

As at 30 September 2005, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the Shares and underlying Shares of the Company:

(1) Interests in Shares

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

Notes:

- These Shares were owned by Ms. LAU Ting, the spouse of Mr. CHAN Shing and a Director of the Company.
- 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.
- 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.
- These Shares formed part of the interests of Mr. CHAN Shing and Ms. LAU Ting.
- 47,800,860 Shares were held by Good Talent Trading Limited which is owned as to 35% by Mr. YU Man Yiu, Park and 70,000,000 Shares were held by Centrix Investments Limited, a company which is wholly-owned by Mr. YU Man Yiu, Park.

(2) Interests in underlying Shares

As at 30 September 2005, the interests of the substantial shareholders (other than the Directors and chief executive of the Company) in options for Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as disclosed in the previous section headed "Share Option Scheme" of this report.

Save as disclosed above, as at 30 September 2005, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2005.

PLACING OF EXISTING SHARES AND SUBSCRIPTION FOR NEW SHARES

Pursuant to the subscription agreements dated 9 August 2005, the Company issued and allotted a total of 230,000,000 new Shares (the "Subscription Share(s)") of the Company at a subscription price of HK\$1.29 per Subscription Share to the subscribers on 19 August 2005 (the "Subscription") following the completion of the placing agreements for the placing of 400,000,000 existing Shares (the "Placing"). The Company raised a sum of approximately HK\$271 million through the Placing and the Subscription and the fund is intended to be used: (i) as to approximately HK\$59 million to pay up the capital commitment of Tabcorp International Hong Kong Limited, the joint venture which is owned as to approximately 33% by the Group and approximately 67% by Tabcorp Group for developing the first nationwide unified platform for lottery operation that is suitable for use throughout the PRC; and the remaining balance will be used (ii) for investing in other relevant business opportunities that may arise in the future; and (iii) for the Company's general working capital.

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

COMPETING INTERESTS

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

AUDIT COMMITTEE

The Company has established an Audit Committee which comprises the three Independent Non-Executive Directors of the Company, Mr. HUANG Shenglan, Mr. KING Roger and Mr. LI Xiaojun. The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The unaudited interim financial statements of the Group for the six months ended 30 September 2005 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 September 2005, except for the following deviations:

- Code provision A4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election, and code provision A4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

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

- Code provision B1.1 stipulates the establishment of a remuneration committee with specific written terms of reference which deal clearly with its authority and duties and a majority of the remuneration committee should be independent non-executive directors. The Company has not set up a remuneration committee during the period under review. Nevertheless, the staff (including Directors) remuneration policies have been set out in annual reports, which were received by shareholders in the general meetings and stipulated in the Directors' service contracts.

The Directors will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board consider appropriate.

REQUIRED STANDARD OF DEALING REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

On behalf of the Board

LAU Ting
Chairman

Hong Kong, 8 November 2005

As at the date of this report, the Board of Directors of the Company comprises Ms. Lau Ting, Mr. Sun Ho, Mr. Chen Aizheng and Mr. Ng Man Fai, Matthew as executive directors and Mr. King Roger, Mr. Huang Shenglan and Mr. Li Xiaojun as independent non-executive directors.