THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, 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 Netcom Technology Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or the 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 the transferee.

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 Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

This circular appears for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

中彩網通控股有限公司
China Netcom Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8071)

CONNECTED AND MAJOR TRANSACTION

Financial Adviser

大有融資有限公司
MESSIS CAPITAL LIMITED

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

South West Capital Limited
西南融資有限公司

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Board is set out on pages 5 to 20 of this circular. A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on page 21 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 36 of this circular.

A notice convening the EGM to be held at Unit 1006, 10th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong on 16 November 2011 at 11:00 a.m. is set out on pages 163 to 164 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same as soon as possible and in any event not later than 48 hours before the time of the EGM or any adjournment thereof to the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof 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 publication and on the Company's website at www.chinanetcomtech.com.

28 October 2011

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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.

CONTENT

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

"Acquisition"	the acquisition of the CIL Share and WMIL Shares pursuant to the terms and conditions of the Acquisition Agreement
"Acquisition Agreement"	the Original Agreement supplemented by the Supplemental Agreement
"associates"	has the meaning ascribed thereto under the GEM Listing Rules
"Board"	the board of Directors
"business day"	any day (other than a Saturday or Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
"BVI"	the British Virgin Islands
"CIL"	Carnix Investment Limited (嘉悦投資有限公司), a limited liability company incorporated in Hong Kong and a wholly owned subsidiary of CPHL
"CIL Share"	one ordinary share having a nominal value of HK$1 in the issued share capital of CIL, representing the entire issued share capital of CIL
"Company"	China Netcom Technology Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
"Completion Date"	the date of Completion, being the date falling three business days after all the conditions of the Acquisition Agreement have been fulfilled or waived or such later date as may be agreed between CPHL, MIL and the Purchaser
"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Consideration"	the consideration for the Acquisition, being RMB73,500,000 (equivalent to approximately HK$86,982,000)
"Consideration Shares"	255,866,149 new Shares to be allotted and issued by the Company at the Issue Price as partial Consideration

"CPHL"	Century Profit Holdings Limited (世盈控股有限公司), a company incorporated in the BVI, the entire interest of which is beneficially owned by the Warrantors
"CPHL Group"	CPHL and its subsidiaries
"Delay Announcement"	the announcement of the Company dated 31 May 2011 in relation to the delay in despatch of this circular
"Deposit"	the deposit of RMB7,350,000 (equivalent to approximately HK$8,698,000) paid by the Purchaser to CPHL within five days after the signing of the Original Agreement, as partial Consideration
"Directors"	directors of the Company
"EGM"	the extraordinary general meeting of the Company to be held at Unit 1006, 10th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong on 16 November 2011 at 11:00 a.m. to consider and, if thought fit, to approve the Acquisition Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Acquisition
"Escrow Agreement"	the escrow agreement to be entered into between the Purchaser, CPHL and an escrow agent in relation to the lock-up and keeping of safe custody by the escrow agent of the Consideration Shares pursuant to the terms of the Acquisition Agreement
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huancai Puda"	深圳環彩普達科技有限公司 (Shenzhen Huancai Puda Technology Company Limited, being its unofficial English name), an indirect non-wholly owned subsidiary of the Company and an equity joint venture established under the PRC laws on 9 November 2006, and as at the Latest Practicable Date, owned as to 51% by the Purchaser, 30.87% by CIL and 18.13% by SSIL
"Huancai Puda Group"	Huancai Puda and its subsidiaries

"Independent Board Committee"	the independent board committee of the Company, comprising all the independent non-executive Directors
"Independent Financial Adviser"	South West Capital Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders as to the Acquisition Agreement and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than the Vendors and the Warrantors and their associates
"Independent Third Party"	a person who is not a connected person of the Company and is independent of and not connected with the Company and its connected persons
"Internal Corporate Reorganisation"	the internal corporate reorganisation among the CPHL Group, as stated in the Delay Announcement and the announcement of the Company dated 23 August 2011
"Issue Price"	the issue price of HK$0.29 per Consideration Share as agreed between the Vendors and the Purchaser
"Last Trading Day"	2 March 2011, being the last trading day for the Shares before the date of the Original Agreement
"Latest Practicable Date"	24 October 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
"MIL"	Mutual International Limited (普達國際有限公司), a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of CPHL
"MIL Shares"	17,144,400 ordinary shares having a nominal value of HK$1 each in the issued share capital of MIL, representing the entire issued share capital of MIL
"Original Agreement"	the conditional agreement dated 2 March 2011 and entered into between the Purchaser, CPHL as vendor and the Warrantors in respect of the acquisition of the CIL Share and MIL Shares
"parties acting in concert"	has the meaning ascribed thereto under the Takeovers Code
"PRC"	the People's Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

"Purchaser"	Greatest Profit Investment Limited (信陞投資有限公司), a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) of HK$0.001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"SSIL"	Shine Smart Investment Limited (朗俊投資有限公司), a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of WMIL
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	the supplemental agreement dated 23 August 2011 and entered into between the Purchaser, the Vendors and the Warrantors in relation to the Original Agreement
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"US$"	United States dollars, the lawful currency of the United States of America
"Vendors"	CPHL and MIL
"Warrantors"	Mr. Lin Zhiwei and the other two beneficial shareholders of CPHL, who are Independent Third Parties
"WMIL"	Wise Mark Investments Ltd. (偉明投資有限公司), a company incorporated in the BVI and a wholly-owned subsidiary of MIL
"WMIL Group"	WMIL and its subsidiary
"WMIL Shares"	two ordinary shares having a nominal value of US$1 each in the issued share capital of WMIL, representing the entire issued share capital of WMIL
"%"	per cent.

For the purpose of this circular, unless otherwise specified, conversions of RMB into Hong Kong dollars are based on the approximate exchange rate of RMB0.845 to HK$1 and conversions of US$ into Hong Kong dollars are based on the approximate exchange rate of US$0.128 to HK$1.

中 彩 網 通 控 股 有 限 公 司
China Netcom Technology Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8071)

Executive Directors:
Mr. Leung Ngai Man *(Chairman)*
Mr. Ng Kwok Chu, Winfield
Ms. Wu Wei Hua

Independent non-executive Directors:
Dr. Leung Wai Cheung
Mr. Cai Wei Lun

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
Unit 1006, 10th Floor
Tower One, Lippo Centre
89 Queensway
Hong Kong

28 October 2011

To the Shareholders, and for information only,
the holders of options and convertible bonds of the Company

Dear Sir/Madam,

CONNECTED AND MAJOR TRANSACTION

INTRODUCTION

On 2 March 2011, the Purchaser (being a wholly-owned subsidiary of the Company), CPHL and the Warrantors entered into the Original Agreement pursuant to which the Purchaser has conditionally agreed to acquire and CPHL has conditionally agreed to dispose of the CIL Share and MIL Shares, at the Consideration of RMB73,500,000 (equivalent to approximately HK$86,982,000).

Pursuant to the terms of the Original Agreement, the Consideration shall be satisfied as to RMB10,800,000 (equivalent to approximately HK$12,781,000) in cash and as to RMB62,700,000 (equivalent to approximately HK$74,201,000) to be satisfied by the Purchaser procuring the Company to allot and issue the Consideration Shares, credited as fully paid at the Issue Price, on Completion to CPHL.

As stated in the Delay Announcement, the Company was given to understand that the Internal Corporate Reorganisation was contemplated among the CPHL Group, and supplemental agreement(s) was/were expected to be entered into between the Purchaser, CPHL, the Warrantors and other relevant party(ies). Prior to the Internal Corporate Reorganisation, 30.87%, 18.13% and 51% of the equity interests of Huancai Puda was held by each of CIL, MIL and the Purchaser respectively. Immediately after the Internal Corporate Reorganisation and as at the Latest Practicable Date, Huancai Puda was held by each of CIL, SSIL and the Purchaser as to 30.87%, 18.13% and 51% respectively. As at the Latest Practicable Date, SSIL was wholly-owned by WMIL, a company incorporated in the BVI and a wholly-owned subsidiary of MIL.

On 23 August 2011, the Supplemental Agreement was entered into between the Purchaser, the Vendors and the Warrantors. Pursuant to the Supplemental Agreement, the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to dispose of the CIL Share and WMIL Shares, at the Consideration of RMB73,500,000 (equivalent to approximately HK$86,982,000). The sole asset of CIL and WMIL is their respective 30.87% and 18.13% (held through SSIL) equity interests (collectively 49%) of Huancai Puda. Upon completion of the Acquisition Agreement, Huancai Puda would become an indirect wholly-owned subsidiary of the Company.

Pursuant to the Supplemental Agreement, the Consideration shall be paid to CPHL and the Consideration Shares, being part of the Consideration shall be issued, allotted and delivered to CPHL.

CIL is wholly owned by CPHL and SSIL is indirectly wholly owned by MIL which, in turn, is a wholly-owned subsidiary of CPHL. CIL and SSIL hold 30.87% and 18.13% equity interests (collectively 49%) of Huancai Puda respectively. The remaining 51% equity interest of Huancai Puda is owned by the Purchaser. Each of CIL and SSIL is a substantial shareholder of Huancai Puda. As such, each of CPHL and MIL is an associate of CIL and SSIL respectively and a connected person of the Company. The Acquisition constitutes a connected and major transaction on the part of the Company under Chapter 20 and Chapter 19 of the GEM Listing Rules. Accordingly, the Acquisition Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM. In accordance with the GEM Listing Rules, the Vendors and the Warrantors and their associates will abstain from voting on the resolution to approve the Acquisition and the transactions contemplated thereunder and any vote exercised by the Independent Shareholders at the EGM shall be taken by poll.

The purpose of this Circular is to provide you with, among other matters, (i) further details of the Acquisition; (ii) the financial information of the Group; (iii) the respective financial information of CIL, WMIL Group and Huancai Puda Group; (iv) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Acquisition and the transactions contemplated thereunder; (v) the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and the transactions contemplated thereunder; and (vi) a notice convening the EGM.

THE ACQUISITION AGREEMENT

Date: 2 March 2011 (after trading hours) supplemented by the Supplemental Agreement on 23 August 2011

Parties:

Purchaser: Greatest Profit Investment Limited (信陞投資有限公司), an indirect wholly-owned subsidiary of the Company and an investment holding company.

Vendors: Century Profit Holdings Limited (世盈控股有限公司), a company incorporated in the BVI, the entire equity interests of which are beneficially owned by the Warrantors and an investment holding company; and

Mutual International Limited (普達國際有限公司), a wholly-owned subsidiary of CPHL and an investment holding company.

Warrantors: Mr. Lin Zhiwei and the other two beneficial shareholders of CPHL, who are Independent Third Parties. Mr. Lin Zhiwei is a director of Huancai Puda and therefore a connected person of the Company.

CIL is wholly owned by CPHL and SSIL is indirectly wholly owned by MIL. CIL and SSIL hold 30.87% and 18.13% equity interests (collectively 49%) of Huancai Puda respectively. The remaining 51% equity interest of Huancai Puda is owned by the Purchaser. Each of CIL and SSIL is a substantial shareholder of Huancai Puda. As such, each of CPHL and MIL is an associate of CIL and SSIL respectively and a connected person of the Company.

Assets to be acquired

Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to dispose of the CIL Share and WMIL Shares (being the entire issued share capital of CIL and WMIL).

Consideration

Pursuant to the terms of the Acquisition Agreement, the Consideration of RMB73,500,000 (equivalent to approximately HK$86,982,000) shall be settled in the following manner:

(i) an amount of RMB7,350,000 (equivalent to approximately HK$8,698,000) as the Deposit and (if the Acquisition is completed) part of the Consideration was paid by the Purchaser to CPHL within five days after the signing of the Original Agreement. Payment was made by bank draft;

(ii) an amount of RMB3,450,000 (equivalent to approximately HK$4,083,000) as part of the Consideration to be paid by the Purchaser to CPHL within 10 business days after Completion. Payment shall be made by bank draft or such other means as agreed by the Vendors and the Purchaser; and

(iii) RMB62,700,000 (equivalent to approximately HK$74,201,000) shall be satisfied by the Purchaser procuring the Company to allot and issue the Consideration Shares, credited as fully paid at the Issue Price, within 10 business days after Completion to CPHL.

The Consideration Shares will represent approximately 2.74% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. The Directors consider that the terms of the Acquisition are fair and reasonable and in the interest of the Shareholders as a whole.

The Consideration was determined by the Vendors and the Purchaser on the basis of normal commercial terms and arm's length negotiations by reference to the further business and growth potential of Huancai Puda.

Delivery of the Consideration Shares

Delivery of the Consideration Shares by the Purchaser to CPHL is subject to the following terms:

(i) within 10 business days after Completion, the Purchaser shall deliver to CPHL 85,288,717 new Shares, representing part of the Consideration in the amount of RMB20,900,000 (equivalent to approximately HK$24,734,000). Furthermore, the Purchaser, CPHL and an escrow agent shall enter into the Escrow Agreement in relation to the custody of the remaining part of the Consideration Shares, being 170,577,432 Shares, not yet delivered by the Purchaser to CPHL;

(ii) 365 days after Completion, the Purchaser shall within five business days direct the escrow agent to deliver 85,288,716 Shares, representing part of the Consideration in the amount of RMB20,900,000 (equivalent to approximately HK$24,734,000), to CPHL. As approved by the board of directors of the Purchaser, release of such Consideration Shares can be prior to 365 days after Completion. Any adjustment in this respect shall be made by the escrow agent upon receipt of written notice jointly signed by the Purchaser and CPHL; and

(iii) 730 days after Completion, the Purchaser shall within five business days direct the escrow agent to deliver 85,288,716 Shares, representing the balance part of the Consideration in the amount of RMB20,900,000 (equivalent to approximately HK$24,734,000) and being the remaining number of the Consideration Shares kept in the safe custody of the escrow agent, to CPHL.

Conditions precedent

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

(1) all necessary consents and approvals having been obtained on the part of CIL, WMIL, Huancai Puda, the Vendors, the Purchaser and the Warrantors in respect of the Acquisition Agreement and the transactions contemplated thereby;

(2) the warranties of the Vendors and the Warrantors contained in the Acquisition Agreement remaining true and accurate in all respects, and the Vendors and the Warrantors having complied with all of its obligations under the Acquisition Agreement;

(3) the GEM Listing Committee of the Stock Exchange granting listing of, and permission to deal, in the Consideration Shares;

(4) the passing of the resolution(s) by the Independent Shareholders at the EGM to approve the Acquisition Agreement and the transactions contemplated thereby, including but not limited to, the allotment and issue of the Consideration Shares to CPHL;

(5) the Stock Exchange or the Securities and Futures Commission in Hong Kong (if applicable) not deeming the transactions contemplated under the Acquisition Agreement as a "reverse takeover" under the GEM Listing Rules or not triggering the obligation to make a mandatory general offer pursuant to the Takeovers Code;

(6) the delivery to the Purchaser of a PRC legal opinion (in the form and substance satisfactory to the Purchaser) from a PRC legal adviser appointed by the Purchaser in relation to the Acquisition Agreement and the transactions contemplated thereby and Huancai Puda;

(7) the Purchaser being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of CIL, WMIL and Huancai Puda; and

(8) the obtaining of a production for sales terminal network entry permit (in the form and substance satisfactory to the Purchaser) to be issued in the name of Huancai Puda by the relevant PRC lottery regulatory authority.

The Purchaser has the right to waive all of the above conditions in part or in full, except for conditions numbered (1), (3), (4) and (5). In the event that the above conditions are not fulfilled (or as the case may be, waived by the Purchaser) on or before 360 days after the date of the Original Agreement or such later date as the Vendors and the Purchaser may agree in writing, the Acquisition Agreement shall cease and determine and neither party shall have any obligations towards each other.

The Directors confirm that as at the Latest Practicable Date, none of the above conditions have been fulfilled and the Purchaser has no intention to waive any of the above conditions which are capable of being waived.

Completion

Completion shall take place on the Completion Date.

Upon Completion, CIL and WMIL will become wholly-owned subsidiaries of the Company and the financial results of the CIL and WMIL will be consolidated into the consolidated financial statements of the Company. Further, Huancai Puda will also become an indirect wholly-owned subsidiary of the Company.

THE CONSIDERATION SHARES

The Consideration Shares will be issued at the Issue Price of HK$0.29 per Consideration Share, credited as fully paid. They will be issued to satisfy a portion (being RMB62,700,000 (equivalent to approximately HK$74,201,000)) of the entire Consideration. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made, the record date for which falls on or after the date of such allotment and issue.

The Consideration Shares will be issued pursuant to the specific mandate to be sought at the EGM. As illustrated in the table set out under the paragraph headed "Changes in shareholding structure of the Company" below, 255,866,149 Consideration Shares represent approximately 2.82% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 2.74% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

The Issue Price:

(i) equals to the closing price of HK$0.29 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 3.57% over the average of the closing price of HK$0.28 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 1.36% to the average of the closing price of HK$0.294 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and

(iv) a premium of approximately 326.47% over the average of the closing price of HK$0.068 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Consideration Shares. Dealings in securities of the Company may be settled through CCASS and investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

There is no provision in the Acquisition Agreement which restricts CPHL from disposing of the Consideration Shares.

Since the Acquisition may or may not proceed, investors are advised to exercise caution when dealing in the Shares.

INFORMATION OF CIL AND WMIL

CIL and WMIL are investment holding companies. The sole asset of CIL and WMIL is their respective 30.87% and 18.13% (held through SSIL) equity interests (collectively 49%) of Huancai Puda. The remaining 51% equity interest of Huancai Puda is owned by the Purchaser.

Huancai Puda is principally engaged in the provision and development of value-added operation software system related to lottery business, and has accumulated extensive experience in innovative sales channel development and operation service of lottery sales. Huancai Puda has developed various innovative sales systems and software including lottery sales through mobile phone networks, short-message-services of mobile phones, and interactive voice response system of telephones as well as lottery sales through banks' automatic-teller machines, self-service terminals, digital televisions, internet protocol television, and mobile terminals. The customers of Huancai Puda applied the innovative sales channel software developed by Huancai Puda for the acceptance of the lottery sales from public whereby Huancai Puda will receive service income from its customers in proportion to the amount of acceptance of the lottery sales through the relevant innovative sales channels.

As at the Latest Practicable Date, there was no material progress regarding the application for (i) the value-added telecommunication operation permit (增值電信業務經營許可證) and (ii) the internet information services operation permit (互聯網信息服務經營許可證) (the "**Permits**") by Huancai Puda or the development of the three cooperation agreements (namely, (i) the supplemental agreement entered into with 重慶市福利彩票發行中心 (Chongqing Welfare Lottery Issuing Centre, being its unofficial English name) dated 8 July 2009; (ii) the agreement entered into with 天津市福利彩票發行中心 (Tianjin Welfare Lottery Issuing Centre, being its unofficial English name) dated 7 May 2010; and (iii) the agreement entered into with 河南省福利彩票發行中心 (Henan Welfare Lottery Issuing Centre, being its unofficial English name) dated 28 November 2007) as disclosed in the announcement of the Company dated 10 February 2011. Further announcement regarding the progress of the aforesaid matters will be made by the Company as and when appropriate. The Directors intend to continue the business development of Huancai Puda by implementation of the agreements with relevant co-operators and customers and identification of business opportunities with potential co-operators and customers in the PRC.

As at the Latest Practicable Date, there was no material progress of the letter of intent regarding the telephone welfare lottery sales system with 海南省福利彩票發行中心 (Hainan Province Welfare Lottery Issuing Centre, being its unofficial name) by Huancai Puda as disclosed in the announcement of the Company dated 7 March 2011. Further announcement regarding the progress of the aforesaid matter will be made by the Company as and when appropriate.

The original cost spent by CPHL in obtaining CIL Share was approximately HK$21,800,000 while the cost spent by CIL for the 30.87% interests in Huancai Puda was approximately RMB4,741,300 (equivalent to approximately HK$5,635,000). The cost spent by MIL for the 18.13% interests in Huancai Puda was approximately RMB7,410,000 (equivalent to approximately HK$7,752,290).

According to the audited financial statements of CIL, the net liabilities of CIL was approximately HK$318,000 as at 31 December 2010 while the net assets was approximately HK$4,024,000 as at 31 May 2011. The audited loss of CIL, before and after taxation and extraordinary items, were both approximately HK$317,000 for the period from the 8 October 2010 (the date of incorporation) to 31 December 2010 while the audited profit, before and after taxation and extraordinary items, were both approximately HK$4,400,000 for the five months ended 31 May 2011.

According to the audited financial statements of the WMIL Group, the net liabilities of the WMIL Group as at 31 May 2011 was approximately HK$39,000. The audited net loss of the WMIL Group, before and after taxation and extraordinary items, for the period from 28 April 2011 (the date of incorporation) to 31 May 2011 were both approximately HK$39,000.

According to the audited financial statements of the Huancai Puda Group, the audited net loss of the Huancai Puda Group, before and after taxation and extraordinary items, for the two years ended 31 December 2010 were both approximately HK$4.8 million and HK$8.8 million respectively, and the audited net asset value of the Huancai Puda Group as at 31 December 2010 was approximately HK$16.2 million.

MANAGEMENT DISCUSSION AND ANALYSIS ON CIL, THE WMIL GROUP AND THE HUANCAI PUDA GROUP

1. CIL

CIL was incorporated in Hong Kong with limited liability on 8 October 2010 and the principal activity of CIL is investment holding.

For the period from 8 October 2010 (date of incorporation) to 31 May 2011

Operational review

CIL did not generate any revenue from its date of incorporation on 8 October 2010 up to 31 May 2011. The audited loss was approximately HK$317,000 for the period from the 8 October 2010 to 31 December 2010 while the audited profit was approximately HK$4.4 million for the five months ended 31 May 2011. The loss for the period from the 8 October 2010 to 31 December 2010 was mainly attributable to the share of loss of Huancai Puda while the profit for the five months ended 31 May 2011 was mainly attributable to the waiver of amount due to a director amounting approximately HK$5.7 million.

Liquidity and financial resources

As at 31 December 2010 and 31 May 2011, CIL had total assets of approximately HK$6,445,000 and HK$4,044,000 respectively. The current assets of CIL as at 31 December 2010 and 31 May 2011 were approximately HK$1,104,000 and HK$18,000 respectively, which comprised mainly the bank balance. The current liabilities of CIL as at 31 December 2010 and 31 May 2011 were approximately HK$6,763,000 and HK$19,500 respectively, which comprised an amount due to a director of approximately HK$1,124,000 and HK$15,000 respectively as at 31 December 2010 and 31 May 2011.

Gearing ratio

As at 31 December 2010 and 31 May 2011, the gearing ratio (total borrowings to total assets) of CIL was both nil because CIL did not have any borrowings.

Capital structure

As at 31 December 2010 and 31 May 2011, the issued share capital of CIL was HK$1, comprising one issued and fully paid ordinary share of HK$1.

Significant investments, material acquisition and disposals

CIL did not have any significant investments, material acquisition or disposals for the period from 8 October 2010 to 31 May 2011.

Employee information

Since the CIL is an investment holding company, no employee information is available as at 31 May 2011.

Charge on group assets

As at 31 May 2011, no asset of CIL was pledged.

Segment review

The directors of CIL consider that the business of CIL is organised in one operating segment as investment holding.

Exposure to fluctuation in exchange rates

The directors of CIL consider that CIL was not exposed to significant foreign currency risk due to limited foreign currency translations.

Contingent liabilities

As at 31 December 2010 and 31 May 2011, CIL had no significant contingent liabilities.

2. The WMIL Group

WMIL was incorporated in the BVI with limited liability on 28 April 2011 and the principal activity of WMIL is investment holding. As at the Latest Practicable Date, SSIL is a wholly-owned subsidiary of WMIL and the principal activity of SSIL is investment holding.

For the period from 28 April 2011 (date of incorporation) to 31 May 2011

Operational review

The WMIL Group did not generate any revenue from its date of incorporation on 28 April 2011 to 31 May 2011. For the period from 28 April 2011 to 31 May 2011, the audited loss of the WMIL Group was approximately HK$39,000.

Liquidity and financial resources

As at 31 May 2011, the audited total assets and total liabilities of the WMIL Group was approximately HK$8 and HK$39,000 respectively. It had a net current liability of approximately HK$39,162 which comprised accruals and amount due to a director.

Gearing ratio

As at 31 May 2011, the gearing ratio (total borrowings to total assets) of the WMIL Group was nil because the WMIL Group did not have any borrowings.

Capital structure

As at 31 May 2011, the issued share capital of WMIL was US$1 (equivalent to approximately HK$8), comprising one issued and fully paid ordinary share of US$1.

Significant investments, material acquisition and disposals

The WMIL Group did not have any significant investments, material acquisition or disposals for the period from 28 April 2011 to 31 May 2011.

Employee information

Since both WMIL and SSIL are investment holding companies, no employee information is available as at 31 May 2011.

Charge on group assets

As at 31 May 2011, no asset of the WMIL Group was pledged.

Segment review

The director of WMIL consider that the business of the WMIL Group is organised in one operating segment as investment holding.

Exposure to fluctuation in exchange rates

The director of WMIL consider that the WMIL Group was not exposed to significant foreign currency risk due to limited foreign currency translations.

Contingent liabilities

As at 31 May 2011, the WMIL Group had no significant contingent liabilities.

3. The Huancai Puda Group

Huancai Puda was established in the PRC on 9 November 2006 and the principal activity of Huancai Puda is development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services.

For the three years ended 31 December 2010 and the five months ended 31 May 2011

Operational review

For each of the three years ended 31 December 2010 and the five months period ended 31 May 2011, the audited revenue of the Huancai Puda Group was approximately HK$2,072,367, HK$1,812,560, HK$783,719 and HK$131,326 respectively. The revenue of these periods was mainly generated from the provision and development of computer software, sale of lottery equipment and provision of technical consultancy service. The revenue in 2008 and 2009 were maintained at similar level as the Huancai Puda Group was focused in software development, technology services (system maintenance and support) and sales of hardware. Since 2010, the Huancai Puda Group has shifted its focus and has been principally engaged in the provision and development of value-added operation software system related to lottery business which resulted in the decrease in revenue for the year ended 31 December 2010 and the five months ended 31 May 2011.

The gross profit margin for each of the three years ended 31 December 2010 and the five months period ended 31 May 2011 was approximately 14.8%, 54.7%, 56.3% and 36.5% respectively. The increase in gross profit margin of the Huancai Puda Group from 2008 to 2009 was mainly attributable to the reducing cost for the software and hardware development in 2009. The gross profit margin in 2010 was similar to 2009 although the Huancai Puda Group has shifted its focus to the provision and development of value-added operation software system related to lottery business since 2010. The gross profit margin of the Huancai Puda Group decreased from 100% for the five months ended 31 May 2010 to approximately 36.5% for the five months ended 31 May 2011 which was mainly attributable to development cost spent in relation to the new business (provision and development of value-added operation software system related to lottery business) for the five months ended 31 May 2011.

During the three years ended 31 December 2008, 2009, 2010 and the five months period ended 31 May 2011, the key expenses of the Huancai Puda Group was general and administrative expenses which accounted for approximately HK$8.6 million, HK$5.9 million, HK$10.3 million and HK$4.2 million respectively. The general and administrative expenses were incurred as a result of the daily operation and mainly comprised salaries, rental, travel expenses and research and development expenses.

For each of the three years ended 31 December 2010 and the five months period ended 31 May 2011, the audited loss of the Huancai Puda Group was approximately HK$8.3 million, HK$4.8 million, HK$8.8 million and HK$4.0 million respectively. The losses in these periods were mainly attributed from general and administrative expenses incurred in the respective periods.

Liquidity and financial resources

As at 31 December 2008, 31 December 2009, 31 December 2010 and 31 May 2011, the non-current assets of the Huancai Puda Group were approximately HK$960,958, HK$907,229, HK$2,031,517 and HK$2,001,086 respectively. The non-current assets in these periods were mainly attributed by the property, plant and equipment.

As at 31 December 2008, 31 December 2009, 31 December 2010 and 31 May 2011, the current assets of the Huancai Puda Group were approximately HK$1.4 million, HK$1.1 million, HK$18.0 million and HK$14.3 million respectively, which comprised (i) trade and other receivables of approximately HK$1,071,646, HK$1,081,687, HK$1,288,424 and HK$1,329,305 respectively; (ii) amount due from a non-controlling interest of a subsidiary of nil, nil, approximately HK$456,901 and HK$464,859 respectively; and (iii) cash and bank balances of approximately HK$315,401, HK$30,269, HK$16,301,149 and HK$12,534,830 respectively as at 31 December 2008, 31 December 2009, 31 December 2010 and 31 May 2011. The trade and other receivables for the three years ended 31 December 2008, 2009, 2010 and the five months period ended 31 May 2011 mainly comprised subcontracting payments to third party software developers, the deposits paid to lottery issuing centres and other relevant organisations.

As at 31 December 2008, 31 December 2009, 31 December 2010 and 31 May 2011, the current liabilities of the Huancai Puda Group were approximately HK$8.8 million, HK$13.3 million, HK$3.9 million and HK$3.9 million respectively, which comprised (i) trade and other payables of approximately HK$1,893,638, HK$3,157,450, HK$3,691,208 and HK$3,708,912 respectively; (ii) amount due to a registered owner of approximately HK$244,221, HK$2,675,463, nil and nil respectively; (iii) amounts due to a non-controlling interest of a subsidiary of approximately nil, nil, approximately HK$211,862 and HK$215,552 respectively; (iv) amounts due to directors of approximately HK$6,197,151, HK$6,511,348, nil and nil respectively; and (v) amounts due to related companies of approximately HK$509,796, HK$967,285, nil and nil respectively as at 31 December 2008, 31 December 2009, 31 December 2010 and 31 May 2011.

Gearing ratio

In addition, as at 31 December 2008, 31 December 2009, 31 December 2010 and 31 May 2011, the gearing ratio (total borrowings to total assets) of the Huancai Puda Group was nil because the Huancai Puda Group did not have any borrowings respectively.

Capital structure

As at 31 December 2008, 31 December 2009, 31 December 2010 and 31 May 2011, Huancai Puda had paid-up capital of approximately HK$10.5 million, HK$10.5 million, HK$45.7 million and HK$45.7 million respectively.

Significant investment, material acquisition and disposals

For each of the three years ended 31 December 2010 and the five-month period ended 31 May 2011, there were no significant investment, material acquisition and disposal of subsidiaries and affiliated companies.

Employee information

As at 31 December 2008, 31 December 2009, 31 December 2010 and 31 May 2011, the Huancai Puda Group employed a total number of 51, 41, 64 and 58 employees. The staff costs (including the Director's emoluments) were approximately HK$5.2 million, HK$4.0 million, HK$4.6 million and HK$2.1 million for each of the three years ended 31 December 2010 and the five-month period ended 31 May 2011 respectively.

Charge on group assets

As at 31 December 2008, 31 December 2009, 31 December 2010 and 31 May 2011, no asset of the Huancai Puda Group was pledged.

Contingent liabilities

As at 31 December 2008, 31 December 2009, 31 December 2010 and 31 May 2011, the Huancai Puda Group had no significant contingent liabilities.

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the Latest Practicable Date and (ii) immediately after the issue of the Consideration Shares are as follows:

Shareholders	As at the Latest Practicable Date		Immediately after the issue of the Consideration Shares	
	Number of Shares	*Approximate (%)*	*Number of Shares*	*Approximate (%)*
Substantial Shareholders				
Mr. Leung Ngai Man and parties acting in concert with him	2,484,579,400 (1 & 2)	27.37	2,484,579,400 (1 & 2)	26.62
Director				
Mr. Ng Kwok Chu, Winfield	472,500 (3)	0.01	472,500 (3)	0.01
Consideration Shares to be issued	–	–	255,866,149	2.74
Sub-total	2,485,051,900	27.38	2,740,918,049	29.37
Public Shareholders	6,591,123,347	72.62	6,591,123,347	70.63
Total	**9,076,175,247**	**100.00**	**9,332,041,396**	**100.00**

Notes:

1. Out of the 2,484,579,400 Shares, 1,474,400 Shares were held by Speedy Well Investments Limited ("**Speedy Well**"), a company wholly and beneficially owned by Mr. Leung Ngai Man, an executive Director. By virtue of the SFO, Mr. Leung Ngai Man was deemed to be interested in the Shares held by Speedy Well.

2. 795,416,666 underlying Shares were excluded.

3. 10,000,000 underlying Shares were excluded.

The Acquisition will not result in a change of control of the Company.

FINANCIAL EFFECT OF THE ACQUISITION ON THE GROUP

Prior to the Acquisition, the Company does not hold any interest in CIL and WMIL, but holds 51% interest in Huancai Puda. Upon Completion, Huancai Puda will become an indirect wholly-owned subsidiary of the Company and the financial results of the CIL, WMIL and Huancai Puda will be consolidated with that of the Company.

Earnings

The audited consolidated loss attributable to the Shareholders for the financial year ended 31 December 2010 was approximately HK$1,887 million. On the basis of the financial performance of CIL and WMIL as illustrated in the paragraph headed "Information of CIL and WMIL" above, it is expected that the Acquisition would not have material impact on the Group's earning position upon Completion. Given that Huancai Puda will be fully consolidated with that of the Company after the Completion, the Directors are of the view that the Acquisition will further enhance the Group's participation in the welfare lottery market in the PRC and the Acquisition would contribute positively to results of the Group in the near future.

Assets

As at 30 June 2011, the unaudited total assets of the Group were approximately HK$1,407,989,000 while the unaudited net assets of the Group were approximately HK$622,770,000. As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix III to this circular, the unaudited pro forma total assets of the Enlarged Group would be decreased by approximately HK$14,563,000 to approximately HK$1,393,426,000 upon completion of the Acquisition, while the unaudited pro forma net assets of the Enlarged Group would be decreased by approximately HK$14,622,000 to approximately HK$608,148,000.

Liabilities

The Group recorded unaudited consolidated total liabilities of approximately HK$785,219,000 as at 30 June 2011. As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix III to this circular, the unaudited pro forma total liabilities of the Enlarged Group would be slightly increased by approximately HK$59,000 to approximately HK$785,278,000.

FINANCIAL AND TRADING PROSPECT

Following Completion, there will not be any change in control or the principal business activities of the Company. In view of the rapid economic growth in the PRC economy in the recent decade, the PRC welfare lottery market exhibited a solid growth potential. Although Huancai Puda involves in the development and provision of operation software systems sector of the PRC welfare lottery market, it does not involve in the sales of the welfare lottery activities. The Directors are of the view that the Acquisition will further enhance the Group's participation in the welfare lottery market in the PRC. The Directors consider that the Acquisition would contribute positively to the results of the Group in the near future. The Company is optimistic about the prospects in relation to the development and provision of operation software systems sector of the welfare lottery market in the PRC.

The Directors would like to draw the Shareholders' attention to the fact that save as disclosed in the announcement of the Company dated 10 February 2011, the Board considers that the mobile regulation, the internet regulation and the absence of the Permits of Huancai Puda would not have any material and adverse impact on the Group's financial position and operation, as the commercial operations under the agreements governed by the mobile regulation and the internet regulation had not commenced yet.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the trading of computer hardware and software, exploration of gold mine and development of computer software, hardware and application system, sale of self-developed technology, provision of relevant technical consultancy services in the PRC, and development and provision of operation software system sector of the PRC lottery market.

As set out in the valuation report in Appendix IVA to this circular, Huancai Puda was preliminarily valued at approximately RMB889 million (equivalent to approximately HK$1,052 million as at 31 August 2011, including the value of goodwill and intangible assets. The Directors consider that acquiring 49% of Huancai Puda at a consideration of RMB73.5 million (equivalent to approximately HK$86.98 million), as compared with its corresponding preliminary value at approximately RMB435.61 million (equivalent to approximately HK$515.51 million), is in the interest of the Shareholders as a whole. The Consideration was determined by the Vendors and the Purchaser on the basis of normal commercial terms and arm's length negotiations by reference to the further business and growth potential of Huancai Puda. As far as the Directors are aware, (i) the Vendors' equity interests in Huancai Puda are not freely transferred given that they are not listed; and (ii) the Vendors will become the Shareholders after Completion which will be able to enjoy the growth of the Enlarged Group. Therefore, the Directors believed that the Vendors considered the deep discount of the Consideration to the valuation as disclosed in Appendix IVA to this circular was acceptable for them. Further, the Group currently owns 51% equity interest of Huancai Puda. Upon Completion, Huancai Puda will become a wholly owned subsidiary of the Company. The Acquisition provides the Group with the opportunity to consolidate its control in Huancai Puda and broaden the income base of the Group.

IMPLICATION OF THE ACQUISITION UNDER THE GEM LISTING RULES

Each of CIL and SSIL is a substantial shareholder of Huancai Puda. CIL is a wholly-owned subsidiary of CPHL and SSIL is an indirect wholly-owned subsidiary of MIL which, in turn, is a wholly-owned subsidiary of CPHL. As such, each of CPHL and MIL is as an associate of CIL and SSIL respectively and a connected person of the Company. Mr. Lin Zhiwei, one of the Warrantors, is a director of Huancai Puda and a connected person of the Company. The sole asset of CIL and WMIL is their respective 30.87% and 18.13% (held through SSIL) interests of Huancai Puda and based on the relevant values attributable to the 49% equity interests in Huancai Puda, one or more of the applicable percentage ratios (other than the profits ratio) calculated under the GEM Listing Rules with respect to the Acquisition exceed 25% but is less than 100%. On this basis, the Acquisition constitutes a connected and major transaction for the Company. Accordingly, the Acquisition Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM. In accordance with the GEM Listing Rules, the Vendors and the Warrantors and their associates will abstain from voting on the resolution to approve the Acquisition and any vote exercised by the Independent Shareholders at the EGM shall be taken by poll. To the best knowledge, information and belief of the Directors, none of the persons who are required to abstain from voting at the EGM is holding any Shares as at the Latest Practicable Date.

None of the Directors were required to abstain from voting on the board resolution approving the Acquisition.

RECOMMENDATION

The Directors consider that the terms of the Acquisition are on normal commercial terms and are fair and reasonable and that the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution as set out in the notice of EGM to approve the Acquisition.

The Independent Board Committee has been established to consider the Acquisition and to advise the Independent Shareholders in relation to the terms of the Acquisition and the transactions contemplated thereunder and on how to vote. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders regarding the Acquisition and the transactions contemplated thereunder.

Yours faithfully,
By Order of the Board
China Netcom Technology Holdings Limited
Ng Kwok Chu, Winfield
Executive Director

中彩網通控股有限公司
China Netcom Technology Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8071)

28 October 2011

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED AND MAJOR TRANSACTION

We refer to the circular to the Shareholders dated 28 October 2011 (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you in connection with the Acquisition, the terms of the Acquisition Agreement and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" in the Circular.

Having considered the Acquisition and the terms of the Acquisition Agreement and the advice of the Independent Financial Adviser in relation thereto as set out from pages 22 to 36 of the Circular, we consider that the terms of the Acquisition are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution as set out in the notice of the EGM attached to this Circular to approve the Acquisition, the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee

Cai Wei Lun	**Leung Wai Cheung**
Independent Non-executive Director	*Independent Non-executive Director*

South West Capital Limited
西南融資有限公司

South West Capital Limited
Unit 1101-2, 11/F, Euro Trade Centre,
13-14 Connaught Road Central, Hong Kong

28 October 2011

To the Independent Board Committee and
the Independent Shareholders of
China Netcom Technology Holdings Limited

Dear Sirs,

CONNECTED AND MAJOR TRANSACTION

INTRODUCTION

We refer to our engagement as the independent financial adviser to the independent board committee (the "**Independent Board Committee**") and the independent shareholders (the "**Independent Shareholders**") of China Netcom Technology Holdings Limited (the "**Company**") in relation to the proposed acquisition of the entire issued share capital of Carnix Investment Limited ("**CIL**") and Wise Mark Investments Limited ("**WMIL**") (the "**Acquisition**") contemplated under the conditional sale and purchase agreement dated 2 March 2011 (the "**Original Agreement**") and the supplemental agreement dated 23 August 2011 (the "**Supplemental Agreement**") (the Original Agreement supplemented by the Supplemental Agreement is referred to hereinafter collectively as the "**Acquisition Agreement**"), details of which were disclosed in announcements of the Company dated 2 March 2011 (the "**Announcement**") and 23 August 2011 (the "**Supplemental Announcement**"), respectively, and in the letter from the board (the "**Letter from the Board**"), as set out on pages 5 to 20 of the circular of the Company dated 28 October 2011 (the "**Circular**") to its shareholders of which this letter forms part. South West Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and the Independent Shareholders as a whole. Capitalised terms used in this letter have the same meanings as defined in the Circular of which this letter forms part unless the content otherwise requires.

On 2 March 2011, the Purchaser (being a wholly-owned subsidiary of the Company), CPHL and the Warrantors entered into the Original Agreement pursuant to which the Purchaser has conditionally agreed to acquire and CPHL has conditionally agreed to dispose of the entire issued share capital of CIL and MIL, at the Consideration of RMB73,500,000 (equivalent to approximately HK$86,982,000). As at the date of the Original Agreement, the sole assets of CIL and MIL were their respective 30.87% and 18.13% equity interests (collectively 49%) of Huancai Puda. The remaining 51% equity interest of Huancai Puda was owned by the Purchaser. Upon Completion, Huancai Puda will become an indirect wholly-owned subsidiary of the Company. Pursuant to the terms of the Original Agreement, the Consideration of RMB73,500,000 (equivalent to approximately HK$86,982,000) shall be satisfied as to RMB10,800,000 (equivalent to approximately HK$12,781,000) in cash and as to RMB62,700,000 (equivalent to approximately HK$74,201,000) to be satisfied by the Purchaser procuring the Company to allot and issue the Consideration Shares, credited as fully paid at the Issue Price of HK$0.29 per Consideration Share, on Completion to CPHL.

After the entering into of the Original Agreement, CPHL and its subsidiaries (the "**CPHL Group**") underwent an internal corporate reorganisation (the "**Internal Corporate Reorganisation**"). Immediately after the Internal Corporate Reorganisation, Huancai Puda was held by each of CIL, Shine Smart Investment Limited (a wholly-owned subsidiary of WMIL, which is, in turn, wholly-owned by MIL, and hereinafter referred to as "**SSIL**") and the Purchaser as to 30.87%, 18.13% and 51%, respectively. As a result of the Internal Corporate Reorganisation, a supplemental agreement to the Original Agreement was entered into between the Purchaser, the Vendors (CPHL and MIL) and the Warrantors on 23 August 2011. Pursuant to the Supplemental Agreement, the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to dispose of the entire issued share capital of CIL and WMIL. The sole asset of WMIL, holding through SSIL, is the 18.13% equity interest of Huancai Puda. Upon completion of the Supplemental Agreement, Huancai Puda would become an indirect wholly-owned subsidiary of the Company. Saved as disclosed above, no material change has been made to the Original Agreement as a result of the entering into of the Supplemental Agreement.

As not all of the relevant percentage ratios under Chapter 19 of the GEM Listing Rules are less than 25% but all of them are less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 19 of the GEM Listing Rules. Each of CIL and SSIL is a substantial shareholder of Huancai Puda. As such, each of CPHL and MIL is an associate of CIL and SSIL respectively, and a connected person of the Company. Therefore, the Acquisition also constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the Acquisition Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM. In compliance with the GEM Listing Rules, the Vendors, the Warrantors and their associates will abstain from voting on the resolution to approve the Acquisition and the transactions contemplated thereunder and any vote exercised by the Independent Shareholders at the EGM shall be taken by poll.

An Independent Board Committee, comprising Dr. Leung Wai Cheung and Mr. Cai Wei Lun, being the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Acquisition.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, inter alia, the Announcement, the Supplemental Announcement, the Acquisition Agreement, the valuation report prepared by an independent valuer, Peak Vision Appraisals Limited, (the "**Valuer**") as contained in Appendix IVA to the Circular and the 2010 annual report and 2011 interim report of the Company. We have also reviewed certain information and facts provided by the management of the Company relating to the operations, financial condition and prospects of the Group. We have reviewed the opinion and valuations relevant to the entire equity interest of Huancai Puda provided by the Valuer, including reviewing the terms of engagement (having particular regard to the scope of work, whether the scope of work is appropriate to the opinion required to be given and any limitations on the scope of work which might adversely impact on the degree of assurance given by the valuation report, opinion or statement). In addition, we have discussed with the Valuer and reviewed the qualification and experience of the working team members of the Valuer. Based on our discussion with the Valuer, we are given to understand that (i) there are no current or prior relationships between the Valuer and the Company, CPHL and MIL, and connected persons of either the Company or each of CPHL and MIL other than provision of appraisal and valuation services; and (ii) the Valuer is not aware of any formal or informal representation made by the Company and each of CPHL and MIL to them which they consider it should be brought to our attention. Based on the foregoing, we consider that we have taken all the reasonable steps, which are applicable to the acquisition contemplated under the Acquisition Agreement, as referred to and required under Rule 17.92(2)(b) of the GEM Listing Rules (including its annexed notes) in forming our opinion. We consider that we have taken sufficient and necessary steps to form a reasonable basis and an informed view for our recommendation which are in compliance with Rule 17.92 of the GEM Listing Rules. We have also (i) considered such other information, analyses and market data as we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the terms of the Acquisition Agreement, the businesses and the future outlook of the Group. We have assumed that such information, opinions, statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters not contained in the Circular, the omission of which would make any statement herein or in this Circular misleading. We have assumed that all information, opinions and representations contained or referred to in the Announcement, the Supplemental Announcement and the Circular are true, accurate and complete in all material respects as at the respective dates of the Announcement, the Supplemental Announcement and the Circular and that all expectation and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be and that they may be relied upon in formulating our opinion. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of, and reasons for, the Acquisition and to justify reliance on the accuracy of the information contained in the Announcement, the Supplemental Announcement and the Circular so as to provide a reasonable basis of our opinion. We have no reason to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. We are not to be responsible for the completion nor non-completion of the agreements and the outcome thereof. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion in respect of the terms of the Acquisition Agreement, we have considered the following principal factors and reasons:

1. The background to the Acquisition

We understand from the management of the Company that the Group has been proactively developing its business in the PRC lottery market, from which an infinite commercial potential was observed by the Group. On 13 May 2010, the Company, via Easywin International Holdings Limited (a wholly-owned subsidiary of the Company), entered into an acquisition agreement with Mr. Leung Ngai Man (the Chairman of the Company) to acquire, indirectly, 51% equity interest of Huancai Puda, a prime company providing technology for innovative channels for the distribution of lottery sales in the PRC, at a total consideration of HK$2,112.5 million. The acquisition was completed on 27 August 2010.

With a view to further expanding its lottery business and gaining higher market share from the PRC lottery market, it is contemplated by the Group to acquire the remaining 49% equity interest of Huancai Puda, which was collectively held by CIL and WMIL (via SSIL) as at the Latest Practicable Date. Subsequent to Completion, the Company will hold the 100% equity interest of Huancai Puda, which will, in turn, become an indirect wholly-owned subsidiary of the Company. The Directors consider that the Acquisition enables the Group to have absolute control in Huancai Puda and is consistent with the business strategies of the Group.

2. Information on the Group

The Company is a company incorporated in the Cayman Islands with limited liability and its securities are listed on the GEM Board of the Stock Exchange. The principal business activity of the Company is investment holding. The Group is principally engaged in the development of computer software, hardware and application system, sale of self-developed technology or results, provision of relevant technical consultancy services in the PRC, the development and provision of operation software system sector of the PRC lottery market, trading of computer hardware and software and exploration of gold mine in the PRC.

Financial year ended 31 December 2010

For the year ended 31 December 2010, the Group recorded revenue of approximately HK$2.7 million, representing an increase of approximately 30.0% from approximately HK$2.1 million as recorded in the year of 2009. Such increment was mainly due to a significant rise in the revenue of the business segment of trading of computer hardware and software. Loss attributable to the shareholders of the Company for the year ended 31 December 2010 was approximately HK$1,887.3 million, equivalent to approximately five times of the corresponding figure of approximately HK$365.5 million as recorded for the year ended 31 December 2009. Such increase was attributable to the impairment loss of goodwill and other intangible assets for the amount of approximately HK$1,913 million.

As at 31 December 2010, the audited consolidated net assets attributable to the shareholders of the Company and the total liabilities of the Group amounted to approximately HK$401.0 million and approximately HK$790.1 million, respectively.

During the second half of 2010, the Group acquired 51% equity interest of Huancai Puda and proposed to acquire 65% equity interest of 北京彩贏樂科技有限公司 (Beijing Caiyingle Technology Company Limited* and hereinafter referred to as "**Beijing Caiyingle**"), a fast growing company which is expanding its sports lottery sales distribution across the airports in the PRC. As confirmed by the management of the Company, the acquisition of Huancai Puda and Beijing Caiyingle were completed on 27 August 2010 and 27 April 2011, respectively. In addition to the expansion of lottery business, the Group signed a memorandum of understanding with China Digital Library Limited Company, a company authorised by the State Council and established by the Ministry of Culture and National Library of China, to expand into internet protocol television ("**IPTV**") business in order to capture the PRC information technology market.

* *For identification purpose only*

For the six months ended 30 June 2011

For the six months ended 30 June 2011, the Group recorded unaudited revenue of approximately HK$1.3 million, representing an increase of approximately 18.0% from approximately HK$1.1 million as recorded in the corresponding period of 2010. The revenue of the Group was primarily derived from the trading of computer hardware and software business and the lottery business. Loss attributable to the shareholders of the Company for the six months ended 30 June 2011 was approximately HK$114.9 million, representing an increase of approximately 1168% from approximately HK$9.1 million as recorded in the corresponding period of 2010. The difference was mainly due to the increase in expense for the loss on early redemption of promissory note and increase in finance cost for the six months ended 30 June 2011.

As at 30 June 2011, the unaudited consolidated net assets attributable to the shareholders of the Company and the total liabilities of the Group amounted to approximately HK$307.2 million and approximately HK$785.2 million, respectively.

According to the 2011 interim report of the Company, the management of the Company expected that the lottery market in the PRC continues to be very robust with total lottery sales up 31% year on year for the first six months of 2011. The industry is opening up and developing at a fast pace. There is tremendous amount of opportunities in the lottery industry as the PRC government continues to promote legal gaming. In order to seize the opportunities, the Group will continue to expand business relationship and management expertise to develop innovative lottery channels in the PRC. The Board strongly believes that high growth in the lottery sector will be coming from the development of lottery channels.

3. Information on CIL, WMIL and Huancai Puda

CIL is a company incorporated in Hong Kong with limited liability and is wholly and beneficially owned by CPHL. CIL is principally engaged in investment holding and its sole asset is the 30.87% equity interest of Huancai Puda. According to the audited financial statements of CIL, the net liabilities of CIL was approximately HK$318,000 as at 31 December 2010 while the net assets was approximately HK$4,024,000 as at 31 May 2011. The audited loss of CIL, before and after taxation and extraordinary items, were both approximately HK$317,000 for the period from 8 October 2010 (date of incorporation) to 31 December 2010 while the audited profit, before and after taxation and extraordinary items, were both approximately HK$4,417,000 for the five months ended 31 May 2011.

WMIL is a company incorporated in the British Virgin Islands with limited liability and is wholly and beneficially owned by CPHL. WMIL is principally engaged in investment holding and its sole asset is the 18.13% equity interests of Huancai Puda, holding via SSIL. According to the audited financial statements of the WMIL Group, the net liabilities of the WMIL Group as at 31 May 2011 was HK$39,000. The audited net loss of the WMIL Group, before and after taxation and extraordinary items, for the period from 28 April 2011 (date of incorporation) to 31 May 2011 were both HK$39,000.

Huancai Puda is a company incorporated in the PRC with limited liability. Huancai Puda is principally engaged in the provision and development of value-added operation software system related to lottery business, and has accumulated extensive experiences in innovative sales channel development and operation service of lottery sales. Huancai Puda has developed various innovative sales systems and software including lottery sales through mobile phone networks, short-message-services of mobile phones, and interactive voice response system of telephones as well as lottery sales through banks' automatic-teller machines, self-service terminals, digital televisions, internet protocol television, and mobile terminals. The customers of Huancai Puda applied the innovative sales channel software developed by Huancai Puda for the acceptance of the lottery sales from public whereby Huancai Puda will receive service income from its customers in proportion to the amount of acceptance of the lottery sales through the relevant innovative sales channels.

According to the audited financial statements of the Huancai Puda Group, the audited net loss of the Huancai Puda Group, before and after taxation and extraordinary items, for the two years ended 31 December 2010, and the five months ended 31 May 2011 were approximately HK$4.8 million, HK$8.8 million and HK$4.0 million, respectively, and the audited net assets of the Huancai Puda Group as at 31 December 2010 and 31 May 2011 were approximately HK$16.2 million and HK$12.4 million respectively.

In order to achieve its long-term goal of being a leading player in the PRC lottery industry, Huancai Puda has been actively seeking opportunities to expand its network in the PRC lottery market and eventually, identified various kinds of potential lottery-related projects with different parties in 2011, including but not limited to:

(i) the entering into of an agreement with 廣州珠江在線多媒體信息有限公司 (Guangzhou Zhujiang Online Multimedia Company Limited*), which is a wholly-owned subsidiary of 廣州珠江數碼集團有限公司 (Guangzhou Zhujiang Digital Group Company Limited*), a state-owned enterprise, on 16 May 2011, regarding the development of interactive TV lottery service;

(ii) the entering into of a memorandum of understanding with 上海金色平道文化傳媒有限公司 (Shanghai Jinse Pingdao Cultural Media Limited*), which is an affiliate of 上海文廣傳媒集團 (Shanghai Media Group*) in June 2011, to pursue interactive TV lottery on the Xingfu lottery channel;

(iii) the entering into of a framework agreement with 廣州魯銀投資有限公司 (Guangzhou Luyin Investment Co., Limited*) on 28 July 2011, regarding the cooperation in the development of digital TV lottery sales projects; and

(iv) the entering into of a memorandum of understanding with Scientific Games Worldwide Limited in the beginning of 2011, regarding the cooperation in self-service terminal field, electronic Bingo, digital TV lottery field and equipment generation.

* *For identification purpose only*

4. The reasons for, and the benefits of, the Acquisition

In 2010, the Group acquired 51% equity interest of Huancai Puda which details are set out in paragraph headed "The background to the Acquisition" above. In response to the business development strategy of tapping into the "Lottery Game" stated in the 2010 annual report of the Company, the Group proposes to acquire the remaining 49% equity interest of Huancai Puda. As advised by the management of the Company, Huancai Puda is a fundamentally well-developed company providing technology for innovative channels for the distribution of lottery sales in the PRC with nine software product registration certificates, eight software copyright registration certificates and a certificate of design patent named "桌面智能彩票銷售終端 (MT2006) (desktop intelligent lottery sales terminal)" issued by the relevant government bodies. In addition, Huancai Puda has entered into various cooperative agreements regarding innovative sales channel operation services of lottery sales with a number of welfare lottery issuing organizations including but not limited to, 重慶市福利彩票發行中心 (Chongqing Welfare Lottery Issuing Centre*), 廣西福利彩票發行中心 (Guangxi Welfare Lottery Issuing Centre*) and 深圳市福利彩票發行中心 (Shenzhen Welfare Lottery Issuing Centre*). Under the cooperative agreements, Huancai Puda was authorized to use its own developed lottery sales systems and software to provide the innovative sales channel technologies in Shenzhen, Guangxi province and Chongqing so as to provide sales channel operational services in respect of DTV lottery sales, commercial retail channel agent welfare lottery sales and self-service banking equipment welfare lottery sales to the relevant welfare lottery issuing centres in the aforesaid regions. Having considered the above, the Directors are optimistic about the growth potential of Huancai Puda.

Upon Completion, Huancai Puda will become a wholly-owned subsidiary of the Company. The Directors are of the view that the Acquisition provides the Group with the opportunity to consolidate its control in Huancai Puda and broaden the income base of the Group, and is in line with the Group's business strategy.

In order to assess the commercial justifications of the Group to acquire the remaining equity interest of Huancai Puda, we have conducted research on various information and data from the public domains which are set out as follows:

In the last decade, the PRC experienced an exciting economic growth, resulting in its gross domestic product ("**GDP**") increasing from approximately RMB9,921.5 billion (equivalent to approximately HK$11,741.4 billion) in 2000 to approximately RMB40,120.2 billion (equivalent to approximately HK$47,479.5 billion) in 2010 and representing a compound annual growth rate of approximately 15%, according to the National Bureau of Statistics of China (中華人民共和國國家統計局) ("**NBSC**"). The PRC's economy has continued its growing trend in the first half of 2011 and as at 30 June 2011, the GDP reached approximately RMB20,445.9 billion (equivalent to approximately HK$24,196.3 billion) (which is an interim figure and is subject to adjustment), representing an increase of approximately 9.6% against the corresponding period in 2010.

* *For identification purpose only*

Taking advantage of the economic growth, the size of lottery market in the PRC has been expanding rapidly. According to the Ministry of Finance, the PRC (中華人民共和國財政部), national sales of lottery in 2010 increased by approximately RMB33.8 billion (equivalent to approximately HK$40.0 billion) to approximately RMB166.2 billion (equivalent to approximately HK$196.7 billion) as compared to 2009, representing a year-on-year growth of approximately 25.5%. Among which, welfare lottery and sports lottery amounted to approximately RMB96.8 billion (equivalent to approximately HK$114.6 billion) and approximately RMB69.4 billion (equivalent to approximately HK$82.2 billion), representing approximately 58.2% and approximately 41.8% of the entire lottery sales in 2010 respectively. In the first half of 2011, the PRC's lottery sales has continued its expansion and has exceeded RMB100 billion (equivalent to approximately HK$118 billion), representing an increase of approximately 31.0% against the corresponding period in 2010.

Taking into account (i) the continuously growing economy in the PRC; and (ii) the growing trend of the PRC lottery market, we concur with the view of the Directors that the acquisition of the remaining 49% equity interest of Huancai Puda facilitates the Group's business expansion and enables the Group to broaden its income base, and the Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

5. Principal terms of the Acquisition Agreement

Assets being acquired

The entire issued share capital of CIL and WMIL.

Consideration

Pursuant to the Acquisition Agreement, the Consideration of RMB73,500,000 (equivalent to approximately HK$86,982,000) shall be settled in the following manner:

(i) an amount of RMB7,350,000 (equivalent to approximately HK$8,698,000) as the Deposit and (if the Acquisition is completed) part of the Consideration was paid by the Purchaser to CPHL within five days after the signing of the Original Agreement. Payment was made by bank draft;

(ii) an amount of RMB3,450,000 (equivalent to approximately HK$4,083,000) as part of the Consideration to be paid by the Purchaser to CPHL within 10 business days after Completion. Payment shall be made by bank draft or such other means as agreed by the Vendors and the Purchaser; and

(iii) RMB62,700,000 (equivalent to approximately HK$74,201,000) shall be satisfied by the Purchaser procuring the Company to allot and issue the Consideration Shares, credited as fully paid at the Issue Price, within 10 business days after Completion to CPHL.

The Consideration was determined by the Vendors and the Purchaser on the basis of normal commercial terms and arm's length negotiations with reference to the further business and growth potential of Huancai Puda.

We attempted to assess the fairness and reasonableness of the Consideration by comparing the trading multiples, including, among others, price-to-earnings ratio ("**PE Multiple**") and the price-to-book ratio ("**PB Multiple**"), of Huancai Puda and those of other comparable companies which are engaged in similar business. Given that Huancai Puda recorded an audited net loss of approximately HK$8.8 million for the year ended 31 December 2010, we consider that PE Multiple is not applicable for assessing the Consideration. PB Multiple is usually used for analyzing companies with substantial assets base such as financial institutions and property developers. In addition, we were advised by the management of the Company that most of the major contracts of Huancai Puda are yet to be materialized and Huancai Puda is not in full-scale operation. Therefore, we consider PB Multiple is not an appropriate method for assessing of Huancai Puda given its business nature and that it is still in the preliminary development stage.

The Company has engaged the Valuer to conduct an appraisal for the market value of the 100% equity interest of Huancai Puda. According to the valuation report, the market value of the 100% equity interest of Huancai Puda as at 31 August 2011 (the "**Valuation Date**") was RMB889 million (equivalent to approximately HK$1,052.1 million), including the value of goodwill and intangible assets. As noted from the paragraph headed "Reasons for and benefits of the Acquisition" in the Letter from the Board contained in this Circular, the Consideration was determined by the Vendors and the Purchaser on the basis of normal commercial terms and arm's length negotiations by reference to the further business and growth potential of Huancai Puda. As far as the Directors are aware, (i) the Vendors' equity interests in Huancai Puda are not freely transferred given that they are not listed; and (ii) the Vendors will become the Shareholders after the Completion which will be able to enjoy the growth of the Enlarged Group. Therefore, the Vendors consider the deep discount of the Consideration to the valuation as disclosed in Appendix IVA to this Circular is acceptable to them. Given the fact that the Consideration represents a significant discount of approximately 83.1% to the valuation of 49% equity interest of Huancai Puda such that the Group would be able to acquire the remaining equity interest of Huancai Puda at a price (i.e. the Consideration) substantially lower than the 49% market valuation estimated by the Valuer, we consider that the Consideration is fair, reasonable and favourable to the Group.

In order to assess the fairness and reasonableness of the methodology used in arriving at the said valuation, we have reviewed the valuation report and have discussed with the Valuer regarding the basis of choosing the methodology adopted for the valuation. We were given to understand that the entire equity interest of Huancai Puda was valued by the Valuer by way of income approach, which provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject company. The income approach is considered to be the most appropriate valuation approach in the valuation of the entire equity interest of Huancai Puda as it takes the future growth potential of Huancai Puda into consideration. Under the income approach, the discount cash flow ("**DCF**") method was adopted. In applying the DCF method, the free cash flows for each year in the future were determined. The results were then discounted using a discount rate to determine the present value of the free cash flows. The weighted-average cost of capital comprises two components: the cost of equity and the cost of debt. It is calculated by multiplying the cost of each source of capital by its proportional weight. We have been advised that the cost of equity was developed through the application of the Capital Asset Pricing Model ("**CAPM**"), which indicates the relationship between risk and expected return that investors require additional return to compensate for the additional risk assumed. In calculating the cost of equity, the Valuer has adopted the risk free rate of return of 3.67% (which is the yield of the 10-year United States government bond), the market risk premium of the United States of 7.38%, the size premium of 4.07% (which is the risk of small size company in 2010 based on the research conducted by Ibbotson Associates, Inc.), the country risk premium of 1.05% (which is the increased risk associated with investing in a developing country, including business risk, financial risk, liquidity risk, exchange rate risk and country risk) and the equity beta of 0.89. In determining the equity beta, the Valuer made reference to 5 listed companies with comparable business nature and operation, namely China LotSynergy Holdings Limited (stock code: 8161), AGTech Holdings Limited (stock code: 8279), REXLot Holdings Limited (stock code: 555), VODone Limited (stock code: 82) and MelcoLot Limited (stock code: 8198). As a result, the cost of equity of 15.36% was arrived. In relation to the said data, we have reviewed supporting documents provided by the Valuer. The cost of debt of 7.05% was determined by the China Above 5 Years Best Lending Rates as at the Valuation Date. Given Huancai Puda's stage of development, its current debt level is not desirable. To stay competitive in the PRC lottery industry, it is reasonable to assume that Huancai Puda should arrive the a debt level toward the average of the weight of debt, and thus the average of the weight of equity, of its industry comparables. Through the analysis of the industry comparables, the weight of debt and the weight of equity were estimated as 9% and 91%, respectively. Having considered that all major contracts of Huancai Puda as mentioned in the paragraph headed "The reasons for, and the benefits of, the Acquisition" in this letter have not yet been materialized and Huancai Puda has not yet launched full-scale operation, a 1.5% risk premium was added to reflect the pre-operational risk of Huancai Puda. As a result, the discount rate considered appropriate for the valuation as at the Valuation Date, taking into account of the above, was 15.97%, which was then applied to the after tax cash flow. We also noted from the valuation report that a further 20% discount rate has been adopted for the risk of lack of marketability. In addition, the interest bearing debts (amounted to RMB0 as at the Valuation Date) was deducted from, and the cash and cash equivalents (amounted to approximately RMB8,942,000, equivalent to approximately HK$10,582,000, as at the Valuation Date) was added to, the assessed market value of the 100% equity interest of Huancai Puda.

As noted from the valuation report, we understand that the Valuer has made reference to information on the PRC's economy and the PRC lottery market sourced from the Ministry of Finance, the PRC, NBSC and World Lottery Association, including but not limited to (i) China is one of the largest lottery markets recently; (ii) a strong year-on-year growth of approximately 12.5% was recorded in the lottery industries of Asia Pacific in 2010; and (iii) during the period from 2006 to 2010, the per capita annual disposable income of urban households in the PRC increased from approximately RMB11,759 (equivalent to approximately HK$13,916) to approximately RMB19,109 (equivalent to approximately HK$22,614), representing an average annual growth rate of approximately 12.5%.

As noted from the Company's announcement of 10 February 2011, Huancai Puda does not possess the permits for conducting the lottery sales business through mobile phone or internet. We understand from the Valuer that, in performing the valuation, they have not taken into account the three agreements regarding mobile phone lottery sales system which Huancai Puda has entered into. We consider it is prudent for the Valuer to take out the aforementioned agreements when conducting the valuation. During the course of our discussions with the Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the methodology, principal bases and assumptions used in arriving at the valuation. We consider that the income approach adopted by the Valuer is in line with the market practice of valuing business enterprises and is hence reasonable.

Pursuant to the terms of the Acquisition Agreement, approximately 85.3% of the Consideration (i.e. RMB62,700,000 (equivalent to approximately HK$74,201,000)) shall be satisfied by way of allotment and issue of the Consideration Shares by the Company, at HK$0.29 per new Share credited as fully paid. Taking into consideration of the facts that allotment and issue of the Consideration Shares by the Company as part of the Consideration could reduce the cash flow burden to the Company and thus maintain the Company's liquidity at a healthy level, we concur with the Directors' view that the issue of the Consideration Shares as part of the Consideration is a cost efficient and beneficial method to financing the Acquisition.

The Issue Price

In order to assess the fairness and reasonableness of the Issue Price, we made comparison between the Issue Price and the market price of the Shares for different periods of time, as set out below:

The Issue Price:

(i) equals to the closing price of HK$0.29 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 3.57% over the average of the closing prices of HK$0.28 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 1.36% to the average of the closing prices of HK$0.294 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and

(iv) a premium of approximately 326.47% over the closing price of HK$0.068 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Taking into account the comparison above, we consider that the Issue Price of the Consideration Shares reflects the market price of the Shares around the date of the Original Agreement and is fair and reasonable to the Company and the Independent Shareholders.

Conclusion

Having considered that (i) the Acquisition Agreement has been entered into after arm's length negotiation and the terms are fair and reasonable; (ii) the Consideration is fair and reasonable after taking into account the valuation of 49% equity interest of Huancai Puda; and (iii) the other terms of the Acquisition Agreement are basically normal commercial terms, we concur with the Directors' view that the Acquisition Agreement is on normal commercial terms and the terms are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

6. Dilution to the shareholdings of the Independent Shareholders

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the issue of the Consideration Shares.

Shareholders	**As at the Latest Practicable Date**		**Immediately after the issue of the Consideration Shares**	
	Number of Shares	*Approximate (%)*	*Number of Shares*	*Approximate (%)*
Substantial Shareholders				
Mr. Leung Ngai Man and parties acting in concert with him	2,484,579,400 *(Note 1&2)*	27.37	2,484,579,400 *(Note 1&2)*	26.62
Executive Director				
Mr. Ng Kwok Chu, Winfield	472,500	0.01	472,500	0.01
Consideration Shares to be issued	–	–	255,866,149	2.74
Sub-total	2,485,051,900	27.38	2,740,918,049	29.37
Public Shareholders	6,591,123,347	72.62	6,591,123,347	70.63
Total	9,076,175,247	100.00	9,332,041,396	100.00

Notes:

1. Out of the 2,484,579,400 Shares, 1,474,400 Shares were held by Speedy Well Investments Limited ("**Speedy Well**"), a company wholly and beneficially owned by Mr. Leung Ngai Man, an executive Director. By virtue of the SFO, Mr. Leung Ngai Man was deemed to be interested in the Shares held by Speedy Well.

2. 795,416,666 underlying Shares were excluded.

3. 10,000,000 underlying Shares were excluded.

As illustrated in the table above, the Consideration Shares, being allotted and issued, will represent approximately 2.74% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. The shareholding interest of the existing public Shareholders will be reduced from approximately 72.62% as at the Latest Practicable Date to approximately 70.63% immediately after the issue of the Consideration Shares. Having considered that (i) the Acquisition would provide an opportunity for the Group to consolidate its control in Huancai Puda and thus expand the Group's lottery arm and strengthen its revenue base; and (ii) the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned, we consider that such dilution effect on the shareholding interests of the existing public Shareholders is acceptable.

7. Expected financial impact on the Group as a result of the Acquisition

Upon Completion, the Company will own the 100% equity interest of Huancai Puda, which will, in turn, become an indirect-wholly owned subsidiary of the Company.

Earnings

The audited consolidated loss attributable to the Shareholders for the financial year ended 31 December 2010 was approximately HK$1,887 million. On the basis of the financial performance of CIL and WMIL as illustrated in the paragraph headed "Information of CIL and WMIL" in the Letter from the Board contained in this Circular, it is expected that the Acquisition would not have material impact on the Group's earning position upon Completion. Given that the financial results of Huancai Puda will be fully consolidated with that of the Company after the Completion, the Directors are of the view that the Acquisition will further enhance the Group's participation in the welfare lottery market in the PRC and the Acquisition would contribute positively to results of the Group in the near future.

Assets

As at 30 June 2011, the unaudited total assets of the Group was approximately HK$1,408.0 million while the unaudited net assets of the Group was approximately HK$622.8 million. As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix III to this Circular, the unaudited pro forma total assets of the Enlarged Group would be decreased by approximately HK$14.6 million to approximately HK$1,393.4 million upon completion of the Acquisition, while the unaudited pro forma net assets of the Enlarged Group would be decreased by approximately HK$14.6 million to approximately HK$608.1 million.

Liabilities

The Group recorded unaudited consolidated total liabilities of approximately HK$785,219,000 as at 30 June 2011. As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix III to this Circular, the unaudited pro forma total liabilities of the Enlarged Group would be slightly increased by approximately HK$59,000 to approximately HK$785,278,000.

OPINION

In arriving at our opinion, we have considered the principal factors and reasons discussed above, in particular,

(i) the reasons for, and benefits of, the Acquisition;

(ii) the terms of the Acquisition Agreement; and

(iii) the expected financial impact on the Group as a result of the Acquisition.

Taking into account the above principal factors and based on the information provided and the representations made to us, we are of the opinion that the Acquisition is in the ordinary and usual course of business of the Company, the Acquisition Agreement is on normal commercial terms and the terms are fair and reasonable, and that the Acquisition is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend, and advise the Independent Board Committee to recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Acquisition Agreement and the transaction contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
South West Capital Limited
Hidulf Kwan
Director of Corporate Finance

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Audited consolidated financial information of the Company and its subsidiaries for each of the three years ended 31 December 2010 is disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkex.hk) and the Company (www.chinanetcomtech.com).

– annual report of the Company for the year ended 31 December 2010 published on 24 February 2011 (pages 29 to 125);

– annual report of the Company for the year ended 31 December 2009 published on 10 March 2010 (pages 29 to 103); and

– annual report of the Company for the year ended 31 December 2008 published on 9 March 2009 (pages 29 to 99).

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on the Latest Practicable Date, the Group had no outstanding bank borrowings.

Contingent liabilities

As at the close of business on the Latest Practicable Date, the Group had no material contingent liabilities outstanding.

Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, and save as disclosed in the Company's annual report for the year ended 31 December 2010, the Group did not have any bank borrowings, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures or other loan capital, mortgage, charges, finance leases or hire purchases commitments, guarantees or other material contingent liabilities outstanding at the close of business on the Latest Practicable Date.

3. WORKING CAPITAL

Taking into account the existing cash and bank balances and other internal resources available, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least one year from the date of this circular. The Enlarged Group will not have any material funding requirement for the one year period following the issue of this circular.

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.

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

28 October 2011

The Board of Directors
China Netcom Technology Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Carnix Investment Limited ("CIL") for the period from 8 October 2010 (date of incorporation) to 31 December 2010 and the five-month period ended 31 May 2011 (the "Relevant Periods"), for inclusion in the circular dated 28 October 2011 (the "Circular") issued by China Netcom Technology Holdings Limited (the "Company") in connection with the proposed connected and major acquisition (the "Acquisition") by Greatest Profit Investment Limited (the "Purchaser"), an indirect wholly-owned subsidiary of the Company, relating to the acquisition of the entire issued share capital of CIL and Wise Mark Investments Limited ("WMIL") from Century Profit Holdings Limited ("CPHL") and Mutual International Limited, a wholly-owned subsidiary of CPHL, respectively.

CIL was incorporated in Hong Kong with limited liability on 8 October 2010 and acts as an investment holding company. The address of the registered office and principal place of business of CIL is 9/F., Bank of Communications Building, No. 368 Hennessy Road, Wanchai, Hong Kong.

The sole asset of CIL is the 30.87% equity interests in 深圳環彩普達科技有限公司 (transliterated as Shenzhen Huancai Puda Technology Company Limited) ("Huancai Puda").

As at the date of this report, the holding company of CIL is CPHL, a company incorporated in the British Virgin Islands with limited liability.

The financial year end date of CIL is December 31.

No audited financial statements have been prepared for CIL for the period from the date of incorporation to 31 May 2011 since it has been incorporated for less than one year.

For the purpose of this report, the sole director of CIL has prepared management accounts of CIL for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of CIL for the Relevant Periods set out in this report has been prepared based on the Underlying Financial Statements for the purpose of preparing our report for inclusion in the Circular. No adjustments were considered necessary to adjust the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the sole director of CIL who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of CIL as at 31 December 2010 and 31 May 2011 and of the results and cash flows of CIL for each of the Relevant Periods.

Without qualifying our opinion, we draw attention to note 1 to the Financial Information set out in Appendix IIA below which indicates that at 31 December 2010 and 31 May 2011 CIL had an excess of current liabilities over current assets of HK$5,659,235 and HK$1,753 respectively. Accordingly, CIL is reliant on the shareholder of CIL for support in order to meet its existing short term financial obligations. The Financial Information has been prepared on a going concern basis on the assumptions that the shareholder will provide financial support to CIL until the date of the Acquisition is completed and the Company will provide financial support to CIL upon completion of the Acquisition. The validity of the Financial Information being prepared on a going concern basis depends upon the continuing financial support from the shareholder and the Company respectively before and after completion of the Acquisition. These matters, along with other matters as forth in note 1 below, indicate the existence of a material uncertainty which may cast doubt upon CIL's ability to continue as a going concern. The Financial Information does not include any adjustments that would result from failure of such measures.

I. FINANCIAL INFORMATION

Statement of comprehensive income

	Notes	For the period from 8 October 2010 (date of incorporation) to 31 December 2010 HK$	Five-month period ended 31 May 2011 HK$
Revenue	5	–	–
Other income	7	1	5,707,946
Administrative expenses		(24,237)	(50,464)
Share of loss of an associate	14	(292,267)	(1,240,158)
(Loss)/profit before tax		(316,503)	4,417,324
Income tax	8	–	–
(Loss)/profit for the period	9	(316,503)	4,417,324
Other comprehensive expense			
Share of other comprehensive expense of an associate		(1,938)	(74,789)
Other comprehensive expense for the period		(1,938)	(74,789)
Total comprehensive (expense)/ income for the period		(318,441)	4,342,535

Statement of financial position

	Notes	At 31 December 2010 HK$	At 31 May 2011 HK$
Non-current assets			
Interest in an associate	*14*	5,340,795	4,025,848
Current assets			
Prepayments		345	234
Bank balance	*15*	1,103,801	17,513
		1,104,146	17,747
Current liabilities			
Other payables and accruals		5,639,500	4,500
Amount due to a director	*16*	1,123,881	15,000
		6,763,381	19,500
Net current liabilities		(5,659,235)	(1,753)
Net (liabilities)/assets		(318,440)	4,024,095
Capital and reserves			
Share capital	*17*	1	1
Reserves		(318,441)	4,024,094
Total equity		(318,440)	4,024,095

Statement of changes in equity

	Attributable to owner of CIL			
	Share capital	**Foreign currency translation reserve**	**(Accumulated losses)/ retained profits**	**Total equity**
	HK$	*HK$*	*HK$*	*HK$*
	(Note 17)			
Balance at 8 October 2010 (date of incorporation)	–	–	–	–
Loss for the period	–	–	(316,503)	(316,503)
Other comprehensive expense for the period	–	(1,938)	–	(1,938)
Total comprehensive expense for the period	–	(1,938)	(316,503)	(318,441)
Issue of ordinary share	1	–	–	1
Balance at 31 December 2010	1	(1,938)	(316,503)	(318,440)
Profit for the period	–	–	4,417,324	4,417,324
Other comprehensive expense for the period	–	(74,789)	–	(74,789)
Total comprehensive income for the period	–	(74,789)	4,417,324	4,342,535
Balance at 31 May 2011	1	(76,727)	4,100,821	4,024,095

Statement of cash flows

	For the period from 8 October 2010 (date of incorporation) to 31 December 2010	Five-month period ended 31 May 2011
	HK$	*HK$*
Cash flows from operating activities		
(Loss)/profit for the period	(316,503)	4,417,324
Adjustments for:		
Share of loss of an associate	292,267	1,240,158
Waiver of amount due to a director	–	(5,707,944)
Interest income	(1)	(2)
	(24,237)	(50,464)
Movements in working capital		
(Increase)/decrease in prepayments	(345)	111
Increase/(decrease) in other payables and accruals	5,639,500	(5,635,000)
Increase in amount due to a director	1,123,881	4,599,063
Net cash generated by/(used in) operating activities	6,738,799	(1,086,290)
Cash flows from investing activities		
Purchase of interest in an associate	(5,635,000)	–
Interest received	1	2
Net cash (used in)/generated by investing activities	(5,634,999)	2
Cash flows from financing activities		
Proceed from issue of ordinary share	1	–
Net cash generated by financing activities	1	–
Net increase/(decrease) in cash and cash equivalents	1,103,801	(1,086,288)
Cash and cash equivalents at the beginning of period	–	1,103,801
Cash and cash equivalents at the end of period	1,103,801	17,513
Analysis of the balances of cash and cash equivalents		
Bank balance	1,103,801	17,513

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

CIL was incorporated in Hong Kong with limited liability on 8 October 2010 and acts as an investment holding company. The address of the registered office and principal place of business of CIL is 9/F., Bank of Communications Building, No. 368 Hennessy Road, Wanchai, Hong Kong.

The director of CIL regards CPHL as the ultimate holding company of CIL.

The Financial Information of CIL is presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of CIL.

At 31 December 2010 and 31 May 2011 CIL had an excess of current liabilities over current assets of HK$5,659,235 and HK$1,753 respectively. Accordingly, as at the date of this report, CIL is reliant on the shareholder for support in order to meet its existing short term financial obligations.

The director of CIL is aware that, due to the above conditions, a material uncertainty exists which may cast doubt upon CIL's ability to continue as a going concern. However, the director of CIL is of the opinion that there is a reasonable expectation that CIL will be able to continue as going concerns on the basis that the shareholder will continue to provide funding to CIL up until the date of completion of the Acquisition and the Company will provide ongoing funding to CIL upon completion of the Acquisition.

Consequently, the director of CIL has concluded that CIL will be able to continue as a going concern and have prepared the Financial Information on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, CIL has consistently applied HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("INT") issued by the HKICPA that are effective for the annual accounting periods beginning on or after 1 January 2011.

New and revised standards and amendments in issue but not yet effective

CIL has not early applied the following new and revised standards and amendments that have been issued but are not yet effective.

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]

HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (as revised in 2011)	Employee Benefits[4]
HKAS 27 (as revised in 2011)	Separate Financial Statements[4]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[4]

Notes:

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2012.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The director anticipates that HKFRS 9 that will be adopted in CIL's financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of CIL's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

CIL is in the process of making an assessment of the impact of HKFRS 10, HKFRS 11, HKFRS 12, HKFRS 13, HKAS 1 (Amendments), HKAS 19 (as revised in 2011), HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011) but is not yet in a position to state whether these new standards and amendments would have significant impact on the Financial Information.

The director of CIL anticipates that the application of the other new and revised standards and amendments will have no material impact on the results and the financial position of CIL.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Investment in an associate

An associate is an entity over which CIL has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of the associate are incorporated in the Financial Information using the equity method of accounting. Under the equity method, investment in an associate is initially recognised in the statement of financial position at cost and adjusted thereafter to recognise CIL's share of the profit or loss and other comprehensive income of the associate. When CIL's share of losses of an associate exceeds CIL's interest in that associate (which includes any long-term interests that, in substance, form part of CIL's net investment in the associate), CIL discontinues recognising its share of further losses. Additional losses are recognised only to the extent that CIL has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over CIL's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of CIL's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to CIL's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, upon disposal of an associate that results in CIL losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, CIL accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, CIL reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in CIL's Financial Information only to the extent of interests in the associate that are not related to CIL.

Revenue recognition

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to CIL and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currencies

In preparing the Financial Information of CIL, transactions in currencies other than CIL's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting Financial Information, the assets and liabilities of CIL's foreign operations are translated into the presentation currency of CIL (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of CIL's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owner of CIL are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in CIL losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in CIL losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. CIL's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investment in an associate, except where CIL is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which CIL expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current or deferred tax for the period is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, CIL reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, CIL estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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 (if any).

Provisions

Provisions are recognised when CIL has a present obligation (legal or constructive) as a result of a past event, it is probable that CIL will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognised when CIL becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

CIL's financial assets comprise those classified as loans and receivables. The accounting policy adopted is set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classififed as at fair value through profit or loss (FVTPL).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including bank balance) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by CIL are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including other payables and accruals and amount due to a director) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Derecognition

CIL derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If CIL neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, CIL recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If CIL retains substantially all the risks and rewards of ownership of a transferred financial asset, CIL continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when CIL retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and CIL retains control), CIL allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

CIL derecognises financial liabilities when, and only when, CIL's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

A party is considered to be related to CIL if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, CIL; (ii) has an interest in CIL that gives it significant influence over CIL; or (iii) has joint control over CIL;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of CIL or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of CIL, or of any entity that is a related party of CIL.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of CIL's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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. However, there are no critical accounting estimates or assumptions used in the Financial Information that the director of CIL expects will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

5. REVENUE

CIL did not generate any revenue during the Relevant Periods.

6. SEGMENT INFORMATION

The director reviews CIL's internal financial reporting and other information and also obtains other relevant external information in order to assess performance and allocate resources and operating segment is identified with reference to these.

The director considers that the business of CIL is organised in one operating segment as investment holding. Additional disclosure in relation to segment information is not presented as the director assesses the performance of the only operating segment identified based on the consistent information as disclosed in the Financial Information.

The total net segment loss/profit is equivalent to loss/profit and total comprehensive expense/income for the period as shown in the statement of comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the statement of financial position.

CIL is domiciled in Hong Kong and its principal activity is investment holding. The director of CIL considers that, save for CIL's interest in Huancai Puda whose underlying assets are located in the People's Republic of China ("PRC"), all the assets and liabilities of CIL are located in Hong Kong.

7. OTHER INCOME

	For the period from 8 October 2010 (date of incorporation) to 31 December 2010	**Five-month period ended 31 May 2011**
	HK$	*HK$*
Bank interest income	1	2
Waiver of amount due to a director	–	5,707,944
	1	5,707,946

8. INCOME TAX

Hong Kong Profits Tax is calculated at the rate of 16.5% during the Relevant Periods. Hong Kong Profits Tax had not been provided as CIL did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

Under the PRC Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC associate from 1 January 2008 onwards. As the PRC associate incurred losses since 1 January 2008, no deferred taxation was provided.

The tax charge for the periods can be reconciled to the (loss)/profit per the statement of comprehensive income as follows:

	For the period from 8 October 2010 (date of incorporation) to 31 December 2010	Five-month period ended 31 May 2011
	HK$	*HK$*
(Loss)/profit for the period	(316,503)	4,417,324
Tax at the Hong Kong Profits Tax rate of 16.5% (2010: 16.5%)	(52,223)	728,858
Tax effect of share of loss of an associate	48,224	204,626
Tax effect of expenses not deductible for tax purpose	3,999	8,327
Tax effect of income not taxable for tax purpose	–	(941,811)
Tax charge for the period	–	–

No deferred tax assets and liabilities are recognised in the Financial Information as CIL did not have material temporary differences arising between the tax bases of assets and liabilities and their carrying amounts at 31 December 2010 and 31 May 2011.

9. (LOSS)/PROFIT FOR THE PERIOD

(Loss)/profit for the period has been arrived at after charging:

	For the period from 8 October 2010 (date of incorporation) to 31 December 2010	Five-month period ended 31 May 2011
	HK$	*HK$*
Auditors' remuneration	–	–
Employee benefits expense		
– Directors' emoluments	–	–
– Other staff cost	–	–
Preliminary expenses	9,280	–

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to the directors were as follows:

	Fees	Salaries and other benefits	Contributions to retirement benefits schemes	Total
	HK$	*HK$*	*HK$*	*HK$*
For the period from 8 October 2010 (date of incorporation) to 31 December 2010				
Li Qing *(Note (i))*	–	–	–	–
Cartech Limited *(Note (ii))*	–	–	–	–
	–	–	–	–
Five-month period ended 31 May 2011				
Li Qing *(Note (i))*	–	–	–	–
	–	–	–	–

Notes:

(i) Appointed on 3 November 2010.

(ii) Appointed on 8 October 2010 and resigned on 3 November 2010.

During the Relevant Periods, there were no arrangements under which the directors of CIL waived or agreed to waive any remuneration.

During the Relevant Periods, no emolument was paid by CIL to the directors as an inducement to join or upon joining CIL, or as compensation for loss of office.

11. EMPLOYEES' EMOLUMENTS

No employees' emoluments were paid by CIL during the Relevant Periods.

12. DIVIDENDS

No dividends have been paid or proposed by CIL during the Relevant Periods.

13. LOSS PER SHARE

Loss per share has not been presented as such information is not considered meaningful for the purpose of this report.

14. INTEREST IN AN ASSOCIATE

Details of CIL's interest in an associate are as follows:

	At 31 December 2010 *HK$*	At 31 May 2011 *HK$*
Unlisted investment at cost	5,635,000	5,635,000
Share of post-acquisition loss and other comprehensive expense, net of dividends received	(294,205)	(1,609,152)
	5,340,795	4,025,848

At the end of the reporting period, CIL had interest in the following associate:

Name of entity	Place of registration/ operations	Particulars of issued and fully paid registered capital	Proportion of nominal value of issued capital held by CIL	Principal activities
Huancai Puda	PRC	RMB40,810,000	30.87% (direct)	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services

Summarised financial information in respect of CIL's associate are set out below:

	At 31 December 2010 *HK$*	At 31 May 2011 *HK$*
Total assets	20,077,991	16,330,080
Total liabilities	(3,903,070)	(3,924,464)
Net assets	16,174,921	12,405,616
CIL's share of net assets of an associate	5,340,795	4,025,848
Total revenue	7,076	131,326
Total loss for the period	(946,768)	(4,017,359)
CIL's share of loss of an associate	(292,267)	(1,240,158)
CIL's share of other comprehensive expense of an associate	(1,938)	(74,789)

15. BANK BALANCE

Bank balance earns interest at floating rates based on daily bank deposit rates. The bank balance is deposited with creditworthy bank with no recent history of default.

16. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and repayable on demand.

17. SHARE CAPITAL

	At 31 December 2010 *HK$*	At 31 May 2011 *HK$*
Authorised:		
10,000 ordinary shares of HK$1 each	10,000	10,000
Issued and fully paid:		
1 ordinary share of HK$1	1	1

On 8 October 2010, CIL was incorporated with an initial authorised share capital of HK$10,000 divided into 10,000 ordinary shares of HK$1 each. Upon incorporation, CIL issued 1 ordinary share of HK$1 at par to the subscriber as the capital base of CIL.

18. CAPITAL MANAGEMENT

CIL's capital management objectives are:

– to ensure CIL's ability to continue as a going concern;

– to provide an adequate return to shareholder; and

– to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, CIL may adjust the amount of dividend paid to shareholder, return capital to shareholder and issue new shares to reduce its debt level.

19. FINANCIAL INSTRUMENTS

19.1 Categories of financial instruments

	At 31 December 2010 HK$	At 31 May 2011 HK$
Financial assets		
Loans and receivables		
Bank balance	1,103,801	17,513
Financial liabilities		
At amortised cost		
Other payables and accruals	5,639,500	4,500
Amount due to a director	1,123,881	15,000

19.2 Financial risk management objectives and policies

CIL's major financial instruments include bank balance, other payables and accruals and amount due to a director. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The director manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the types of CIL's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

19.2.1 Market risk

Foreign currency risk management

The director of CIL considers that CIL is not exposed to significant foreign currency risk.

Interest rate risk management

CIL's cash flow interest rate risk primarily relates to variable-rate bank balance. CIL has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows. However, the director monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Other price risk

As CIL has no significant investments in financial assets at FVTPL or available-for-sale financial assets, CIL is not exposed to significant other price risk.

19.2.2 Credit risk management

CIL has no significant credit risk, including risk resulting from counterparty default and risk of concentration. CIL has policies in place for the control and monitoring of such credit risk.

19.2.3 Liquidity risk management

The liquidity of CIL is managed and monitored by maintaining sufficient cash balances. The director of CIL considers that CIL does not have significant liquidity risk.

All CIL's financial liabilities are repayable on demand or less than one year. In the opinion of the director of CIL, the preparation of maturity profile is not necessary.

19.3 Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively; and

- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The director considers that the carrying amounts of financial assets and financial liabilities recognised in the Financial Information approximate to their fair values.

19.3.1 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Levels 1 and 2 during the Relevant Periods.

At the end of the reporting period, CIL did not have any assets and liabilities that were measured at the above fair value measurements hierarchy.

20. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Financial Information, CIL did not enter into any other significant related party transactions during the Relevant Periods.

Compensation of key management personnel

The director of CIL considers that they are the only key management personnel of CIL.

II. EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed elsewhere in the Financial Information, no other significant event took place subsequent to 31 May 2011.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of CIL have been prepared in respect of any period subsequent to 31 May 2011.

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

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.

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

28 October 2011

The Board of Directors
China Netcom Technology Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Wise Mark Investments Limited ("WMIL") and its subsidiary (hereinafter collectively referred to as the "WMIL Group"), for the period from 28 April 2011 (date of incorporation) to 31 May 2011 (the "Relevant Period"), for inclusion in the circular dated 28 October 2011 (the "Circular") issued by China Netcom Technology Holdings Limited (the "Company") in connection with the proposed connected and major acquisition (the "Acquisition") by Greatest Profit Investment Limited (the "Purchaser"), an indirect wholly-owned subsidiary of the Company, relating to the acquisition of the entire issued share capital of Carnix Investment Limited and WMIL from Century Profit Holdings Limited ("CPHL") and Mutual International Limited ("MIL"), a wholly-owned subsidiary of CPHL, respectively.

WMIL was incorporated in the British Virgin Islands ("BVI") on 28 April 2011 with limited liability and is wholly-owned by MIL. WMIL is principally engaged in investment holding. The addresses of the registered office and principal place of business of WMIL are Akara Building, 24 De Castro Street, Wickhams Cay 1, Road Town, Tortola, BVI and Suite 610, 6th Floor, Tower 1, Silvercord, 30 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong, respectively.

As at the date of this report, WMIL has interest in the following subsidiary:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital	Attributable equity interest held	Principal activity
Shine Smart Investment Limited ("SSIL")	Hong Kong, 6 May 2011	HK$1	100% (direct)	Investment holding

The WMIL Group has not carried on any business since the date of its incorporation, save for MIL transferred the 18.13% equity interests in 深圳環彩普達科技有限公司 (transliterated as Shenzhen Huancai Puda Technology Company Limited) ("Huancai Puda") to SSIL. The transfer was completed in July 2011. As at the date of this report, the sole asset of the WMIL Group is the 18.13% equity interests in Huancai Puda.

The financial year end date of WMIL and its subsidiary is December 31.

No statutory audited financial statements have been prepared for WMIL since the date of its incorporation as there is no such statutory requirement in the BVI.

No audited financial statements have been prepared for SSIL as it was newly incorporated.

For the purpose of this report, the sole director of WMIL has prepared consolidated management accounts of the WMIL Group for the Relevant Period (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the WMIL Group for the Relevant Period set out in this report has been prepared based on the Underlying Financial Statements for the purpose of preparing our report for inclusion in the Circular. No adjustments were considered necessary to adjust the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the sole director of WMIL who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the WMIL Group as at 31 May 2011 and of the results and cash flows of the WMIL Group for the Relevant Period.

Without qualifying our opinion, we draw attention to note 1 to the Financial Information set out in Appendix IIB below which indicates that at 31 May 2011 the WMIL Group had net liabilities of HK$39,162. In addition, the WMIL Group incurred a net loss of HK$39,170 for the period from 28 April 2011 (date of incorporation) to 31 May 2011. Accordingly, the WMIL Group is reliant on the shareholder of WMIL for support in order to meet its existing short term financial obligations. The Financial Information has been prepared on a going concern basis on the assumptions that the shareholder will provide financial support to the WMIL Group until the date of the Acquisition is completed and the Company will provide financial support to the WMIL Group upon completion of the Acquisition. The validity of the Financial Information being prepared on a going concern basis depends upon the continuing financial support from the shareholder and the Company respectively before and after completion of the Acquisition. These matters, along with other matters as forth in note 1 below, indicate the existence of a material uncertainty which may cast doubt upon the WMIL Group's ability to continue as a going concern. The Financial Information does not include any adjustments that would result from failure of such measures.

I. FINANCIAL INFORMATION

Consolidated statement of comprehensive income

	Notes	**For the period from 28 April 2011 (date of incorporation) to 31 May 2011** *HK$*
Revenue	*5*	–
Administrative expenses		(39,170)
Loss before tax		(39,170)
Income tax	*7*	–
Loss and total comprehensive expense for the period	*8*	(39,170)

Consolidated statement of financial position

	Notes	At 31 May 2011 *HK$*
Current assets		
Amount due from holding company	*13*	8
Current liabilities		
Accruals		4,000
Amount due to a director	*14*	35,170
		39,170
Net liabilities		(39,162)
Capital and reserves		
Share capital	*15*	8
Reserves		(39,170)
Total equity		(39,162)

Consolidated statement of changes in equity

	Attributable to owner of WMIL		
	Share capital *HK$* *(Note 15)*	**Accumulated loss** *HK$*	**Total equity** *HK$*
Balance at 28 April 2011 (date of incorporation)	–	–	–
Loss for the period	–	(39,170)	(39,170)
Other comprehensive income for the period	–	–	–
Total comprehensive expense for the period	–	(39,170)	(39,170)
Issue of ordinary share	8	–	8
Balance at 31 May 2011	8	(39,170)	(39,162)

Consolidated statement of cash flows

	For the period from 28 April 2011 (date of incorporation) to 31 May 2011
	HK$
Cash flows from operating activities	
Loss for the period	(39,170)
Movements in working capital	
Increase in amount due from holding company	(8)
Increase in accruals	4,000
Increase in amount due to a director	35,170
Net cash used in operating activities	(8)
Cash flows from financing activities	
Proceed from issue of ordinary share	8
Net cash generated by financing activities	8
Cash and cash equivalents at the beginning and at the end of period	–

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

WMIL was incorporated in the BVI on 28 April 2011 with limited liability and is wholly-owned by MIL. WMIL is principally engaged in investment holding. The addresses of the registered office and principal place of business of WMIL are Akara Building, 24 De Castro Street, Wickhams Cay 1, Road Town, Tortola, BVI and Suite 610, 6th Floor, Tower 1, Silvercord, 30 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong, respectively.

The director of WMIL regards CPHL as the ultimate holding company of the WMIL Group.

The Financial Information of the WMIL Group is presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the WMIL Group.

At 31 May 2011 the WMIL Group had net liabilities of HK$39,162. In addition, the WMIL Group incurred a net loss of HK$39,170 for the period from 28 April 2011 (date of incorporation) to 31 May 2011. Accordingly, as at the date of this report, the WMIL Group is reliant on the shareholder for support in order to meet its existing short term financial obligations.

The director of WMIL is aware that, due to the above conditions, a material uncertainty exists which may cast doubt upon the WMIL Group's ability to continue as a going concern. However, the director of WMIL is of the opinion that there is a reasonable expectation that the WMIL Group will be able to continue as going concerns on the basis that the shareholder will continue to provide funding to the WMIL Group up until the date of completion of the Acquisition and the Company will provide ongoing funding to the WMIL Group upon completion of the Acquisition.

Consequently, the director of WMIL has concluded that the WMIL Group will be able to continue as a going concern and have prepared the Financial Information on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the WMIL Group has consistently applied HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("INT") issued by the HKICPA that are effective for the annual accounting periods beginning on or after 1 January 2011.

New and revised standards and amendments in issue but not yet effective

The WMIL Group has not early applied the following new and revised standards and amendments that have been issued but are not yet effective:

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (as revised in 2011)	Employee Benefits[4]
HKAS 27 (as revised in 2011)	Separate Financial Statements[4]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[4]

Notes:

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2012.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The director anticipates that HKFRS 9 that will be adopted in the WMIL Group's financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the WMIL Group's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The WMIL Group is in the process of making an assessment of the impact of HKFRS 10, HKFRS 11, HKFRS 12, HKFRS 13, HKAS 1 (Amendments), HKAS 19 (as revised in 2011), HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011) but is not yet in a position to state whether these new standards and amendments would have significant impact on the Financial Information.

The director of WMIL anticipates that the application of the other new and revised standards and amendments will have no material impact on the results and the financial position of the WMIL Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporates the financial statements of WMIL and entities (including special purpose entities) controlled by WMIL (its subsidiaries). Control is achieved where WMIL has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Relevant Period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the WMIL Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the WMIL Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of WMIL and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the WMIL Group's ownership interests in existing subsidiaries

Changes in the WMIL Group's ownership interests in subsidiaries that do not result in the WMIL Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the WMIL Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owner of WMIL.

When the WMIL Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if WMIL had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to accumulated losses). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Revenue recognition

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the WMIL Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The WMIL Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the WMIL Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current or deferred tax for the period is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the WMIL Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the WMIL Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Provisions

Provisions are recognised when the WMIL Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the WMIL Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognised when the WMIL Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The WMIL Group's financial assets comprise those classified as loans and receivables. The accounting policy adopted is set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classififed as at fair value through profit or loss (FVTPL).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including amount due from holding company) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the WMIL Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including accruals and amount due to a director) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Derecognition

The WMIL Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the WMIL Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the WMIL Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the WMIL Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the WMIL Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the WMIL Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the WMIL Group retains control), the WMIL Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The WMIL Group derecognises financial liabilities when, and only when, the WMIL Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

A party is considered to be related to the WMIL Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the WMIL Group; (ii) has an interest in the WMIL Group that gives it significant influence over the WMIL Group; or (iii) has joint control over the WMIL Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the WMIL Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the WMIL Group, or of any entity that is a related party of the WMIL Group.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the WMIL Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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. However, there are no critical accounting estimates or assumptions used in the Financial Information that the director of WMIL expects will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

5. REVENUE

The WMIL Group did not generate any revenue during the Relevant Period.

6. SEGMENT INFORMATION

The director reviews the WMIL Group's internal financial reporting and other information and also obtains other relevant external information in order to assess performance and allocate resources and operating segment is identified with reference to these.

The director considers that the business of the WMIL Group is organised in one operating segment as investment holding. Additional disclosure in relation to segment information is not presented as the director assesses the performance of the only operating segment identified based on the consistent information as disclosed in the Financial Information.

The total net segment loss is equivalent to loss and total comprehensive expense for the period as shown in the consolidated statement of comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statement of financial position.

The WMIL Group is domiciled in the BVI and Hong Kong and its principal activity is investment holding. The director of WMIL considers that all the assets and liabilities of the WMIL Group are located in Hong Kong.

7. INCOME TAX

WMIL is an exempted company incorporated in the BVI and, as such, is not liable for taxation in the BVI.

Hong Kong Profits Tax is calculated at the rate of 16.5% during the Relevant Period. Hong Kong Profits Tax had not been provided as the WMIL Group did not generate any assessable profits arising in Hong Kong during the Relevant Period.

No deferred tax assets and liabilities are recognised in the Financial Information as the WMIL Group did not have material temporary differences arising between the tax bases of assets and liabilities and their carrying amounts at 31 May 2011.

8. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging:

	For the period from 28 April 2011 (date of incorporation) to 31 May 2011 *HK$*
Auditors' remuneration	–
Employee benefits expense	
– Director's emoluments	–
– Other staff cost	–
Preliminary expenses	18,670

9. DIRECTOR'S EMOLUMENTS

The emoluments paid or payable to the director were as follows:

	Fees *HK$*	**Salaries and other benefits** *HK$*	**Contributions to retirement benefits schemes** *HK$*	**Total** *HK$*
For the period from 28 April 2011 (date of incorporation) to 31 May 2011				
Zhang XiangYu (Appointed on 29 April 2011)	–	–	–	–

During the Relevant Period, there were no arrangements under which the director of WMIL waived or agreed to waive any remuneration.

During the Relevant Period, no emolument was paid by the WMIL Group to the director as an inducement to join or upon joining the WMIL Group, or as compensation for loss of office.

10. EMPLOYEES' EMOLUMENTS

No employees' emoluments were paid by the WMIL Group during the Relevant Period.

11. DIVIDENDS

No dividends have been paid or proposed by the WMIL Group during the Relevant Period.

12. LOSS PER SHARE

Loss per share has not been presented as such information is not considered meaningful for the purpose of this report.

13. AMOUNT DUE FROM HOLDING COMPANY

The amount due from holding company is unsecured, interest-free and repayable on demand.

14. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and repayable on demand.

15. SHARE CAPITAL

	At 31 May 2011
Authorised:	
50,000 ordinary shares of US$1 each	US$50,000
Issued and fully paid:	
1 ordinary share of US$1	US$1
Equivalent to	HK$8

On 28 April 2011, WMIL was incorporated with an initial authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. Upon incorporation, WMIL issued 1 ordinary share of US$1 at par to the subscriber as the capital base of WMIL.

16. CAPITAL MANAGEMENT

The WMIL Group's capital management objectives are:

– to ensure the WMIL Group's ability to continue as a going concern;

– to provide an adequate return to shareholder; and

– to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the WMIL Group may adjust the amount of dividend paid to shareholder, return capital to shareholder and issue new shares to reduce its debt level.

17. FINANCIAL INSTRUMENTS

17.1 Categories of financial instruments

	At 31 May 2011 *HK$*
Financial assets	
Loans and receivables	
Amount due from holding company	8
Financial liabilities	
At amortised cost	
Accruals	4,000
Amount due to a director	35,170

17.2 Financial risk management objectives and policies

The WMIL Group's major financial instruments include amount due from holding company, accruals and amount due to a director. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The director manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the types of the WMIL Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

17.2.1 Market risk

Foreign currency risk management

The director of WMIL considers that the WMIL Group is not exposed to significant foreign currency risk.

Interest rate risk management

The director of WMIL considers that the WMIL Group is not exposed to significant interest rate risk.

Other price risk

As the WMIL Group has no significant investments in financial assets at FVTPL or available-for-sale financial assets, the WMIL Group is not exposed to significant other price risk.

17.2.2 Credit risk management

The WMIL Group has no significant credit risk, including risk resulting from counterparty default and risk of concentration. The WMIL Group has policies in place for the control and monitoring of such credit risk.

17.2.3 Liquidity risk management

The liquidity of the WMIL Group is managed and monitored by maintaining sufficient cash balances. The director of WMIL considers that the WMIL Group does not have significant liquidity risk.

All the WMIL Group's financial liabilities are repayable on demand or less than one year. In the opinion of the director of WMIL, the preparation of maturity profile is not necessary.

17.3 Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively; and

- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The director considers that the carrying amounts of financial assets and financial liabilities recognised in the Financial Information approximate to their fair values.

17.3.1 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Levels 1 and 2 during the Relevant Period.

At the end of the reporting period, the WMIL Group did not have any assets and liabilities that were measured at the above fair value measurements hierarchy.

18. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Financial Information, the WMIL Group did not enter into any other significant related party transactions during the Relevant Period.

Compensation of key management personnel

The director of the WMIL considers that they are the only key management personnel of the WMIL Group.

II. EVENTS AFTER THE REPORTING PERIOD

In June 2011, MIL entered into a share transfer agreement with SSIL for the transfer of the 18.13% equity interests in Huancai Puda to SSIL at a consideration of RMB1,882,300. The consideration was settled by SSIL procuring its holding company, WMIL to issue and allot one ordinary share of US$1 of WMIL, credited as fully paid to MIL. The transfer was completed in July 2011 and thereafter Huancai Puda became an available-for-sale investment of the WMIL Group.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the WMIL Group have been prepared in respect of any period subsequent to 31 May 2011.

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

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.

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

28 October 2011

The Board of Directors
China Netcom Technology Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding 深圳環彩普達科技有限公司 (transliterated as Shenzhen Huancai Puda Technology Company Limited) ("Huancai Puda") and its subsidiaries (hereinafter collectively referred to as the "Huancai Puda Group") for the financial years ended 31 December 2008, 2009 and 2010 and the five-month period ended 31 May 2011 (the "Relevant Periods"), for inclusion in the circular dated 28 October 2011 (the "Circular") issued by China Netcom Technology Holdings Limited (the "Company") in connection with the proposed connected and major acquisition (the "Acquisition") by Greatest Profit Investment Limited (the "Purchaser"), an indirect wholly-owned subsidiary of the Company, relating to the acquisition of the entire issued share capital of Carnix Investment Limited ("CIL") and Wise Mark Investments Limited ("WMIL") from Century Profit Holdings Limited ("CPHL") and Mutual International Limited ("MIL"), a wholly-owned subsidiary of CPHL, respectively.

Huancai Puda is a Sino-foreign equity joint venture established in the People's Republic of China ("PRC") on 9 November 2006 and is principally engaged in development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services. The address of the registered office and principal place of business of Huancai Puda is 深圳市福田區車公廟工業區車公廟工業廠房301棟第1-6層三層378 (transliterated as 378, 3/F, 1-6/F, Block 301, Che Gong Miao Industrial Plant, Che Gong Miao Industrial Zone, Futian District, Shenzhen).

At 31 May 2011, Huancai Puda was owned as to 51%, 30.87% and 18.13% by the Purchaser, CIL and MIL respectively. In June 2011, MIL entered into a share transfer agreement with Shine Smart Investment Limited ("SSIL"), an indirect wholly-owned subsidiary of MIL for the transfer of the 18.13% equity interests in Huancai Puda to SSIL. The transfer was completed in July 2011.

As at the date of this report, the registered owners of Huancai Puda included the Purchaser, CIL and SSIL which owned 51%, 30.87% and 18.13% equity interests in Huancai Puda respectively. Upon completion of the proposed Acquisition, Huancai Puda will become an indirect wholly-owned subsidiary of the Company.

As at the date of this report, Huancai Puda had the following subsidiaries, which are private companies with limited liability and their particulars are as follows:

Name of subsidiary	Place and date of establishment	Paid-up registered capital	Attributable equity interests held	Principal activities
鄭州環彩信息技術有限公司 (transliterated as Zhengzhou Huancai Information Technology Company Limited) ("Zhengzhou Huancai")	Limited liability company established in the PRC on 9 October 2007	Registered capital of RMB500,000	60% (Direct)	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services
重慶環彩科技有限公司 (transliterated as Chongqing Huancai Technology Company Limited) ("Chongqing Huancai")	Limited liability company established in the PRC on 28 July 2009	Registered capital of RMB1,000,000	60% (Direct)	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services

All companies now comprising the Huancai Puda Group have adopted 31 December as their financial year end.

No statutory audited financial statements have been prepared for Zhengzhou Huancai and Chongqing Huancai since the date of their establishment as there is no such statutory requirement in the PRC.

The financial statements of Huancai Puda for the years ended 31 December 2008, 2009 and 2010 and the five-month period ended 31 May 2011 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. The financial statements of Huancai Puda for the year ended 31 December 2008 were audited by Shenzhen Lianjie Certified Public Accountants, certified public accountants registered in the PRC. The financial statements of Huancai Puda for the year ended 31 December 2009 were audited by Shen Zhen Dao Qin Certified Public Accountants, certified public accountants registered in the PRC and the financial statements of Huancai Puda for the year ended 31 December 2010 were audited by F & T Certified Public Accountants, certified public accountants registered in the PRC.

For the purpose of this report, the directors of Huancai Puda have prepared consolidated management accounts of the Huancai Puda Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Huancai Puda Group for the Relevant Periods set out in this report has been prepared based on the Underlying Financial Statements for the purpose of preparing our report for inclusion in the Circular. No adjustments were considered necessary to adjust the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Huancai Puda who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Huancai Puda Group as at 31 December 2008, 2009 and 2010 and 31 May 2011 and of the results and cash flows of the Huancai Puda Group for each of the Relevant Periods.

The comparative consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Huancai Puda Group for the five-month period ended 31 May 2010 together with the notes thereon (the "31 May 2010 Financial Information") have been extracted from the Huancai Puda Group's unaudited financial information for the same period which were prepared by the directors of Huancai Puda solely for the purpose of this report. We have reviewed the 31 May 2010 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the 31 May 2010 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we could become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 31 May 2010 Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications should be made to the 31 May 2010 Financial Information.

I. FINANCIAL INFORMATION

Consolidated statement of comprehensive income

	Notes	Year ended 31 December 2008 HK$	Year ended 31 December 2009 HK$	Year ended 31 December 2010 HK$	Five-month period ended 31 May 2010 HK$ (Unaudited)	Five-month period ended 31 May 2011 HK$
Revenue	5	2,072,367	1,812,560	783,719	109,783	131,326
Cost of sales		(1,766,647)	(820,879)	(342,233)	–	(83,333)
Gross profit		305,720	991,681	441,486	109,783	47,993
Other income and gains		1,629	129,890	334,362	79,433	163,380
Gain in bargain purchase		–	–	859,201	859,201	–
Administrative expenses		(8,570,372)	(5,891,959)	(10,341,380)	(2,361,085)	(4,204,232)
Share of loss of an associate	14	–	–	(124,582)	–	(27,322)
Loss before tax		(8,263,023)	(4,770,388)	(8,830,913)	(1,312,668)	(4,020,181)
Income tax	7	–	–	–	–	–
Loss for the year/period	8	(8,263,023)	(4,770,388)	(8,830,913)	(1,312,668)	(4,020,181)
Other comprehensive (expense)/income						
Currency translation differences		(148,661)	(25,172)	549,341	(7,166)	245,092
Share of other comprehensive income of an associate		–	–	10,321	–	5,784
Other comprehensive (expense)/income for the year/period		(148,661)	(25,172)	559,662	(7,166)	250,876
Total comprehensive expense for the year/period		(8,411,684)	(4,795,560)	(8,271,251)	(1,319,834)	(3,769,305)
Loss attributable to:						
Owners of Huancai Puda		(8,263,023)	(4,770,388)	(8,735,974)	(1,312,668)	(4,017,359)
Non-controlling interests		–	–	(94,939)	–	(2,822)
		(8,263,023)	(4,770,388)	(8,830,913)	(1,312,668)	(4,020,181)
Total comprehensive expense attributable to:						
Owners of Huancai Puda		(8,411,684)	(4,795,560)	(8,193,202)	(1,319,834)	(3,775,089)
Non-controlling interests		–	–	(78,049)	–	5,784
		(8,411,684)	(4,795,560)	(8,271,251)	(1,319,834)	(3,769,305)

Consolidated statement of financial position

	Notes	At 31 December 2008 HK$	At 31 December 2009 HK$	At 31 December 2010 HK$	At 31 May 2011 HK$
Non-current assets					
Property, plant and equipment	13	960,958	907,229	1,571,361	1,562,468
Interest in an associate	14	–	–	342,455	320,917
Available-for-sale investment	15	–	–	117,701	117,701
		960,958	907,229	2,031,517	2,001,086
Current assets					
Trade and other receivables	16	1,071,646	1,081,687	1,288,424	1,329,305
Amount due from a non-controlling interest of a subsidiary	17	–	–	456,901	464,859
Cash and bank balances	18	315,401	30,269	16,301,149	12,534,830
		1,387,047	1,111,956	18,046,474	14,328,994
Current liabilities					
Trade and other payables	19	1,893,638	3,157,450	3,691,208	3,708,912
Amount due to a registered owner	20	244,221	2,675,463	–	–
Amount due to a non-controlling interest of a subsidiary	20	–	–	211,862	215,552
Amounts due to directors	20	6,197,151	6,511,348	–	–
Amounts due to related companies	20	509,796	967,285	–	–
		8,844,806	13,311,546	3,903,070	3,924,464
Net current (liabilities)/assets		(7,457,759)	(12,199,590)	14,143,404	10,404,530
Net (liabilities)/assets		(6,496,801)	(11,292,361)	16,174,921	12,405,616
Capital and reserves					
Paid-up capital	21	10,506,674	10,506,674	45,671,872	45,671,872
Reserves		(17,003,475)	(21,799,035)	(29,992,237)	(33,767,326)
Equity attributable to owners of Huancai Puda		(6,496,801)	(11,292,361)	15,679,635	11,904,546
Non-controlling interests		–	–	495,286	501,070
Total equity		(6,496,801)	(11,292,361)	16,174,921	12,405,616

Consolidated statement of changes in equity

	Attributable to owners of Huancai Puda					
	Paid-up capital *HK$* *(Note 21)*	**Foreign currency translation reserve** *HK$*	**Accumulated losses** *HK$*	**Subtotal** *HK$*	**Attributable to non-controlling interests** *HK$*	**Total** *HK$*
Balance at 1 January 2008	7,258,944	(32,608)	(8,559,183)	(1,332,847)	–	(1,332,847)
Loss for the year	–	–	(8,263,023)	(8,263,023)	–	(8,263,023)
Other comprehensive expense for the year	–	(148,661)	–	(148,661)	–	(148,661)
Total comprehensive expense for the year	–	(148,661)	(8,263,023)	(8,411,684)	–	(8,411,684)
Proceeds from capital contribution	3,247,730	–	–	3,247,730	–	3,247,730
Balance at 31 December 2008	10,506,674	(181,269)	(16,822,206)	(6,496,801)	–	(6,496,801)
Loss for the year	–	–	(4,770,388)	(4,770,388)	–	(4,770,388)
Other comprehensive expense for the year	–	(25,172)	–	(25,172)	–	(25,172)
Total comprehensive expense for the year	–	(25,172)	(4,770,388)	(4,795,560)	–	(4,795,560)
Balance at 31 December 2009	10,506,674	(206,441)	(21,592,594)	(11,292,361)	–	(11,292,361)
Loss for the year	–	–	(8,735,974)	(8,735,974)	(94,939)	(8,830,913)
Other comprehensive income for the year	–	542,772	–	542,772	16,890	559,662
Total comprehensive expense for the year	–	542,772	(8,735,974)	(8,193,202)	(78,049)	(8,271,251)

	Attributable to owners of Huancai Puda					
	Paid-up capital HK$ (Note 21)	Foreign currency translation reserve HK$	Accumulated losses HK$	Subtotal HK$	Attributable to non-controlling interests HK$	Total HK$
Non-controlling interests arising on acquisition of subsidiaries	–	–	–	–	573,335	573,335
Proceeds from capital contribution	35,165,198	–	–	35,165,198	–	35,165,198
Balance at 31 December 2010	45,671,872	336,331	(30,328,568)	15,679,635	495,286	16,174,921
Loss for the period	–	–	(4,017,359)	(4,017,359)	(2,822)	(4,020,181)
Other comprehensive income for the period	–	242,270	–	242,270	8,606	250,876
Total comprehensive expense for the period	–	242,270	(4,017,359)	(3,775,089)	5,784	(3,769,305)
Balance at 31 May 2011	45,671,872	578,601	(34,345,927)	11,904,546	501,070	12,405,616
(Unaudited)						
Balance at 1 January 2010	10,506,674	(206,441)	(21,592,594)	(11,292,361)	–	(11,292,361)
Loss for the period	–	–	(1,312,668)	(1,312,668)	–	(1,312,668)
Other comprehensive expense for the period	–	(7,166)	–	(7,166)	–	(7,166)
Total comprehensive expense for the period	–	(7,166)	(1,312,668)	(1,319,834)	–	(1,319,834)
Non-controlling interests arising on acquisition of subsidiaries	–	–	–	–	573,335	573,335
Proceeds from capital contribution	17,063,946	–	–	17,063,946	–	17,063,946
Balance at 31 May 2010	27,570,620	(213,607)	(22,905,262)	4,451,751	573,335	5,025,086

Consolidated statement of cash flows

	Year ended 31 December 2008 HK$	Year ended 31 December 2009 HK$	Year ended 31 December 2010 HK$	Five-month period ended 31 May 2010 HK$ (Unaudited)	Five-month period ended 31 May 2011 HK$
Cash flows from operating activities					
Loss for the year/period	(8,263,023)	(4,770,388)	(8,830,913)	(1,312,668)	(4,020,181)
Adjustments for:					
Share of loss of an associate	–	–	124,582	–	27,322
Interest income	(1,629)	(570)	(44,119)	(335)	(64,870)
Loss on disposal of property, plant and equipment	–	11,907	32,771	–	1,258
Gain in bargain purchase	–	–	(859,201)	(859,201)	–
Depreciation of property, plant and equipment	190,942	230,727	319,017	110,661	158,858
	(8,073,710)	(4,528,324)	(9,257,863)	(2,061,543)	(3,897,613)
Movements in working capital					
(Increase)/decrease in trade and other receivables	(673,061)	(10,041)	651,160	(390,641)	(40,881)
Decrease/(increase) in amount due from a non-controlling interest of a subsidiary	–	–	81,552	–	(7,958)
Increase/(decrease) in trade and other payables	541,850	1,263,812	496,453	(1,331,019)	17,704
(Decrease)/increase in amount due to a registered owner	(1,312,182)	2,431,242	(2,675,463)	(807,494)	–
Increase in amount due to a non-controlling interest of a subsidiary	–	–	12,371	–	3,690
Increase/(decrease) in amounts due to directors	6,197,151	314,197	(6,511,348)	(6,511,348)	–
Increase/(decrease) in amounts due to related companies	147,065	457,489	(967,285)	(744,550)	–
Net cash used in operating activities	(3,172,887)	(71,625)	(18,170,423)	(11,846,595)	(3,925,058)
Cash flows from investing activities					
Purchase of interest in an associate	–	–	(456,716)	–	–
Purchase of available-for-sale investment	–	–	(117,701)	–	–
Interest received	1,629	570	44,119	335	64,870
Payments for property, plant and equipment	(541,739)	(192,734)	(920,777)	(16,592)	(124,113)
Proceeds from disposal of property, plant and equipment	–	6,798	195,776	–	–
Net cash inflow on acquisition of subsidiaries	–	–	33,012	33,012	–

	Year ended 31 December 2008 *HK$*	Year ended 31 December 2009 *HK$*	Year ended 31 December 2010 *HK$*	Five-month period ended 31 May 2010 *HK$* (Unaudited)	Five-month period ended 31 May 2011 *HK$*
Net cash (used in)/generated by investing activities	(540,110)	(185,366)	(1,222,287)	16,755	(59,243)
Cash flows from financing activities					
Proceeds from capital contribution	3,247,730	–	35,165,198	17,063,946	–
Net cash generated by financing activities	3,247,730	–	35,165,198	17,063,946	–
Net (decrease)/increase in cash and cash equivalents	(465,267)	(256,991)	15,772,488	5,234,106	(3,984,301)
Cash and cash equivalents at the beginning of year/period	966,355	315,401	30,269	30,269	16,301,149
Effect of foreign exchange rate changes, net	(185,687)	(28,141)	498,392	3,521	217,982
Cash and cash equivalents at the end of year/period	315,401	30,269	16,301,149	5,267,896	12,534,830
Analysis of the balances of cash and cash equivalents					
Cash and bank balances	315,401	30,269	16,301,149	5,267,896	12,534,830

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

Huancai Puda is a Sino-foreign equity joint venture established in the PRC on 9 November 2006 and is principally engaged in development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services. The address of the registered office and principal place of business of Huancai Puda is 378, 3/F, 1-6/F, Block 301, Che Gong Miao Industrial Plant, Che Gong Miao Industrial Zone, Futian District, Shenzhen.

The directors of Huancai Puda regard China Netcom Technology Holdings Limited, as the ultimate holding company of the Huancai Puda Group.

The Financial Information of the Huancai Puda Group is presented in Hong Kong dollars ("HK$"), whereas the functional currency of the Huancai Puda Group is Renminbi ("RMB").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Huancai Puda Group has consistently applied HKFRSs, Hong Kong Accounting Standards ("HKAS(s)"), amendments and interpretations ("INT") issued by the HKICPA that are effective for the annual accounting periods beginning on or after 1 January 2011.

New and revised standards and amendments in issue but not yet effective

The Huancai Puda Group has not early applied the following new and revised standards and amendments that have been issued but are not yet effective:

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (as revised in 2011)	Employee Benefits[4]
HKAS 27 (as revised in 2011)	Separate Financial Statements[4]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[4]

Notes:

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2012.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of Huancai Puda anticipate that HKFRS 9 that will be adopted in the Huancai Puda Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Huancai Puda Group's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The Huancai Puda Group is in the process of making an assessment of the impact of HKFRS 10, HKFRS 11, HKFRS 12, HKFRS 13, HKAS 1 (Amendments), HKAS 19 (as revised in 2011), HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011) but is not yet in a position to state whether these new standards and amendments would have significant impact on the Financial Information.

The directors of Huancai Puda anticipate that the application of the other new and revised standards and amendments will have no material impact on the results and the financial position of the Huancai Puda Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The principal accounting policies are set out below.

Basis of consolidation

The Financial Information incorporates the financial statements of Huancai Puda and entities (including special purpose entities) controlled by Huancai Puda (its subsidiaries). Control is achieved where Huancai Puda has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Huancai Puda Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Huancai Puda Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Huancai Puda and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Huancai Puda Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Huancai Puda Group's ownership interests in existing subsidiaries

Changes in the Huancai Puda Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Huancai Puda Group's ownership interests in subsidiaries that do not result in the Huancai Puda Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Huancai Puda Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of Huancai Puda.

When the Huancai Puda Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if Huancai Puda had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to accumulated losses). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Huancai Puda Group, liabilities incurred by the Huancai Puda Group to the former owners of the acquiree and the equity interests issued by the Huancai Puda Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Huancai Puda Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

Where the consideration the Huancai Puda Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Huancai Puda Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Huancai Puda Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Huancai Puda Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Investment in an associate

An associate is an entity over which the Huancai Puda Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of the associate are incorporated in the Financial Information using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Huancai Puda Group's share of the profit or loss and other comprehensive income of the associate. When the Huancai Puda Group's share of losses of an associate exceeds the Huancai Puda Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Huancai Puda Group's net investment in the associate), the Huancai Puda Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Huancai Puda Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Huancai Puda Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Huancai Puda Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Huancai Puda Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, upon disposal of an associate that results in the Huancai Puda Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Huancai Puda Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Huancai Puda Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Huancai Puda Group's Financial Information only to the extent of interests in the associate that are not related to the Huancai Puda Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Huancai Puda Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Huancai Puda Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Huancai Puda Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from the sale of goods is recognised when goods are delivered and legal title is passed.

Revenue from a contract to provide services is recognised when the services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Huancai Puda Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Huancai Puda Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting Financial Information, the assets and liabilities of the Huancai Puda Group's foreign operations are translated into the presentation currency of the Huancai Puda Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Huancai Puda Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of Huancai Puda are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in the Huancai Puda Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Huancai Puda Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Pursuant to the relevant regulations of the government of the PRC, the Huancai Puda Group participates in a local municipal government retirement benefits scheme (the "PRC Scheme"), whereby the Huancai Puda Group is required to make contributions, as calculated under the rules specified by the relevant PRC local government authorities, to the PRC Scheme to fund its retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the Huancai Puda Group. The only obligation of the Huancai Puda Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme mentioned above. Contributions under the PRC Scheme are charged to the statement of comprehensive income as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Huancai Puda Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Huancai Puda Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Huancai Puda Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method, as follows:

Computers	:	5 years
Plant and machinery	:	3 – 5 years
Office equipment	:	5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Huancai Puda Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Huancai Puda Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years/periods. A reversal of an impairment loss is recognised immediately in profit or loss.

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 (if any).

Provisions

Provisions are recognised when the Huancai Puda Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Huancai Puda Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Huancai Puda Group's financial assets comprise those classified as available-for sale financial assets (AFS financial assets) and loans and receivables. The accounting policies adopted are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classififed as at fair value through profit or loss (FVTPL).

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

AFS financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of the reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, amount due from a non-controlling interest of a subsidiary and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Huancai Puda Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by Huancai Puda are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including trade and other payables, amount due to a registered owner, amount due to a non-controlling interest of a subsidiary, amounts due to directors and amounts due to related companies) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Derecognition

The Huancai Puda Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Huancai Puda Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Huancai Puda Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Huancai Puda Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Huancai Puda Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Huancai Puda Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Huancai Puda Group retains control), the Huancai Puda Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Huancai Puda Group derecognises financial liabilities when, and only when, the Huancai Puda Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

A party is considered to be related to the Huancai Puda Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Huancai Puda Group; (ii) has an interest in the Huancai Puda Group that gives it significant influence over the Huancai Puda Group; or (iii) has joint control over the Huancai Puda Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Huancai Puda Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Huancai Puda Group, or of any entity that is a related party of the Huancai Puda Group.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Huancai Puda Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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. However, there are no critical accounting estimates or assumptions used in the Financial Information that the directors of Huancai Puda expect will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

5. REVENUE

	Year ended 31 December 2008 *HK$*	Year ended 31 December 2009 *HK$*	Year ended 31 December 2010 *HK$*	Five-month period ended 31 May 2010 *HK$* (Unaudited)	Five-month period ended 31 May 2011 *HK$*
Provision and development of computer software	1,398,127	1,435,196	288,490	109,783	–
Sale of lottery equipment	672,255	376,229	439,176	–	–
Technical consultancy services income	1,985	1,135	56,053	–	131,326
	2,072,367	1,812,560	783,719	109,783	131,326

6. SEGMENT INFORMATION

The directors of Huancai Puda review the Huancai Puda Group's internal financial reporting and other information and also obtain other relevant external information in order to assess performance and allocate resources and operating segment is identified with reference to these.

The directors of Huancai Puda consider that the business of the Huancai Puda Group is organised in one operating segment as development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services. Additional disclosure in relation to segment information is not presented as the directors of Huancai Puda assess the performance of the only operating segment identified based on the consistent information as disclosed in the Financial Information.

The total net segment loss is equivalent to loss and total comprehensive expense for the year/period as shown in the consolidated statement of comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statement of financial position.

Details of depreciation in relation to the operating segment is disclosed in note 8 below.

Information about major customers

Revenue from customers during the Relevant Periods contributing over 10% of the total revenue of the Huancai Puda Group are as follows:

	Year ended 31 December 2008 *HK$*	Year ended 31 December 2009 *HK$*	Year ended 31 December 2010 *HK$*	Five-month period ended 31 May 2010 *HK$* (Unaudited)	Five-month period ended 31 May 2011 *HK$*
Customer A	–	–	178,256	–	–
Customer B	1,889,257	1,414,755	110,234	109,783	–
Customer C	–	376,229	439,176	–	–
Customer D	–	–	–	–	122,666
	1,889,257	1,790,984	727,666	109,783	122,666

The Huancai Puda Group is domiciled in the PRC with its major operations in the PRC. Total revenue and turnover, as disclosed in note 5 above represented the revenue from external customers arising from the development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services in the PRC. Substantially all the assets and liabilities of the Huancai Puda Group are located in the PRC.

7. INCOME TAX

Huancai Puda is subject to PRC Enterprise Income Tax at 25%, 20%, 15%, 15% and 15% for the years ended 31 December 2008, 2009 and 2010 and the five-month periods ended 31 May 2010 and 2011 respectively.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate is 25% for the Huancai Puda Group from 1 January 2008 onwards.

Huancai Puda was entitled to a preferential tax rate of 20% for the year ended 31 December 2009.

PRC Enterprise Income Tax is calculated at a preferential tax rate of 15% as Huancai Puda is recognised as an advance and new technology enterprise under the EIT Law for the year ended 31 December 2010 and the five-month period ended 31 May 2011.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% during the Relevant Periods.

No provision for PRC Enterprise Income Tax has been made as Huancai Puda and its subsidiaries did not generate any taxable profit in the PRC during the Relevant Periods.

No deferred tax assets and liabilities are recognised in the Financial Information as the Huancai Puda Group did not have material temporary differences arising between the tax bases of assets and liabilities and their carrying amounts at 31 December 2008, 2009 and 2010 and 31 May 2011.

8. LOSS FOR THE YEAR/PERIOD

Loss for the year/period has been arrived at after charging:

	Year ended 31 December 2008	**Year ended 31 December 2009**	**Year ended 31 December 2010**	**Five-month period ended 31 May 2010**	**Five-month period ended 31 May 2011**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
Cost of goods sold	673,715	261,016	304,417	–	–
Cost of services provided	1,092,932	559,863	37,816	–	83,333
Auditors' remuneration	4,488	4,532	4,607	4,546	84,418
Employee benefits expense (excluding directors' emoluments)	4,179,551	3,051,405	4,004,960	955,020	2,028,136
Directors' emoluments	990,923	903,394	625,165	392,748	118,899
	5,170,474	3,954,799	4,630,125	1,347,768	2,147,035
Minimum lease payments paid under operating leases in respect of land and buildings	942,608	749,581	867,681	281,615	409,964
Net foreign exchange loss	–	–	540,732	17,807	266,223
Depreciation of property, plant and equipment	190,942	230,727	319,017	110,661	158,858
Loss on disposal of property, plant and equipment	–	11,907	32,771	–	1,258

9. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to the directors were as follows:

	Fees	Salaries and other benefits	Contributions to retirement benefits scheme	Total
	HK$	*HK$*	*HK$*	*HK$*
Year ended 31 December 2008				
Wang Zitao *(Note (i))*	–	364,317	–	364,317
Ji Suqing *(Note (vi))*	–	269,307	17,201	286,508
Wu Bin *(Note (vi))*	–	329,900	10,198	340,098
Kevin Delehant *(Note (v))*	–	–	–	–
Wu Yingduo *(Note (vii))*	–	–	–	–
Li Weiqiu *(Note (iv))*	–	–	–	–
	–	963,524	27,399	990,923
Year ended 31 December 2009				
Wang Zitao *(Note (i))*	–	286,732	–	286,732
Ji Suqing *(Note (vi))*	–	271,939	6,891	278,830
Wu Bin *(Note (vi))*	–	333,126	4,706	337,832
Kevin Delehant *(Note (v))*	–	–	–	–
Wu Yingduo *(Note (vii))*	–	–	–	–
	–	891,797	11,597	903,394
Year ended 31 December 2010				
Leung Ngai Man *(Note (iii))*	–	–	–	–
Wu Wei Hua *(Note (iii))*	–	–	–	–
Lin Zhiwei *(Note (ii))*	–	230,351	–	230,351
Jiang Nan *(Note (iii))*	–	–	–	–
Wang Zitao *(Note (i))*	–	196,950	–	196,950
Ji Suqing *(Note (vi))*	–	92,141	1,847	93,988
Wu Bin *(Note (vi))*	–	102,506	1,370	103,876
Kevin Delehant *(Note (v))*	–	–	–	–
Wu Yingduo *(Note (vii))*	–	–	–	–
	–	621,948	3,217	625,165

	Fees	Salaries and other benefits	Contributions to retirement benefits scheme	Total
	HK$	*HK$*	*HK$*	*HK$*
Five-month period ended 31 May 2010 (Unaudited)				
Leung Ngai Man *(Note (iii))*	–	–	–	–
Wu Wei Hua *(Note (iii))*	–	–	–	–
Lin Zhiwei *(Note (ii))*	–	90,918	–	90,918
Jiang Nan *(Note (iii))*	–	–	–	–
Wang Zitao *(Note (i))*	–	113,647	–	113,647
Ji Suqing *(Note (vi))*	–	90,918	3,645	94,563
Wu Bin *(Note (vi))*	–	90,918	2,702	93,620
Kevin Delehant *(Note (v))*	–	–	–	–
Wu Yingduo *(Note (vii))*	–	–	–	–
	–	386,401	6,347	392,748
Five-month period ended 31 May 2011				
Leung Ngai Man *(Note (iii))*	–	–	–	–
Wu Wei Hua *(Note (iii))*	–	–	–	–
Lin Zhiwei *(Note (ii))*	–	118,899	–	118,899
Jiang Nan *(Note (iii))*	–	–	–	–
Wang Zitao *(Note (i))*	–	–	–	–
	–	118,899	–	118,899

Notes:

(i) Appointed on 9 November 2006.

(ii) Appointed on 26 March 2010.

(iii) Appointed on 29 April 2010.

(iv) Appointed on 9 November 2006 and resigned on 18 July 2008.

(v) Appointed on 9 November 2006 and resigned on 26 March 2010.

(vi) Appointed on 9 November 2006 and resigned on 29 April 2010.

(vii) Appointed on 18 July 2008 and resigned on 29 April 2010.

During the Relevant Periods, there were no arrangements under which the directors of the Huancai Puda waived or agreed to waive any remuneration.

During the Relevant Periods, no emoluments were paid by the Huancai Puda Group to the directors as an inducement to join or upon joining the Huancai Puda Group, or as compensation for loss of office.

10. EMPLOYEES' EMOLUMENTS

Employee benefits expense (excluding directors' emoluments)

	Year ended 31 December 2008 *HK$*	Year ended 31 December 2009 *HK$*	Year ended 31 December 2010 *HK$*	Five-month period ended 31 May 2010 *HK$* (Unaudited)	Five-month period ended 31 May 2011 *HK$*
Salaries and other benefits	3,871,995	2,954,587	3,856,845	917,378	1,968,445
Contributions to retirement benefits scheme	307,556	96,818	148,115	37,642	59,691
	4,179,551	3,051,405	4,004,960	955,020	2,028,136

Five highest paid individuals

Of the five individuals with the highest emoluments in the Huancai Puda Group for the years ended 31 December 2008, 2009 and 2010 and the five-month periods ended 31 May 2010 and 2011, three, three, four, four and one were directors of Huancai Puda whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining two, two, one, one and four individuals were as follows:

	Year ended 31 December 2008 *HK$*	Year ended 31 December 2009 *HK$*	Year ended 31 December 2010 *HK$*	Five-month period ended 31 May 2010 *HK$* (Unaudited)	Five-month period ended 31 May 2011 *HK$*
Salaries and other benefits	395,891	421,506	180,580	65,372	415,187
Contributions to retirement benefits scheme	16,805	5,774	1,638	1,823	14,160
	412,696	427,280	182,218	67,195	429,347

The emoluments were all within RMB1,000,000.

During the Relevant Periods, no emoluments were paid by the Huancai Puda Group to the five highest paid employees, including directors, as an inducement to join or upon joining the Huancai Puda Group, or as compensation for loss of office.

11. DIVIDENDS

No dividends have been paid or proposed by Huancai Puda during the Relevant Periods.

12. LOSS PER SHARE

Loss per share has not been presented as such information is not considered meaningful for the purpose of this report.

13. PROPERTY, PLANT AND EQUIPMENT

	Computers	Plant and machinery	Office equipment	Total
	HK$	*HK$*	*HK$*	*HK$*
Cost				
Balance at 1 January 2008	566,812	100,337	–	667,149
Additions	410,609	–	131,130	541,739
Effect of foreign currency exchange differences	37,103	6,015	997	44,115
Balance at 31 December 2008	1,014,524	106,352	132,127	1,253,003
Additions	190,356	2,378	–	192,734
Disposals	–	–	(22,672)	(22,672)
Effect of foreign currency exchange differences	3,383	338	392	4,113
Balance at 31 December 2009	1,208,263	109,068	109,847	1,427,178
Acquired on acquisition of subsidiaries	239,970	–	–	239,970
Additions	469,068	388,650	63,059	920,777
Disposals	(288,416)	(6,185)	–	(294,601)
Effect of foreign currency exchange differences	58,070	12,502	5,528	76,100
Balance at 31 December 2010	1,686,955	504,035	178,434	2,369,424
Additions	121,498	–	2,615	124,113
Disposals	–	–	(2,568)	(2,568)
Effect of foreign currency exchange differences	30,252	8,779	3,108	42,139
Balance at 31 May 2011	1,838,705	512,814	181,589	2,533,108
Accumulated depreciation and impairment				
Balance at 1 January 2008	77,905	16,109	–	94,014
Depreciation expense	160,626	19,087	11,229	190,942
Effect of foreign currency exchange differences	5,893	1,111	85	7,089
Balance at 31 December 2008	244,424	36,307	11,314	292,045
Eliminated on disposals of assets	–	–	(3,967)	(3,967)
Depreciation expense	184,886	19,345	26,496	230,727
Effect of foreign currency exchange differences	953	134	57	1,144

	Computers	Plant and machinery	Office equipment	Total
	HK$	*HK$*	*HK$*	*HK$*
Balance at 31 December 2009	430,263	55,786	33,900	519,949
Eliminated on disposals of assets	(61,974)	(4,080)	–	(66,054)
Depreciation expense	269,051	22,722	27,244	319,017
Effect of foreign currency exchange differences	20,760	2,514	1,877	25,151
Balance at 31 December 2010	658,100	76,942	63,021	798,063
Eliminated on disposals of assets	–	–	(1,310)	(1,310)
Depreciation expense	132,168	11,090	15,600	158,858
Effect of foreign currency exchange differences	12,409	1,420	1,200	15,029
Balance at 31 May 2011	802,677	89,452	78,511	970,640
Carrying amounts				
Balance at 31 May 2011	1,036,028	423,362	103,078	1,562,468
Balance at 31 December 2010	1,028,855	427,093	115,413	1,571,361
Balance at 31 December 2009	778,000	53,282	75,947	907,229
Balance at 31 December 2008	770,100	70,045	120,813	960,958

14. INTEREST IN AN ASSOCIATE

	At 31 December 2008	At 31 December 2009	At 31 December 2010	At 31 May 2011
	HK$	*HK$*	*HK$*	*HK$*
Unlisted investment at cost	–	–	456,716	456,716
Share of post-acquisition loss and other comprehensive expense, net of dividends received	–	–	(114,261)	(135,799)
	–	–	342,455	320,917

At 31 December 2010 and 31 May 2011, the Huancai Puda Group had interest in the following associate:

Name of entity	Place of registration/ operations	Particulars of issued and fully paid registered capital	Proportion of nominal value of issued capital held by the Huancai Puda Group	Principal activities
安徽環彩信息科技有限公司 (transliterated as Anhui Huancai Information Technology Company Limited)	PRC	RMB1,000,000	40% (direct)	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services

Summarised financial information in respect of the Huancai Puda Group's associate is set out below:

	At 31 December 2008 *HK$*	At 31 December 2009 *HK$*	At 31 December 2010 *HK$*	At 31 May 2011 *HK$*
Total assets	–	–	895,118	839,993
Total liabilities	–	–	(36,857)	(35,578)
	–	–	858,261	804,415
Group's share of net assets of an associate	–	–	342,455	320,917
Total revenue	–	–	67,778	25,794
Total loss for the period	–	–	(311,456)	(68,305)
Huancai Puda Group's share of loss of an associate	–	–	(124,582)	(27,322)
Huancai Puda Group's share of other comprehensive income of an associate	–	–	10,321	5,784

15. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment comprises:

	At 31 December 2008	At 31 December 2009	At 31 December 2010	At 31 May 2011
	HK$	*HK$*	*HK$*	*HK$*
Unlisted equity investment	–	–	117,701	117,701

The above unlisted equity investment represents equity investment in a private entity established in the PRC.

The investment is measured at cost less impairment at the end of each reporting period because the range of reasonable fair value estimates is so significant that the directors of Huancai Puda are of the opinion that its fair value cannot be measured reliably.

16. TRADE AND OTHER RECEIVABLES

	At 31 December 2008	At 31 December 2009	At 31 December 2010	At 31 May 2011
	HK$	*HK$*	*HK$*	*HK$*
Trade receivables	889	450	128	15,026
Prepayments, deposits and other receivables	1,070,757	1,081,237	1,288,296	1,314,279
	1,071,646	1,081,687	1,288,424	1,329,305

The Huancai Puda Group allows a credit period of 45 days to its trade customers. The following is an ageing analysis of net trade receivables at the end of reporting period:

	At 31 December 2008	At 31 December 2009	At 31 December 2010	At 31 May 2011
	HK$	*HK$*	*HK$*	*HK$*
0 – 30 days	889	450	–	2,082
31 – 60 days	–	–	–	2,352
61 – 90 days	–	–	–	1,378
Over 90 days	–	–	128	9,214
	889	450	128	15,026

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the end of the reporting period for which the Huancai Puda Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Huancai Puda Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Huancai Puda Group to the counterparties.

The ageing analysis of trade receivables that are not impaired is as follows:

	At 31 December 2008 HK$	At 31 December 2009 HK$	At 31 December 2010 HK$	At 31 May 2011 HK$
Neither past due nor impaired	889	450	–	2,082
Past due but not impaired				
1 – 30 days	–	–	–	2,352
31 – 60 days	–	–	–	1,378
61 – 90 days	–	–	–	449
Over 90 days	–	–	128	8,765
	889	450	128	15,026

17. AMOUNT DUE FROM A NON-CONTROLLING INTEREST OF A SUBSIDIARY

The amount due is unsecured, interest-free and repayable on demand.

18. CASH AND BANK BALANCES

Bank balances carry interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

At 31 December 2008, 2009 and 2010 and 31 May 2011, cash and bank balances of HK$315,284, HK$30,269, HK$1,499,784 and HK$1,541,434 respectively were denominated in RMB which is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Huancai Puda Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

19. TRADE AND OTHER PAYABLES

	At 31 December 2008 HK$	At 31 December 2009 HK$	At 31 December 2010 HK$	At 31 May 2011 HK$
Trade payables	1,131	71,852	4,778	16,968
Other payables and accruals	1,892,507	3,085,598	3,686,430	3,691,944
	1,893,638	3,157,450	3,691,208	3,708,912

The following is an ageing analysis of trade payables at the end of the reporting period:

	At 31 December 2008	At 31 December 2009	At 31 December 2010	At 31 May 2011
	HK$	*HK$*	*HK$*	*HK$*
0 – 30 days	–	–	753	5,016
31 – 60 days	–	–	1,256	3,567
61 – 90 days	–	–	903	3,085
Over 90 days	1,131	71,852	1,866	5,300
	1,131	71,852	4.778	16,968

20. AMOUNTS DUE TO A REGISTERED OWNER/A NON-CONTROLLING INTEREST OF A SUBSIDIARY/DIRECTORS/RELATED COMPANIES

The amounts due are unsecured, interest-free and repayable on demand.

21. PAID-UP CAPITAL

	At 31 December 2008	At 31 December 2009	At 31 December 2010	At 31 May 2011
	HK$	*HK$*	*HK$*	*HK$*
Registered capital	10,506,674	10,506,674	45,671,872	45,671,872

22. CAPITAL MANAGEMENT

The Huancai Puda Group's capital management objectives are:

– to ensure the Huancai Puda Group's ability to continue as a going concern;

– to provide an adequate return to registered owners; and

– to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Huancai Puda Group may adjust the amount of dividend paid to registered owners, return capital to registered owners and issue new capital to reduce its debt level.

23. FINANCIAL INSTRUMENTS

23.1 Categories of financial instruments

	At 31 December 2008 HK$	At 31 December 2009 HK$	At 31 December 2010 HK$	At 31 May 2011 HK$
Financial assets				
Loans and receivables				
Trade and other receivables (included in financial assets)	380,872	487,223	902,933	1,249,778
Amount due from a non-controlling interest of a subsidiary	–	–	456,901	464,859
Cash and bank balances	315,401	30,269	16,301,149	12,534,830
Financial liabilities				
At amortised cost				
Trade and other payables (included in financial liabilities)	1,893,638	2,881,867	3,691,208	3,708,912
Amount due to a registered owner	244,221	2,675,463	–	–
Amount due to a non-controlling interest of a subsidiary	–	–	211,862	215,552
Amounts due to directors	6,197,151	6,511,348	–	–
Amounts due to related companies	509,796	967,285	–	–

23.2 Financial risk management objectives and policies

The Huancai Puda Group's major financial instruments include trade and other receivables, amount due from a non-controlling interest of a subsidiary, cash and bank balances, trade and other payables, amount due to a registered owner, amount due to a non-controlling interest of a subsidiary, amounts due to directors and amounts due to related companies. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the types of the Huancai Puda Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

23.2.1 Market risk

Foreign currency risk management

The directors of Huancai Puda consider that the Huancai Puda Group is not exposed to significant foreign currency risk.

Interest rate risk management

The Huancai Puda Group's cash flow interest rate risk primarily relates to variable-rate bank balances. The Huancai Puda Group has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows. However, the directors monitor interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Other price risk

As the Huancai Puda Group has no significant investments in financial assets at FVTPL, the Huancai Puda Group is not exposed to significant other price risk.

23.2.2 Credit risk management

The Huancai Puda Group has no significant credit risk, including risk resulting from counterparty default and risk of concentration. The Huancai Puda Group has policies in place for the control and monitoring of such credit risk.

23.2.3 Liquidity risk management

The liquidity of the Huancai Puda Group is managed and monitored by maintaining sufficient cash balances. The directors of Huancai Puda consider that the Huancai Puda Group does not have significant liquidity risk.

All the Huancai Puda Group's financial liabilities are repayable on demand or less than one year. In the opinion of the directors of Huancai Puda, the preparation of maturity profile is not necessary.

23.3 Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively; and

- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the Financial Information approximate to their fair values.

23.3.1 Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Levels 1 and 2 during the Relevant Periods.

At the end of the reporting period, the Huancai Puda Group did not have any assets and liabilities that were measured at the above fair value measurements hierarchy.

24. ACQUISITION OF SUBSIDIARIES AND BUSINESS COMBINATION

In May 2010, Huancai Puda completed the acquisition of 60% equity interests of Zhengzhou Huancai from 深圳市環彩科技有限公司 (transliterated as Shenzhen Shi Huancai Technology Company Limited), a former registered owner of Huancai Puda, and 60% equity interests of Chongqing Huancai from Wu Bin, a former director of Huancai Puda, at a consideration of RMB100 and RMB600 respectively.

Consideration transferred

	Zhengzhou Huancai	**Chongqing Huancai**	**Total**
	HK$	*HK$*	*HK$*
Cash paid	114	685	799

Assets acquired and liabilities recognised at the date of acquisition

	Zhengzhou Huancai	**Chongqing Huancai**	**Total**
	HK$	*HK$*	*HK$*
Non-current assets			
Property, plant and equipment	–	239,970	239,970
Current assets			
Other receivables	479,547	378,350	857,897
Amount due from a registered owner	–	538,453	538,453
Cash and bank balances	12,459	21,352	33,811
Current liabilities			
Other payables and accruals	–	(37,305)	(37,305)
Amount due to a non-controlling interest of a subsidiary	–	(199,491)	(199,491)
	492,006	941,329	1,433,335

The fair value of other receivables acquired approximated the gross contractual amounts. There are no contractual cash flows not expected to be collected.

Non-controlling interests

The non-controlling interests at the acquisition date were measured at the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

Gain in bargain purchase arising on acquisition

	Zhengzhou Huancai	**Chongqing Huancai**	**Total**
	HK$	*HK$*	*HK$*
Consideration transferred	114	685	799
Add: non-controlling interests	196,803	376,532	573,335
Less: fair value of identifiable net assets acquired	(492,006)	(941,329)	(1,433,335)
Gain in bargain purchase	(295,089)	(564,112)	(859,201)

Net cash inflow arising on acquisition of subsidiaries

	HK$
Consideration paid in cash	799
Less: cash and bank balances acquired	(33,811)
	(33,012)

Impact of acquisition on the results of the Huancai Puda Group

Zhengzhou Huancai and Chongqing Huan did not contribute any revenue to the Huancai Puda Group for the period from the date of acquisition to 31 December 2010. Zhengzhou Huancai and Chongqing Huancai contributed net losses of HK$17,013 and HK$220,333 respectively to the Huancai Puda Group for the period from the date of acquisition to 31 December 2010.

If the acquisition had occurred on 1 January 2010, the Huancai Puda Group revenue would have been HK$783,719 and loss before allocations would have been HK$8,909,816 for the year ended 31 December 2010. This pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the Huancai Puda Group that actually would have been achieved had the acquisition occurred on 1 January 2010, nor is it intended to be a projection of future results.

There were no acquisitions in the years ended 31 December 2008 and 2009 and for the five-month period ended 31 May 2011.

25. OPERATING LEASE COMMITMENTS

The Huancai Puda Group as lessee

At the end of the reporting period, the Huancai Puda Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31 December 2008 *HK$*	At 31 December 2009 *HK$*	At 31 December 2010 *HK$*	At 31 May 2011 *HK$*
Within one year	997,740	504,078	280,101	757,928
In the second to fifth years inclusive	1,493,304	333,909	19,079	585,702
	2,491,044	837,987	299,180	1,343,630

Operating leases relate to rented premises with lease terms of between 1 to 3 years, with no option to renew the lease terms at the expiry date. The lease does not include contingent rental.

26. CAPITAL COMMITMENTS

At the end of each reporting period, Huancai Puda Group had the following significant commitments which were not provided for in the Financial Information:

	At 31 December 2008 *HK$*	At 31 December 2009 *HK$*	At 31 December 2010 *HK$*	At 31 May 2011 *HK$*
Authorised and contracted for:				
Purchase of moulds	79,145	79,394	–	–
Purchase of equipment	–	530,029	–	9,038,584
	79,145	609,423	–	9,038,584

27. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Financial Information, the Huancai Puda Group had the following material related party transactions during the Relevant Periods.

	Year ended 31 December 2008	Year ended 31 December 2009	Year ended 31 December 2010	Five-month period ended 31 May 2010	Five-month period ended 31 May 2011
	HK$	*HK$*	*HK$*	*HK$* (Unaudited)	*HK$*
Income from provision and development of computer software from a registered owner	1,217,163	1,414,755	110,234	109,783	–
Sale of equipment to a registered owner	672,255	–	–	–	–
	1,889,418	1,414,755	110,234	109,783	–

Compensation of key management personnel

The directors of Huancai Puda consider that they are the only key management personnel of the Huancai Puda Group and details of their compensation have been set out in note 9.

II. EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed elsewhere in the Financial Information, no other significant event took place subsequent to 31 May 2011.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Huancai Puda Group have been prepared in respect of any period subsequent to 31 May 2011.

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

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Unaudited Pro Forma Consolidated Statement of Financial Position

The unaudited pro forma consolidated statement of financial position of the Enlarged Group (the "Unaudited Pro Forma Consolidated Statement of Financial Position") has been prepared in accordance with Rule 7.31 of the GEM Listing Rules for the purpose of illustrating the effects of the Acquisition as if the Acquisition had been completed at the date reported on (i.e. 30 June 2011).

The Unaudited Pro Forma Consolidated Statement of Financial Position is based on (i) the unaudited consolidated statement of financial position of the Group at 30 June 2011 (as extracted from China Netcom Technology Holdings Limited's interim report for the six months ended 30 June 2011); (ii) the audited statement of financial position of CIL at 31 May 2011 (as extracted from the financial information of CIL as shown in Appendix IIA); and (iii) the audited consolidated statement of financial position of the WMIL Group at 31 May 2011 (as extracted from the financial information of the WMIL Group as shown in Appendix IIB), after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction concerned and not relating to future events or decisions; and (ii) factually supportable.

The Unaudited Pro Forma Consolidated Statement of Financial Position should be read in conjunction with the historical financial information of the Group and other financial information included elsewhere in this circular. The Unaudited Pro Forma Consolidated Statement of Financial Position does not take account of any trading or other transactions subsequent to the dates of the financial statements included in the Unaudited Pro Forma Consolidated Statement of Financial Position.

The Unaudited Pro Forma Consolidated Statement of Financial Position has been prepared by the Directors for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group at 30 June 2011 or any future date.

	The Group as at 30 June 2011	CIL as at 31 May 2011	The WMIL Group as at 31 May 2011	Pro forma adjustments					Pro forma Enlarged Group as at 30 June 2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Notes 7&8*	*Note 9*	
Non-current assets									
Property, plant and equipment	2,565	–	–						2,565
Goodwill	420,892	–	–						420,892
Other intangible assets	764,237	–	–						764,237
Interest in an associate	333	4,026	–			(4,026)			333
Available-for-sale investment	118	–	–						118
	1,188,145	4,026	–						1,188,145

	The Group as at 30 June 2011	CIL as at 31 May 2011	The WMIL Group as at 31 May 2011	Pro forma adjustments					Pro forma Enlarged Group as at 30 June 2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Notes 7&8*	*Note 9*	
Current assets									
Trade and other receivables	11,092	–	–		(8,698)				2,394
Amount due from a non-controlling interest of a subsidiary	271	–	–						271
Pledged bank deposit	210	–	–						210
Cash and bank balances	208,271	18	–	(1,800)	(4,083)				202,406
	219,844	18	–						205,281
Current liabilities									
Trade and other payables	5,020	5	4					50	5,079
Amount due to a non-controlling interest of a subsidiary	217	–	–						217
Amounts due to directors	–	15	35					(50)	–
	5,237	20	39						5,296
Net current assets/(liabilities)	214,607	(2)	(39)						199,985
Total assets less current liabilities	1,402,752	4,024	(39)						1,388,130
Non-current liabilities									
Convertible bonds	98,325	–	–						98,325
Promissory note	554,450	–	–						554,450
Deferred tax liabilities	127,207	–	–						127,207
	779,982	–	–						779,982
Net assets/(liabilities)	622,770	4,024	(39)						608,148
Capital and reserves									
Share capital	9,076	–	–		256				9,332
Reserves	298,112	4,024	(39)	(1,800)	53,476	(3,985)	246,870		596,658
Equity attributable to owners of the Company	307,188	4,024	(39)						605,990
Non-controlling interests	315,582	–	–				(313,424)		2,158
Total equity	622,770	4,024	(39)						608,148

Notes to the Unaudited Pro Forma Consolidated Statement of Financial Position:

1. The balances have been extracted from the unaudited consolidated statement of financial position of the Group at 30 June 2011 as disclosed in the published interim report of the Company for the six months ended 30 June 2011.

2. The adjustments represent the inclusion of the assets, liabilities and equity of CIL, as if the Acquisition had taken place at the date reported on (i.e. 30 June 2011). The balances have been extracted from the audited statement of financial position of CIL at 31 May 2011 as disclosed in Appendix IIA to this circular.

3. The adjustments represent the inclusion of the assets, liabilities and equity of the WMIL Group, as if the Acquisition had taken place at the date reported on (i.e. 30 June 2011). The balances have been extracted from the audited consolidated statement of financial position of the WMIL Group at 31 May 2011 as disclosed in Appendix IIB to this circular.

4. The adjustments represent payment for estimated acquisition-related costs (including fees to legal advisers, financial advisors, reporting accountants, valuers, printer and other expenses) of approximately HK$1,800,000 in cash, which would be expensed in the consolidated statement of comprehensive income upon completion of the Acquisition.

5. The adjustments represent the settlement of the Consideration for the Acquisition of RMB73,500,000 (equivalent to approximately HK$86,982,000) in the following manner:

   (i) RMB7,350,000 (equivalent to approximately HK$8,698,000) was paid as deposit within 5 days after the signing of the Original Agreement;

   (ii) RMB3,450,000 (equivalent to approximately HK$4,083,000) shall be paid within 10 business days after Completion by the Purchaser to CPHL by way of bank draft or such other means as agreed by the Vendors and the Purchaser; and

   (iii) RMB62,700,000 (equivalent to approximately HK$74,201,000) shall be satisfied by the Purchaser procuring the Company to allot and issue the Consideration Shares, credited as fully paid at the Issue Price, within 10 business days after Completion to CPHL.

   For the purpose of the preparation of the Unaudited Pro Forma Consolidated Statement of Financial Position, it has been assumed that:

   (i) an aggregate amount of RMB10,800,000 (equivalent to approximately HK$12,781,000), part of the consideration, was paid by the Group from internal resources of the Group; and

   (ii) the Consideration Shares are valued at the published closing price of HK$0.21 each on 30 June 2011 as if the Acquisition had been completed on 30 June 2011. The pro forma adjustment amounting to approximately HK$256,000 represents the par value of 255,866,149 Consideration Shares with a par value of HK$0.001 each, and the pro forma adjustment amounting to approximately HK$53,476,000 represents the share premium arising from the issue of the 255,866,149 Consideration Shares at the estimated fair value of HK$0.21 each.

   On Completion, the fair value of the Consideration will have to be assessed. Since the actual fair values and actual dates of settlement of the Consideration and the estimated costs directly attributable to the Acquisition would be different from their estimated fair values and assumptions used in the preparation of the Unaudited Pro Forma Consolidated Statement of Financial Position presented above, the actual financial position arising from the Acquisition might be materially different from the financial position as shown in this Appendix.

6. The sole asset of CIL and the WMIL Group is their respective 30.87% and 18.13% equity interests (collectively 49%) in Huancai Puda which is an indirect 51% owned subsidiary of the Company. The Huancai Puda Group's assets and liabilities have already been consolidated in the Group's unaudited consolidated statement of financial position as at 30 June 2011. As the Company has control over the Huancai Puda Group before the Acquisition, the acquisition of additional interest in Huancai Puda does not result in change in carrying amounts of assets and liabilities in the Group's consolidated statement of financial position. Except for (i) the bank balance, accruals and amount due to a director of approximately HK$18,000, HK$5,000 and HK$15,000 respectively in CIL, and (ii) the accruals and amount due to a director of approximately HK$4,000 and HK$35,000 respectively in the WMIL Group; the (i) "Interest in an associate" of approximately HK$4,026,000 and the reserves of approximately HK$4,024,000 in CIL's statement of financial position and (ii) the reserves of approximately HK$39,000 in the WMIL Group's consolidated statement of financial position, will be eliminated. The net debit to reserves would be approximately HK$41,000.

7. The carrying amount of non-controlling interests in the Group's unaudited consolidated statement of financial position as at 30 June 2011 related to Huancai Puda amounted to approximately HK$313,424,000. The adjustments reflect the effect of the further acquisition of 49% equity interest in Huancai Puda to the unaudited consolidated statement of financial position of the Group as if the Acquisition had been completed on 30 June 2011, which included (i) de-recognition of the non-controlling interests of approximately HK$313,424,000 and (ii) the recognition of other reserve amounted to approximately HK$246,911,000 being the difference between the Consideration paid for the acquisition of approximately HK$66,513,000 and de-recognition of non-controlling interests of the Group attributable to 49% equity interest in Huancai Puda amounting to approximately HK$313,424,000.

8. The cumulative effect of the Acquisition would be the elimination entries of approximately HK$41,000 as stated in note 6 above and the net impact of the change in non-controlling interest of approximately HK$246,911,000 as stated in note 7 above, which would increase reserve by approximately HK$246,870,000.

9. The adjustments represent the re-classification of the amounts due to directors of approximately HK$50,000 to other payables assuming the Acquisition had been completed on 30 June 2011.

For the purpose of the preparation of the Unaudited Pro Forma Consolidated Statement of Financial Position in accordance with the requirements of Hong Kong Accounting Standard 36 "Impairment of Assets", the Directors consider that no impairment is required in respect of the Enlarged Group's intangible assets and goodwill relating to the cash-generating unit ("CGU") of lottery business taking into account the business potential of Huancai Puda and other factors as disclosed in the paragraph headed "Reasons for and benefits of the Acquisition" in the "Letter from the Board" in this circular. The reporting accountants concurred with the Directors' assessment of impairment of intangible assets and goodwill relating to the CGU of lottery business in Unaudited Pro Forma Consolidated Statement of Financial Position and adoption of consistent accounting policies and principal assumptions in the preparation of the consolidated financial statements of the Group after the completion of the Acquisition. After the completion of the Acquisition, the Group will perform annual impairment test for the CGU of lottery business, to which the intangible assets and goodwill has been allocated in accordance with the Company's accounting policies and the requirements of Hong Kong Accounting Standard 36 "Impairment of Assets", and the Company's auditors will perform audit procedures thereon in respect of their audit of the consolidated financial statements of the Group for the next financial year in accordance with the requirements of Hong Kong Accounting Standard 36 "Impairment of Assets".

The Unaudited Pro Forma Consolidated Statement of Financial Position does not take account of any trading or other transactions subsequent to the date of the financial statements included in the Unaudited Pro Forma Consolidated Statement of Financial Position (i.e. 30 June 2011). In particular, no adjustment has been made to reflect the connected transaction in relation to the disposal of a subsidiary which was announced by the Company on 9 September 2011.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

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.

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

28 October 2011

The Board of Directors
China Netcom Technology Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

Dear Sirs,

REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

We report on the unaudited pro forma consolidated statement of financial position (the "Unaudited Pro Forma Financial Information") of China Netcom Technology Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group"), Carnix Investment Limited ("CIL") and Wise Mark Investments Limited ("WMIL") and its subsidiaries (collectively, the "WMIL Group") (hereinafter collectively referred to as the "Enlarged Group"), as set out in Section A entitled "Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendix III of the Company's circular dated 28 October 2011 (the "Circular"). 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 Acquisition (as defined in the Circular) might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section A of Appendix III to the Circular.

Respective responsibilities of the directors of the Company and the reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 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") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 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 engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, 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 of the Enlarged Group as at 30 June 2011 or any future date.

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 paragraph 7.31(1) of the GEM Listing Rules.

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

The following is the text of a business valuation report, prepared for the purpose of incorporation in this circular received from Peak Vision Appraisals Limited, an independent valuer, in connection with the business valuation of Huancai Puda as at 31 August, 2011.

Peak Vision
Appraisals Limited

12/F, Effectual Building
14-16 Hennessy Road
Wanchai, Hong Kong
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Tel (852) 2187 2238
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28 October, 2011

The Board of Directors
China Netcom Technology Holdings Limited
Unit 1006, 10th Floor
Tower One, Lippo Centre
No. 89 Queensway
Hong Kong

Dear Sirs,

Re: Valuation of the 100% equity interest of 深圳環彩普達科技有限公司

In accordance with your instructions, we have carried out an appraisal for the market value of the 100% equity interest of 深圳環彩普達科技有限公司 (unofficially translated as "Shenzhen Huancai Puda Technology Company Limited" and hereinafter referred to as the "Business Enterprise"). It is our understanding that the Business Enterprise is currently focusing on the provision of innovative sales channel services of lottery businesses in the People's Republic of China (hereinafter referred to as the "PRC" or "China"). We confirm that we have conducted a site visit, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value for the Business Enterprise as at 31 August, 2011 (hereinafter referred to as the "Date of Appraisal").

This report states the purpose of appraisal and scope of our works, identifies the business appraised, describes the basis and methodology of our appraisal, investigation and analysis, assumptions and limiting conditions, and presents our opinion of value.

1.0 PURPOSE OF APPRAISAL

This report is being prepared solely for the use of the directors and management of China Netcom Technology Holdings Limited (hereinafter referred to as the "Company") for its inclusion in the circular to its shareholders in relation to the proposed acquisition of the 49% equity interest of the Business Enterprise. In addition, Peak Vision Appraisals Limited (hereinafter referred to as the "Peak Vision Appraisals") acknowledges that this report may be made available to the independent financial adviser of the Company and used by such adviser as one of the sources of information for formulating its advice to the independent directors and shareholders of the Company, and, if requested, regulators. As at the Date of Appraisal, the Company indirectly holds 51% equity interest in the Business Enterprise.

Peak Vision Appraisals assumes no responsibility whatsoever to any person other than the directors and management of the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely on their own risk.

2.0 DEFINITION OF APPRAISAL

Our valuation is based on the ongoing concern premise and conducted on a market value basis. **Market Value** is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Our valuation has been prepared in accordance with the HKIS Valuation Standards on Trade-related Business Assets and Business Enterprise (First Edition 2004) published by the Hong Kong Institute of Surveyors and the Business Valuation Standards (First Printed 2005) published by the Hong Kong Business Valuation Forum.

3.0 SCOPE OF WORK

For the purpose of our valuation, we have obtained statistical data and information from external public sources concerning the lottery industry in China. On top of the aforesaid public available data, we also made reference to the information and material furnished by the management of the Company and its representatives (hereinafter together referred to as the "Management"). The material information and data provided included but was not limited to the following:

- Statistical data of lottery industry in the PRC sourced from the Ministry of Finance, the PRC;
- Key economic indicators of the PRC sourced from the National Bureau of Statistics of China;

- Major contracts and agreements signed with welfare lottery issuing centers including 重慶市福利彩票發行中心 (hereinafter referred to as the "Chongqing Welfare Lottery Issuing Centre"), 廣西福利彩票發行中心 (hereinafter referred to as the "Guangxi Welfare Lottery Issuing Centre"), 河南省福利彩票發行中心 (hereinafter referred to as the "Henan Welfare Lottery Issuing Centre"), 深圳市福利彩票發行中心 (hereinafter referred to as the "Shenzhen Welfare Lottery Issuing Centre") and 天津市福利彩票發行中心 (hereinafter referred to as the "Tianjin Welfare Lottery Issuing Centre");

- Business plan and financial projection prepared by the Management (hereinafter referred to as the "Business Plan" and "Financial Projection" respectively);

- Legal opinion prepared by a law firm in the PRC (hereinafter referred to as the "Legal Opinion");

In preparing this report, we have had discussions with the Management in relation to the development and prospects of the innovative sales channel services of the lottery business and lottery market in the PRC, and the development, operations and other relevant information of the Business Enterprise. As part of our analysis, we have reviewed such Business Plan, Financial Projection, Legal Opinion and other pertinent data concerning the Business Enterprise provided to us by the Management and have considered such information and data as attainable and reasonable.

We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

We do not express an opinion as to whether the actual results of the operation of the Business Enterprise will approximate those projections in the Business Plan because assumptions regarding future events by their nature are not capable of independent substantiation.

In arriving at the market value for the Business Enterprise, we are making no representation that the business expansion will be successful, or that market growth and penetration will be realized.

4.0 BUSINESS ENTERPRISE

深圳環彩普達科技有限公司 (the "Business Enterprise") is a limited liability company established in the PRC on 9 November, 2006. The Business Enterprise is principally engaging in the provision and development of value-added operation software systems related to the lottery business. It has accumulated extensive operational experience in innovative sales channels development and operational services of lottery sales. It has also developed various sales systems and software including lottery sales through mobile phone networks, short-message-services of mobile phones, and interactive voice response system of telephones as well as lottery sales through banks' automatic-teller machines, self-service terminals, digital televisions ("DTV"), internet protocol television and mobile terminals.

4.1 Relevant Legal Document

(i) 企業法人營業執照 (Enterprise Legal Person Business Licence)

The Business Enterprise is subject to 企業法人營業執照註冊號 440301501120862 ("Enterprise Legal Person Business Licence Registration No. 440301501120862") for a term commencing from 9 November, 2006 to 9 November, 2056. The main scope of business is confined to development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services. Its registered capital is RMB40,810,000 and paid-up capital is RMB30,000,000. The registered address of the Business Enterprise is situated at 深圳市福田區車公廟工業區車公廟工業廠房301棟第1-6層三層378 (unofficially translated as "378, Level 3, Levels 1-6 of Block 301, Chegongmiao Factory, Chegongmiao Industrial Zone, Futian District, Shenzhen").

(ii) 軟件產品登記證書 (Software Product Registration Certificate)

The Business Enterprise has obtained nine software product registration certificates issued by 深圳市科技和信息局("Shenzhen Bureau of Science Technology & Information") and 深圳市科技工貿和信息化委員會 ("Shenzhen Science, Industry, Trade and Information Technology Commission"). Details of these certificates are summarized as below:

No.	Certificate No.	Name of Software	Date of Issue
1	深DGY-2006-1125	環彩普達ATM彩票銷售軟件V1.0.2 (“Huancai Puda ATM Lottery Sales Program V1.0.2”)	29 Dec 06
2	深DGY-2006-1126	環彩普達GIS彩票銷售綜合管理軟件V1.0.2 (“Huancai Puda GIS Lottery Sales Comprehensive Management Program V1.0.2”)	29 Dec 06
3	深DGY-2006-1153	環彩普達嵌入式移動彩票銷售軟件V1.0.2 (“Huancai Puda Embedded Mobile Lottery Sales Program V1.0.2”)	29 Dec 06
4	深DGY-2006-1124	環彩普達移動電話在線銷售彩票軟件V1.0.2 (“Huancai Puda Mobile Phone Online Lottery Sales Program V1.0.2”)	29 Dec 06
5	深DGY-2008-0245	環彩普達彩票銷售中間業務平臺軟件V2.0.2 (“Huancai Puda Lottery Sales Business Platform Program V2.0.2”)	31 Mar 08
6	深DGY-2008-0246	環彩普達零售渠道彩票銷售軟件V1.0.2 (“Huancai Puda Change Lottery Sales at Commercial Retail Sales Agents Program V1.0.2”)	31 Mar 08
7	深DGY-2010-0553	環彩普達數字電視(DTV)彩票軟件V2.0.2 (“Huancai Puda Digital TV Lottery Program V2.0.2”)	20 May 10
8	深DGY-2010-0554	環彩普達網絡交互電視(IPTV)彩票軟件V2.0.2 (“Huancai Puda IPTV Lottery Program V2.0.2”)	20 May 10
9	深DGY-2010-0555	環彩普達委託購買彩票軟件V2.0.2 (“Huancai Puda Authorized Purchasing Lottery Program V2.0.2”)	20 May 10

(iii) 軟件著作權登記證書 (Software Copyright Registration Certificate)

The Business Enterprise has obtained eight software copyright registration certificates issued by the 中華人民共和國國家版權局 ("National Copyright Administration of the People's Republic of China"). Details of these certificates are summarized as below:

No.	Registration No.	Name of Software	Date of Issue
1	2008SR05281	找零彩票銷售系統V1.0 ("Change Lottery Sales System V1.0")	10 Mar 08
2	2008SR05282	彩票中間業務平臺系統 簡稱：CSPV1.0 ("Lottery Business Platform System Name : CSPV1.0")	10 Mar 08
3	2008SR05283	數字電視彩票銷售系統V1.0 ("Digital TV Lottery Sales System V1.0")	10 Mar 08
4	2008SR05284	移動彩票銷售終端V1.0 簡稱：MT2006 ("Mobile Lottery Sales Terminal V1.0 Name : MT2006")	10 Mar 08
5	2008SR05285	委託購買彩票系統V1.0 ("Authorized Purchasing Lottery System V1.0")	10 Mar 08
6	2008SR05286	基於GIS的彩票業務綜合管理系統V1.0 ("GIS Basis Lottery Business Comprehensive Management System V1.0")	10 Mar 08
7	2008SR05287	銀行自助渠道彩票銷售系統V1.0 ("Self-service Banking Equipment Lottery Sales System V1.0")	10 Mar 08
8	2008SR06986	移動電話在線銷售彩票系統V1.0 ("Mobile Phone Online Sales Lottery System V1.0")	11 Apr 08

(iv) 外觀設計專利證書 (Certificate of Design Patent)

The Business Enterprise has obtained a certificate of design patent dated 22 October, 2008 issued from the 中華人民共和國國家知識產權局 ("State Intellectual Property Office of the People's Republic of China") and it is named as "桌面智能彩票銷售終端 (MT2006) (desktop intelligent lottery sales terminal)". The expiry date of the patent is 17 September, 2017.

(v) Other Innovation Patents pending for approval

The Business Enterprise has filed another three applications on innovation patents (找零彩票銷售系統及找零方法，電視彩票銷售業務處理系統及方法，銀行自助彩票銷售系統及其方法) (unofficially translated as "change lottery sales system and change method", "TV lottery sales business processing system and method", "self-service banking lottery sales system and method") on 28 November, 2007, 2 January, 2008 and 3 February, 2008 and is preparing to file two more innovation patent applications on its innovative lottery channels development and operation.

In addition to the above documents, the Business Enterprise has also obtained a 軟件企業認定證書 (Software Enterprise Verification Certificate) and the 高新技術企業證書 (Advanced Technology Enterprise Certificate) on 31 March, 2008 and 31 December, 2009 respectively.

4.2 Major Contracts and Agreements

As confirmed by the Management, the Business Enterprise entered into various cooperative agreements regarding innovative sales channel operation services of lottery sales with 5 welfare lottery issuing organizations (i.e. local welfare lottery issuing centres) namely, 重慶市福利彩票發行中心 (the "Chongqing Welfare Lottery Issuing Centre"), 廣西福利彩票發行中心 (the "Guangxi Welfare Lottery Issuing Centre"), 河南省福利彩票發行中心 (the "Henan Welfare Lottery Issuing Centre"), 深圳市福利彩票發行中心 (the "Shenzhen Welfare Lottery Issuing Centre") and 天津市福利彩票發行中心 (the "Tianjin Welfare Lottery Issuing Centre"). Besides, cooperative agreements or memorandums have been entered into among the Business Enterprise, various welfare lottery issuing organizations and socialized public platform organizations (社會化公用平臺機構).

Under the cooperative agreements, the Business Enterprise was authorized to use its own developed lottery sales systems and softwares to provide the innovative sales channel technologies in Shenzhen, Guangxi province, Chongqing, Henan province and Tianjin so as to provide sales channel operational services in respect of DTV lottery sales, mobile phone welfare lottery sales, commercial retail channel agent welfare lottery sales and self-service banking equipment welfare lottery sales to the relevant welfare lottery issuing centres in the aforesaid regions. At the time being, test runs of lottery sales through the Business Enterprise's innovative sales channels have already been commenced in Guangxi province, Chongqing and Shenzhen.

Provided that the lottery customers purchase welfare lotteries via the innovative sales channel(s) provided by the Business Enterprise in the above 5 mentioned territories, the Business Enterprise is entitled to share a fixed percentage of turnover with the respective local welfare lottery issuance centres as service fees. The service fees will be further shared with the local business organizations and socialized public platform organizations including tele-media providers, financial institutions and mobile phone service providers.

The following section summarized the contracts entered into between the Business Enterprise and various welfare lottery issuing centres with respective innovative lottery sales channels in the localities.

(i) Chongqing

	Contract party	Date of agreement	Innovative lottery sales channel
1	Chongqing Welfare Lottery Issuing Centre, 重慶廣播電視集團 ("The Radio and Television Group of Chongqing") and the Business Enterprise	16 Mar 09	DTV lottery sales system
2	Chongqing Welfare Lottery Issuing Centre and the Business Enterprise	8 Jul 09	Mobile phone online lottery sales system

(ii) Guangxi province

	Contract party	Date of agreement	Innovative lottery sales channel
1	Guangxi Welfare Lottery Issuing Centre, 廣西廣播電視信息網絡股份有限公司 ("Guangxi Radio & TV Network Corporation") and the Business Enterprise	8 Aug 08	DTV lottery sales system

(iii) Shenzhen

	Contract party	Date of agreement	Innovative lottery sales channel
1	Shenzhen Welfare Lottery Issuing Centre, 中國建設銀行股份有限公司深圳市分行 ("China Construction Bank Corporation Shenzhen Branch") and the Business Enterprise	15 Mar 07	Self-service banking equipment lottery sales system
2	Shenzhen Welfare Lottery Issuing Centre and the Business Enterprise	26 Sep 09	DTV lottery sales system

(iv) Tianjin

	Contract party	Date of agreement	Innovative lottery sales channel
1	Tianjin Welfare Lottery Issuing Centre and the Business Enterprise	7 May 10	Mobile phone online lottery sales system

(v) Henan province

	Contract party	Date of agreement	Innovative lottery sales channel
1	Henan Welfare Lottery Issuing Centre and [(i)] 鄭州環彩信息技術有限公司("Zhengzhou Huancai Information Technology Company Limited")	28 Nov 07	Mobile phone online lottery sales system

[(i)] 鄭州環彩信息技術有限公司 is the subsidiary of the Business Enterprise.

As advised by the Legal Opinion, the Business Enterprise is eligible to conduct the business in relation to mobile phone online lottery sales system as at the Date of Appraisal, only upon condition that the Business Enterprise obtains the relevant operation permit in accordance with latest regulation issued by the Ministry of Finance of the State Council ("國務院財政部"). Further confirmed by the Management, the Business Enterprise has not yet obtained the aforesaid operation permit as the Date of Appraisal. Therefore, the Business Enterprise is not able to perform its obligations concerning the lottery sales business through mobile phone or internet (i.e. mobile phone online lottery sales system) under the three agreements entered into between the Business Enterprise and the Chongqing Welfare Lottery Issuing Centre, the Tianjin Welfare Lottery Issuing Centre and the Henan Welfare Lottery Issuing Centre respectively, according to the Legal Opinion. In the course of our valuation, the cash flows received from the mobile phone online lottery sales system were not included.

5.0 BUSINESS OPERATIONS

As previously mentioned, the Business Enterprise has developed various innovative sale systems and softwares including lottery sales channels through (i) 數字電視彩票銷售系統 (unofficially translated as and hereinafter referred to as the "digital TV (DTV/IPTV) lottery sales system"); (ii) 零售渠道彩票銷售系統 (unofficially translated as and hereinafter referred to as the "change lottery sales system at commercial retail sales agents"); (iii) 嵌入式個人彩票銷售終端系統 (unofficially translated as and hereinafter referred to as the "embedded mobile lottery sales system"); (iv) 銀行自助終端彩票銷售系統 (unofficially translated as and hereinafter referred to as the "self-service banking equipment lottery sales system"); (v) 移動電話在線彩票銷售系統 (unofficially translated as and hereinafter referred to as the "mobile phone online lottery sales system"); and (vi) 網上委托購買彩票銷售系統 (unofficially translated as and hereinafter referred to as the "authorized online lottery purchasing sales system"). The product information and function characteristics of each innovative sales system is described as follows.

5.1 Digital TV (DTV/IPTV) Lottery Sales System

The digital TV lottery sales system is a type of brand new interactive computer lottery, utilizing the two-way telecommunication technology and the media platform of digital TV. It supports both the traditional long-cycle computer lottery and online quick-drawing computer lottery.

The digital TV lottery sales system is invented to allow lottery purchasers to purchase lotteries at home. The lottery purchasers use their own account number and password to purchase lotteries, with the funds transferred directly through banks and monitored by the lottery centres for fund safety.

The data in the digital TV lottery sales system is encrypted during the transmission process, and is fed through specialized line to the lottery intermediary business platform, which was in turn connected with the lottery centre. This process ensures a high level of safety and stability.

This lottery sales system is attractive in the sense that the lottery purchasing accounts are linked with the lottery purchasers' bank accounts. This makes the lottery purchases more convenient and with lesser handling charges. In addition, more services can be offered through the rich-color TV lottery purchasing screen, which would arouse lottery purchasers' interests in lottery.

5.2 "Change" Lottery Sales System at Commercial Retail Sales Agents

Under the "change" lottery sales system, the customers at the commercial retail stores can use the small values of change received from settlement to buy lotteries. The "change" lottery sales system uses RMB10 cent as the sales unit, and the change of each customer used to purchase lotteries will be converted into multiples of sales unit. According to current national policy, one lottery amount should be RMB2, and the change lottery purchased by the customers will be accumulated into one lottery collectively and be used to buy the lottery for the customers automatically. Customers will be informed if any reward is won and the rewards will directly be transferred to the users' membership cards without any waiving or missing of rewards.

With this arrangement, the vast majority of customers can get rid of the problem in handling small change during cash settlement. This also offers customers a good chance to win the lottery reward with such a small amount of money. On the other hand, the administrative work involving the change, such as counting, transportation and storage of coins, can be greatly reduced at consumption venues, saving much of the management cost and time.

5.3 Embedded Mobile Lottery Sales System

Compared to traditional fixed lottery sales channel, this embedded mobile lottery sales system is a portable, wireless and embedded lottery sales terminal. This sales terminal offers mature, reliable and safe products through the colorful seven inches touch screen and acts as a kind of extension and supplementation of the current fixed terminal service.

The embedded mobile lottery sales system provides convenience to lottery purchases in saving the queuing time at the fixed terminal stations. The mobile terminal uses the inlaid system technology which would be free from virus attacks and all the information in the terminal is carried and transmitted on a real-time basis.

5.4 Self-service Banking Equipment Lottery Sales System

The self-service banking equipment lottery sales system is for lottery purchasers to utilize bank transaction platforms, including automatic-teller machines, inquiry terminals, telephones, transaction websites and counter comprehensive systems, to choose the lottery patterns and numbers and hence activate the bank transaction platform to connect the hotline system of the lottery centres for lottery purchasing, lottery drawing and reward winning.

This system turns each bank's network point into a lottery sales point. As the banks' networks cover mainly the populous areas, such as commercial areas and shopping malls, this complements the lottery sales networks where the coverage is insufficient.

The bank cards can be used for lottery purchases. This arrangement allows the lottery purchasers to buy lottery while making deposits, reducing the intermediary payment and offering great convenience for lottery purchasers. The advanced self serve interface and colorful large screens at banks provide attractive and efficient lottery purchasing experiences and arouse lottery purchasers' interests to a greater extent.

5.5 Mobile Phone Online Lottery Sales System

The mobile phone online lottery sales system is very different from the traditional short message service. It adopts the easy-to-use graphic interface and allows the lottery purchasers to choose the lottery directly on the screen. The lottery purchasing account number is directly linked with the bank account number of the lottery purchasers which can reduce handling fees and make the process more convenient.

Under this system, lottery purchasers can buy lotteries at any place and any time with their mobiles. The data transmitted in the terminal is with encryption and on a real-time basis. Small rewards will be directly transferred to the lottery winners' bank accounts and large rewards will be informed to the lottery winners immediately to avoid any possibility of waiving or missing.

5.6 Authorized Online Lottery Purchasing Sales System

The authorized online lottery purchasing sales system is to use the internet technology and mature e-business platform to provide personal lottery agency purchasing experience and reliable account management service to the lottery purchasers. This system fulfills the legal requirements for lottery purchasing agency by entering into online purchasing contracts with clients.

The whole agency business process would be conducted under the supervision of the lottery centres so as to protect the lottery purchasers' interests from any losses. The agency service also offers complete account inquiry and maintains historical purchasing records for reference.

With the interaction between the agents and the lottery purchasers, the authorized online lottery purchasing sales system can help to enhance the convenience and efficiency of the lottery purchasing process.

6.0 INDUSTRY OVERVIEW

The global lotteries industry generated a revenue of USD245.6 billion in 2010, which represented a growth of 2.3%, compared to USD240.1 billion in 2009. Recently, the largest lottery markets have been those in US, Italy, Spain, China and France.

The World Lottery Association reported strong growth in the lottery industries of Asia Pacific, Latin America and Africa, which drove growth in the worldwide market. In the Latin American market, double digit growth was recorded in all four quarters of 2010 and similarly strong growth was record in Asia Pacific. The following table illustrates the year on year growth of the worldwide lottery industry by continent.

Continent	Year on year growth (%)
Asia Pacific	12.5%
Latin America	21.8%
Africa	19.4%
North America	1.9%
Europe	0.2%

Table 1 : Worldwide lottery industry growth by continent in 2010
Source : World Lottery Association

7.0 CHINA LOTTERY MARKET

7.1 Structures and Regulations

In China, the lottery industry is sanctioned by the PRC Government and is for the purpose of raising funds for public welfare and facilitating the development of social community initiatives.

The State Council (國務院) authorizes the issuance of welfare lottery (福利彩票) and sports lottery (體育彩票). No foreign lottery can be issued and sold within the PRC. The Ministry of Finance of the State Council (國務院財政部) is responsible for the supervision and administrative of the lotteries nationwide. The Ministry of Civil Affairs (國務院民政部) and the State General Administration of Sports of the State Council (國務院國家體育總局) are responsible for the administration of welfare and sports lotteries nationwide respectively.

The Ministry of Civil Affairs establishes a welfare lottery issuance organization ("China Welfare Lottery Issuance and Administration Centre 中國福利彩票發行管理中心") whilst the State General Administration of Sports establishes a sports lottery issuance organization ("China Sports Lottery Administration Centre 中國體育彩票發行管理中心"), which are to be responsible for the issuance and sales of welfare and sports lotteries nationwide respectively.

The financial authorities in the provinces, autonomous cities and municipalities are responsible for the supervision and administration of lotteries within their areas of administration.

The introduction of the "Regulations on Administration of Lotteries" (State Council Decree No. 554) governs all lottery businesses in China, which states that all enterprises are to be operated with sound legal protection. This paved the way for continued rapid growth in the industry and fostering the safe and healthy development of the China lottery market.

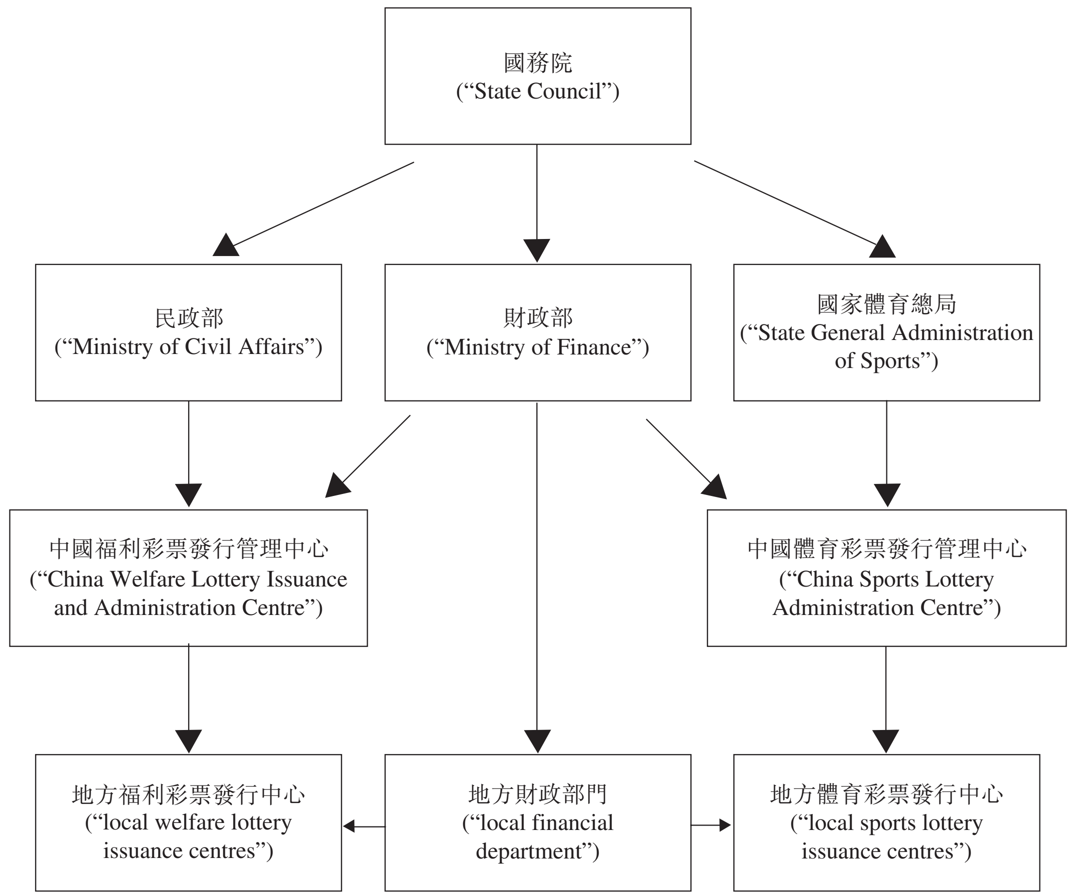

Figure 1: ***The structure of China's lottery market***
Source: *Management*

7.2 Development and Trend

The growth of the PRC lottery market has been facilitated by a number of drivers and initiatives, including favorable population demographics and positive economic growth in the region. Since 1987, the lottery industry in China has experienced two periods of explosive growth in 1995 and 2007 respectively due to the introduction of new lottery sales systems. Historically, new sales channels have proven to have a great positive impact to the lottery market in China. Prior to 1995, lottery tickets were only sold in a concentrated way. However, computer systems were later utilized as a medium of lottery sales. The introduction of computer lottery boosted lottery sales from RMB17 billion in 1994 to RMB71 billion in 2005, representing approximately a triple growth in sales. In 2007, the lottery industry in China experienced another revolution by launching more ancillary sales channels such as interactive voice response, short message service and video lottery terminals, etc. These sales channels make use of various public platforms in society which are highly accessible.

According to the latest statistics issued by the Ministry of Finance in China, the lottery market has continued its persistent growth. In 2010, national sales of lottery increased RMB33 billion to approximately RMB166 billion as compared to 2009, representing an increase of 26%. Among which, welfare lottery amounted to approximately RMB96.8 billion and accounted for 58% of total lottery sales, while sports lottery amounted to approximately RMB69.4 billion and accounted for 42% of total lottery sales. In the first half of 2011, China lottery sales have continued their rapid growth with revenues of RMB101 billion, an increase of over 31% against the corresponding period in 2010. To support the long term growth of the market, the government introduced a preliminary measure for the lottery market, namely "Interim Measures for the Administration of Telephone Lottery Sales" in early October 2010. Such measure prescribed qualifications and procedures for telemarketing and internet-based marketing of lotteries which aimed to facilitate the development of lottery market in the PRC.

	Total Lottery Sales *(billion in RMB)*	**Welfare Lottery Sales** *(billion in RMB)*	**Sports Lottery Sales** *(billion in RMB)*	**Growth of Total Lottery Sales** *(%)*
2000	18.100	10.740	7.360	N/A
2001	28.887	13.987	14.900	59.60%
2002	38.572	16.872	21.700	33.53%
2003	40.140	20.040	20.100	4.07%
2004	38.057	22.657	15.400	–5.19%
2005	71.385	41.185	30.200	87.57%
2006	81.930	49.630	32.300	14.77%
2007	100.000	62.000	38.000	22.06%
2008	105.947	60.347	45.600	5.95%
2009	132.380	75.580	56.800	24.95%
2010	166.250	96.800	69.450	25.95%
2011 1H	101.144	58.990	42.154	N/A

Table 2: ***Total lottery sales in the PRC from 2000 to 2011 1H***

Source: *Ministry of Finance, the PRC*

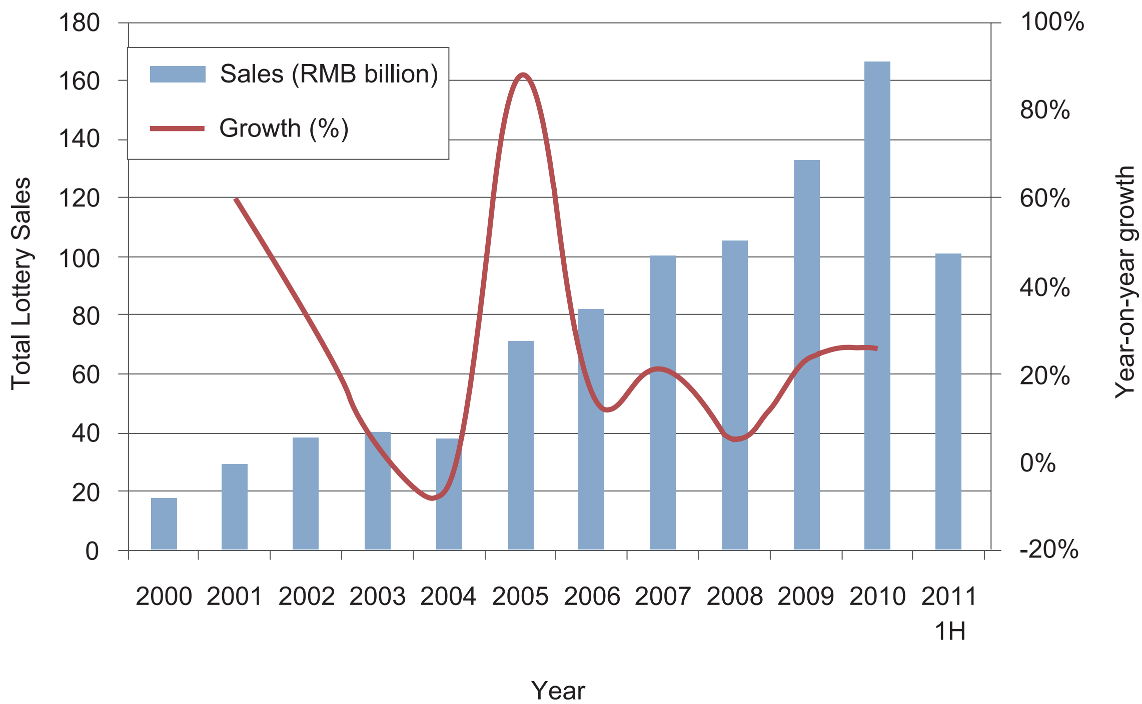

Figure 2: ***Total lottery sales in the PRC from 2000 to 2011 1H***
Source: *Ministry of Finance, the PRC*

The following tables illustrate the growth of welfare lottery market sales at Chongqing, Guangxi province, Shenzhen, Tianjin and Henan province from 2005 to 2011.

Chongqing	**Yr 2005**	**Yr 2006**	**Yr 2007**	**Yr 2008**	**Yr 2009**	**Yr 2010**	**Yr 2011** (Jan-Jun)
Total welfare lottery sales (million in RMB)	615	874	1,250	1,115	1,403	2,190	1,703
Share of the country's welfare lottery sales	1.49%	1.76%	2.02%	1.85%	1.86%	2.26%	2.89%

Guangxi province	**Yr 2005**	**Yr 2006**	**Yr 2007**	**Yr 2008**	**Yr 2009**	**Yr 2010**	**Yr 2011** (Jan-Jun)
Total welfare lottery sales (million in RMB)	1,312	1,207	1,534	1,367	1,600	2,097	1,291
Share of the country's welfare lottery sales	3.19%	2.43%	2.47%	2.27%	2.12%	2.17%	2.19%

Shenzhen	**Yr 2005**	**Yr 2006**	**Yr 2007**	**Yr 2008**	**Yr 2009**	**Yr 2010**	**Yr 2011** (Jan-Jun)
Total welfare lottery sales (million in RMB)	650	876	1,220	1,437	1,989	2,320	1,077
Share of the country's welfare lottery sales	1.58%	1.77%	1.97%	2.38%	2.63%	2.40%	1.83%

Tianjin	**Yr 2005**	**Yr 2006**	**Yr 2007**	**Yr 2008**	**Yr 2009**	**Yr 2010**	**Yr 2011** (Jan-Jun)
Total welfare lottery sales (million in RMB)	394	540	724	641	832	1,238	715
Share of the country's welfare lottery sales	0.96%	1.09%	1.17%	1.06%	1.10%	1.28%	1.21%

Henan province	**Yr 2005**	**Yr 2006**	**Yr 2007**	**Yr 2008**	**Yr 2009**	**Yr 2010**	**Yr 2011** (Jan-Jun)
Total welfare lottery sales (million in RMB)	1,466	1,439	2,010	1,913	2,277	3,217	2,127
Share of the country's welfare lottery sales	3.56%	2.90%	3.24%	3.17%	3.01%	3.32%	3.61%

Table 3: ***Sale of China's lotteries by region from 2005 to 2011***
Source: *Management*

7.3 Types of lotteries in the PRC Market

There are mainly two types of lotteries, namely welfare lottery and sports lottery. According to Table 2, welfare lottery in 2010 accounted for approximately 58% of China's total lottery market, up 48% since 2001. The decrease in the popularity of sports lottery over the past few years could be attributed to numerous scandals involving fake tickets issued by sales agents which diminished public confidence.

The forms of lotteries in China can be broadly classified as follows:

(i) Traditional lotteries

This represents closed-ended printed lottery which involves issuing a fixed number of tickets with a pre-printed number of each ticket. They are also known as Computerised Ticket Games (CTG). There are national and provincial pools and frequency of drawing varies from weekly to daily. The prizes are pre-set and the winners are made public later via notice boards and TV shows. This form of lottery utilizes uniform printing, code numbers and a fixed number of sales outlets, e.g. cash register type lottery kiosks. Types of games under traditional lotteries include 2D, 3D and Lotto.

(ii) Instant lotteries

For this category of lotteries, the buyers would learn the result on real-time basis. This is the fastest growing form of lottery in the PRC due to its 'instant win' nature. This lottery type is usually supported by large-scale sales and advertising promotions. Instant scratch cards were re-introduced to the market in 2005 following their removal in 2003 due to the high frequency of fake tickets.

(iii) Video lottery terminals (VLT)

This is the most recent form of lottery in the PRC. This VLT lottery is akin to the western-style slot machines where buyers sit at the terminals and choose a game to play. Draw frequency is very high, as fast as the press of the button. All VLTs are restricted by the halls controlled by the National Welfare Lottery Authority. All the plays of VLTs in the PRC are required to go through the network computer servers, allowing lottery officials to keep close tabs on the money wagered and prizes paid out.

8.0 CHINA ECONOMIC OVERVIEW

China has experienced rapid economic growth over the past few years. According to the National Bureau of Statistics of China ("NBSC"), the GDP of China in 2010 was RMB39,798 billion, up by 10.3% over the previous year and the average growth rate of GDP between 2001 and 2009 was 10.5%. GDP is currently recorded at RMB20,446 billion for the first half of 2011. According to statistics published by the International Monetary Fund, growth is expected to average at 9.5% for 2011 and 9.0% for 2012 despite recent financial instability in the global markets.

	2006	2007	2008	2009	2010
Growth rate	12.7%	14.2%	9.6%	9.2%	10.3%

Table 4: ***GDP growth rate in 2006 – 2010***
Source: *NBSC*

The growth in GDP and the rate of urbanization have led to an improvement in living standards and an increase in purchasing power. Per capita annual disposable income levels of urban residents have increased substantially since 2000. During the period from 2006 to 2010, the per capita annual disposable income of urban households in the PRC increased from approximately RMB11,759 to RMB19,109, representing an average annual growth rate of approximately 12.5%.

The PRC's market for consumer goods has expanded rapidly in the past few years led by the PRC's strong economy, growing middle class and increasing affluence of average citizens. For example, the number of households with an annual disposable income of over US$2,500 has been more than tripled, from approximately 81 million in 2000 to approximately 263 million in 2009. This income group accounted for 67.6% of total households in 2009, showing substantial increase from 23.1% in 2000.

9.0 INVESTIGATION AND ANALYSIS

Our investigation included discussions with the Management in relation to the development and prospects of the provision of the innovative sales channel services of lottery business and lottery market in the PRC, and the development, operations and other relevant information of the Business Enterprise. In addition, we have made relevant inquiries and obtained such further information, statistical figures from external public sources as we consider necessary for the purpose of this appraisal. As part of our analysis, we have made reference to the Business Plan, Financial Projection, Legal Opinion and other pertinent data concerning the Business Enterprise provided to us by the Management and have considered such information and data as attainable and reasonable. We have also consulted other sources of financial and business information.

The appraisal of an interest in the Business Enterprise requires consideration of all pertinent factors, which affect the operation of the business and its ability to generate future investment returns. The factors considered in this appraisal including but not limited to the following:

- The business nature and operations of the Business Enterprise;
- The financial condition of the Business Enterprise;
- The historical trend and projection of lottery market in China;
- The regulations and rules of lottery industry in China;
- The proposed business development and expansion of the Business Enterprise;

- The terms and conditions as stated in formal agreements and contracts;
- The economic and industry data affecting the lottery market in China; and
- The market-derived investment return(s) of similar business.

10.0 GENERAL APPRAISAL APPROACHES

There are three generally accepted approaches to obtain the market value of the Business Enterprise, namely, the Market-Based Approach, the Asset-Based Approach and the Income-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted in valuing business entities that is similar in nature.

10.1 Market-Based Approach

It values a business entity by comparison of the prices at which other similar business nature companies or interest changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to pay for an equally desirable alternative. By adopting this approach, we will first look for valuation indication from the prices of other similar companies or equity interest in companies that were sold recently.

The right transactions employed in analyzing for indications of value need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

The derived multiples (most commonly used are: price to earnings, price to revenues and price to book multiple) based on the analysis of those transactions are then to be applied to the fundamental financial variables of the subject business entity and to arrive at an indicated value of it.

10.2 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represent the value of a business entity and equal to the value of its invested capital (equity and long term debt). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity (equity) and investors who lend money to the business entity (debt). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, their sum equal the value of the business entity.

From a valuation perspective, we will restate the values of all types of assets of a business entity from book values, i.e. historical cost minus depreciation to appropriate standards of value. After the restatement, we can identify the indicated value of the business entity, or, by applying the accounting principle "assets minus liabilities", to arrive at the value of the equity interest of the business entity.

10.3 Income-Based Approach

The Income-Based Approach focuses on the economic benefits generated by the income producing capability of a business entity. The underlying theory of this approach is that the value of a business entity can be measured by the present worth of the economic benefits to be received over the life of the business entity.

Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

11.0 APPRAISAL APPROACH FOR THE BUSINESS ENTERPRISE

In the process of valuing a business subject, we have taken into consideration the business nature, specialty of its operation and the industry it is participating. Having considered the three general valuation methodologies, we believed that the Income-Based Approach would be appropriate and reasonable in the appraisal for the market value of the Business Enterprise.

In this valuation, the Market-Based Approach is not appropriate as there are insufficient relevant comparable transactions to form a reliable basis for our opinion of value. The Asset-Based Approach is not appropriate as it ignores the economic benefits of the business. We have therefore relied solely on the Income-Based Approach in determining opinion of value.

11.1 Discount Rate

It is a simple method adopting the Income-Based Approach to state the value of a business in present value term. This method is simple and easy to understand. It is well accepted by most analysts and practitioners. A variety of basis has emerged in numerous attempts of establishing the true value of a business. The latest attempt was looking from the firm's investors perspective including stockholders and bondholders. That is the free cash flow available to the business as a whole.

This is a widely used and accepted method to determine market value of a business or a firm, which is based on a simple reversal calculation to restate all future cash flow as present worth. To adopt this method, we must however, first obtain the weighted average cost of capital (WACC) of the company as a basic discount rate. It is the minimum required return that a valuation subject must earn to satisfy its various capital providers including shareholders and debtholders. The WACC is calculated taking into account the relative weights of each component of the capital structure. It is computed using the formula below:

$$WACC = W_e \times R_e + W_d \times R_d \times (1 - T)$$

in which

R_e = cost of equity
R_d = cost of debt
W_e = portion of equity value to enterprise value
W_d = portion of debt value to enterprise value
T = corporate tax rate

i) Cost of equity

From modern portfolio management perspective, typical investors are risk-averse and rational. They make all investment decisions based on risk and return of an investment opportunity. The cost of equity, therefore, should account for the risk premium, which is the required additional return over the risk free rate. Additional risk premiums such as country risk premium and size premium are added to reflect the other risk factors concerning the Business Enterprise. All the estimates are supported by public sources like Bloomberg and Morning Star. The capital asset pricing model (CAPM) is used to determine the appropriate cost of equity of the Business Enterprise.

Cost of equity = risk free rate + equity beta x market risk premium + size premium + country risk premium

Cost of equity calculation:

(1) Risk free rate	3.67%
(2) Equity beta	0.89
(3) Market risk premium	7.38%
(4) Size premium	4.07%
(5) Country risk premium	1.05%
Cost of equity	**15.36%**

** Figures above are subject to rounding process*

Notes:

(1) *This is the yield of 10-year US treasury government bond.*

(2) *This is the adjusted beta by making reference from public listed companies with comparable business nature and operation, etc. which are sourced from Bloomberg.*

(3) *Market risk premium = market rate of return – risk free rate.*

(4) *This is the risk of small size company in 2011 based on the research conducted by Ibbotson Associates, Inc.*

(5) *This is the increased risk associated with investing in a developing country, including business risk, financial risk, liquidity risk, exchange rate risk & country risk.*

Given the above variables, we have arrived the cost of equity of 15.36%.

ii) Cost of debt

The cost of debt was made reference to the China Above 5 Years Best Lending Rates. As at the Date of Appraisal, the China Above 5 Years Best Lending Rates is 7.05%.

iii) Weight of debt

The current debt level of the Business Enterprise is not desirable given its stage of development. To stay competitive in the industry, it is reasonable to assume that the Business Enterprise should achieve a debt level toward the average of the weight of debt of its industry comparables. Through the analysis of the industry comparables, the weight of debt is estimated as 9%.

iv) Weight of equity

The weight of equity is estimated as 91% by adopting the same basis as above.

Having considered that the Business Enterprise is at the preliminary stage of development, a 1.5% risk premium is added to reflect the pre-operational risk of the Business Enterprise.

The discount rate considered appropriate for this valuation as at the Date of Appraisal, taking into account of the above, is 15.97%, which is then applied to the after tax cash flow.

11.2 Marketability Discount

In addition, we have adopted a lack of marketability discount of 20% for the Business Enterprise as ownership interest in closely held companies are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. Marketability discount for ownership interest in private companies can range from 3% to 35% according to empirical research. 20% discount is a professional judgment for this valuation based on our experience and the valuation subject.

11.3 Adjustments for debts and cash and cash equivalents

In computing the market value of the Business Enterprise, we have deducted from the assessed enterprise value the interest bearing debts and added back the cash and cash equivalents as at the Date of Appraisal. As confirmed by the Management, the interest bearing debts and cash and cash equivalents are approximately RMB0 and RMB8,942,000 respectively.

12.0 APPRAISAL ASSUMPTIONS

- We have made reference to the Business Plan and Financial Projection and relied on the Legal Opinion provided by the Management and we have no responsibility for the reliability of the advice;

- The projection outlined in the Business Plan and the Financial Information provided are reasonable, reflecting market conditions and economic fundamentals, and will be materialized;

- As part of its going concern business, the Business Enterprise will successfully carry out all necessary activities for the completion and development of its business;

- Revenue of the Business Enterprise has solely taken into account the interests and benefits derived from the signed formal agreements and contracts up to the Date of Appraisal;

- Revenue is contributed from the territories in which the Business Enterprise provides services in relation to the innovative sales channels in accordance with the terms and conditions of the formal agreements and contracts up to the Date of Appraisal;

- Revenue generated from its business operations is assumed to be highly correlated to the lottery sales in China;

- The projected revenue of the Business Enterprise is based on the following information and data which are gathered from the public sources, the formal contracts and agreements and the Business Plan provided by the Company;

- Lottery sales forecast in China;
- Proportional share of welfare lottery to the whole lottery industry;
- Projected welfare lottery sales in each respective territory;
- Proportional share of innovative sales channel(s) to the welfare lottery sales in each respective territory; and
- Services fee attributable to the Business Enterprise in the provision of innovative sales services for the lottery industry.

• Revenue growth is determined by making reference to the historical lottery sale in China;

• Estimation of related costs, expenses and capital expenditure is provided by the Company;

• The profit tax is 15% which is a result of tax benefit due to its business nature as confirmed by the Management;

• The business tax is 5% of the revenue of the Business Enterprise;

• The working capital investment is approximately 5% of the operational expenses of the Business Enterprise;

• Key management, competent personnel and technical staff will be all retained to support ongoing operation of the Business Enterprise;

• Market trend and conditions where the Business Enterprise in operations will not deviate significantly from the economic forecasts in general;

• Interest rates and exchange rates in the localities for the operation of the Business Enterprise will not differ materially from those presently prevailing;

• The availability of finance will not be a constraint on the forecast growth of the Business Enterprise's operations in accordance with the business plans and the projection;

• The Business Enterprise shall have uninterrupted rights to operate its existing business during the unexpired term of its authorized enterprise operating period;

• There will be no material changes in the Business Enterprise's business strategy and its operating structure;

- Aside from those related to mobile phone online lottery sales system, all the relevant parties entered into the formal contracts and agreements up to the date of valuation will act in accordance with the terms and conditions as stipulated in those contracts and agreements. In addition, the contracts can be legally executed in the region and jurisdiction in which the contracts and agreements are being subject to;

- Aside from those related to mobile phone online lottery sales system, all relevant legal approvals, contracts, agreements, business certificates or licenses to operate the business in the localities in which the Business Enterprise operates or intends to operate would be officially obtained and renewable upon expiry;

- There will be no major changes in the political, legal, economic or financial conditions in the localities in which the Business Enterprise operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Business Enterprise;

- Aside from those related to mobile phone online lottery sales system, all required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization have been or can readily be obtained or renewed by the Management on which the valuation contained in the report are based; and

- There will be no major change in the current taxation laws in the localities in which the Business Enterprise operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with.

13.0 LIMITING CONDITIONS

Our conclusion of the market value is derived from generally accepted appraisal procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. This appraisal reflects facts and conditions existing at the Date of Appraisal. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report is reasonable and accurately determined. The data, opinions, or estimates as identified or being furnished by others, which have been used in formulating this analysis, are gathered from reliable sources, however, no guarantee is made nor liability assumed for their accuracy.

We have made reference to the information provided by the Management in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We have not investigated the title to or any legal liabilities of the Business Enterprise and have assumed no responsibility for the title to the Business Enterprise appraised.

We assume no responsibility whatsoever to any person other than the directors and management of the Company in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report, they do so entirely on their own risk.

We would particularly point out that our appraisal was based on the information such as company background, business nature, market share, future prospect as well as the business plan of the Business Enterprise provided to us.

We hereby confirm that we have neither present nor prospective interest in the Business Enterprise, the Company and its holding companies, subsidiaries and associated companies, or the value reported herein.

14.0 REMARKS

Unless otherwise stated, all monetary amounts stated in this appraisal report are in Renminbi (RMB).

15.0 OPINION OF VALUE

Based on the investigation and analysis stated above and on the appraisal method employed, we are of the opinion that the market value for the 100% equity interest of the Business Enterprise, as at the Date of Appraisal was in the sum of **RMB889,000,000 (RENMINBI EIGHT HUNDRED AND EIGHTY NINE MILLION ONLY).**

Yours faithfully,
For and on behalf of
Peak Vision Appraisals Limited

Nick C. L. Kung
Registered Business Valuer of HKBVF
MRICS, MHKIS, RPS (G.P.)
Director, Corporate Valuations

Note: Mr. Nick C. L. Kung is a Registered Professional Surveyor and Registered Business Valuer of the Hong Kong Business Valuation Forum (HKBVF) who has more than 7 years' experience in business valuation in Hong Kong and the PRC.

Set out below are the texts of the reports from HLB Hodgson Impey Cheng and Messis Capital Limited in connection with the cash flow forecasts underlying the valuation on Huancai Puda as at 31 August 2011 and prepared for the purpose of inclusion in this circular.

(A) REPORT FROM HLB HODGSON IMPEY CHENG

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

28 October 2011

The Board of Directors
China Netcom Technology Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

Dear Sirs,

China Netcom Technology Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group")

Report on forecast underlying the valuation of the 100% equity interest of 深圳環彩普達科技有限公司 (transliterated as Shenzhen Huancai Puda Technology Company Limited) ("Huancai Puda")

We have examined the arithmetical accuracy of the calculations of the discounted cash flow forecast underlying the business valuation (the "Underlying Forecast") dated 28 October 2011 prepared by Peak Vision Appraisals Limited in relation to the appraisal of the valuation of the 100% equity interest of Huancai Puda as at 31 August 2011, which is regarded as a profit forecast under paragraph 29(2) of Appendix 1, Part B 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"). The Underlying Forecast is set out in Appendix IVA "Valuation report on Huancai Puda" to the circular of the Company dated 28 October 2011 (the "Circular").

Respective responsibilities of the directors of the Company and the reporting accountants

The directors of the Company (the "Directors") are responsible for the preparation of the Underlying Forecast and the reasonableness and validity of the assumptions based on which the Underlying Forecast is prepared (the "Assumptions"). It is our responsibility to form an opinion, based on our work on the arithmetical accuracy of the calculation of the Underlying Forecast and to report our opinion solely to you, as a body, solely for the purpose of reporting under paragraph 29(2) of Appendix 1, Part B of the GEM Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work. Because the Underlying Forecast relates to cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events as detailed in Appendix IVA to the Circular and management actions that cannot be confirmed and verified in the same way as past results, and these assumptions may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express opinion whatsoever thereon.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to the procedures under Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants. We have examined the arithmetical accuracy of the calculations of the Underlying Forecast. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations are concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation of the 100% equity interest of Huancai Puda.

Opinion

In our opinion, so far as the arithmetical accuracy of the calculations are concerned, the Underlying Forecast has been properly compiled in accordance with the Assumptions made by the Directors.

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

(B) REPORT FROM MESSIS CAPITAL LIMITED

大有融資有限公司
MESSIS CAPITAL LIMITED

28 October 2011

The Directors
China Netcom Technology Holdings Limited
Unit 1006, 10th Floor
Tower One, Lippo Centre
No. 89 Queensway
Hong Kong

Dear Sirs,

We refer to the discounted cash flow forecasts underlying the business valuation (the "**Valuation**") prepared by Peak Vision Appraisals Limited ("**Peak Vision**") in relation to the appraisal of the valuation of Huancai Puda. The Valuation is regarded as a profit forecast under paragraph 29(2) of Appendix 1B of the GEM Listing Rules and the Valuation is set out in Appendix IVA to the circular of the Company dated 28 October 2011 (the "**Circular**"), of which this report forms part of. Capitalised terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

We have reviewed the forecasts upon which the Valuation has been made for which you as the Directors are solely responsible, and have discussed with you and Peak Vision the information and documents provided by you which formed part of the basis and assumptions upon which the forecasts have been prepared. We have also considered the report from HLB Hodgson Impey Cheng dated 28 October 2011 addressed to yourselves as set out in Section A of this Appendix to the Circular regarding the calculations upon which the forecasts have been made. We have noted that no accounting policies of the Company have been adopted in its preparation as the Valuation relates only to cashflows.

On the basis of the foregoing, we are satisfied that the forecasts upon which the Valuation has been made, for which you as the Directors are solely responsible, have been made after due and careful enquiry by you.

Yours faithfully,

For and on behalf of
Messis Capital Limited
Thomas Lai
Managing Director

1. 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 Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised:		*HK$*
100,000,000,000	Shares of HK$0.001 each	100,000,000
Issued and fully paid or credited as fully paid:		
9,076,175,247	Shares in issue as at the Latest Practicable Date	9,076,175.247
255,866,149	Consideration Shares to be issued as partial consideration for the Acquisition	255,866.149
9,332,041,396	Shares of HK$0.001 each	9,332,041.396

All the issued Shares should rank pari passu in all aspects, including all rights as to dividend, voting and interest in capital, among themselves.

3. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares and underlying Shares or its associated corporations (within the meaning of Part XV of the SFO), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors were deemed or taken to have under such provisions of the SFO) or 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 Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in the ordinary Shares and underlying Shares

Name of Director	Capacity	Number of Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of the issued share capital
Mr. Leung Ngai Man ("**Mr. Leung**")	Beneficial owner	2,483,105,000	795,416,666	3,278,521,666	36.12%
	Through a controlled corporation	1,474,400 *(Note 1)*	–	1,474,400	0.02%
Mr. Ng Kwok Chu, Winfield ("**Mr. Ng**")	Beneficial owner	472,500	10,000,000 *(Note 2)*	10,472,500	0.12%
Ms. Wu Wei Hua ("**Ms. Wu**")	Beneficial owner	–	10,000,000 *(Note 3)*	10,000,000	0.11%

Notes:

1. These Shares were held by Speedy Well which was wholly and beneficially owned by Mr. Leung. By virtue of the SFO, Mr. Leung was deemed to be interested in the Shares held by Speedy Well.

2. On 10 July 2008, Mr. Ng was granted share options, pursuant to the share option scheme adopted by the Company on 29 June 2007 ("**Share Option Scheme**") to subscribe for a total of 20,000,000 shares at an exercise price of HK$0.1328 per share. The options would be exercisable during the period from 10 July 2008 to 29 June 2017. As a result of the consolidation of every two share in the issues and unissued share capital of the company into one consolidated share of HK$0.001 each which became effective on 21 October 2008 ("**Share Consolidation**"), the relevant subscription price was adjusted from HK$0.1328 to HK$0.2656 per Share and the number of Shares falling to be issued under the outstanding share options was adjusted from 20,000,000 Shares to 10,000,000 Shares.

3. On 10 July 2008, Ms. Wu was granted share options, pursuant to the Share Option Scheme to subscribe for a total of 20,000,000 shares at an exercise price of HK$0.1328 per share. The options would be exercisable during the period from 10 July 2008 to 29 June 2017. As a result of the Share Consolidation, the relevant subscription price was adjusted from HK$0.1328 to HK$0.2656 per Share and the number of Shares falling to be issued under the outstanding share options was adjusted from 20,000,000 Shares to 10,000,000 Shares.

Save as disclosed above, no person or company had registered an interest or short positions in the Shares or underlying Shares or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

As at the Latest Practcable Date, no person or company (other than the Directors or chief executive of the Company) had an interest or short positions in the Shares and underlying Shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO and were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group.

5. MATERIAL ADVERSE CHANGES

The Directors confirm there are no material adverse changes in the financial and trading position of the Group since 31 December 2010, the date of which the latest audited financial statements of the Group were made up.

6. DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or their respective associate(s) was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. DIRECTORS' INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been 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 since 31 December 2010, the date of which the latest audited financial statements of the Group were made up.

8. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in ordinary course of business of the Enlarged Group, have been entered into by the members of the Enlarged Group within two years preceding the date of this Circular and are, or may be, material:

(a) the cooperation agreement entered into between Huancai Puda and Shan Dong Hong Tu Technology Co., Ltd in November 2009 in relation to the provision of a self-developed online lottery sales operating platform – "Touzhubao", including technical service, update and maintenance;

(b) the investment agreement dated 7 March 2010 between the original shareholders of Huancai Puda and Greatest Profit Investment Limited ("**Greatest Profit**"), pursuant to which Greatest Profit agreed to contribute RMB10,000,000 (equivalent to approximately HK$11,834,000) for the increase in the registered capital of Huancai Puda from RMB20,000,000 (equivalent to approximately HK$23,669,000) to RMB30,000,000 (equivalent to approximately HK$35,503,000);

(c) the subscription agreement dated 13 April 2010 between the original shareholders of Huancai Puda and Greatest Profit in respect of the acquisition of 51% interest in Huancai Puda by Greatest Profit, which was amended by a supplemental agreement dated 13 April 2010, pursuant to which Greatest Profit agreed to contribute RMB20.81 million (equivalent to approximately HK$23.6 million) to obtain 51% interests in Huancai Puda;

(d) the share acquisition agreement dated 13 May 2010 between Easywin International Holdings Limited, a direct wholly-owned subsidiary of the Company, and Mr. Leung Ngai Man in respect of the shares of Pearl Sharp Limited for a consideration of HK$2,112.5 million;

(e) the cooperation agreement entered into between Huancai Puda and 天津市福利彩票發行中心 (Tianjin Welfare Lottery Issuing Centre, being its unofficial English name) in May 2010 in relation to the provision of software system and technical service for Tianjin welfare lottery sales through mobile phone project;

(f) the sale and purchase agreement dated 6 November 2010 entered into by Media Hong Kong Investment Limited, a wholly-owned subsidiary of the Company, in respect of 25% and 40% interests in 北京市彩贏樂科技有限公司 (Beijing Caiyingle Technology Company Limited, being its unofficial English name) for a consideration of RMB2,980,769 (equivalent to approximately HK$3,527,537) and RMB4,769,231 (equivalent to approximately HK$5,644,060) respectively;

(g) the agreement dated 21 July 2011 entered into between Multi Joy Corporation Limited (彩歡有限公司) ("Multi Joy"), a wholly-owned subsidiary of the Company, and China Digital Library Limited Company (中國數字圖書館有限責任公司) ("China Digital Library") in relation to the formation of the joint venture company 中數三網科技(北京)有限公司 (Zhongshu Sanwang Technology (Beijing) Limited, being its unofficial English name) ("JVC"), pursuant to which (i) Multi Joy agreed to inject RMB20,000,000 (equivalent to approximately HK$23,669,000) in cash to the JVC; (ii) China Digital Library agreed to inject RMB20,316,000 (equivalent to approximately HK$24,043,000) in intangible assets and RMB500,000 (equivalent to approximately HK$592,000) in cash to the JVC; and (iii) upon its formation, the JVC will be owned as to 49% and 51% by Multi Joy and China Digital Library respectively; and

(h) the Acquisition Agreement.

9. DIRECTORS' INTERESTS IN CONTRACTS

Pursuant to an agreement dated 13 May 2010 entered into between Easywin International Holdings Limited ("**Easywin**"), a direct wholly-owned subsidiary of the Company, as purchaser, and Mr. Leung, a director and a substantial shareholder of the Company, as vendor, Easywin has agreed to acquire and Mr. Leung has agreed to dispose of the entire issued capital of Pearl Sharp Limited at a total consideration of HK$2,112,500,000, which was satisfied by (i) HK$67,000,000, which was paid as deposit; the remaining consideration by the issuance to Mr. Leung of (ii) 200,000,000 new ordinary shares at HK$0.24 per share in the aggregate principal amount of HK$48,000,000; (iii) promissory note with principal amount of HK$1,200,000,000 with 0.15% per annum coupon rate payable on an annual basis with 5-year maturity; and (iv) zero coupon convertible bonds in the principal amount of HK$797,500,000 with a five-year maturity.

Save as disclosed above and save as disclosed in the Company's annual report for the year ended 31 December 2010, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Enlarged Group to which the Company or any of its subsidiaries was a party during the year.

10. DIRECTORS' SERVICE CONTRACTS

Mr. Leung, Mr. Ng, and Ms. Wu entered into service contracts with the Group on 27 May 2010, 1 December 2009 and 1 February 2010 respectively. All such contracts are for a term of two years. Either the Company or the aforesaid Directors may terminate the service contracts by giving one month's notice or payment of the one month's salary in lieu. The emoluments in connection with each of Mr. Leung's, Mr. Ng's and Ms. Wu's position as an executive Director is HK$500,000, HK$40,000 and HK$40,000 per month respectively, which was determined by the Board with reference to his/her duties and level of responsibilities with the Group.

Dr. Leung Wai Cheung and Mr. Cai Wei Lun are the independent non-executive Directors. Both of them are under a term of service of one year commencing from the date of their respective appointment or the date of entering into their respective service contract. They are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association, provided that the appointment may be terminated by the Company or the Director concerned with a written notice of not less than one month unless both parties agreed otherwise. The remuneration of Dr. Leung Wai Cheung is HK$5,000 per month, while Mr. Cai Wei Lun has not received any remuneration since his appointment. Their remuneration will be determined by the Board with reference to their duties, level of responsibilities, remuneration policy of the Company and the prevailing market conditions.

Save as disclosed above, none of the Directors has a service contract with any member of the Enlarged Group which is not determinable by the Company within one year without payment of compensation other than their statutory compensation.

11. LITIGATION

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

12. EXPERTS' QUALIFICATION AND CONSENT

The following are the qualifications of the expert who has given its opinion and advice which are included in this circular:

Name	Qualification
South West Capital Limited	A corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
Peak Vision Appraisals Limited	Registered Professional Surveyor and Registered Business Valuer of the Hong Kong Business Valuation Forum

As at the Latest Practicable Date, the above experts did not have any shareholding, directly or indirectly, in any member of the Enlarged Group or 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.

As at the Latest Practicable Date, the above experts did not have any interest, directly or indirectly, in the promotion of, or in any assets which had been within the two years immediately preceding the issue of this circular acquired or disposed of by or leased to, any member of the Enlarged Group.

The above experts have given and have not withdrawn their written consent to the issue of this circular, with the inclusion of the references to their name and/or their opinion or report in the form and context in which they are included.

The above experts do not have any direct or indirect interest in any assets which had been 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 since 31 December 2010, the date to which the latest published audited financial statements of the Group were made up.

13. AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in accordance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee include the re-appointment of the external auditors and review of their audit fee; discussing with the external auditors before the audit commences, the nature and scope of the audit; review of quarterly results with the auditors and management, review of accounting policies adopted by the Group and to supervise the financial reporting process and internal control systems of the Group. The audit committee comprises two members, namely Dr. Leung Wai Cheung (chairman of the audit committee) and Mr. Cai Wei Lun, who are all independent non-executive Directors, further details of whom are set out below:

Dr. Leung Wai Cheung, aged 46, joined the Group on 16 October 2007. Dr. Leung is a qualified accountant and chartered secretary with over 24 years of experience in accounting, auditing and financial management. He graduated from Curtin University with a Bachelor of Commerce Degree majoring in accounting and subsequently obtained a Postgraduate Diploma in Corporate Administration and a Master Degree in professional Accounting from the Hong Kong Polytechnic University, a Doctor of Philosophy Degree in Management from the Empresarial University of Costa Rica and a Doctor of Education Degree from Bulacan State University. Dr. Leung is an associate member of each of the Hong Kong Institute of Chartered Public Accountants, The Institute of Chartered Accountants in England and Wales, CAP Australia, the Institute of Chartered Secretaries and Administrators, The Hong Kong Institute of Chartered Secretaries and the Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants. He is also a visiting lecturer of the Open University of Hong Kong (LiPACE) and the Hong Kong University (SPACE). He is the chief financial officer of FlexSystem Holdings Limited, a company listed on GEM, and an independent non-executive director of each of Mobicon Group Limited and Sino Prosper Satte Gold Resources Holdings Limited ("**Sino Prosper**"), both companies are listed on the Main Board of the Stock Exchange.

Mr. Cai Wei Lun, aged 55, joined the group on 11 August 2009. He has over 21 years' experience in the property development sector in the PRC. Mr. Cai is currently an independent non-executive director of Sino Prosper.

14. GENERAL

(a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The head office and principal place of business of the Company in Hong Kong is at Unit 1006, 10th Floor, Tower One Lippo Centre, 89 Queensway, Hong Kong.

(c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited which situated at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The secretary of the Company is Ms. Man Tsz Sai, Lavender, she is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Unit 1006, 10th Floor, Tower One Lippo Centre, 89 Queensway, Hong Kong during normal business hours from the date of this circular up to and including 16 November 2011.

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for each of the three years ended 31 December 2010;

(c) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;

(d) the letter of advice from the Independent Financial Adviser, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" of this circular;

(e) the accountants' report of each of CIL, the WMIL Group and the Huancai Puda Group as set out in Appendices IIA, IIB and IIC to this circular;

(f) the report on unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;

(g) the valuation report on Huancai Puda as set out in Appendix IVA to this circular;

(h) the reports on the forecasts underlying the valuation of Huancai Puda as set out in Appendix IVB to this circular;

(i) the letter of consent referred to under the paragraph headed "Experts' qualification and consent" in this Appendix;

(j) a copy of each of the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;

(k) the service contracts referred to in the paragraph headed "Directors' service contracts" in this Appendix; and

(l) a copy of this circular.

中彩網通控股有限公司
China Netcom Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8071)

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting of China Netcom Technology Holdings Limited (the "**Company**") will be held at Unit 1006, 10th Floor, Tower One Lippo Centre, 89 Queensway, Hong Kong on 16 November 2011 at 11:00 a.m. to consider and, if thought fit, to pass the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT**:

(a) the form and substance of each of (1) the agreement (the "**Original Agreement**") dated 2 March 2011 and entered into between Greatest Profit Investment Limited (信陞投資有限公司), an indirect wholly-owned subsidiary of the Company, as purchaser, Century Profit Holdings Limited (世盈控股有限公司) ("**CPHL**") as vendor and the warrantors named therein as warrantors; and (2) the supplemental agreement ("**Supplemental Agreement**") dated 23 August 2011 and entered into between the parties to the Original Agreement and Mutual International Limited (普達國際有限公司) ("**MIL**") (the Original Agreement and the Supplemental Agreement are collectively referred to as the "**Acquisition Agreement**") in relation to the acquisition ("**Acquisition**") of one ordinary share of nominal value HK$1.00 in the issued share capital of Carnix Investment Limited (嘉悅投資有限公司) ("**CIL**") and two ordinary shares having a nominal value of US$1.00 each in the issued share capital of Wise Mark Investments Ltd. (偉明投資有限公司) ("**WMIL**") at a consideration ("**Consideration**") of RMB73,500,000 (a copy of the Acquisition Agreement has been produced to the meeting and marked "A" and signed by the chairman of the meeting for identification purpose), as mentioned in the circular (the "**Circular**") of the Company dated 28 October 2011 (a copy of which has been produced to the meeting marked "B" and signed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby be and are hereby approved;

(b) subject to completion of the Acquisition, the directors ("**Directors**") of the Company be and are hereby generally and specifically authorised to allot and issue 255,866,149 new shares of HK$0.001 each in the capital of the Company ("**Consideration Shares**") at an issue price of HK$0.29 per Consideration Share as partial consideration for the Acquisition in accordance with the terms and conditions of the Acquisition Agreement; and

(c) the Directors be and are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors in their discretion may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Acquisition Agreement, the allotment and issue of the Consideration Shares or any of the transactions contemplated under the Acquisition Agreement and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents, which are not fundamentally different from those as provided under the Acquisition Agreement) as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole."

By order of the Board
China Netcom Technology Holdings Limited
Ng Kwok Chu, Winfield
Executive Director

Hong Kong, 28 October 2011

As of the date hereof, the board comprised the following Directors:

Executive Directors:
Mr.Leung Ngai Man *(Chairman)*
Mr. Ng Kwok Chu, Winfield
Ms. Wu Wei Hua

Independent non-executive Directors:
Dr. Leung Wai Cheung
Mr. Cai Wei Lun

Principal Place of Business in Hong Kong:
Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint one or, if he/she is the holder of two or more shares, more than one proxy to attend and vote on his/her behalf in accordance with the articles of association of the Company. A proxy need not be a member of the Company.

2. To be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be deposited at the share register of the Company, Tricor Tengis Limited, of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.

3. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.

4. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto. If more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. 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 joint holding.