



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)

*Third Quarterly Report*  
*2011*

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“STOCK EXCHANGE”)

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.

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*This report, for which the directors (“**Directors**”) of China Netcom Technology Holdings Limited (“**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“**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 report 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 report misleading.*

## HIGHLIGHTS

- The unaudited revenue of the Group for the nine months ended 30 September 2011 was approximately HK\$1,924,000 with an increase of approximately HK\$247,000 as compared with that for the corresponding period in 2010.
- The Group recorded an unaudited loss attributable to owners of the Company of approximately HK\$149,607,000 for the nine months ended 30 September 2011, which increased by approximately HK\$121,794,000 as compared with that for the corresponding period in 2010.
- The unaudited loss per share for loss attributable to owners of the Company was approximately HK\$1.65 cents for the nine months ended 30 September 2011.

## RESULTS

The board of Directors (“**Board**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the three months and nine months ended 30 September 2011 together with the comparative figures for the corresponding periods in 2010 as follows:

## UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the three months and nine months ended 30 September 2011*

		Three months ended 30 September		Nine months ended 30 September	
		2011	2010	2011	2010
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	3	<b>642</b>	591	<b>1,924</b>	1,677
Cost of sales		<b>(1,100)</b>	(371)	<b>(3,356)</b>	(1,367)
<b>Gross (loss)/profit</b>		<b>(458)</b>	220	<b>(1,432)</b>	310
Other income and gains		<b>9,469</b>	5	<b>10,378</b>	46
Administrative expenses		<b>(6,744)</b>	(6,339)	<b>(23,571)</b>	(15,626)
Loss on early redemption of promissory note		<b>(11,841)</b>	–	<b>(63,801)</b>	–
Finance costs	4	<b>(27,053)</b>	(13,422)	<b>(76,977)</b>	(13,422)
Share of loss of an associate		<b>(25)</b>	(29)	<b>(42)</b>	(29)
<b>Loss before tax</b>		<b>(36,652)</b>	(19,565)	<b>(155,445)</b>	(28,721)
Income tax credit/(expense)	5	<b>620</b>	–	<b>1,837</b>	(6)
<b>Loss for the period</b>	6	<b>(36,032)</b>	(19,565)	<b>(153,608)</b>	(28,727)
<b>Other comprehensive income, net of income tax</b>					
Exchange differences on translating foreign operations		<b>11,689</b>	26,729	<b>36,451</b>	37,756
Share of other comprehensive income of an associate		<b>4</b>	5	<b>11</b>	5
<b>Other comprehensive income for the period, net of income tax</b>		<b>11,693</b>	26,734	<b>36,462</b>	37,761
<b>Total comprehensive (expense)/income for the period</b>		<b>(24,339)</b>	7,169	<b>(117,146)</b>	9,034

	Three months ended 30 September		Nine months ended 30 September	
	2011	2010	2011	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Loss attributable to:</b>				
Owners of the Company	<b>(34,698)</b>	(18,751)	<b>(149,607)</b>	(27,813)
Non-controlling interests	<b>(1,334)</b>	(814)	<b>(4,001)</b>	(914)
	<u><b>(36,032)</b></u>	<u>(19,565)</u>	<u><b>(153,608)</b></u>	<u>(28,727)</u>
<b>Total comprehensive (expense)/ income attributable to:</b>				
Owners of the Company	<b>(26,298)</b>	7,791	<b>(123,895)</b>	9,703
Non-controlling interests	<b>1,959</b>	(622)	<b>6,749</b>	(669)
	<u><b>(24,339)</b></u>	<u>7,169</u>	<u><b>(117,146)</b></u>	<u>9,034</u>
<b>Loss per share for loss attributable to owners of the Company</b>				
– Basic and diluted				
(HK cents per share)	<u><b>(0.38)</b></u>	<u>(0.39)</u>	<u><b>(1.65)</b></u>	<u>(0.65)</u>

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Notes:

## 1. BASIS OF PREPARATION

The unaudited consolidated statement of comprehensive income of the Group for the three months and nine months ended 30 September 2011 has been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) which collective term include all applicable individual HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations (“**Ints**”), issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules. It has been prepared under historical cost convention.

The unaudited consolidated statement of comprehensive income for the three months and nine months ended 30 September 2011 has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2010, except for the adoption of the new and revised HKFRSs (which include individual Hong Kong Financial Reporting Standards, HKASs and Ints) as disclosed in Note 2 below.

## 2. SIGNIFICANT ACCOUNTING POLICIES

In the current period, the Group has applied the following new and revised standards, amendments and interpretations issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2011.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets
HKAS 24 (as revised in 2009)	Related Party Disclosures
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of these new and revised standards, amendments and interpretations has no significant impact on the results and financial position of the Group.

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

HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>
HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income <sup>3</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>1</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>2</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statement <sup>2</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>2</sup>

Notes:

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2012.
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2013.
- <sup>3</sup> Effective for annual periods beginning on or after 1 July 2012.

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 anticipate that HKFRS 9 will be adopted in the 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 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 Group is in the process of making an assessment of the impact of HKFRS 10, HKFRS 11, HKFRS 12, HKFRS 13, 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 consolidated financial statements.

The Directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

### 3. REVENUE AND TURNOVER

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold and services rendered arising from the principal activities of the Group after elimination of all significant intra-group transactions.

### 4. FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Bank interest expense	1	–	2	–
Effective interest on convertible bonds	3,751	4,758	11,132	4,758
Effective interest on promissory note	23,301	8,664	65,843	8,664
	<u>27,053</u>	<u>13,422</u>	<u>76,977</u>	<u>13,422</u>

### 5. INCOME TAX (CREDIT)/EXPENSE

#### Income tax recognised in profit or loss

	Three months ended 30 September		Nine months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Current tax:				
PRC Enterprise Income Tax	–	–	–	6
Deferred tax:				
Current year	(620)	–	(1,837)	–
	<u>(620)</u>	<u>–</u>	<u>(1,837)</u>	<u>6</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong Profits Tax had been made as the Group had no assessable profits arising in or derived from Hong Kong for both periods.

The subsidiaries of the Company in the People's Republic of China ("PRC") are subject to PRC Enterprise Income Tax at 15% and 25% (2010: 25%). Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The Group did not have significant unprovided deferred tax liabilities at 30 September 2011 and 2010.



## 6. LOSS FOR THE PERIOD

	Three months ended		Nine months ended	
	30 September		30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Loss for the period has been arrived at after charging/(crediting):				
Crediting:				
Bank interest income	(698)	(4)	(1,566)	(36)
Net foreign exchange gain	(506)	–	(170)	–
Gain on disposal of subsidiaries	(8,120)	–	(8,120)	–
Charging:				
Cost of goods sold*	1,100	371	3,356	1,284
Cost of services provided**	–	–	–	83
Auditors' remuneration	295	80	695	240
Employee benefits expense (excluding directors' emoluments):				
– Salaries and other benefits	2,835	850	7,481	1,675
– Contribution to retirement benefits scheme	92	28	232	44
– Equity-settled share-based payments	–	–	1,230	3,537
Directors' emoluments	1,805	1,164	5,472	2,892
Minimum lease payments paid under operating lease in respect of:				
– Land and buildings	591	239	1,627	614
Net foreign exchange loss	–	263	–	263
Depreciation	151	138	455	243

\* *Cost of goods sold for the three months and nine months ended 30 September 2011 included approximately HK\$577,000 (2010: Nil) and HK\$1,786,000 (2010: Nil) respectively relating to employee benefits expense. This amount is included in both "Cost of goods sold" and "Employee benefits expense" disclosed above.*

\*\* *For the three months and nine months ended 30 September 2010, cost of services provided included approximately Nil and HK\$83,000 respectively relating to employee benefits expense while nil was included for the three months and nine months ended 30 September 2011. Such amount was included in both "Cost of services provided" and "Employee benefits expense" disclosed above.*

## 7. LOSS PER SHARE

The calculation of the basic loss per share is based on the unaudited loss attributable to owners of the Company during the three months and nine months ended 30 September 2011 of approximately HK\$34,698,000 and HK\$149,607,000 respectively (three months and nine months ended 30 September 2010 of approximately HK\$18,751,000 and HK\$27,813,000 respectively) and weighted average number of approximately 9,076,175,000 ordinary shares of the Company during the three months ended 30 September 2011 and approximately 9,074,058,000 ordinary shares of the Company in issue during the nine months ended 30 September 2011 (three months and nine months ended 30 September 2010: approximately 4,834,871,000 and approximately 4,265,521,000 respectively).

The computation of diluted loss per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option scheme adopted by the Company on 29 June 2007 ("**Share Option Scheme**") and convertible bonds since their exercise and conversion would have an anti-dilutive effect.

## 8. CONVERTIBLE BONDS

Imputed interest expenses of approximately HK\$3,751,000 (three months ended 30 September 2010: HK\$4,758,000) and HK\$11,132,000 (nine months ended 30 September 2010: HK\$4,758,000) respectively have been recognised in the unaudited consolidated statement of comprehensive income in respect of the convertible bonds for the three months and nine months ended 30 September 2011.

As at 30 September 2011, the carrying amount of the liability component of the convertible bonds at amortised cost was approximately HK\$102,076,000.

## 9. RESERVES

	Attributable to owners of the Company									
	Share premium account (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Convertible	Share options reserve (Unaudited) HK\$'000	Foreign currency translation reserve (Unaudited) HK\$'000	Other reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Subtotal (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
			bonds equity reserve (Unaudited) HK\$'000							
Balance at 1 January 2010	1,475,357	1	-	18,486	(4,732)	(49)	(459,550)	1,029,513	1,843	1,031,356
Loss for the period	-	-	-	-	-	-	(27,813)	(27,813)	(914)	(28,727)
Other comprehensive income for the period	-	-	-	-	37,516	-	-	37,516	245	37,761
Total comprehensive income for the period	-	-	-	-	37,516	-	(27,813)	9,703	(669)	9,034
Shares issued on acquisition of subsidiaries	33,400	-	-	-	-	-	-	33,400	-	33,400
Non-controlling interests arising on acquisition of subsidiaries	-	-	-	-	-	-	-	-	9,709	9,709
Issue of new ordinary shares	141,710	-	-	-	-	-	-	141,710	-	141,710
Transactions costs attributable to issue of new ordinary shares	(2,736)	-	-	-	-	-	-	(2,736)	-	(2,736)
Lapse of share options	-	-	-	(1,118)	-	-	1,118	-	-	-
Recognition of equity-settled share-based payments	-	-	-	3,537	-	-	-	3,537	-	3,537
Issue of ordinary shares under Share Option Scheme	24,196	-	-	(6,769)	-	-	-	17,427	-	17,427
Recognition of the equity component of convertible bonds	-	-	439,210	-	-	-	-	439,210	-	439,210
Conversion of convertible bonds	172,302	-	(95,167)	-	-	-	-	77,135	-	77,135
Deferred tax charged to equity	-	-	(72,470)	-	-	-	-	(72,470)	-	(72,470)
Deferred tax relating to conversion of convertible bonds	-	-	15,703	-	-	-	-	15,703	-	15,703
Balance at 30 September 2010	<u>1,844,229</u>	<u>1</u>	<u>287,276</u>	<u>14,136</u>	<u>32,784</u>	<u>(49)</u>	<u>(486,245)</u>	<u>1,692,132</u>	<u>10,883</u>	<u>1,703,015</u>

Attributable to owners of the Company

	Share premium account (Unaudited) <i>HKS'000</i>	Capital redemption reserve (Unaudited) <i>HKS'000</i>	Convertible bonds equity reserve (Unaudited) <i>HKS'000</i>	Share options reserve (Unaudited) <i>HKS'000</i>	Foreign currency translation reserve (Unaudited) <i>HKS'000</i>	Other reserve (Unaudited) <i>HKS'000</i>	Accumulated losses (Unaudited) <i>HKS'000</i>	Subtotal (Unaudited) <i>HKS'000</i>	Non- controlling interests (Unaudited) <i>HKS'000</i>	Total (Unaudited) <i>HKS'000</i>
Balance at 1 January 2011	2,553,718	1	87,788	14,136	82,016	(49)	(2,345,705)	391,905	310,973	702,878
Loss for the period	-	-	-	-	-	-	(149,607)	(149,607)	(4,001)	(153,608)
Other comprehensive income for the period	-	-	-	-	25,712	-	-	25,712	10,750	36,462
Total comprehensive expense for the period	-	-	-	-	25,712	-	(149,607)	(123,895)	6,749	(117,146)
Non-controlling interests arising on acquisition of a subsidiary	-	-	-	-	-	-	-	-	(181)	(181)
Capital contribution by non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	1,283	1,283
Recognition of equity-settled share-based payments	-	-	-	1,230	-	-	-	1,230	-	1,230
Issue of ordinary shares under Share Option Scheme	3,369	-	-	(795)	-	-	-	2,574	-	2,574
Balance at 30 September 2011	<u>2,557,087</u>	<u>1</u>	<u>87,788</u>	<u>14,571</u>	<u>107,728</u>	<u>(49)</u>	<u>(2,495,312)</u>	<u>271,814</u>	<u>318,824</u>	<u>590,638</u>

## 10. ACQUISITION OF A SUBSIDIARY

On 27 April 2011, the Group completed the acquisition of 65% equity interest in 北京市彩贏樂科技有限公司 (Beijing Caiyingle Technology Company Limited, being its unofficial English name) (“**Beijing Caiyingle**”), for a consideration of RMB7,750,000.

Assets and liabilities recognised at the date of acquisition:

	<i>HK\$'000</i> (Unaudited)
Property, plant and equipment	6
Prepayment, deposits and other receivables	170
Cash and bank balances	9
Other payables and accruals	(530)
Amount due to a group company	(120)
Amount due to a former shareholder	(52)
	<u>(517)</u>
	<u><u>(517)</u></u>

*HK\$'000*  
(Unaudited)

### Goodwill arising on acquisition

Consideration transferred	9,232
Less: non-controlling interests	(181)
Add: fair value of identifiable net assets acquired	517
	<u>9,568</u>
Goodwill on acquisition	<u><u>9,568</u></u>

### Net cash outflow arising on acquisition of a subsidiary

Cash consideration paid	9,232
Less: cash and bank balances acquired	(9)
	<u>9,223</u>
	<u><u>9,223</u></u>

## 11. DISPOSAL OF SUBSIDIARIES

During the nine months ended 30 September 2011, the Group disposed of 100% equity interest in Business Essence Technology Limited and 95% equity interest in 中山市光彩未來軟件有限公司 (Zhongshan Guangcai Future Software Company Limited, being its unofficial English name) at a total consideration of approximately HK\$7,965,000.

## 12. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the nine months ended 30 September 2011 (nine months ended 30 September 2010: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and financial review

During the nine months ended 30 September 2011, the Group had actively strengthened its position in developing innovative lottery sales channels in the PRC. The Group had recently signed the following agreements:

1. On 23 August 2011, a supplemental agreement (“**Supplemental Agreement**”) to the Original Agreement (as defined in the circular of the Company dated 28 October 2011 (“**2011 Circular**”)) was entered into between Greatest Profit Investment Limited (“**Purchaser**”), Century Profit Holdings Limited (“**Vendor**”), Mr. Lin Zhi Wei and the other two beneficial shareholders of the Vendor (collectively, the “**Warrantors**”) and Mutual International Limited (“**MIL**”) in relation to the acquisition of 49% equity interest of 深圳環彩普達科技有限公司 (Shenzhen Huancai Puda Technology Company Limited, being its unofficial English name) (“**Huancai Puda**”), which 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, at a consideration of RMB73,500,000 (“**Acquisition**”). Further details of the Acquisition were disclosed in the 2011 Circular.
2. On 6 August 2011, 雲南西部礦業有限公司 (Yunnan Xibu Mining Company Limited, being its unofficial English name) (“**Yunnan Xibu**”), a subsidiary of the Company, entered into a contract with 北京中色泰格地質資源勘查科技有限公司 (Beijing Zhongsetaige Geological Resources Exploration Technology Limited, being its unofficial English name) in relation to a survey on the gold mines in Yunnan Xibu.
3. On 28 July 2011, Huancai Puda entered into a framework agreement (“**Framework Agreement**”) with 廣州魯銀投資有限公司 (Guangzhou Luyin Investment Co., Limited, being its unofficial English name) (“**Guangzhou Luyin**”) in relation to the co-operation in the development of digital TV lottery sales projects in order to enlarge the market share and increase the profitability of the digital TV lottery sales projects operated by the parties. Guangzhou Luyin has the exclusive operation right of 中央數字電視彩民在線頻道 (Central Digital TV Lottery Purchasers Online Channel, being its unofficial English name) which is a nationwide digital paid TV channel specialising in lottery services. Details of the Framework Agreement were set out in the announcement of the Company dated 8 August 2011.

4. On 21 July 2011, Multi Joy Corporation Limited, a wholly-owned subsidiary of the Company, and 中國數字圖書館有限責任公司 (China Digital Library Limited Company, being its unofficial English name) (“**China Digital Library**”) entered into a joint venture agreement (“**JV Agreement**”) in relation to the formation of 中數三網科技 (北京) 有限公司 (Zhongshu Sanwang Technology (Beijing) Limited, being its unofficial English name) (“**Zhongshu Sanwang**”). Zhongshu Sanwang will acquire 50% equity interest of 中數寰宇科技 (北京) 有限公司 (Zhongshu Huanyu Technology (Beijing) Limited, being its unofficial English name) which had entered into a joint venture agreement with 央視國際網絡有限公司 (CCTV International Network Co., Ltd, being its unofficial English name) and 深圳市騰訊計算機系統有限公司 (Shenzhen Tencent Computer Systems Company Limited, being its unofficial English name) to engage in IPTV services.

## **Outlook and prospect**

The lottery market in the PRC continues to exhibit strong growth. In the first nine months of 2011, the total lottery sales were up approximately 34% year on year. The industry continues to offer plentiful opportunities.

As the Group is committed to develop new sales channel, our JV Agreement with China Digital Library and foray into IPTV services represents an excellent opportunity to tap into the IPTV sector. Our agreements with 上海文廣傳媒集團 (Shanghai Media Group, being its unofficial English name) and Guangzhou Luyin are key steps in establishing a commanding market share in digital TV lottery sales segment.

Our co-operation with Scientific Games Worldwide Limited is another integral part of our strategy, as we tap on their know-how to introduce varied games and systems into the PRC.

We are confident that the Group will be able to make use of its existing relationships and technology advantage to bring in exciting businesses for the Group.

## **Financial review**

For the three months and nine months ended 30 September 2011, the Group recorded an unaudited revenue of approximately HK\$642,000 and HK\$1,924,000 with an increase of approximately 9% and an increase of approximately 15% as compared with those figures in the corresponding periods in 2010 respectively. The revenue of the Group was primarily derived from the trading of computer hardware and software business and lottery business.

For the nine months ended 30 September 2011, the unaudited loss attributable to owners of the Company increased by approximately HK\$121,794,000 as compared with that for the corresponding period in 2010. The difference was mainly because of the increase in expense for the loss on early redemption of promissory note and finance cost for the nine months ended 30 September 2011.

## Capital structure

As at 30 September 2011, the Company had 9,076,175,247 ordinary shares of HK\$0.001 each (each a “Share”) (30 September 2010: 5,835,570,247 Shares) in issue.

### *Issue of new Shares*

On 5 January 2011, 4,000,000 Shares were allotted and issued to a consultant of the Group due to the exercise of share options at the exercise price of HK\$0.2656 which were granted on 10 July 2008.

On 20 January 2011, 4,000,000 Shares were allotted and issued to a consultant of the Group due to the exercise of share options at the exercise price of HK\$0.1176 which were granted on 10 December 2009.

On 27 January 2011, 5,000,000 Shares were allotted and issued to a consultant of the Group due to the exercise of share options at the exercise price of HK\$0.1176 which were granted on 10 December 2009.

On 31 March 2011, 4,000,000 Shares were allotted and issued to a consultant of the Group due to the exercise of share options at the exercise price of HK\$0.1176 which were granted on 10 December 2009.

On 8 November 2011, 195,000,000 Shares were allotted and issued to Mr. Leung Ngai Man, being the holder of the convertible bonds and an executive Director, due to conversion of the convertible bonds.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had the following material acquisition and disposal during the nine months ended 30 September 2011:

### **Acquisition of a subsidiary**

On 27 April 2011, the acquisition of 65% equity interest in Beijing Caiyingle by the Group at a total consideration of RMB7,750,000 was completed.

### **Disposal of subsidiaries**

The Group completed the disposal of 100% equity interest in Business Essence Technology Limited (“**Business Essence**”) to Mr. Leung Ngai Man, an executive Director, at a total consideration of HK\$7,965,000 on 15 September 2011. The sole asset of Business Essence was its 95% equity interest in 中山市光彩未來軟件有限公司 (Zhongshan Guangcai Future Software Company Limited, being its unofficial English name).



## EVENTS AFTER THE REPORTING PERIOD

A circular regarding further details of the Acquisition has been despatched to the shareholders of the Company (“**Shareholders**”) on 28 October 2011. An extraordinary general meeting will be convened to approve the Acquisition.

On 3 November 2011, the Company received a conversion notice from Mr. Leung Ngai Man, being the holder of the convertible bonds and an executive Director, requesting to convert the convertible bonds in the principal amount of HK\$46,800,000 issued by the Company on 27 August 2010. A total of 195,000,000 Shares were allotted and issued on 8 November 2011.

## DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2011, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (“**SFO**”)), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### Long positions in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares	underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of issued share capital
Mr. Leung Ngai Man (“ <b>Mr. Leung</b> ”)	Beneficial owner	2,483,105,000	795,416,666 <i>(Note 1)</i>	3,278,521,666	36.12%
	Through a controlled corporation	1,474,400 <i>(Note 2)</i>	–	1,474,400	0.02%
Mr. Ng Kwok Chu, Winfield (“ <b>Mr. Ng</b> ”)	Beneficial owner	472,500	10,000,000 <i>(Note 3)</i>	10,472,500	0.12%
Ms. Wu Wei Hua (“ <b>Ms. Wu</b> ”)	Beneficial owner	–	10,000,000 <i>(Note 4)</i>	10,000,000	0.11%

*Notes:*

1. Mr. Leung was issued with convertible bonds in an aggregate principal amount of HK\$797,500,000 on 27 August 2010 at a conversion price of HK\$0.24 per Share. Upon full conversion of the convertible bonds, a maximum of 3,322,916,666 Shares will be issued to Mr. Leung. As at 30 September 2011, convertible bonds in the amount of HK\$190,900,000 remains outstanding. Such interests constitute a long position of the Director in a physically settled equity derivative for the purpose of the SFO.
2. These Shares were held by Speedy Well Investments Limited (“**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.
3. On 10 July 2008, Mr. Ng 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 consolidation of every two shares in the issued 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.
4. 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, as at 30 September 2011, none of the Directors and chief executive of the Company had any other interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken 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.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

Save as disclosed above, as at 30 September 2011, no person or company (other than the Directors and chief executive of the Company whose interests are set out in the section “DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION” above) had an interest or short positions in the Shares, underlying Shares and debentures of the Company as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO and was directly or indirectly interested in 5% or more of the nominal value of any class of the share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group.

### SHARE OPTION SCHEME

The Company adopted the Share Option Scheme and refreshed its 10% general limit on the grant of options on 9 April 2009 and 20 April 2010. The principal purpose of the Share Option Scheme is to motivate and give incentive to the eligible participants as defined in the Share Option Scheme for their contribution to the Group.

For the nine months ended 30 September 2011, detailed movements relating to options granted under the Share Option Scheme were as follows:

Name or category of participant	Date of grant	Effective exercise		As at 1 January 2011	Movement of share options (adjusted) during the period			As at 30 September 2011
		price	Exercise period		Granted	Exercised	Lapsed	
Consultants	9 July 2007	0.2850	9 July 2007 – 29 June 2017	48,000,000	–	–	–	48,000,000
	22 August 2007	0.4060	22 August 2007 – 29 June 2017	41,000,000	–	–	–	41,000,000
	10 July 2008	0.2656	10 July 2008 – 29 June 2017	40,000,000	–	4,000,000	–	36,000,000
	10 December 2009	0.1176	10 December 2009 – 29 June 2017	13,000,000	–	13,000,000	–	–
Employee	15 February 2011	0.3330	15 February 2011 – 29 June 2017	–	15,000,000	–	–	15,000,000
Directors								
– Mr. Ng	10 July 2008	0.2656	10 July 2008 – 29 June 2017	10,000,000	–	–	–	10,000,000
– Ms. Wu	10 July 2008	0.2656	10 July 2008 – 29 June 2017	10,000,000	–	–	–	10,000,000

No option granted under the Share Option Scheme has been cancelled during the nine months ended 30 September 2011.

## **OTHER INTERESTS DISCLOSEABLE UNDER THE SFO**

Save as disclosed above, so far as is known to the Directors, there is no other person who has an interest or short position in the Shares and underlying Shares that is discloseable under section 336 of the SFO.

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. As at the date of this report, the audit committee comprises two independent non-executive Directors, namely, Dr. Leung Wai Cheung (chairman of the audit committee) and Mr. Cai Wei Lun.

The Group's third quarterly results for the nine months ended 30 September 2011 has been reviewed by the audit committee which is of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other legal requirements and that adequate disclosures have been made.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Board is committed to maintaining high standards of corporate governance in order to uphold the transparency of the Group and safeguard interests of the Shareholders.

During the period under review, the Company has complied with the code provisions and certain recommended best practices in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 15 to the GEM Listing Rules except for the following:

### **1. Chairman and Chief Executive Officer**

Code Provision A.2.1 stipulates that the role of chairman and chief executive officer should be separate and should not be performed by the same individual.

Currently, the role of the chairman of the Board is performed by Mr. Leung who possesses essential leadership skills and has extensive knowledge in the business of the Group. The Board believes that vesting the role of the chairman in Mr. Leung provides the Company with strong and consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies, and ensures the generation of benefits to the Shareholders.

Although the appointment of the chief executive officer of the Company remains outstanding, the overall management of the Company was performed by Mr. Leung and all the executive Directors whom have extensive experience in the business of the Group. Their respective areas of profession spearheaded the Group's overall development and business strategies.

The Company is still looking for a suitable candidate to fill the vacancy in order to comply with the CG Code.

## **2. Board Composition**

Note 1 to Code Provision A.3 refers to rule 5.05 of the GEM Listing Rules, which stipulates that every board of directors of a listed company must include at least three independent non-executive directors.

Following the resignation of Mr. Wang Jun Sui as an independent non-executive Director and a member of the audit committee of the Company on 31 March 2010 and up to the date of this report, the number of independent non-executive Directors and audit committee members of the Company fell below the minimum number required under rules 5.05(1) and 5.28 of the GEM Listing Rules respectively. The Company is in the process of identifying a suitable candidate to fill the vacancy in order to comply with the CG Code and the GEM Listing Rules.

## **CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct for securities transactions by directors (“Code”) which is no less exacting than the required terms for dealings of shares by directors as set out in rules 5.46 to 5.67 of the GEM Listing Rules. The Company has made specific inquiry with all the Directors, and has not been notified of any non-compliance with the standard for dealings of securities by Directors and the Code during the nine months ended 30 September 2011.

## **COMPETING INTERESTS**

During the period under review, none of the Directors, the management Shareholders or substantial Shareholders or any of their respective associates (as defined in the GEM Listing Rules) has any interest in a business which causes or may cause any significant competition with the business of the Group.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the nine months ended 30 September 2011.

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

Hong Kong, 9 November 2011

*As at the date of this report, the executive Directors are Mr. Leung Ngai Man, Mr. Ng Kwok Chu, Winfield and Ms. Wu Wei Hua; and the independent non-executive Directors are Dr. Leung Wai Cheung and Mr. Cai Wei Lun.*