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)

First Quarterly Report 2012

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HIGHLIGHTS

- The unaudited revenue of the Group for the three months ended 31 March 2012 was approximately HK$749,000 with an increase of approximately HK$78,000 as compared with that for the corresponding period in 2011.
- The Group recorded an unaudited loss attributable to owners of the Company of approximately HK$46,226,000 for the three months ended 31 March 2012, which was decreased by approximately HK$37,124,000 as compared with that for the corresponding period in 2011.
- The unaudited loss per share for loss attributable to owners of the Company was approximately HK2.49 cents for the three months ended 31 March 2012.

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 ended 31 March 2012 together with the comparative figures for the corresponding period in 2011 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2012

	Notes	(Unaudited) Three months ended 31 March 2012 HK$'000	2011 HK$'000 (Restated)
Continuing operations			
Revenue	*3*	**749**	671
Cost of sales		**(618)**	(1,162)
Gross profit/(loss)		**131**	(491)
Other income and gains		**670**	322
Administrative expenses		**(15,330)**	(8,549)
Loss on early redemption of promissory note		**(10,310)**	(51,960)
Finance costs	*4*	**(26,438)**	(24,529)
Share of loss of an associate		**(1)**	(14)
Loss before tax		**(51,278)**	(85,221)
Income tax credit	*5*	**1,300**	606
Loss for the period from continuing operations	*6*	**(49,978)**	(84,615)
Discontinued operation			
Loss for the period from discontinued operation	*7*	**(1)**	–
Loss for the period		**(49,979)**	(84,615)
Other comprehensive income, net of income tax			
Exchange differences on translating foreign operations		**2,381**	7,187
Share of other comprehensive income of an associate		**–**	2
Other comprehensive income for the period, net of income tax		**2,381**	7,189
Total comprehensive expense for the period		**(47,598)**	(77,426)

	Notes	(Unaudited) Three months ended 31 March 2012 HK$'000	2011 HK$'000 (Restated)
Loss attributable to:			
Owners of the Company		**(46,226)**	(83,350)
Non-controlling interests		**(3,753)**	(1,265)
		(49,979)	(84,615)
Total comprehensive (expense)/ income attributable to:			
Owners of the Company		**(44,938)**	(78,640)
Non-controlling interests		**(2,660)**	1,214
		(47,598)	(77,426)
Loss per share for loss attributable to owners of the Company	*8*		
From continuing and discontinued operations			
– Basic and diluted (HK cents per share)		**(2.49)**	(4.59)
From continuing operations			
– Basic and diluted (HK cents per share)		**(2.49)**	(4.59)

Notes:

1. BASIS OF PREPARATION

The unaudited consolidated statement of comprehensive income of the Group for the three months ended 31 March 2012 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 ended 31 March 2012 has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2011, except for the adoption of the new and revised HKFRSs (which include individual HKFRSs, HKASs and Ints) as disclosed in Note 2 below.

2. SIGNIFICANT ACCOUNTING POLICIES

In the current period, the Group has applied the following amendments to standards issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2012:

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

The adoption of these amendments to standards 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:

Amendments to HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans[2]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

Notes:

1 Effective for annual periods beginning on or after 1 July 2012.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2014.
4 Effective for annual periods beginning on or after 1 January 2015.

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at 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 reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. 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 recognition 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 2015, with earlier application permitted.

The Directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of HKFRS 9 might have 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.

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC) – Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK (SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the Directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 13 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 affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

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

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

	(Unaudited) Three months ended 31 March	
	2012	2011
	HK$'000	*HK$'000*
Effective interest on convertible bonds	**2,801**	3,670
Effective interest on promissory note	**23,637**	20,859
	26,438	24,529

5. INCOME TAX CREDIT (RELATING TO CONTINUING OPERATIONS)

Income tax recognised in profit or loss

	(Unaudited) Three months ended 31 March	
	2012	2011
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax	**–**	–
Deferred tax:		
Current period	**(1,300)**	(606)
	(1,300)	(606)

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.

Under the prevailing tax law in the People's Republic of China ("**PRC**"), the Enterprise Income Tax rate of the PRC subsidiaries other than that stated below, is 25% for both periods.

Pursuant to the relevant approval by the tax authority, 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**"), a subsidiary in which the Company has controlling interest, is recognised as a new high-tech enterprise from year 2009, entitled a preferential tax rate of 15% for the three months ended 31 March 2012 (three months ended 31 March 2011: 15%). The Company has been enjoying the preferential tax rate of 15% for three years since 31 December 2009.

The Group did not have significant unprovided deferred tax liabilities at 31 March 2011 and 2012.

6. LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS

	(Unaudited) Three months ended 31 March	
	2012	2011
	HK$'000	*HK$'000*
Loss for the period from continuing operations has been arrived at after (crediting)/charging:		
Crediting:		
Bank interest income	**(566)**	(321)
Charging:		
Cost of inventories recognised as an expense (included in cost of sales)	**492**	1,162
Auditors' remuneration	**225**	200
Employee benefits expense (excluding directors' emoluments):		
– Salaries and other benefits	**3,250**	1,623
– Contributions to retirement benefits schemes	**90**	63
– Equity-settled share-based payments	**–**	1,230
Directors' emoluments	**1,903**	1,829
Minimum lease payments paid under operating leases in respect of:		
– Land and buildings	**661**	402
– Office equipment	**8**	3
Net foreign exchange loss	**–**	147
Depreciation of property, plant and equipment	**194**	126

7. DISCONTINUED OPERATION

In November 2011, the Group had decided to cease its staff secondment business as the Group plans to focus its resources on its core business of lottery business operations and to optimise its assets structure.

	(Unaudited) Three months ended 31 March 2012 HK$'000	2011 HK$'000
Loss for the period from discontinued operation		
Revenue	**–**	–
Cost of sales	**–**	–
Administrative expenses	**(1)**	–
Loss before tax	**(1)**	–
Attributable income tax	**–**	–
Loss for the period from discontinued operation (attributable to the owners of the Company)	**(1)**	–

8. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	(Unaudited) Three months ended 31 March 2012 HK$'000	2011 HK$'000
Loss		
Loss for the period attributable to owners of the Company for the purposes of basic and diluted loss per share	**(46,226)**	(83,350)

Number of shares

	(Unaudited) Three months ended 31 March	
	2012	2011
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**1,854,235**	1,813,951

The weighted average number of ordinary shares for the purposes of calculating basic and diluted loss per share for the three months ended 31 March 2011 has been retrospectively adjusted for the effect of the consolidation of shares in February 2012.

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 and convertible bonds since their exercise and conversion would have an anti-dilutive effect.

For continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to owners of the Company is based on the following data:

Loss figures are calculated as follows:

	(Unaudited) Three months ended 31 March	
	2012	2011
	HK$'000	*HK$'000*
Loss for the period attributable to owners of the Company	**(46,226)**	(83,350)
Less:		
Loss for the period from discontinued operation	**1**	–
Loss for the purposes of basic and diluted loss per share from continuing operations	**(46,225)**	(83,350)

The denominators used are the same as those detailed above for both basic and diluted loss per share.

For discontinued operation

Basic and diluted loss per share for the discontinued operation is HK$0.00005 cent per share (three months ended 31 March 2011: Nil), based on the loss for the current period from the discontinued operation of approximately HK$1,000 (three months ended 31 March 2011: Nil) and the denominators detailed above for both basic and diluted loss per share.

9. CONVERTIBLE BONDS

Imputed interest expenses of approximately HK$2,801,000 (three months ended 31 March 2011: HK$3,670,000) has been recognised in the unaudited consolidated statement of comprehensive income in respect of the convertible bonds for the three months ended 31 March 2012.

As at 31 March 2012, the carrying amount of the liability component of the convertible bonds at amortised cost was approximately HK$82,684,000 (31 March 2011: HK$94,614,000).

10. RESERVES

	Attributable to owners of the Company									
	Share premium account (Unaudited) *HK$'000*	Capital redemption reserve (Unaudited) *HK$'000*	Convertible bonds equity reserve (Unaudited) *HK$'000*	Share options reserve (Unaudited) *HK$'000*	Foreign currency translation reserve (Unaudited) *HK$'000*	Other reserve (Unaudited) *HK$'000*	Accumulated losses (Unaudited) *HK$'000*	Subtotal (Unaudited) *HK$'000*	Attributable to non-controlling interests (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
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	–	–	–	–	–	–	(83,350)	(83,350)	(1,265)	(84,615)
Other comprehensive income for the period	–	–	–	–	4,710	–	–	4,710	2,479	7,189
Total comprehensive income/ (expense) for the period	–	–	–	–	4,710	–	(83,350)	(78,640)	1,214	(77,426)
Recognition of equity-settled share-based payments	–	–	–	1,230	–	–	–	1,230	–	1,230
Issue of ordinary shares under share option scheme	3,370	–	–	(795)	–	–	–	2,575	–	2,575
Balance at 31 March 2011	2,557,088	1	87,788	14,571	86,726	(49)	(2,429,055)	317,070	312,187	629,257

	Attributable to owners of the Company									
	Share premium account (Unaudited) *HK$'000*	Capital redemption reserve (Unaudited) *HK$'000*	Convertible bonds equity reserve (Unaudited) *HK$'000*	Share options reserve (Unaudited) *HK$'000*	Foreign currency translation reserve (Unaudited) *HK$'000*	Other reserve (Unaudited) *HK$'000*	Accumulated losses (Unaudited) *HK$'000*	Subtotal (Unaudited) *HK$'000*	Attributable to non-controlling interests (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
Balance at 1 January 2012	2,608,610	1	66,267	14,571	111,435	(49)	(2,964,483)	(163,648)	304,940	141,292
Loss for the period	–	–	–	–	–	–	(46,226)	(46,226)	(3,753)	(49,979)
Other comprehensive income for the period	–	–	–	–	1,288	–	–	1,288	1,093	2,381
Total comprehensive expense for the period	–	–	–	–	1,288	–	(46,226)	(44,938)	(2,660)	(47,598)
Balance at 31 March 2012	2,608,610	1	66,267	14,571	112,723	(49)	(3,010,709)	(208,586)	302,280	93,694

11. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the three months ended 31 March 2012 (three months ended 31 March 2011: Nil).

12. COMPARATIVE FIGURES

The results of the staff secondment segment have been presented as discontinued operation and accordingly, the comparative figures for the three months ended 31 March 2011 of the unaudited consolidated statement of comprehensive income had been reclassified in accordance with HKFRSs. For comparative purposes, certain comparative figures have also been reclassified to conform with current period presentation to align with the unaudited consolidated statement of comprehensive income of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

For the three months ended 31 March 2012, the Group recorded an unaudited revenue of approximately HK$749,000 with an increase of approximately HK$78,000 as compared with that for the corresponding period in 2011. During the three months ended 31 March 2012, the revenue of the Group was primarily derived from lottery business and trading of computer hardware and software. The increase in revenue was mainly due to the rise in provision of lottery system management services, and marketing and technical consultancy services and trading of computer hardware and software business.

For the three months ended 31 March 2012, the unaudited loss attributable to owners of the Company decreased by approximately HK$37,124,000 as compared with that for the corresponding period in 2011. The difference was mainly because of the decrease for the loss on early redemption of promissory note for the three months ended 31 March 2012.

Contract with Scientific Games

A contract was entered into on 12 December 2011 between Huancai Puda and Scientific Games Worldwide Limited (being one of the world's leading producer of instant lottery tickets and the exclusive service provider of the instant lottery tickets of the China Sports Lottery). As stated in such contract, both parties agreed on (i) the joint development of tabletop and mobile terminals in the PRC; (ii) the implementation of the construction of the self-service terminal sales network; and (iii) the joint promotion of the construction and operation of the China Sports Lottery self-service terminals sales system. Details of the contract were set out in the announcement of the Company dated 15 December 2011.

Agreement with Jinse Pingdao

On 18 January 2012, Max Choice Holdings Limited, a wholly-owned subsidiary of the Company, and 上海金色平道文化傳媒有限公司 (Shanghai Jinse Pingdao Cultural Media Limited, being its unofficial English name) ("**Jinse Pingdao**"), the operator of Xingfu lottery channel, entered into an agreement, pursuant to which the Company agreed to set up a joint venture company in the PRC by Huancai Puda and Jinse Pingdao to co-develop TV interactive lottery services in the PRC. Details of the agreement were set out in the announcement of the Company dated 27 January 2012.

Agreements with Liaoning Welfare Lottery

On 7 February 2012, Huancai Puda and 遼寧省福利彩票發行中心 (Liaoning Province Welfare Lottery Issuing Centre, being its unofficial English name) ("**Liaoning Welfare Lottery**") entered into (i) a cooperation agreement, pursuant to which Huancai Puda agreed to set up and manage the sales halls of a high payout and quick-result lottery game, namely China Welfare Lottery "Happy 12", in Liaoning Province and act as the sales agent; and (ii) a service agreement, pursuant to which Liaoning Welfare Lottery appointed Huancai Puda to undertake the development and maintenance of the sales management system of "Happy 12". Details of the cooperation agreement and the service agreement were set out in the announcement of the Company dated 13 February 2012.

The first batch of lottery sales halls of "Happy 12" operated and managed by Huancai Puda commenced operation in May 2012. Such sales halls are located in Shenyang and Dalian, Liaoning Province, the PRC.

Connected and major transaction – Acquisition of CIL and WMIL

Reference is made to the announcements of the Company dated 2 March 2011, 9 March 2011, 31 March 2011, 23 August 2011 and 6 March 2012 and the circular of the Company dated 28 October 2011 ("**Circular**") in relation to, among other matters, the acquisition ("**Acquisition**") of the entire issued share capital of Carnix Investment Limited ("**CIL**") and Wise Mark Investments Ltd. ("**WMIL**").

On 2 March 2011, Greatest Profit Investment Limited ("**Purchaser**"), being a wholly-owned subsidiary of the Company, Century Profit Holdings Limited ("**CPHL**") and Mr. Lin Zhiwei and the other two beneficial shareholders of CPHL (collectively, the "**Warrantors**") entered into an acquisition agreement ("**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 Mutual International Limited ("**MIL**"), which collectively held 49% equity interests in Huancai Puda, at a consideration of RMB73,500,000.

On 23 August 2011, the Purchaser, CPHL and MIL (collectively the "**Vendors**") and the Warrantors entered into a supplemental agreement ("**Supplemental Agreement**") (the Original Agreement as supplemented by the Supplemental Agreement is referred to as the "**Acquisition Agreement**"), pursuant to which 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 at a consideration of RMB73,500,000. The sole asset of CIL and WMIL was their respective 30.87% and 18.13% (collectively 49%) equity interests in Huancai Puda. Details of the Acquisition were set out in the Circular.

Pursuant to the Acquisition Agreement, completion of the Acquisition ("**Completion**") is subject to certain conditions (as set out in the Circular) having been fulfilled or waived (as the case may be) on or before 360 days after the date of the Original Agreement ("**Long Stop Date**") or such later date as the Vendors and the Purchaser may agree in writing. On 6 March 2012, the Purchaser, the Vendors and the Warrantors entered into another supplemental agreement pursuant to which, among others, the parties agreed to extend the Long Stop Date to a date falling on or before 30 June 2012 or such later date as the Vendors and the Purchaser may agree in writing. Details of such extension were set out in the announcement of the Company dated 6 March 2012.

Upon Completion, Huancai Puda will become an indirect wholly-owned subsidiary of the Company. The Acquisition constituted a connected and major transaction for the Company. Up to the date of this report, the Acquisition has not yet completed.

Prospect

As the sales project of "Happy 12" lottery cooperated with Liaoning Welfare Lottery has been operated, the Company will commit more resources, through its first-class China lottery operation team, to speed up the development of the business in Liaoning Province, the PRC as well as other provinces in the PRC, striving to become the leading operator of high frequency lottery sales hall in the PRC.

Capital structure

Share consolidation of every five issued and unissued ordinary shares of HK$0.001 each into one consolidated share of HK$0.005 each ("**Consolidated Share**") was effected on 27 February 2012 ("**2012 Share Consolidation**"). The authorised share capital of the Company remains at HK$100,000,000 but comprises 20,000,000,000 Consolidated Shares of which 1,854,235,049 Consolidated Shares were in issue as at the effective date.

As at 31 March 2012, the Company had 1,854,235,049 ordinary shares of HK$0.005 each (each a "**Share**") (31 March 2011: 1,815,235,049 Shares as restated) in issue.

SUBSEQUENT EVENT

Lottery Sales Halls in Liaoning Province

On 11 May 2012, the first batch of lottery sales halls of "Happy 12" located in Shenyang and Dalian, Liaoning Province, the PRC operated and managed by Huancai Puda, were opened. The Board believes that the opening of the lottery sales halls as well as the cooperation with Liaoning Welfare Lottery will facilitate the Group to become an investment operator of high frequency lottery sales halls in the PRC. Details of the opening of the lottery sales halls were disclosed in the announcement of the Company dated 11 May 2012.

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

As at 31 March 2012, 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 ("**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 position in the 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 issued share capital
Mr. Leung Ngai Man ("**Mr. Leung**")	Beneficial owner	536,335,000 *(Note 1)*	120,083,333 *(Note 2)*	656,418,333	35.40%
	Through a controlled corporation	294,880 *(Note 3)*	–	294,880	0.02%
Mr. Ng Kwok Chu, Winfield ("**Mr. Ng**")	Beneficial owner	94,500 *(Note 1)*	2,000,000 *(Note 4)*	2,094,500	0.11%
Ms. Wu Wei Hua ("**Ms. Wu**")	Beneficial owner	–	2,000,000 *(Note 5)*	2,000,000	0.11%

Notes:

1. As a result of the 2012 Share Consolidation, these Shares were adjusted.

2. 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 31 March 2012, convertible bonds in the amount of HK$144,100,000 remains outstanding. As a result of the 2012 Share Consolidation, the relevant conversion price was adjusted from HK$0.24 to HK$1.20 per Consolidated Share and the number of Shares falling to be issued under the outstanding convertible bonds was adjusted from 600,416,666 Shares to 120,083,333 Consolidated Shares. Such interests constitute a long position of the Director in a physically settled equity derivative for the purpose of the SFO.

3. These Shares were held by Speedy Well Investments Limited ("**Speedy Well**") which is wholly and beneficially owned by Mr. Leung. By virtue of the SFO, Mr. Leung is deemed to be interested in the Shares held by Speedy Well. As a result of the 2012 Share Consolidation, these Shares were adjusted.

4. 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 shares of HK$0.0005 each 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 ("**2008 Share Consolidation**"), the relevant subscription price was adjusted from HK$0.1328 to HK$0.2656 per consolidated share and the number of consolidated shares falling to be issued under the outstanding share options was adjusted from 20,000,000 shares to 10,000,000 consolidated shares. As a result of the 2012 Share Consolidation, the relevant subscription price was adjusted from HK$0.2656 to HK$1.3280 per Consolidated Share and the number of Consolidated Shares falling to be issued under the outstanding share options was adjusted from 10,000,000 Shares to 2,000,000 Consolidated Shares. The interest constitutes a long position of the Director in a physically settled equity derivative for the purpose of the SFO.

5. 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 2008 Share Consolidation, the relevant subscription price was adjusted from HK$0.1328 to HK$0.2656 per consolidated share and the number of consolidated shares falling to be issued under the outstanding share options was adjusted from 20,000,000 shares to 10,000,000 consolidated shares. As a result of the 2012 Share Consolidation, the relevant subscription price was adjusted from HK$0.2656 to HK$1.3280 per Consolidated Share and the number of Consolidated Shares falling to be issued under the outstanding share options was adjusted from 10,000,000 Shares to 2,000,000 Consolidated Shares. The interest constitutes a long position of the Director in a physically settled equity derivative for the purpose of the SFO.

Save as disclosed above, as at 31 March 2012, 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 SHAREHOLDER IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

Save as disclosed above, as at 31 March 2012, no person or company (other than the Directors or chief executive of the Company whose interests are set out in the section "INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY 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 were directly or indirectly interest in 5% 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.

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 three months ended 31 March 2012, detailed movements relating to options granted under the Share Option Scheme were as follows:

Name or category of participant	Date of grant	Exercise price	Exercise period	As at 1 January 2012	Movement of share options (adjusted) during the period			As at 31 March 2012
					Granted	Exercised	Lapsed	
Consultants	9 July 2007	1.425*	9 July 2007 – 29 June 2017	48,000,000	–	–	–	9,600,000*
	22 August 2007	2.030*	22 August 2007 – 29 June 2017	41,000,000	–	–	–	8,200,000*
	10 July 2008	1.328*	10 July 2008 – 29 June 2017	36,000,000	–	–	–	7,200,000*
Employee	15 February 2011	1.665*	15 February 2011 – 29 June 2017	15,000,000	–	–	3,000,000*	–
Directors								
– Mr. Ng	10 July 2008	1.328*	10 July 2008 – 29 June 2017	10,000,000	–	–	–	2,000,000*
– Ms. Wu	10 July 2008	1.328*	10 July 2008 – 29 June 2017	10,000,000	–	–	–	2,000,000*

* As a result of the 2012 Share Consolidation, the number of share options granted and the exercise price had been adjusted.

No option granted under the Share Option Scheme was exercised during the three months ended 31 March 2012.

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. On 29 February 2012, Mr. Qi Ji was appointed as, among others, an independent non-executive Director and a member of the audit committee of the Company. As at the date of this report, the audit committee of the Company comprises three independent non-executive Directors, namely, Dr. Leung Wai Cheung (chairman of the audit committee), Mr. Cai Wei Lun and Mr. Qi Ji.

The Group's first quarterly results for the three months ended 31 March 2012 have 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 of the Company ("**Shareholders**").

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

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.

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 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific inquiry with all the Directors, and has been notified by Mr. Leung who inadvertently dealt in the Shares in January 2012 during the blackout period for the publication of the annual results of the Group for the year ended 31 December 2011 and therefore he had not complied with the standard for dealings of securities by Directors and the Code during the three months ended 31 March 2012.

Save as disclosed above, the Company has not been notified of any non-compliance with the standard for dealings of securities by Directors and the Code during the three months ended 31 March 2012.

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 three months ended 31 March 2012.

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

Hong Kong, 11 May 2012

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, Mr. Cai Wei Lun and Mr. Qi Ji.