
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 securities in **China Netcom Technology Holdings Limited** (the “**Company**”), 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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular, for which the directors of the Company (the “**Directors**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (“**GEM**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) 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 is 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 TRANSACTION – LOAN CAPITALISATION
PROPOSED AMENDMENTS TO
THE MEMORANDUM AND ARTICLES OF ASSOCIATION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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**



結好融資有限公司
GET NICE CAPITAL LIMITED

A notice convening an extraordinary general meeting (the “**EGM**”) of the Company to be held at Unit 1006, 10th Floor, Tower One Lippo Centre, 89 Queensway, Hong Kong on Thursday, 22 November 2012 at 10:30 a.m. is set out on pages 51 to 60 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 appointed for holding 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 a minimum period of 7 days from the date of its publication and on the Company’s website at www.chinanetcomtech.com.

CHARACTERISTICS OF GEM

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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DEFINITIONS

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

“associates”	has the meaning ascribed thereto in the GEM Listing Rules, unless otherwise specified
“Board”	the board of Directors
“Company” or “Issuer”	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 Loan Capitalisation in accordance with the terms and conditions of the Loan Capitalisation Agreement
“connected person(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, amongst other things, approve the Loan Capitalisation and the transactions contemplated thereunder and the proposed amendments to the Memorandum and Articles of Association
“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
“Independent Board Committee”	the independent board committee of the Company formed by all independent non-executive Directors to advise the Independent Shareholders on the terms of the Loan Capitalisation and the transactions contemplated thereunder
“Independent Financial Adviser” or “Get Nice”	Get Nice Capital Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Loan Capitalisation and the transactions contemplated thereunder

DEFINITIONS

“Independent Shareholders”	those Shareholders who are not required to abstain from voting at the EGM under the GEM Listing Rules
“Issue Price”	HK\$0.60 per Subscriber Preferred Share
“Last Trading Day”	29 August 2012, being the last trading day prior to the entering into of the Loan Capitalisation Agreement
“Latest Practicable Date”	24 October 2012, being the latest practicable date for ascertaining certain information in this circular before printing of this circular
“Loan”	the outstanding amount of HK\$938,000,000 due by the Company to the Subscriber pursuant to the Promissory Note
“Loan Capitalisation”	the subscription of 1,563,333,333 Subscriber Preferred Shares at the Issue Price by the Subscriber in accordance with the terms and conditions of the Loan Capitalisation Agreement by capitalising of the entire amount of the Loan
“Loan Capitalisation Agreement”	the agreement dated 29 August 2012 entered into between the Subscriber and the Company in respect of the Loan Capitalisation
“Memorandum and Articles of Association”	the memorandum of association and the articles of association of the Company as amended from time to time
“Mr. Leung” or “Subscriber”	Mr. Leung Ngai Man, a substantial Shareholder, the chairman of the Company and an executive Director
“PRC”	the Peoples’ Republic of China which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Preferred Share(s)”	preferred share(s) with a par value of HK\$0.005 each in the share capital of the Company
“Promissory Note”	the promissory note in the principal amount of HK\$1,200,000,000 executed by the Company in favour of Mr. Leung for the purpose of settling part of the consideration for the acquisition of the entire issued share capital of Pearl Sharp Limited, details of which were set out in the announcement of the Company dated 24 June 2010 and the circular of the Company dated 30 July 2010
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.005 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of Shares
“Special Mandate”	the special mandate to be granted to the Directors at the EGM for the allotment and issue of the Subscriber Preferred Shares to the Subscriber and the Shares to be converted from the Subscriber Preferred Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber Preferred Shares”	1,563,333,333 Preferred Shares to be allotted and issued to the Subscriber by the Company pursuant to the Loan Capitalisation Agreement
“Takeovers Code”	The Code on Takeovers and Mergers
“%”	per cent.

* *The English translation of Chinese names or words in this circular, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

LETTER FROM THE BOARD



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
Mr. Qi Ji

Registered office:

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

*Head office and principal place of business
in Hong Kong:*

Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

29 October 2012

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

Dear Sir/Madam,

CONNECTED TRANSACTION – LOAN CAPITALISATION AND PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

INTRODUCTION

Reference is made to the announcement of the Company dated 29 August 2012 in relation to, among others, the Loan Capitalisation Agreement entered into between the Company and Mr. Leung, pursuant to which Mr. Leung agreed to subscribe for, and the Company agreed to allot and issue, the Subscriber Preferred Shares at the Issue Price of HK\$0.60 per Subscriber Preferred Share for capitalising the Loan owed by the Company to Mr. Leung. As at the date of the Loan Capitalisation Agreement, the Company was indebted to Mr. Leung in an aggregate sum of HK\$938,000,000 which sum represents the outstanding amount to be settled pursuant to the Promissory Note.

The Board also proposes to make certain amendments to the existing Memorandum and Articles of Association regarding, amongst other things, the creation of the Preferred Shares.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with information relating to the Loan Capitalisation and the proposed amendments to the Memorandum and Articles of Association and the notice of the EGM.

THE LOAN CAPITALISATION AGREEMENT

Date : 29 August 2012

Parties

Subscriber : Mr. Leung, a substantial Shareholder, the chairman of the Company and an executive Director

Issuer : The Company

Conditions precedent:

Completion of the Loan Capitalisation shall be conditional upon all the following conditions being fulfilled:

- (i) the Independent Shareholders approving the ordinary and/or special resolutions by way of poll at the EGM, the Loan Capitalisation Agreement and the transactions contemplated thereunder (including but not limited to the amendments to the Memorandum and Articles of Association for the creation of the Preferred Shares and the adoption of the terms of the Preferred Shares, the allotment and issue of the Subscriber Preferred Shares, the allotment and issue of the Shares to be issued upon conversion of the Subscriber Preferred Shares) and all other consents and acts required under the GEM Listing Rules being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules being obtained from the Stock Exchange;
- (ii) obtaining of all necessary consents and approvals by the Subscriber and the Issuer in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder (including but not limited to all necessary authorisations, consents and approvals (if any) in respect of the amendments to the Memorandum and Articles of Association according to the Cayman Islands laws regarding the creation, allotment and issue of the Preferred Shares); and
- (iii) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares to be issued upon conversion of the Subscriber Preferred Shares, and (if necessary) to allot and issue the Subscriber Preferred Shares.

If any of the conditions set out above has not been satisfied on or before 31 December 2012, or such later date as the parties may agree, the Loan Capitalisation Agreement shall cease and determine and none of the parties shall have any obligations and liabilities thereunder save for any prior breaches of the terms of the Loan Capitalisation Agreement.

LETTER FROM THE BOARD

Subscriber Preferred Shares

Principal terms of the Subscriber Preferred Shares are set out below:

Number of Subscriber Preferred Shares	:	1,563,333,333
Par value	:	HK\$0.005
Issue Price	:	HK\$0.60 per Subscriber Preferred Share
Conversion rate for each Subscriber Preferred Share	:	One to one (one Subscriber Preferred Share can be converted into one ordinary Share)
Conversion	:	<p>The holders of the Subscriber Preferred Shares shall have the right to convert the Subscriber Preferred Shares, in whole or in part, at any time at the conversion rate set out above provided that:</p> <ul style="list-style-type: none">(i) any conversion of the Subscriber Preferred Shares will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Subscriber Preferred Shares holder who exercised the conversion rights; and(ii) the public float of the Shares shall not be less than 25% (or any given percentage as required by the GEM Listing Rules) of the issued Shares at any time in compliance with the GEM Listing Rules.
Dividends	:	The holders of the Subscriber Preferred Shares shall be entitled to dividend to the same extent as holders of the ordinary Shares and the Subscriber Preferred Shares shall rank pari passu with the ordinary Shares in dividend as declared by the Company from time to time
Redemption	:	The Subscriber Preferred Shares are non-redeemable
Transferability	:	The Subscriber Preferred Shares are transferrable
Voting rights	:	The Subscriber Preferred Shares have no voting rights
Rights in liquidation	:	<ul style="list-style-type: none">(i) The Subscriber Preferred Shares shall rank pari passu with ordinary Shares for return of capital in the event of liquidation; and

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- (ii) The Subscriber Preferred Shares shall rank pari passu with ordinary Shares for the right to participate in distribution of surplus in the event of liquidation.

Governing law : Hong Kong

As at the date of the Loan Capitalisation Agreement, the Company was indebted to Mr. Leung in an aggregate sum of HK\$938,000,000 which sum represents the outstanding amount to be settled pursuant to the Promissory Note.

Assuming there will be no further issue or repurchase of Shares, upon the exercise in full of the conversion rights attaching to the Subscriber Preferred Shares, the Company will allot and issue an aggregate of 1,563,333,333 Shares, representing (i) approximately 84.31% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 45.74% of the issued share capital of the Company as enlarged by the allotment and issue of the Shares upon full exercise of the conversion rights attaching to the Subscriber Preferred Shares.

The Issue Price was determined after arm's length negotiations between the Subscriber and the Company with reference to the prevailing trading prices of the Shares. The Issue Price represents:

- (i) a premium of approximately 421.74% over the closing price of HK\$0.115 per Share as quoted on the Stock Exchange on 29 August 2012, being the Last Trading Day;
- (ii) a premium of approximately 417.24% over the average closing price of HK\$0.116 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 premium of approximately 368.75% over the average closing price of HK\$0.128 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 552.17% over the closing price of HK\$0.092 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

REASONS FOR THE LOAN CAPITALISATION

The Company is incorporated in the Cayman Islands with limited liability and, through its subsidiaries, is principally engaged in the trading of computer hardware and software, the provision of lottery system management service and operation of lottery sales halls services in the PRC.

Reference is made to the announcement of the Company dated 24 June 2010. On 13 May 2010, Mr. Leung and Easywin International Holdings Limited (“**Easywin**”), a wholly-owned subsidiary of the Company, entered into an acquisition agreement (the “**Acquisition Agreement**”) pursuant to which Mr. Leung agreed to sell and Easywin agreed to purchase the entire issued share capital of Pearl Sharp Limited at a consideration (the “**Consideration**”) of HK\$2,112,500,000. Pursuant to the Acquisition Agreement, part of

LETTER FROM THE BOARD

the Consideration, being HK\$1,200,000,000, shall be satisfied by Easywin procuring the Company to issue the Promissory Note in favour of Mr. Leung. The Promissory Note with principal amount of HK\$1,200,000,000 is unsecured, interest bearing at 0.15% per annum and has a maturity period of five years from the date of issue but can be repaid in whole or in part before maturity at the discretion of the Company at its principal amount and accrued interest up to the redemption date. The Promissory Note was fair valued at initial recognition with an effective interest rate of 17.35% per annum. As at the Latest Practicable Date, the Company was indebted to Mr. Leung in an aggregate sum of HK\$938,000,000 which sum represents the outstanding amount to be settled pursuant to the Promissory Note.

Given that (i) the Group had recorded continual loss for each of the three years ended 31 December 2011; (ii) the Group had unaudited net liabilities of approximately HK\$235.8 million as at 30 June 2012 and audited net liabilities of approximately HK\$154.38 million as at 31 December 2011; and (iii) the Group's cash and bank balances were approximately HK\$111.1 million as at 30 June 2012, the Group may not be able to repay the outstanding principal amount and accrued interest pursuant to the Promissory Note at its maturity date unless the Group obtains new funds from equity fund raising or borrowings. The Directors consider the Loan Capitalisation will (i) remove the repayment and interest payment pressure of the Loan on the Group; (ii) retain cashflow of the Group for its future business development; (iii) strengthen the financial position of the Group; and (iv) lower the gearing ratio of the Group.

The Directors consider that the terms of the Loan Capitalisation (including the Issue Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

THE GROUP'S PAST TRANSACTIONS WITH MR. LEUNG

(i) Very substantial acquisition and connected transaction – acquisition of gold mine

On 4 January 2008, Greatest High Holdings Limited (“**Greatest High**”), a wholly-owned subsidiary of the Company, and Mr. Leung entered into an agreement pursuant to which Greatest High conditionally agreed to acquire and Mr. Leung conditionally agreed to dispose of the entire issued share capital of China Nonferrous Metals Resources Investment Limited (“**CNMRL**”) and all obligations, liabilities and debts owing by CNMRL to Mr. Leung amounted to HK\$947,586.50 (as at the date of such agreement) at a total consideration of HK\$1,800 million (the “**Mine Acquisition**”).

The sole asset of CNMRL was the entire issued capital of China Mining Group Investment Limited, which in turn owned 80% of the registered and paid up capital of 雲南西部礦業有限公司 (Yunnan Xibu Mining Company Limited*), a Chinese foreign co-operative joint venture company (the “**CJV**”). The CJV was the holder of the exploration permit on the exploration area of the gold mining site (the “**Gold Mine**”) located at Luoxi City, Yunnan Province, the PRC.

Details of the Mine Acquisition were set out in the announcements of the Company dated 3 October 2007, 23 January 2008, 12 February 2008, 14 March 2008, 11 April 2008, 28 April 2008, 13 May 2008, 2 July 2008 and 26 August 2008 and the circular of the Company dated 13 May 2008.

LETTER FROM THE BOARD

(ii) Very substantial acquisition and connected transaction – acquisition of lottery business

On 13 May 2010, Easywin entered into the Acquisition Agreement with Mr. Leung, pursuant to which Easywin conditionally agreed to acquire and Mr. Leung conditionally agreed to dispose of the entire issued share capital of Pearl Sharp Limited, whose sole asset was the entire issued capital of Greatest Profit Investment Limited, which in turn owned 51% of the registered and paid up capital of 深圳環彩普達科技有限公司 (Shenzhen Huancai Puda Technology Company Limited*) (“**Huancai Puda**”), at a total consideration of HK\$2,112.5 million (the “**Lottery Business Acquisition**”).

Huancai Puda was specialised in the provision of innovative sales channel technical service and operation service of lottery sales to lottery issue centres in the PRC. Huancai Puda 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.

Details of the Lottery Business Acquisition were set out in the announcements of the Company dated 8 June 2010, 24 June 2010, 16 August 2010 and 27 August 2010 and the circular of the Company dated 30 July 2010.

(iii) Connected transaction – Disposal of a subsidiary

On 15 September 2011, the Group completed the disposal of 100% equity interest in Business Essence Technology Limited (“**Business Essence**”) to Mr. Leung at a total consideration of HK\$7,965,241. The principal 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*). Details of such disposal were set out in the announcement of the Company dated 9 September 2011.

(iv) Discloseable and connected transaction – Disposal of a subsidiary

On 22 August 2012, the Company entered into a disposal agreement with Mr. Leung, pursuant to which Mr. Leung conditionally agreed to acquire and the Company conditionally agreed to dispose of the entire issued share capital of Media Hong Kong Investment Limited and a shareholder’s loan of HK\$11,841,119 (as at the date of such agreement) at an aggregate consideration of HK\$9,300,000. Such disposal was completed on 28 August 2012. Details of such disposal were set out in the announcements of the Company dated 22 August 2012 and 28 August 2012.

ADDITIONAL INFORMATION REGARDING THE MINE ACQUISITION

The Mine Acquisition completed on 26 August 2008. Since completion of the Mine Acquisition, the Gold Mine did not contribute any revenue to the Group.

LETTER FROM THE BOARD

Year ended 31 December 2008

LCH (Asia-Pacific) Surveyors Limited (“**LCH**”), a chartered surveyor independent of the Company, was engaged by the Company to prepare a report on the valuation of the mining project as at 31 December 2007. The valuation report was set out in the circular of the Company dated 13 May 2008 in relation to the Mine Acquisition. According to such valuation report, LCH stated that the mining project was valued at RMB3,865 million as at 31 December 2007, of which RMB628 million was attributable to the Supply Contract (as defined below). The valuation carried out by LCH was based on the discounted cash flows method. The valuation report made reference to a document titled “芒市三台山鄉勐丹加速勘探申請報告” (Application Report of Accelerating Prospecting of Mengdan, Santaishan, Mangshi*) dated July 2006 (the “**2006 Report**”) prepared by 雲南省核工業地質大隊市第二隊 (Second Team of Yunnan Geological Team of Nuclear Industry*), according to which the estimated amount of prospective reserves of gold was, based on the Chinese reporting standard, approximately 60 to 100 tonnes.

LCH also prepared a valuation of the mining project as at 31 December 2008 based on the discounted cash flows method and an updated business plan of the Company. According to such valuation report, LCH stated that the mining project was valued at RMB2,285 million as at 31 December 2008, of which RMB259 million was attributable to the Supply Contract (as defined below). Such valuation report also made reference to the 2006 Report in respect of the estimated amount of prospective reserves of gold in the Gold Mine. The valuation as at 31 December 2008 was lower than the valuation as at 31 December 2007 because of, among other things, the change in the estimated timescale for the exploration work in the Gold Mine after the management of the Group reviewed and compared the exploration works performed in the specific area to their previous estimates and the use of a higher discount rate after LCH made reference to the market-derived weighted average cost of capital of similar publicly-traded companies in the gold mining industry and change in timescale for the project.

As a result of the Mine Acquisition, goodwill of approximately HK\$1,134 million and intangible assets of approximately HK\$308 million were recognised upon completion of the Mine Acquisition.

The intangible assets of approximately HK\$308 million comprised the exploration and evaluation assets of approximately HK\$21 million and the fair value of the Supply Contract (as defined below) of approximately HK\$287 million.

The exploration and evaluation assets acquired in the Mine Acquisition included topographical and geological survey drilling, exploratory drillings, sampling and trenching and expenditure incurred for the technical feasibility studies and incurred to secure further mineralisation in the mine ore after the CJV obtained the exploration and evaluation rights of the exploration area. The fair value of the exploration and evaluation assets on the date of the Mine Acquisition was equal to the cost incurred as at the valuation date. The main reason was that as the exploration was still at an initial stage on the acquisition date, any acquirer of such exploration rights would still need to invest approximately the same amount of money to explore the mines and prepare the relevant feasibility studies in order to get the mining rights.

The supply contract (the “**Supply Contract**”) was entered into between the CJV and an ore supplier (the “**Ore Supplier**”) in December 2007 in respect of the supply of ores by the Ore Supplier to the CJV, details of which were disclosed in the announcement of the Company dated 14 January 2009. The fair value of the Supply Contract was estimated using the discounted cash flows method based on a discount rate

LETTER FROM THE BOARD

supported by observable market transactions and determined based on available observable market data. The major assumptions for the valuation of the Supply Contract included that the CJV was able to amend its principal activities for the inclusion of purchasing and processing of gold minerals and that the Ore Supplier was able to renew its mining operation permit.

As at 31 December 2008, the carrying amount of goodwill and intangible assets arising from the Mine Acquisition remained the same as the respective amounts initially recognised upon completion of the Mine Acquisition. No impairment was made during the year ended 31 December 2008 although the valuation amount as at 31 December 2008 stated by LCH in its valuation report was lower than the valuation amount as at 31 December 2007. This was because the valuation amount as at 31 December 2008 was still higher than the amount of goodwill and intangible assets initially recognised.

Year ended 31 December 2009

LCH prepared a valuation of the mining project as at 31 December 2009 based on the discounted cash flows method and an updated business plan of the Company. According to such valuation report, LCH stated that the mining project was valued at RMB1,129 million as at 31 December 2009. Such valuation report also made reference to the 2006 Report in respect of the estimated amount of prospective reserves of gold in the Gold Mine. The valuation as at 31 December 2009 was lower than the valuation as at 31 December 2008 because of, among other things, the change in the estimated timescale for the exploration work in the Gold Mine after the management of the Group reviewed and compared the exploration works performed in the specific area to their previous estimates and the use of a higher discount rate after LCH made reference to the market-derived weighted average cost of capital of similar publicly-traded companies in the gold mining industry and change in timescale for the project.

With reference to the valuation report, the carrying amount of the goodwill arising from the Mine Acquisition was reassessed and an impairment of goodwill of approximately HK\$127.4 million was charged to the consolidated statement of comprehensive income of the Company for the year ended 31 December 2009.

Regarding the intangible assets, the carrying amount of the exploration and evaluation assets as at 31 December 2009 was approximately HK\$22 million (2008: HK\$21 million), representing no material changes from the value as at 31 December 2008; while the carrying amount of the Supply Contract was nil as at 31 December 2009 (2008: HK\$287 million) and an impairment loss of Supply Contract of approximately HK\$287 million was charged to the consolidated statement of comprehensive income of the Group for the year ended 31 December 2009.

As disclosed in the annual report of the Company for the year ended 31 December 2009, based on the then prevailing policy in the mining industry of the PRC, in the opinion of the Directors, it was very difficult for the CJV to obtain the government authority's approval to amend its principal activities for the inclusion of purchasing and processing of gold minerals from the Ore Supplier by the end of the Supply Contract. The Supply Contract was cancelled and no further negotiation was made to re-activate the Supply Contract. Accordingly, an impairment loss of Supply Contract of approximately HK\$287 million was charged.

LETTER FROM THE BOARD

Year ended 31 December 2010

LCH prepared a valuation of the mining project as at 31 December 2010 based on the discounted cash flows method and an updated business plan of the Company. According to such valuation report, LCH stated that the mining project was valued at RMB403 million as at 31 December 2010. The estimated quantity of resources in the Gold Mine adopted by LCH for the valuation as at 31 December 2010 was based on a document titled “雲南潞西市三台礦區金礦地質化探普查設計(2011年度)” prepared by 北京中色泰格地質資源勘查科技有限公司 (the “**Exploration Surveyor**”) in December 2010 (the “**2010 Document**”), instead of the 2006 Report. The 2010 Document stated that the prospective resources of the Gold Mine was estimated to be around 10 tonnes in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. The estimated quantity of gold in the Gold Mine as stated in the 2010 Document was substantially lower than that stated in the 2006 Report due to the adoption of different sample results. For the preparation of the 2010 Document, the Exploration Surveyor performed certain sample tests and checks by itself and the Exploration Surveyor was of the view that the surface (red soil type) of the Gold Mine might not be attractive but the inner layer (sulfide type) of the Gold Mine might have better prospect and might be worth further exploration. Based on the sample tests and checks performed by the Exploration Surveyor, the Exploration Surveyor estimated that there would be about 10 tonnes of gold resources in the Gold Mine. The Exploration Surveyor is a company established in the PRC who has obtained the 地質資質證書 (Geology Exploration Qualification Certificate*) issued by the Ministry of Land and Resources of the PRC for 甲級固體礦產勘查 (Grade A Solid Mineral Resources Exploration*). Based on the results of the 2010 Document, the management of the Group considered that they need to adjust the business plan of mine operation, including but not limited to, the potential resources and timescale for the exploration works. Accordingly, the valuation amount as at 31 December 2010 stated by LCH in its valuation report was lower than the valuation amount as at 31 December 2009.

With reference to the valuation report, the carrying amount of the goodwill arising from the Mine Acquisition was reassessed and an impairment of goodwill of approximately HK\$674 million was charged to the consolidated statement of comprehensive income of the Company for the year ended 31 December 2009.

Regarding the intangible assets, the carrying amount of the exploration and evaluation assets as at 31 December 2010 was approximately HK\$23 million (2009: HK\$22 million), representing no material changes from the value as at 31 December 2009; while the carrying amount of the Supply Contract was nil as at 31 December 2010 (2009: nil) as the Supply Contract was already fully impaired as at 31 December 2009.

Year ended 31 December 2011

LCH prepared a valuation of the mining project as at 31 December 2011 based on the discounted cash flows method and an updated business plan of the Company. According to such valuation report, the valuation amount of the mining project was nil as LCH was unable to calculate the possible financial net present value of the mining project given that no cash flow projection could be made by the management of the Company. The estimated quantity of resources in the Gold Mine adopted by LCH for the valuation as at 31 December 2011 was based on a document titled “雲南省潞西市大崗壩清澗河金礦區普查報告(2011年度)” prepared by the Exploration Surveyor in March 2012 (the “**2012 Document**”), which stated that the quality of the ores in the Gold Mine was not as good as expected after a number of drillings were carried out. According to the 2012 Document, the grade of the ores found in the drilling process was relatively low and was not suitable for industrial production, and the Gold Mine did not have the potential to form a large-scale

LETTER FROM THE BOARD

exploitable gold mine. Based on the results of the 2012 Document, the management of the Group considered that the carrying amount of the goodwill allocated to the operation was unlikely to be recovered in full from further development. Accordingly, the goodwill arising from the Mine Acquisition was fully impaired as at 31 December 2010 and an impairment loss of goodwill of approximately HK\$380 million was charged to the consolidated statement of comprehensive income of the Company for the year ended 31 December 2011.

Regarding the intangible assets, the Directors were also of the opinion that based on LCH's valuation report and in view of the 2012 Document, the exploration and evaluation assets was fully impaired as at 31 December 2011. Impairment loss of approximately HK\$24,187,000 was recognised for the exploration and evaluation assets during the year.

ADDITIONAL INFORMATION REGARDING THE LOTTERY BUSINESS ACQUISITION

The Lottery Business Acquisition completed on 27 August 2010. Since completion of the Lottery Business Acquisition, the Lottery Business (as defined below) contributed revenue of approximately HK\$681,000 and approximately HK\$424,000 to the Group respectively for the year ended 31 December 2010 and 2011.

Year ended 31 December 2010

As a result of the Lottery Business Acquisition, goodwill of approximately HK\$432 million and intangible assets of approximately HK\$2,307 million were recognised upon completion of the Lottery Business Acquisition. As at 31 December 2010, the carrying amount of goodwill and intangible assets attributable to the Lottery Business (as defined below) were reduced to approximately HK\$36 million and approximately HK\$724 million respectively.

As disclosed in the circular of the Company dated 30 July 2010 in relation to the Lottery Business Acquisition, Norton Appraisals Limited (“**Norton**”), an independent valuer, was engaged by the Company to carry out a valuation of the 100% equity interest of Huancai Puda. According to the valuation report prepared by Norton as set out in the circular of the Company dated 30 July 2010, the market value for the 100% equity interest of Huancai Puda as at 31 May 2010 was RMB4,504 million based on the income-based approach.

The Company has also engaged Norton to carry out a valuation of the 100% equity interest of Huancai Puda as at 31 December 2010. According to the valuation report prepared by Norton for such valuation as at 31 December 2010, Norton stated that the market value for the 100% equity interest of Huancai Puda was RMB974 million as at 31 December 2010 based on the income-based approach. The substantial decrease in the valuation from RMB4,504 million as at 31 May 2010 to RMB974 million as at 31 December 2010 was mainly due to the Mobile Regulation (as defined below) and the Internet Regulation (as defined below).

As disclosed in the annual report of the Company for the year ended 31 December 2010, on 25 October 2010, 中國福利彩票發行管理中心 (China Welfare Lottery Issuing Management Centre*) (“**China Welfare Lottery**”) issued a circular enclosing two regulations, namely 《電話銷售彩票管理暫行辦法》 (the “**Mobile Regulation**”) and 《互聯網銷售彩票管理暫行辦法》 (the “**Internet Regulation**”), both issued by the Ministry of Finance of the PRC. According to the Mobile Regulation and the Internet Regulation, lottery sales through mobile phone and internet are forbidden unless approved by the Ministry of Finance of the PRC. Lottery issuing centres can only cooperate with entities which have, among others, the relevant value-

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added telecommunication operation permit (增值電信業務經營許可證) or internet information services operation permit (互聯網信息服務經營許可證) (together, the “**Permits**”), as appropriate. The two regulations were effective since 26 September 2010.

Huancai Puda and its subsidiary (together, the “**Huancai Puda Group**”) entered into several cooperation agreements (the “**Cooperation Agreements**”) with various lottery issuing centres. Among such agreements, three fell into the regulation by the Mobile Regulation and the Internet Regulation (the “**Three Agreements**”). The Company sought legal advice from its PRC legal advisors on the implications of the two regulations on its business and obtained a legal opinion (the “**PRC Legal Opinion**”) from its PRC legal advisors that prior to the Huancai Puda Group obtaining the Permits, Huancai Puda Group could not perform its obligations under the Three Agreements.

The Three Agreements were (i) the supplemental agreement entered into with 重慶市福利彩票發行中心 (Chongqing Welfare Lottery Issuing Centre*) on 8 July 2009 (the “**Chongqing Agreement**”); (ii) the agreement entered into with 天津市福利彩票發行中心 (Tianjin Welfare Lottery Issuing Centre*) on 7 May 2010 (the “**Tianjin Agreement**”); and (iii) the agreement entered into with 河南省福利彩票發行中心 (Henan Welfare Lottery Issuing Centre*) on 28 November 2007 (the “**Henan Agreement**”).

Pursuant to the Chongqing Agreement, the Huancai Puda Group will provide software system and technical service for Chongqing welfare lottery sales through mobile phone project. Pursuant to the Tianjin Agreement, the Huancai Puda Group will provide software system and technical service for Tianjin welfare lottery sales through mobile phone project. Pursuant to the Henan Agreement, the Huancai Puda Group will provide software system and technical service for Henan welfare lottery sales through mobile phone and internet project. The lottery sales systems under the Three Agreements were at a trial stage and commercial operations under the Three Agreements had not yet commenced as at 31 December 2010.

According to the PRC Legal Opinion, the requirement of obtaining the Permits under the Mobile Regulation and the Internet Regulation were force majeure events under the Three Agreements and no compensation was required to be paid by the Huancai Puda Group.

As far as the Directors were aware, prior to 26 September 2010, being the effective date of the Mobile Regulation and the Internet Regulation, there were no specific requirements for conducting the lottery sales business through mobile phone or internet. Accordingly, the Huancai Puda Group did not possess the Permits.

In view of the Huancai Puda Group’s inability to perform its obligations under the Three Agreements during the period prior to its obtaining the Permits, the recoverable amount attributable to the Lottery Business (as defined below) as at 31 December 2010 was reassessed.

The recoverable amount attributable to the Lottery Business (as defined below) was determined based on value-in-use calculation which used cash flow projections based on financial budgets approved by the management in accordance with the terms of the Cooperation Agreements. The key assumptions for the value-in-use calculation were those regarding the discount rate, growth in revenue and direct costs. The management estimated the discount rate based on the prevailing market assessments of the time value of money and the risk specific to the Lottery Business (as defined below). In performing the impairment testing,

LETTER FROM THE BOARD

the Directors made reference to the valuation performed by Norton. Based on the above, an impairment loss of goodwill of approximately HK\$408,300,000 was charged to the consolidated statement of comprehensive income of the Group for the year ended 31 December 2010.

The intangible assets recognised as a result of the Lottery Business Acquisition represented the amount of the concession rights, which in turn represented the fair value of contractual rights stated in the various cooperation agreements that Huancai Puda Group entered into with different lottery issuing centres for providing software system and technical service. The fair value of the concession rights was arrived at based on the valuation carried out by Norton. The valuation was determined by reference to discounted cash flows projections. The amount of concession rights was amortised on a straight-line method over the period of three to eight years in accordance with the terms of such cooperation agreements.

During the year ended 31 December 2010, in view of the Mobile Regulation and the Internet Regulation and consequently the Huancai Puda Group's inability to perform its obligations under the Three Agreements during the period prior to its obtaining the Permits, the recoverable amount of the concession rights as at 31 December 2010 was reassessed and an impairment loss of concession rights of approximately HK\$1,629,552,000 was charged to the consolidated statement of comprehensive income of the Group for the year ended 31 December 2010.

Year ended 31 December 2011

As at 31 December 2011, the carrying amount of goodwill and intangible assets attributable to the Lottery Business (as defined below) were approximately HK\$34 million (2010: HK\$36 million) and approximately HK\$728 million (2010: HK\$724 million) respectively.

A valuation was performed by Peak Vision Appraisals Limited ("**Peak Vision**") which stated that the market value for the 100% equity interest of Huancai Puda as at 31 December 2011 was RMB857 million based on the income-based approach.

During the year ended 31 December 2011, the Group recognised an impairment loss of approximately HK\$12,400,000 in relation to goodwill attributable to the Lottery Business (as defined below). The recoverable amount attributable to the Lottery Business was determined based on value-in-use calculation which used cash flows projections based on financial budgets approved by the management in accordance with the terms of the Cooperation Agreements. The key assumptions for the value-in-use calculation were those regarding the discount rate, growth in revenue and direct costs. The management estimated the discount rate based on the prevailing market assessments of the time value of money and the risk specific to the Lottery Business (as defined below). In performing the impairment testing, the Directors have made reference to the valuation performed by Peak Vision. Based on the above, an impairment loss of approximately HK\$12,400,000 in relation to goodwill attributable to the Lottery Business (as defined below) was charged.

Regarding the intangible assets, as at 31 December 2011, the recoverable amount of the concession rights was assessed by the Directors with reference to the professional valuation as at 31 December 2011 performed by Peak Vision. The Directors were of the opinion that based on the assessment, the concession rights was not impaired compared with its carrying amount as at 31 December 2011.

LETTER FROM THE BOARD

LATEST BUSINESS DEVELOPMENT, FUTURE PLANS AND UP-TO-DATE STATUS OF THE GROUP

As disclosed in the latest annual report of the Company for the year ended 31 December 2011, during the year, the Group was mainly engaged in (i) trading of computer hardware and software in the PRC (the “**Trading Business**”); (ii) exploration of gold mines in the PRC (the “**Mining Business**”); and (iii) development of computer software, hardware and application system, sale of self-developed technology or results, provision of relevant technical consultancy services in the PRC and development and provision of operation software system sector of the PRC lottery market (the “**Lottery Business**”).

Trading Business

For the year ended 31 December 2011, the Trading Business recorded a segment revenue of approximately HK\$1.59 million (2010: HK\$1.90 million) and a segment loss of approximately HK\$0.26 million (2010: HK\$0.12 million). For the six months ended 30 June 2012, the Trading Business recorded a segment revenue of approximately HK\$540,000 (2011: HK\$1,049,000) and a segment loss of approximately HK\$93,000 (2011: HK\$96,000).

As at the Latest Practicable Date, the Group was not contemplating any material change in the Trading Business.

Mining Business

For the year ended 31 December 2011, the Mining Business recorded a segment revenue of nil (2010: nil) and a segment loss of approximately HK\$405.0 million (2010: HK\$675.0 million). For the six months ended 30 June 2012, the Mining Business recorded a segment revenue of nil (2011: nil) and a segment loss of approximately HK\$664,000 (2011: HK\$643,000).

On 3 July 2012, the Group discontinued the Mining Business by entering into an agreement for the disposal of its entire interest in the CJV at a consideration of RMB130,000 to an independent third party. Such disposal did not constitute a notifiable transaction as defined under the GEM Listing Rules.

Lottery Business

For the year ended 31 December 2011, the Lottery Business recorded a segment revenue of approximately HK\$424,000 (2010: HK\$681,000) and a segment loss of approximately HK\$220.6 million (2010: HK\$2,121.7 million). For the six months ended 30 June 2012, the Lottery Business recorded a segment revenue of approximately HK\$497,000 (2011: HK\$233,000) and a segment loss of approximately HK\$80.5 million (2011: HK\$107.3 million).

As disclosed in the annual report of the Company for the year ended 31 December 2011, during the year, Huancai Puda entered into various agreements with different parties to expand the Lottery Business. Subsequent to 31 December 2011, the major developments of the Lottery Business are as follows:

LETTER FROM THE BOARD

- As disclosed in the announcement of the Company dated 13 February 2012, on 7 February 2012, Huancai Puda and 遼寧省福利彩票發行中心 (Liaoning Province Welfare Lottery Issuing Centre*) (“**Liaoning Welfare Lottery**”) entered into (i) a cooperation agreement (the “**Liaoning Cooperation Agreement**”), pursuant to which Huancai Puda agreed to set up and manage the sales points of a high payout and quick-result lottery game, namely China Welfare Lottery “Happy 12”, in Liaoning Province, the PRC and act as the sales agent; and (ii) a service agreement (the “**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”. As disclosed in the announcement of the Company dated 11 May 2012, the first batch of lottery sales halls of “Happy 12” operated and managed in Liaoning Province by Huancai Puda were opened on 11 May 2012. The Company expects that the second batch of lottery sales halls of “Happy 12” will be opened in the fourth quarter of 2012.

Pursuant to the Liaoning Cooperation Agreement, Huancai Puda is responsible for the setup and management of the sales points of “Happy 12”, including the provision of the required equipment and so forth and acting as the sales agent. By setting up the sales points of “Happy 12” and acting as the sales agent for the sales of “Happy 12”, Liaoning Welfare Lottery will pay sales commissions to Huancai Puda in a certain percentage of the sales amount of “Happy 12”. Such sales commissions are the major revenue component for Huancai Puda in respect of the Liaoning Cooperation Agreement. On the other hand, the major cost components for Huancai Puda in respect of the Liaoning Cooperation Agreement include the costs for setting up the sales points of “Happy 12”.

Pursuant to the Service Agreement, Huancai Puda is responsible for, among other things, (i) the development and maintenance of the sales management system of “Happy 12”; (ii) assigning qualified research, development and maintenance engineers to undertake the development and maintenance work of the sales management system and in the provision of results on time; (iii) ensuring that the sales management system of “Happy 12” and its equipment are in good conditions; and (iv) quickly undertaking and completing the related development and upgrade work in good quality upon the request of Liaoning Welfare Lottery. In return, Liaoning Welfare Lottery will pay sales management system development fees and annual maintenance fees to Huancai Puda. Such fees are the major revenue components for Huancai Puda in respect of the Service Agreement. On the other hand, the major cost components for Huancai Puda in respect of the Service Agreement include the costs for the system hardware of the sales management system of “Happy 12” and the staff costs.

The Directors consider that the Group has a competitive advantage in relation to such cooperation with Liaoning Welfare Lottery because of the business network and connections of the Group.

- As disclosed in the announcement of the Company dated 7 August 2012, Huancai Puda entered into an agreement (the “**Terminal Supply Agreement**”) with 美彩科技(中國)有限公司 (Scientific Games (China) Company Limited*) (“**SG**”) on 25 July 2012 for the provision of a type of floor-standing terminals by Huancai Puda to SG. The Company expects that as a result of such agreement with SG, revenue will be generated for the Group starting from the fourth quarter of 2012.

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Pursuant to the Terminal Supply Agreement, Huancai Puda will exclusively supply hardware of a type of floor-standing terminals to SG related market. In return, Huancai Puda shall be entitled to receive a percentage of the revenue generated by such lottery terminals. Such percentage of sales revenue to be received by Huancai Puda is the major revenue component for Huancai Puda in respect of the Terminal Supply Agreement. On the other hand, the major cost components for Huancai Puda in respect of the Terminal Supply Agreement include the costs for supplying the hardware of the lottery terminals.

- As disclosed in the announcement of the Company dated 10 October 2012, Huancai Puda and 重慶市福利彩票發行中心 (Chongqing Welfare Lottery Issuing Centre*) (“**Chongqing Welfare Lottery**”) entered into a sales agency agreement (the “**Sales Agency Agreement**”) on 28 September 2012, pursuant to which Huancai Puda agreed to set up and manage “Lucky Farms” thematic welfare lottery sales points in Chongqing, the PRC and to act as the sales agent for the sales of welfare lottery in such sales points. By setting up and managing the sales points of “Lucky Farms” and acting as the sales agent, Chongqing Welfare Lottery will pay sales commissions to Huancai Puda in a certain percentage of the sales amount of welfare lottery at such sales points. Such sales commissions are the major revenue component for Huancai Puda in respect of the Sales Agency Agreement. On the other hand, the major cost components for Huancai Puda in respect of the Sales Agency Agreement include the costs for setting up the sales points of “Lucky Farms”.

The Directors consider that the Group has the management expertise for the Lottery Business as the relevant management personnel, namely, Mr. Leung, Mr. Ji Feng Qing, Mr. Wu Bin and Ms. Wu Wei Hua have the business connections and solid experience in the area of innovative lottery sales channel operations and technical service.

The business operations of the abovementioned major developments of the Lottery Business are not conducted through mobile phones or the internet. As such, the Directors consider that they are not restricted or impacted by the Mobile Regulation or the Internet Regulation.

The Company will focus on (i) setting up lottery sales halls for high frequency and electronic instant lottery games and offering paperless lottery sales service for high frequency games, instant lottery tickets, electronic instant lottery games and TV lottery games; and (ii) developing and manufacturing new self-service lottery terminals and systems including electronic instant lottery terminals and paperless sales equipment for high-frequency games.

Save as disclosed in this circular and previously disclosed by the Company in its announcements, as at the Latest Practicable Date, the Group did not have any agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about any (a) disposal/termination/scaling down of its existing business; (b) acquisition or investment; or (c) fund raising exercise.

THE BOARD’S VIEW

Having considered that (i) the then Directors involved in the Mine Acquisition and the Lottery Business Acquisition have approved the acquisitions based on the information then available to them; (ii) the then Directors have engaged independent valuers to conduct the respective valuations on the targets; (iii) the

LETTER FROM THE BOARD

bases and assumptions adopted for the relevant valuations were made after due and careful enquiry; (iv) the then Directors have conducted the requisite due diligence before completion of the Mine Acquisition and the Lottery Business Acquisition; and (v) appropriate risk factors have been disclosed in the relevant circulars of the Company to remind Shareholders and potential investors of the risks associated with the Mine Acquisition and the Lottery Business Acquisition, the Board is of the view that (a) the Mine Acquisition and the Lottery Business Acquisition were fair and reasonable and in the interests of the Company and the Shareholders as a whole at the time when the respective acquisitions took place and should be so considered regardless of the latest business development status and the actual profit contribution; and (b) the Directors (including those involved in the Mine Acquisition and the Lottery Business Acquisitions), individually and collectively, complied with the requirements under Rules 5.01 and 5.02 of the GEM Listing Rules when approving the Mine Acquisition and the Lottery Business Acquisition.

The Directors have not tried to negotiate with Mr. Leung to waive the Promissory Note. The Directors consider that entering into both of the Mine Acquisition and the Lottery Business Acquisition were commercial decisions which were carried out after arm's length negotiations between the relevant parties having regard to the then available information. The Directors consider that it is important for all parties, including the Group, to abide by the contract when conducting commercial transactions. In addition, both of the Mine Acquisition and the Lottery Business Acquisition were duly approved by the then Independent Shareholders. The Directors consider that the changes in the business and operational circumstances facing the Mining Business (i.e. the substantial decrease in the quantity and the quality of the gold reserves in the Gold Mine after drillings were performed) and the Lottery Business (i.e. the introduction of the Mobile Regulation and the Internet Regulation) after the respective completion of the Mine Acquisition and the completion of the Lottery Business Acquisition were unexpected and out of the control of the Group. The Directors consider that such unexpected and uncontrollable changes in the business and operational circumstances shall not constitute legitimate grounds for not abiding by the respective contracts on the part of the Group. The Directors have therefore not tried to negotiate with Mr. Leung to waive the Promissory Note.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE

Set out below is the shareholding structures of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion and the allotment and issue of the Subscriber Preferred Shares and exercise in full of the conversion rights attaching to the Subscriber Preferred Shares:

	As at the Latest Practicable Date		Immediately after Completion and the allotment and issue of the Subscriber Preferred Shares and exercise in full of the conversion rights attaching to the Subscriber Preferred Shares (Note 2)	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Mr. Leung and party acting in concert with him	536,629,880 <i>(Note 1)</i>	28.941	2,099,963,213	61.446
Mr. Ng Kwok Chu, Winfield	94,500	0.005	94,500	0.003
Public	<u>1,317,510,669</u>	<u>71.054</u>	<u>1,317,510,669</u>	<u>38.551</u>
Total	<u><u>1,854,235,049</u></u>	<u><u>100.000</u></u>	<u><u>3,417,568,382</u></u>	<u><u>100.000</u></u>

Notes:

- Mr. Leung, an executive Director and the chairman of the Company, held an aggregate of 536,629,880 Shares, of which 294,880 Shares were held by Speedy Well Investments Limited (“**Speedy Well**”), a company incorporated in the British Virgin Islands and wholly and beneficially owned by Mr. Leung, as at the Latest Practicable Date. In addition, Mr. Leung held convertible bonds of the Company in the principal amount of HK\$144,100,000 (“**Convertible Bonds**”) as at the Latest Practicable Date, which could be converted into 120,083,333 Shares based on the conversion price of HK\$1.20. Pursuant to the terms of the Convertible Bonds, Mr. Leung and party acting in concert with it cannot hold more than 29% of the issued share capital of the Company as a result of conversion of the Convertible Bonds.
- This column is shown for illustrative purpose only as any conversion of the Subscriber Preferred Shares will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of Mr. Leung and his concert party or any holder of the Subscriber Preferred Shares pursuant to the terms of the Subscriber Preferred Shares.

PROPOSED GRANT OF SPECIAL MANDATE TO ISSUE THE SHARES CONVERTED FROM SUBSCRIBER PREFERRED SHARES

Under the terms and conditions of the Loan Capitalisation Agreement, the Company will issue the Shares to the holder(s) of the Subscriber Preferred Shares upon the exercise of the conversion rights attached to the Subscriber Preferred Shares. The Shares converted from the Subscriber Preferred Shares will rank pari passu with all the then existing issued Shares. The Company will seek for the grant of the Special Mandate from the Independent Shareholders at the EGM to issue the Subscriber Preferred Shares and to allot and issue the Shares to satisfy the allotment and issue of the Shares converted from the Subscriber Preferred Shares.

LETTER FROM THE BOARD

GEM LISTING RULES IMPLICATION

As at the Latest Practicable Date, Mr. Leung, being a substantial Shareholder, the chairman of the Company and an executive Director, is a connected person of the Company. As such, the Loan Capitalisation constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. As certain of the relevant applicable percentage ratios in respect of the Loan Capitalisation calculated in accordance with the GEM Listing Rules are more than 25%, the Loan Capitalisation will be subject to the Independent Shareholders' approval at the EGM. Mr. Leung and his associate(s) are required to abstain from voting on the resolution approving the Loan Capitalisation and the transactions contemplated thereunder at the EGM. As at the Latest Practicable Date, the number of Shares held by Mr. Leung and his associate(s) that are required to abstain from voting on the resolution approving the Loan Capitalisation at the EGM was 536,629,880 Shares, representing approximately 28.941% of the entire issued share capital of the Company as at the Latest Practicable Date.

The Independent Board Committee has been formed to advise the Independent Shareholders and the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Capitalisation and the transactions contemplated thereunder.

The Company will apply to the Stock Exchange for the listing of and permission to deal in the Shares to be converted from the Subscriber Preferred Shares.

CHANGE OF AUTHORISED SHARE CAPITAL

In connection with the creation of the Preferred Shares, the authorised share capital of the Company will have to be increased from HK\$100,000,000 divided into 20,000,000,000 Shares to HK\$110,000,000 divided into 20,000,000,000 Shares and 2,000,000,000 Preferred Shares. Resolution will be proposed at the EGM to increase the authorised share capital of the Company.

PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

The Board proposes to make certain amendments to the existing Memorandum and Articles of Association regarding, amongst other things, the creation of the Preferred Shares. The increase of the authorised share capital of the Company and the respective rights, privileges and restrictions of the Preferred Shares will have to be incorporated into the Memorandum and Articles of Association. Further, the Board also proposes to make certain amendment to align the Memorandum and Articles of Association with the provisions of Appendix 3 and Appendix 11 to the GEM Listing Rules which require that the Company in general meeting shall have power by ordinary resolution to remove any Director before the expiration of his term of office pursuant to its articles of association. Resolutions will be proposed at the EGM to amend the Memorandum and Articles of Association. Details of the proposed amendments are set out in the notice of the EGM on pages 51 to 60 of this circular.

A summary of the principal terms of the Preferred Shares is set out in Appendix II to this circular.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors (including all the independent non-executive Directors) are of the view that the Loan Capitalisation and the proposed amendments to the Memorandum and Articles of Association are fair and reasonable, and is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Loan Capitalisation and the special resolutions to be proposed to approve the proposed amendments to the Memorandum and Articles of Association.

Your attention is drawn to (i) the letter from the Independent Board Committee; and (ii) the letter from the Independent Financial Adviser to this circular.

ADDITIONAL INFORMATION

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

29 October 2012

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION – LOAN CAPITALISATION

We refer to the circular dated 29 October 2012 issued by the Company (the “**Circular**”) of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless specified otherwise.

We have been formed to advise the Independent Shareholders in relation to the terms of the Loan Capitalisation and the transactions contemplated thereunder. Get Nice has been appointed by the Company as the Independent Financial Adviser to advise us in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are contained in its letter set out on pages 24 to 41 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Circular.

After taking into account the factors and reasons considered by the Independent Financial Adviser and its conclusion and advice, we concur with their views and consider that the terms of the Loan Capitalisation and the transactions contemplated thereunder are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders should vote in favour of the resolution(s) to be proposed at the EGM to approve the Loan Capitalisation and the transactions contemplated thereunder.

Yours faithfully

For and on behalf of the

Independent Board Committee

Dr. Leung Wai Cheung

Mr. Cai Wei Lun

Mr. Qi Ji

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter from Get Nice Capital Limited for the purpose of incorporation in this circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders in relation to the Loan Capitalisation:



29 October 2012

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

Dear Sirs,

CONNECTED TRANSACTION – LOAN CAPITALISATION

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Loan Capitalisation, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular (the “Circular”) issued by the Company to the Shareholders dated 29 October 2012 of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context of this letter otherwise requires.

On 29 August 2012, the Company and Mr. Leung entered into the Loan Capitalisation Agreement whereby Mr. Leung agreed to subscribe for, and the Company agreed to issue and allot, the Subscriber Preferred Shares at the Issue Price of HK\$0.60 per Subscriber Preferred Share for capitalising the Loan owed by the Company to Mr. Leung. As at the date of the Loan Capitalisation Agreement, the Company was indebted to Mr. Leung in an aggregate sum of HK\$938,000,000 which sum represents the outstanding amount to be settled pursuant to the Promissory Note. The Company will seek the grant of the Special Mandate from the Independent Shareholders at the EGM to issue the Subscriber Preferred Shares and to issue and allot the Shares to satisfy the allotment and issue of the Shares converted from the Subscriber Preferred Shares.

As at the Latest Practicable Date, Mr. Leung, being a substantial Shareholder, the chairman of the Company and an executive Director, is a connected person of the Company. As such, the Loan Capitalisation constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. As certain of the relevant applicable percentage ratios in respect of the Loan Capitalisation calculated in accordance with the GEM Listing Rules are more than 25%, the Loan Capitalisation is subject to the independent Shareholders’ approval at the EGM. Mr. Leung and his associate(s) are required to abstain from voting on the resolution(s) approving the Loan Capitalisation and the transactions contemplated thereunder at the EGM. As

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

at the Latest Practicable Date, the number of Shares held by Mr. Leung and his associates that are required to abstain from voting on the resolution approving the Loan Capitalisation at the EGM was 536,629,880 Shares, representing approximately 28.941% of the entire issued share capital of the Company as at the Latest Practicable Date.

The Independent Board Committee, comprising Dr. Leung Wai Cheung, Mr. Cai Wei Lun, and Mr. Qi Ji, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the terms of the Loan Capitalisation are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and whether the entering into of the Loan Capitalisation Agreement is in the interests of the Company and the Independent Shareholders as a whole.

In formulating our recommendation, we have relied on the statements, information, opinions and representations contained in the Circular and the information, facts and representations provided to us by the Directors and management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors or management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular. We are also not aware that any statements of belief, opinion and intention made by the Directors in the Circular were not reasonably made after due and careful enquiry and not based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and we have been advised by the Directors that no material facts have been omitted from the information and representations provided in and referred in the Circular.

We consider that we have been provided with sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company or any of its respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT

In arriving at our advice to the Independent Board Committee and the Independent Shareholders in respect of the Loan Capitalisation, we have taken the following principal factors and reasons into consideration:

I. Background to and reasons for the Loan Capitalisation Agreement

The Group is principally engaged in the trading of computer hardware and software, the provision of lottery system management service and operation of lottery sales halls services in the PRC.

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Since Mr. Leung became an executive Director in 2007, the Group has conducted two very substantial acquisitions and connected transactions with Mr. Leung, the details of which have been disclosed under the sections headed “The Group’s past transactions with Mr. Leung”, “Additional Information regarding the Mine Acquisition” and “Additional Information regarding the Lottery Business Acquisition” in the Letter from the Board in the Circular. The following is a summary of the these two transactions:

(i) Acquisition of gold mine in Yunnan Province

On 4 January 2008, Greatest High Holdings Limited (“**Greatest High**”), a wholly-owned subsidiary of the Company, and Mr. Leung entered into an agreement pursuant to which Greatest High agreed to acquire and Mr. Leung agreed to dispose of the entire issued share capital of China Nonferrous Metals Resources Investment Limited (“**CNMRIL**”) and all obligations, liabilities and debts owing by CNMRIL to Mr. Leung amounted to HK\$947,586.50 (as at the date of such agreement) at a total consideration of HK\$1,800,000,000 (the “**Mine Acquisition**”).

The sole asset of CNMRIL was the entire issued capital of China Mining Group Investment Limited, which in turn owned 80% of the registered and paid up capital of 雲南西部礦業有限公司 (Yunnan Xibu Mining Company Limited*), a Chinese foreign co-operative joint venture company (the “**CJV**”). The CJV was the holder of the exploration permit on the exploration area of the gold mining site (the “**Gold Mine**”) located at Luoxi City, Yunnan Province, the PRC.

The Mine Acquisition was completed on 26 August 2008. Since completion of the Mine Acquisition, the Gold Mine did not contribute any revenue to the Group. The goodwill of approximately HK\$1,134,000,000 and intangible assets of approximately HK\$308,000,000 arising from the Mine Acquisition had been fully impaired as at 31 December 2011 due to unsatisfactory exploration study result of the Gold Mine.

(ii) Acquisition of lottery business

On 13 May 2010, Easywin International Holdings Limited (“**Easywin**”), a wholly-owned subsidiary of the Company, entered into an acquisition agreement (“**Acquisition Agreement**”) with Mr. Leung pursuant to which Mr. Leung agreed to sell and Easywin agreed to purchase the entire issued share capital of Pearl Sharp Limited, whose sole asset was the entire issued capital of Greatest Profit Investment Limited, which in turn owned 51% of the registered and paid up capital of 深圳環彩普達科技有限公司 (Shenzhen Huancai Puda Technology Company Limited*) (“**Huancai Puda**”), at a consideration (“**Consideration**”) of HK\$2,112,500,000 (the “**Lottery Business Acquisition**”).

Huancai Puda was specialised in the provision of innovative sales channel technical service and operation service of lottery sales to lottery issue centres in the PRC. Huancai Puda 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.

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The Lottery Business Acquisition was completed on 27 August 2010. Since completion of the Lottery Business Acquisition, the Lottery Business contributed revenue of approximately HK\$681,000 and approximately HK\$424,000 to the Group respectively for the year ended 31 December 2010 and 2011. The Group recorded impairment loss of approximately HK\$408,000,000 on the goodwill and impairment loss of approximately HK\$1,629,000,000 on intangible assets arising from the Lottery Business Acquisition in 2010 as the Huancai Puda and its subsidiary cannot fulfill its obligations under three cooperation agreements for the sales of lottery through mobile phone and internet before it could obtain relevant operation permits as a result of new PRC regulations issued in October 2010.

We are aware that, as disclosed in the Letter from the Board in the Circular, having considered that (i) the then Directors involved in the Mine Acquisition and the Lottery Business Acquisition have approved the acquisitions based on the information then available to them; (ii) the then Directors have engaged independent valuers to conduct the respective valuations on the targets; (iii) the bases and assumptions adopted for the relevant valuations were made after due and careful enquiry; (iv) the then Directors have conducted the requisite due diligence before completion of the Mine Acquisition and the Lottery Business Acquisition; and (v) appropriate risk factors have been disclosed in the relevant circulars of the Company to remind Shareholders and potential investors of the risks associated with the Mine Acquisition and the Lottery Business Acquisition, the Board is of the view that (a) the Mine Acquisition and the Lottery Business Acquisition were fair and reasonable and in the interest of the Company and the Shareholders as a whole at the time when the respective acquisitions took place and should be so considered regardless of the latest business development status and the actual profit contribution; and (b) the Directors (including those involved in the Mine Acquisition and the Lottery Business Acquisition), individually and collectively, complied with the requirements under Rules 5.01 and 5.02 of the GEM Listing Rules when approving the Mine Acquisition and the Lottery Business Acquisition.

As the independent financial adviser giving opinion on whether the Loan Capitalisation is fair and reasonable and in the interest to the Company and the Shareholders as a whole, our focus is on the terms of the Loan Capitalisation and the pros and cons of the Loan Capitalisation. As such, we are not in the position to comment on the Mining Acquisition and Lottery Business Acquisition (even though the Promissory Note were part of the consideration for the Lottery Business Acquisition) and have not taken into the account the historical development of these two acquisitions themselves and their respective subsequent accounting treatments in the financial statements of the Company in arriving our opinion on the Loan Capitalisation. However, based on disclosure in the Letter from the Board in the Circular, we have no reason to doubt the view of the Directors on the Mining Acquisition and Lottery Business Acquisition and their respective subsequent accounting treatments in the financial statements of the Company as stated above.

Pursuant to the Acquisition Agreement, part of the Consideration, being HK\$1,200,000,000, shall be satisfied by Easywin procuring the Company to issue the Promissory Note in favour of Mr. Leung. The Promissory Note with principal amount of HK\$1,200,000,000 is unsecured, interest bearing at 0.15% per annum and has a maturity period of five years from the date of issue but can be repaid in whole or in part before maturity at the discretion of the Company at its principal amount and accrued interest up to the redemption date. The Promissory Note was fair valued at initial recognition

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with an effective interest rate of 17.35% per annum. As at the Latest Practicable Date, the Company was indebted to Mr. Leung in an aggregate sum of HK\$938,000,000 which sum represents the outstanding amount to be settled pursuant to the Promissory Note.

Given that (i) the Group had recorded continual loss for each of the three years ended 31 December 2011; (ii) the Group had unaudited net liabilities of approximately HK\$235.8 million as at 30 June 2012 and audited net liabilities of approximately HK\$154.38 million as at 31 December 2011; and (iii) the Group's cash and bank balances were approximately HK\$111.1 million as at 30 June 2012, the Group may not be able to repay the outstanding principal amount and accrued interest pursuant to the Promissory Note at its maturity date unless the Group obtains new funds from equity fund raising or borrowings. The Directors consider the Loan Capitalisation will (i) remove the repayment and interest payment pressure of the Loan on the Group; (ii) retain cashflow of the Group for its future business development; (iii) strengthen the financial position of the Group; and (iv) lower the gearing ratio of the Group.

Set out below is a summary of the audited results and financial position of the Group for the three financial years ended 31 December 2011 which are extracted from the Company's annual reports for 2011 (the "Annual Report"):

	Year ended 31 December		
	2011	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Audited)
RESULTS			
Revenue			
– continuing operations	2,014	2,582	1,893
– discontinued operation	–	93	164
Total	2,014	2,675	2,057
Loss for the year	(639,514)	(2,583,638)	(414,270)
Loss attributable to:			
Owners of the Company	(618,778)	(1,887,273)	(365,512)
Non-controlling interests	(20,736)	(696,365)	(48,758)
	(639,514)	(2,583,638)	(412,270)
ASSETS AND LIABILITIES			
Total asset	941,766	1,501,998	1,036,844
Total liabilities	(791,203)	(790,061)	(1,862)
	150,563	711,937	1,034,982
Equity attributable to owners of the Company	(154,377)	400,964	1,033,139
Non-controlling interests	304,940	310,973	1,843
	<u>150,563</u>	<u>711,937</u>	<u>1,034,982</u>

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As noted from the above table, for each of the three years ended 31 December 2011, the Group had recorded continual loss. As indicated in the Annual Report, The impairment loss of goodwill relating to the gold mine for the year ended 31 December 2011 was approximately HK\$379,581,000 (2010: HK\$674,000,000) which was due to the unsatisfactory exploration study result of the gold mine located at Luoxi City, Yunnan Province, the PRC. The Group's revenue for the year was mainly generated from lottery business and trading of computer hardware and software.

As disclosed in the Annual Report, the Company intended to position itself as the investment operator and equipment provider of high frequency and electronic instant lottery games, and it would focus on (i) setting up lottery sales halls for high frequency and electronic instant lottery games; and (ii) developing and manufacturing new self-service lottery terminals and systems including electronic instant lottery terminals and paperless sales equipment for high-frequency games. The Company is currently developing the lottery businesses in Liaoning, Chongqing, Guangxi, Hainan, etc. The Company intends to invest in and operate 300-500 lottery sales halls with high frequencies games and targets to reach annual sales of over RMB10 billion. The Company also expects to sell 50,000 units of new self-service lottery terminals and aims to be a leading operator of high-frequency lottery sales hall in the PRC, as well as the pioneer in manufacturing and developing self service lottery terminals.

Set out below is a summary of the unaudited and audited financial position of the Group as at 30 June 2012 and 31 December 2011 respectively which are extracted from the Company's interim reports for the six months ended 30 June 2012 (the "Interim Report"):

	30 June 2012	31 December 2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Current assets	126,969	176,426
Current liabilities	(11,803)	(15,107)
Net current assets	115,166	161,319
Total assets	888,169	941,766
Total liabilities	(825,721)	(791,203)
Total equity	62,448	150,563
Equity attributable to owners		
of the Company	(235,796)	(154,377)
Non-controlling interests	298,244	304,940
	62,448	150,563
	62,448	150,563

As shown from the above table, the unaudited negative equity attributable to owners of the Company as at 30 June 2012 was approximately HK\$235.8 million and the audited negative equity attributable to owners of the Company as at 31 December 2011 was HK\$154.38 million. Moreover, the gearing ratio of Group as at 30 June 2012 was 11.15 (as at 31 December 2011: 4.37), based on the unaudited total borrowings as at 30 June 2012 of HK\$695,993,000 (as at 31 December 2011: HK\$657,568,000) and the unaudited total equity as at 30 June 2012 of approximately HK\$62,448,000 (as at 31 December 2011: HK\$150,563,000).

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As stated in the Interim Report, the Group had cash and bank balances of approximately HK\$111.1 million as at 30 June 2012. On the other hand, the Group's total borrowings amounted to approximately HK\$696.0 million (which comprised convertible bonds of approximately HK\$85.5 million and the Promissory Note of approximately HK\$610.5 million) as at 30 June 2012. As at the Latest Practicable Date, the principal amount of the Promissory Note was HK\$938,000,000. The Group may not be able to repay the outstanding principal amount and accrued interest pursuant to the Promissory Note at its maturity date unless the Group obtains new funds from equity fund raising or borrowings.

As the Promissory Note will be matured in August 2015, the Company is only required to repay the outstanding principal amount and accrued interest of the Promissory Note about three years later from the date of the Loan Capitalisation Agreement and therefore there is no immediate need for the settlement of the Promissory Note. We have discussed with the Directors on this issue and were advised that the Company may not be able to repay the outstanding principal amount and accrued interest pursuant to the Promissory Note at its maturity date in view of the current cash position of the Group and the performance of the lottery business in the next few years. We have reviewed a business valuation ("**Valuation**") prepared by the Company on the lottery business as at 31 December 2011 covering the period from January 2012 to December 2018. We noted from the Valuation that the accumulated net cash flow generated from the lottery business up to 31 December 2015 together with the current cash position of the Group is significantly fall short of the principal amount of the Promissory Note was HK\$938,000,000 as at the Latest Practicable Date. As such, we concur with the view of the Directors that the Group may not be able to repay the outstanding principal amount and accrued interest pursuant to the Promissory Note at its maturity date unless the Group obtains new funds from equity fund raising or borrowings. Despite the fact that there is no urgency for the Group to settle the Promissory Note by the Loan Capitalisation and the potential dilution effect on the Independent Shareholders, we consider that the Loan Capitalisation is in the interest of the Company and the Shareholders as a whole based on our work done, analysis and opinion expressed in this section and the sections headed "Principal terms of the Loan Capitalisation Agreement", "Analysis on the Issue Price", "Potential dilution effect on shareholding in the Company" and "Possible financial effects of the Loan Capitalisation" below.

In view of the substantial amount of the Promissory Note outstanding, we believe that the Loan Capitalisation would be in the interest of the Company and the Shareholders as a whole as it will not affect the working capital of the Group while will enlarge its capital base and also reduce the gearing level of the Company. As a result of such strengthening in the financial position of the Company, the Company will be in a better position to negotiate and obtain further fund raising arrangements for its business development and expansion. Moreover, The Loan Capitalisation will not only strengthen the Group's financial independence from the major Shareholder but also reflects the major Shareholders' commitment and confidence on the long-term prosperity of the Group.

Given (i) the latest business development of the Group as set in the Annual Report; (ii) the disclosure of the business development of the lottery business under the section headed "Latest business development, future plans and up-to-date status of the Company" in the Letter from the Board in the Circular; and (iii) the capital expenditure and working capital requirement of the lottery business from January 2012 to December 2018 as set out in the Valuation, we believe that additional financial resources will be deployed by the Group as and when the business development of the lottery business

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progress. In addition, as advised by the Directors, the Group is always looking for suitable investment opportunities to diversify its business in order to broaden the revenue and earning base of the Group. We are of the view that by means of the Loan Capitalisation, the overall financial position of the Group will be improved. This in turn could provide the Group with a higher financial flexibility and options for its future business development and negotiation on potential investment opportunities.

We have enquired the Company of alternative means of repaying the Promissory Note, such as by way raising funds through debt and equity financing. As advised by the Directors, it is quite difficult for the Company to raise debt financing such as bank borrowings given the high gearing ratio of the Company and the situation that the Group had recorded continual loss for the last three financial years. Moreover, debt financing will inevitably increase the interest burden of the Company while the gearing ratio will not be improved. With regard to equity financing, the Directors advised that they have considered raising new capital through placing of new Shares, rights issue or open offer to repay the Promissory Note. However, given the current depressing market condition and sluggish market sentiment, potential agents were rather conservative and have not shown strong interest. If rights issues or open offer were to be made, it is expected that there might be difficulty to obtain sufficient arm's length underwriters' support and the Issue Price for which would have to be set at a discount to the prevailing market price of the Shares so as to attract subscription by the Shareholders, which would result in a great dilution to the net asset value per Share after such offer as compared to that of the Loan Capitalisation.

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We have reviewed rights issues and open offers entered into and announced recently during a period from 1 March 2012 to 29 August 2012 (being the date of the Loan Capitalisation Agreement) (the “**Relevant Period**”) by the companies listed on the Stock Exchange and which involved fund raising amount of over HK\$500 million, the size of which are comparable to the amount of the Loan Capitalisation. To the best of our knowledge and as far as we are aware, we found that during the Relevant Period, no open offer announced met the above criteria and two rights issues (the “**Rights Issues Comparables**”) announced met such criteria. The relevant findings in relation to the Rights Issues Comparables are summarised as below:

Company name (Stock code)	Date of announcement	Discount to the closing price on the last trading day <i>(Note 2)</i> <i>Approximately (%)</i>	Discount to the 10-day average closing price <i>(Note 2)</i> <i>Approximately (%)</i>
Pacific Andes International Holdings Limited (1174)	6 March 2012	38.80	41.00
The United Laboratories International Limited (3933)	29 March 2012	45.02	51.75
Maximum discount		45.02	51.75
Mean		41.91	46.38

Notes:

1. Source of data: relevant announcements or circulars of the Rights Issues Comparables posted on the official website of the Stock Exchange.
2. The discount to the last trading price and 10-day average closing price were extracted from the relevant announcements or circular (as the case may be) of the Rights Issues Comparables.

As can be seen from the above, the discounts of the rights issue price to the market price of the Rights Issues Comparable immediately before the announcement of the rights issue ranged from approximately 38.80% to 45.02%, with a mean discount of approximately 41.91%. With reference to the analysis on the Rights Issues Comparables and in view of the substantial amount of the Promissory Note outstanding, it is expected that there might be difficulty for the Company to reach agreement with arm’s length underwriter(s) without offering significant discount of rights issue price to the prevailing market price. In view of the situation that Mr. Leung has agreed to subscribe for the Subscriber Preferred Shares at the Issue Price of HK\$0.60 per Subscriber Preferred Share, which is at a premium to both the closing price of the Shares on the Last Trading Day and on the average closing price of Share for the last five consecutive trading days up to and including the Last Trading Day, we

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believe that the aforesaid dilution effect from rights issues/open offer could be avoided. In addition, any arm's length underwriting under rights issue/open offer is normally subject to standard force majeure clauses which would undoubtedly impose certain uncertainties and market risks to the Company on completion of such fund raising exercises.

In light of above, we consider that even though it is outside the principal activities of the Company and therefore cannot be considered to be conducted in the ordinary and usual course of business of the Company, the Loan Capitalisation is a reasonable method to settle the Promissory Note under the circumstances.

Taking into consideration that the Loan Capitalisation will (i) eliminate the pressure of the repayment of the principal and the accrued interest of the Promissory Note on the Group so that the Company can concentrate its effort in developing its businesses; (ii) reserve cash flow of the Group for its future business development; (iii) strengthen the financial position by enlarging capital base of the Group and lowering the gearing ratio of the Group (details of which will be discussed in the section headed "Possible financial effects of the Loan Capitalisation" below) that would help the Company to be in a better position to obtain and negotiate for future fund raising arrangements for business expansion and development; (iv) strength the Group's financial independence from its major Shareholder and reflect the major Shareholders' commitment and confidence on the long-term prosperity of the Group; and (v) the Loan Capitalisation is a reasonable method to settle the Promissory Note under the circumstances, we concur with the Directors' view that the entering into of the Loan Capitalisation Agreement is in the interests of the Company and the Independent Shareholders as a whole.

II. Principal terms of the Loan Capitalisation Agreement

Pursuant to the Loan Capitalisation Agreement, 1,563,333,333 Subscriber Preferred Shares at the Issue Price of HK\$0.60 per Subscriber Preferred Share will be issued to and subscribed by Mr. Leung. The table below summarises the major terms of the issue of Subscriber Preferred Shares under the Loan Capitalisation Agreement:

Number of Subscriber Preferred Shares:	1,563,333,333
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Assuming there will be no further issue or repurchase of Shares, upon the exercise in full of the conversion rights attaching to the Subscriber Preferred Shares, the Company will issue and allot an aggregate of 1,563,333,333 Shares, representing (i) approximately 84.31% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 45.74% of the issued share capital of the Company as enlarged by the issue and allotment of the Shares upon full exercise of the conversion rights attaching to the Subscriber Preferred Shares.

Par value:	HK\$0.005
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Issue Price:	HK\$0.60 per Subscriber Preferred Share
Conversion rate for each Subscriber Preferred Share:	One to one (one Subscriber Preferred Share can be converted into one ordinary Share)
Conversion:	<p>The holders of the Subscriber Preferred Shares shall have the right to convert the Subscriber Preferred Shares, in whole or in part, at any time at the conversion rate set out above provided that:</p> <ul style="list-style-type: none">(i) any conversion of the Subscriber Preferred Shares will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Subscriber Preferred Shares holder who exercised the conversion rights; and(ii) the public float of the Shares shall not be less than 25% (or any given percentage as required by the GEM Listing Rules) of the issued Shares at any time in compliance with the GEM Listing Rules.
Dividends:	The holders of the Subscriber Preferred Shares shall be entitled to dividend to the same extent as holders of the ordinary Shares and the Subscriber Preferred Shares shall rank pari passu with the ordinary Shares in dividend as declared by the Company from time to time
Redemption:	The Subscriber Preferred Shares are non-redeemable
Transferability:	The Subscriber Preferred Shares are transferable
Voting rights:	The Subscriber Preferred Shares have no voting rights
Rights in liquidation:	<ul style="list-style-type: none">(i) The Subscriber Preferred Shares shall rank pari passu with ordinary Shares for return of capital in the event of liquidation; and(ii) The Subscriber Preferred Shares shall rank pari passu with ordinary Shares for the right to participate in distribution of surplus in the event of liquidation.
Governing law:	Hong Kong

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Conditions of the Loan
Capitalisation:

The Loan Capitalisation is conditional upon all the following conditions being fulfilled:

- (i) the independent Shareholders approving the ordinary and/or special resolution(s) by way of poll at the EGM, the Loan Capitalisation Agreement and the transactions contemplated thereunder (including but not limited to the amendments to the Memorandum and Articles of Association for the creation of the Preferred Shares and the adoption of the terms of the Preferred Shares, the issue and allotment of the Subscriber Preferred Shares, the issue and allotment of Shares to be issued upon conversion of the Subscriber Preferred Shares) and all other consents and acts required under the GEM Listing Rules being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules being obtained from the Stock Exchange;
- (ii) obtaining of all necessary consents and approvals by the Subscriber and the Issuer in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder (including but not limited to all necessary authorisations, consents and approvals (if any) in respect of the amendments to the Memorandum and Articles of Association according to the Cayman Islands laws regarding the creation, issue and allotment of the Preferred Shares); and
- (iii) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares to be issued upon conversion of the Subscriber Preferred Shares, and (if necessary) to issue and allot the Subscriber Preferred Shares.

As can be seen from the above, the rights of the Subscriber Preferred Shares are essentially the same as that of the ordinary Shares with the exception that they have no voting rights in the Company.

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III. Analysis on the Issue Price

Issue Price

The Issue Price of HK\$0.60 per Subscriber Preferred Share was determined after arm's length negotiations between the Subscriber and the Company with reference to the prevailing trading prices of the Shares.

The Issue Price represents:

- (i) a premium of approximately 421.74% over the closing price of HK\$0.115 per Share as quoted on the Stock Exchange on 29 August 2012, being the Last Trading Day;
- (ii) a premium of approximately 417.24% over the average closing price of HK\$0.116 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 premium of approximately 368.75% over the average closing price of HK\$0.128 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 552.17% over the closing price of HK\$0.092 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

Comparison with other placing and share subscription exercises

Since the Loan Capitalisation shall involve the issue of the Subscriber Preferred Shares which can be convertible to ordinary Shares, we have searched for the fund raising exercises involving the issue of convertible preferred shares by the companies listed on both Main Board and GEM of the Stock Exchange during the Relevant Period for comparison purpose. To the best of our knowledge and as far as we are aware, we found one company (the "**CPS Comparable**") which met such criteria. Moreover, we consider that fund raising by way of new share placing and share subscription has a similar nature with the subscription of the Subscriber Preferred Shares by Mr. Leung under the Specific Mandate. As part of our analysis, we have reviewed relevant new share placing and share subscription exercises under specific mandate entered into and announced by the companies listed on both Main Board and GEM of the Stock Exchange during the Relevant Period. To the best of our knowledge and as far as we are aware, we found 10 companies (the "**Placing Comparables**") which met these criteria. Independent Shareholders should note that the CPS Comparable and the Placing Comparables are not identical to the Company in terms of the business, financial standing and business situation. However, the CPS Comparable and the Placing Comparables provide a general reference for the recent common market practice of Hong Kong listed companies on both Main Board and GEM of the Stock Exchange in placing and share subscription (including convertible preferred shares) exercises. The relevant findings in relation to the CPS Comparable and the Placing Comparables are summarised as below:

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Company name (Stock code)	Date of announcement	Premium over/ (discount to) the closing price on the last trading day (Note 2) Approximately (%)	Premium over/ (discount to) the 5-day average closing price (Note 2) Approximately (%)
CPS Comparable:			
Greentown China Holdings Limited (3900)	8 June 2012	(2.80)	4.10
Placing Comparables:			
Seamless Green China (Holdings) Limited (8150)	5 March 2012	(15.25)	6.38
Siberian Mining Group Company Limited (1142)	6 March 2012	8.81	22.47
Solartech International Holdings Limited (1166)	22 March 2012	(32.04)	(37.16)
Larry Jewelry International Company Limited (8351)	25 March 2012	6.94	8.45
China Minsheng Banking Corp., Ltd. (1988)	27 March 2012	(5.00)	(5.80)
Sinocop Resources (Holdings) Limited (476)	29 March 2012	(3.80)	(2.60)
Eternity Investment Limited (764)	5 April 2012	(20.00)	(31.91)
Lung Cheong International Holdings Limited (348)	25 April 2012	(29.25)	(29.04)
Wealth Glory Holdings Limited (8269)	12 June 2012	(0.58)	(0.93)
Tai Shing International (Holdings) Limited (8103)	8 July 2012	(17.86)	(18.32)
Maximum premium		8.81	22.47
Maximum discount		(32.04)	(37.16)
Mean		(10.80)	(7.67)
The Company	29 August 2012	421.74	417.24

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Notes:

1. Source of data: relevant announcements or circulars of the CPS Comparable and the Placing Comparables posted on the official website of the Stock Exchange.
2. The discount to/premium over the last trading price and 5-day average closing price were extracted from the relevant announcements or circular (as the case may be) of the CPS Comparable and the Placing Comparables.

As shown in the table above, the issue price of the CPS Comparable and the Placing Comparables ranged from (i) a discount of approximately 32.04% to a premium of approximately 8.81% over the closing price on the last trading day prior to the release of the relevant announcement (the “**Market Range**”) with an average discount of approximately 10.08%; and (ii) a discount of approximately 37.16% to a premium of approximately 22.47% over the average closing price for the last five consecutive trading days prior to the release of the relevant announcement (the “**5-Day Market Range**”) with an average discount of approximately 7.67%.

On the basis that the Issue Price is (i) at a premium of approximately 421.74% over the closing price of as quoted on the Stock Exchange on Last Trading Day, which is better than the Market Range and the corresponding average discount of the CPS Comparable and the Placing Comparables; and (ii) at a premium of approximately 417.24% over the average closing price of HK\$0.116 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day, which is better than the 5-Day Market Range and the corresponding average discount of the CPS Comparable and the Placing Comparables, we consider that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

IV. Potential dilution effect on shareholding in the Company

Set out below is a table showing (i) the shareholding structure of the Company as at the Latest Practicable Date; and (ii) for illustrative purpose, the shareholding structure of the Company immediately after the Completion and the issue and allotment of the Subscriber Preferred Shares and exercise in full the conversion rights attaching to the Subscriber Preferred Shares:

Shareholders	As at the Latest Practicable Date		Immediately after the Completion and the issue and allotment of the Subscriber Preferred Shares and exercise in full the conversion rights attaching to the Subscriber Preferred Shares (Note 2)	
	No. of Shares	%	No. of Shares	%
Mr. Leung and party acting in concert with him	536,629,880 (Note 1)	28.941	2,099,963,213	61.446
Mr. Ng Kwok Chu, Winfield	94,500	0.005	94,500	0.003
Public	<u>1,317,510,669</u>	<u>71.054</u>	<u>1,317,510,669</u>	<u>38.551</u>
Total	<u>1,854,235,049</u>	<u>100.000</u>	<u>3,417,568,382</u>	<u>100.000</u>

Notes:

- Mr. Leung, an executive Director and the chairman of the Company, held an aggregate of 536,629,880 Shares, of which 294,880 Shares were held by Speedy Well Investments Limited, a company incorporated in the British Virgin Islands and wholly and beneficially owned by Mr. Leung, as at the date of this announcement. In addition, Mr. Leung held convertible bonds of the Company in the principal amount of HK\$144,100,000 ("Convertible Bonds") as at the date of this announcement, which could be converted into 120,083,333 Shares based on the conversion price of HK\$1.20. Pursuant to the terms of the Convertible Bonds, Mr. Leung and party acting in concert with it cannot hold more than 29% of the issued share capital of the Company as a result of conversion of the Convertible Bonds.
- This column is shown for illustrative purpose only as any conversion of the Subscriber Preferred Shares will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of Mr. Leung and his concert party or any holder of the Subscriber Preferred Shares pursuant to the terms of the Subscriber Preferred Shares.

As can be seen from the above table, the aggregate shareholding of the existing public Shareholders will be diluted from approximately 71.054% to approximately 38.551% immediately after the Completion and the issue and allotment of the Subscriber Preferred Shares and exercise in full the conversion rights attaching to the Subscriber Preferred Shares.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We believe that the issue of the Subscriber Preferred Shares has no immediate dilution effect on the shareholding in the Company unless and until when the conversion rights attaching to the Subscriber Preferred Shares are exercised. Moreover, the above dilution on the shareholding in the Company held by the public from approximately 71.054% to approximately 38.551% would not take place in reality in view of the restriction that any conversion of the Subscriber Preferred Shares will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of Mr. Leung and his concert parties or any holder of the Subscriber Preferred Shares pursuant to the terms of the Subscriber Preferred Shares. Given that Mr. Leung and party acting in concert with him held approximately 28.941% shareholding in the Company as the Latest Practicable Date, the maximum increase in the shareholding in the Company that Mr. Leung may obtain upon exercise of the conversion rights attaching to the Subscriber Preferred Shares is less than 2% under such restriction. In such case, the dilution on the shareholding in the Company held by the public will also be less than 2%. Accordingly, we consider that the dilution effect of the shareholding in the Company is insignificant and therefore is acceptable.

V. Possible financing effects of the Loan Capitalisation

Effect on gearing position

With reference to the Interim Report, the gearing ratio of Group was 11.15 as at 30 June 2012, based on the unaudited total borrowings of HK\$695,993,000 and the unaudited total equity of approximately HK\$62,448,000. Upon completion of the Loan Capitalisation, the total borrowings of the Group will be substantially reduced by the settlement of the Promissory Note and the Shareholders' equity will be enlarged by the allotment and issue of the Subscriber Preferred Shares. Accordingly, the gearing ratio of the Group will be significantly improved as a result of the enlarged capital base and decrease in total borrowings of the Group.

Effect on net asset value

According to the 2012 Interim Report, the unaudited consolidated net asset of the Group was approximately HK\$62.45 million as at 30 June 2012. Upon completion of the Loan Capitalisation, the net asset value of the Group would be increased arising from (i) the substantial decrease in total borrowings of the Group; and (ii) the allotment and issue of the Subscriber Preferred Shares.

Effect on working capital

As the Promissory Note will be settled in full by the allotment and issue of the Subscriber Preferred Shares without cash outlay by the Group, the Loan Capitalisation would enable the Company to free the cash flow for the development of its business.

Effect on profit and loss

Upon settlement of the Promissory Note on completion of the Loan Capitalisation, the Group would no longer be required to pay interest of the aggregate of 0.15% per annum. The interest expense in respect of the Promissory Note would be eliminated.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the Directors, the Loan Capitalisation will not have any effect other than the interest saving mentioned above on the profit and loss of the Group.

It should be noted that the above analysis are for the illustrative purposes only and do not purport to represent how the actual financial position of the Group will be on the date of completion of the Loan Capitalisation. Given the positive effects on the interest saving, improvement in the gearing position and the increase in the net asset value of the Group as discussed above, we consider that the Loan Capitalisation will strengthen the overall financial position of the Group. Accordingly, we are of the opinion that the Loan Capitalisation is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having taken into consideration of the above principal factors and reasons, we are of the view that, despite that the Loan Capitalisation is not conducted in the ordinary and usual course of business of the Company, the terms of the Loan Capitalisation are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Loan Capitalisation Agreement is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Loan Capitalisation Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Get Nice Capital Limited

Louis Yiu

Director

Gary Hung

Director

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.

MATERIAL ADVERSE CHANGES

The Directors confirm that there is no material adverse changes in the financial and trading position of the Group since 31 December 2011, the date of which the latest audited financial statements of the Group were made up.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or their respective associate(s) has any interest in a business which causes or may cause any significant competition with the business of the Group.

DIRECTORS' INTEREST IN ASSETS

As at the Latest Practicable Date, other than pursuant to an agreement dated 22 August 2012 entered into between Mr. Leung, as a purchaser, and the Company, as a vendor, Mr. Leung has agreed to acquire and the Company has agreed to a dispose of the entire issued share capital of Media Hong Kong Investment Limited and the the outstanding shareholder loan at a total consideration of HK\$9,300,000, which was satisfied by cashier order made payable to the Company within 10 days from the date of the agreement, 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 Group, or were proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2011, the date of which the latest audited financial statements of the Group were made up.

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 the Latest Practicable Date, 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 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	underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of issued share capital
Mr. Leung	Beneficial owner	536,335,000	120,083,333 <i>(Note 1)</i>	656,418,333	35.40%
	Through a controlled corporation	294,880 <i>(Note 2)</i>	–	294,880	0.02%
Mr. Ng Kwok Chu, Winfield (“Mr. Ng”)	Beneficial owner	94,500	2,000,000 <i>(Note 3)</i>	2,094,500	0.11%
Ms. Wu Wei Hua (“Ms. Wu”)	Beneficial owner	–	2,000,000 <i>(Note 4)</i>	2,000,000	0.11%

Notes:

- 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 the Latest Practicable Date, convertible bonds in the amount of HK\$144,100,000 remains outstanding. As a result of the consolidation of every five share of HK\$0.001 each in the issued and unissued share capital of the Company into one consolidated shares of HK\$0.005 each which became effective on 27 February 2012 (the “**2012 Share Consolidation**”), the relevant conversion price was adjusted from HK\$0.24 to HK\$1.20 per 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 Shares. Such interests constitute a long position of the Director in a physically settled equity derivative for the purpose of the SFO.
- These Shares were held by 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.
- On 10 July 2008, Mr. Ng was granted share options, pursuant to the share option scheme adopted by the Company on 29 June 2007 (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 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 (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 Share and the number of Shares falling to be issued under the outstanding share options was adjusted from 10,000,000 shares to 2,000,000 Shares. The interest constitutes a long position of the Director in a physically settled equity derivative for the purpose of the SFO.

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 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 Share and the number of Shares falling to be issued under the outstanding share options was adjusted from 10,000,000 shares to 2,000,000 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 the Latest Practicable Date, 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 the Latest Practicable Date, 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.

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.

DIRECTORS’ INTERESTS IN CONTRACTS

Other than the Loan Capitalisation Agreement as described in this circular and pursuant to an agreement dated 22 August 2012 entered into between Mr. Leung, as a purchaser, and the Company, as a vendor, Mr. Leung has agreed to acquire and the Company has agreed to a dispose of the entire issued share capital of Media Hong Kong Investment Limited and the outstanding shareholder loan at a total consideration of HK\$9,300,000, which was satisfied by cashier order made payable to the Company within 10 days from the date of the agreement, none of the Directors had a material interest, either directly or indirectly, in any contract of significance subsisting at the Latest Practicable Date to the business of the Group to which the Company or any of its subsidiaries was a party.

DIRECTORS' SERVICE CONTRACTS

Mr. Leung, Mr. Ng, and Ms. Wu entered into service contracts with the Group on 27 May 2012, 1 December 2011 and 1 February 2012 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 (subsequently adjusted to HK\$48,000 commencing in January 2012) and HK\$40,000 (subsequently adjusted to HK\$48,000 commencing in January 2012) 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, Mr. Cai Wei Lun and Mr. Qi Ji are the independent non-executive Directors. All 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 of the Company 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 and Mr. Qi Ji have not received any remuneration since their respective 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 Group which is not determinable by the Company within one year without payment of compensation other than their statutory compensation.

EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given its opinion and advice which are included in this circular:

Name	Qualification
Get Nice	A corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Get Nice did not have any shareholding, directly or indirectly, in any member of the 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 Group.

As at the Latest Practicable Date, Get Nice 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 Group.

Get Nice has given and has not withdrawn its 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.

Get Nice does 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 Group, or were proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2011, the date to which the latest published audited financial statements of the Group were made up.

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) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

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 29 October 2012.

- (a) the Loan Capitalisation Agreement;
- (b) the Memorandum and Articles of Association;
- (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" to 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" to this circular;
- (e) the letter of consent referred to under the paragraph headed "EXPERT'S QUALIFICATION AND CONSENT" in this appendix;
- (f) the service contracts referred to in the paragraph headed "DIRECTORS' SERVICE CONTRACTS" in this appendix; and
- (g) a copy of this circular.

TERMS OF THE PREFERRED SHARES

In this appendix, unless the context otherwise requires:

“Ordinary Shares” means ordinary shares with a par value of HK\$0.005 each constituting the ordinary share capital of the Company from time to time.

“Designated Stock Exchange” means a stock exchange in respect of which the shares of the Company are listed or quoted and where such stock exchange deems such listing or quotation to be the primary listing or quotation of the shares of the Company.

(1) As regards terms of the Preferred Shares and conversion

- (a) The term of the Preferred Shares commences from the date of issue of the relevant Preferred Shares.
- (b) “During the period of the existence of the Preferred Shares, each holder of the Preferred Shares shall have the right at any time and from time to time to convert all or part (any conversion in part being in amounts or integral multiples of 5,000 Ordinary Shares or such other number as may for the time being be a board lot of Ordinary Shares on the Designated Stock Exchange) of his holding of such Preferred Shares into fully paid Ordinary Shares (subject as provided below).”
- (c) The right to convert shall be exercisable on any date by completing the notice of conversion endorsed on the certificate relating to the Preferred Shares to be converted (“**Conversion Notice**”) and delivering it (together with such other evidence (if any) as the Directors may reasonably require to prove the title of the person exercising such right) to the Company, such Conversion Notice to specify the date when the conversion is to become effective (“**Conversion Date**”) provided that if any Conversion Date would otherwise fall on a Saturday, Sunday or other day which is a public holiday in Hong Kong, such Conversion Date shall be the next day which is not such a public holiday. A Conversion Notice once given may not be withdrawn without the consent in writing of the Company.
- (d) Each Preferred Share can, subject to adjustment as described below, be converted into one Ordinary Share.
- (e) Conversion of the Preferred Shares may be effected in such manner as the Board shall from time to time reasonably determine (subject to the provisions of the applicable laws and regulations). Notwithstanding any provisions herein to the contrary, the Board shall have the right to defer the allotment and issue of the Ordinary Shares to a date falling ninety (90) days after conversion or such longer period as the Board shall reasonably consider appropriate and necessary in the event a conversion will (i) trigger a mandatory offer obligation under Rule 26 of The Codes on Takeovers and Mergers and Share Repurchases issued by the Securities and Futures Commission of Hong Kong on the part of the Preferred Shares holder who exercised the conversion rights; or (ii) result in the failure by the Company to comply with the level of public float prescribed in the rules of any Designated Stock Exchange from time to time

(“**Public Float Requirement**”). Notwithstanding any provision to the contrary contained herein, the Company shall be entitled to defer the allotment and issue of the Ordinary Shares to until the proposal by the holder of the Preferred Shares to restore the public float is implemented to its satisfaction.

- (f) The Company shall not later than the expiration of twenty-eight (28) days after conversion despatch the share certificates for the Ordinary Shares resulting from conversion and, if appropriate, the share certificates for any balance of the Preferred Shares remaining unconverted.
- (g) Ordinary Shares resulting from conversion shall rank pari passu in all respects and form one class with the Ordinary Shares then in issue and fully paid.
- (h) If whilst any of the Preferred Shares remains capable of conversion to Ordinary Shares, the Company shall make any issue by way of capitalisation of profits or reserves including any share premium account to members of the Company, such issue shall be made only to the holders of the Ordinary Shares and shall be in the form of fully paid Ordinary Shares and the number of Ordinary Shares arising on any subsequent conversion of Preferred Shares shall be increased pro rata. Provided that (A) no such adjustment shall be made if the said issue of fully paid Ordinary Shares shall have been made in lieu of the payment of any dividend (or part thereof) pursuant to arrangements whereby a holder of Ordinary Shares shall be given the right in respect of the same to make an election to receive cash or to receive new Ordinary Shares issued by way of capitalisation and (B) the Company shall not make any such capitalisation issue (other than such a capitalisation issue as is referred to in proviso (A) above) unless the Company has sufficient profits or reserves and immediately following the date on such capitalisation issue the Company shall be able to pay its debts as they fall due in the ordinary course of business.
- (i) If the Company shall sub-divide or consolidate the Ordinary Shares while there remain outstanding any Preferred Shares capable of being converted into Ordinary Shares, the number of Ordinary Shares into which the Preferred Shares may be converted on any subsequent conversion shall, in the case of a sub-division be increased, or in the case of a consolidation, be reduced, in due proportion as if the Preferred Shares were also so sub-divided or consolidated.
- (j) If whilst any of the Preferred Shares remains capable of conversion to Ordinary Shares, any offer or invitation by way of rights or otherwise (not being an offer or invitation to which the provisions of sub-paragraph (k) below apply) is made to the holders of the Ordinary Shares, the Company shall make or, so far as it is able, procure that there is made a like offer or invitation at the same time to each holder of Preferred Shares as if his conversion rights had been exercisable and exercised in full on the record date for such offer or invitation.
- (k) If whilst any of the Preferred Shares remain capable of conversion to Ordinary Shares, an offer is made to the holders of Ordinary Shares (or such holders other than the offeror and/or any company controlled by the offeror and/or any persons acting in concert with the offeror) to acquire the whole or any of the issued Ordinary Shares and the Company becomes aware that the right to cast more than fifty (50) per cent of the votes which may ordinarily be cast on a

poll at a general meeting of the Company has or will become vested in the offeror and/or such companies or persons aforesaid, the Company shall give written notice to all holders of the Preferred Shares of such vesting as soon as practicable but in no event later than fourteen (14) days of its becoming so aware.

- (1) If whilst any of the Preferred Shares remain capable of conversion to Ordinary Shares a notice is given by the Company to the Members to convene a general meeting for the purposes of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same day as or soon after it despatches such notice to each Member give notice thereof to all holders of Preferred Shares (together with a notice of the existence of this provision) and thereupon, each holder of Preferred Shares shall be entitled to exercise all or any of his conversion rights at any time no later than five (5) business days prior to the proposed general meeting of the Company by giving the Conversion Notice to the Company whereupon the Company shall as soon as possible and, in any event, no later than two clear business days immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant number of Ordinary Shares to such holder of Preferred Shares credited as fully paid.

(2) As regards income and capital

- (a) The Preferred Shares shall rank *pari passu* with the Ordinary Shares as to the right to receive dividends and other distributions declared made or paid on the ordinary share capital of the Company.
- (b) The Preferred Shares shall rank *pari passu* with the Ordinary Shares for return of capital on liquidation and participation in the distribution of surplus assets of the Company with all other shares in the capital of the Company for the time being in issue.

(3) As regards further participation

The Preferred Shares shall not carry any right to participate in profits or assets of the Company beyond such rights as are expressly set out in the terms of the Preferred Shares.

(4) As regards voting

The Preferred Shares shall not entitle the holders thereof to any voting rights save and except as provided in paragraph (6) below.

(5) As regards documents

While any of the Preferred Shares remain outstanding, the Company shall send to the holders of Preferred Shares, for information only, a copy of every document sent to the holders of other shares of the Company at the same time as it is sent to such holders.

(6) As regards variation of rights

Subject to the applicable laws, the Company shall not vary, alter or abrogate, or permit or cause the variation, alteration or abrogation of, all or any of the rights or privileges attached to the Preferred Shares without both the prior consent of a majority of the holders of the Ordinary Shares and a separate consent of the Preferred Shares holders of not less than seventy-five (75) per cent of the outstanding Preferred Shares for the time being.

(7) As regards dealings by connected person

Subject to the requirements of the rules of the Designated Stock Exchange from time to time (in particular those in relation to connected transactions) and the restriction on transfer as provided in paragraph (10) below and any other applicable regulations, the Preferred Shares may be issued to any connected person of the Company (as defined in the rules of the Designated Stock Exchange).

(8) As regards pre-emptive rights

In the event that the Company shall at any time issue to holders of new Ordinary Shares securities convertible into Ordinary Shares, the Company shall not be obliged to offer such shares/securities to the holders of Preferred Shares.

(9) As regards listing

The Preferred Shares will not be listed on any Designated Stock Exchange.

(10) As regards transferability

The Preferred Shares are freely transferable by the holders thereof. Once a Conversion Notice is served by the holder of the Preferred Shares, the Preferred Shares subject to the Conversion Notice shall not be transferable except where such conversion will result in the Company failing to comply with the Public Float Requirement, in which case, the holder of the Preferred Shares may transfer the Preferred Shares subject to the Conversion Notice.

NOTICE OF THE EGM



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 OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (“EGM”) of the Company will be held at Unit 1006, 10th Floor, Tower One Lippo Centre, 89 Queensway, Hong Kong on Thursday, 22 November 2012 at 10:30 a.m. to consider and, if thought fit, pass the following resolutions, with or without amendment(s), as ordinary and special resolutions of the Company (as the case may be):

ORDINARY RESOLUTION

- (1) “**THAT:**
- (a) the form and substance of the agreement (“**Loan Capitalisation Agreement**”) dated 29 August 2012 and entered into between the Company as issuer and Mr. Leung Ngai Man (“**Mr. Leung**”), a substantial shareholder, the chairman and an executive director of the Company, as subscriber in relation to the subscription of 1,563,333,333 preferred shares of HK\$0.005 each (“**Subscriber Preferred Shares**”) in the share capital of the Company at the price of HK\$0.60 per Subscriber Preferred Share by way of capitalising the outstanding amount of HK\$938,000,000 due to Mr. Leung by the Company pursuant to the promissory note in the principal amount of HK\$1,200,000,000 executed by the Company in favour of Mr. Leung (“**Loan Capitalisation**”) (a copy of the Loan Capitalisation Agreement has been produced to the meeting and marked “A” and initialed by the chairman of the meeting for identification purpose), as mentioned in the circular (“**Circular**”) of the Company dated 29 October 2012 (a copy of which has been produced to the meeting marked “B” and initialed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby) be and are hereby approved, confirmed and ratified;
 - (b) subject to completion of the Loan Capitalisation, the authorised share capital of the Company be and is hereby increased from HK\$100,000,000 to HK\$110,000,000 by the creation of an additional 2,000,000,000 new preferred shares of par value HK\$0.005 each, having the rights and restrictions as set out in the amendments to the memorandum and articles of association of the Company in resolution (2) under the special resolutions set out in this notice, and the Company’s memorandum of association be amended as set out in resolution (2)(ii) under the special resolution of this notice;
 - (c) subject to completion of the Loan Capitalisation, the creation and issue of the preferred shares with a par value of HK\$0.005 each in the share capital of the Company (“**Preferred Shares**”), and subject to the terms of the Loan Capitalisation Agreement, be and are hereby approved and the allotment and issue of the ordinary shares with a par

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value of HK\$0.005 each in the share capital of the Company (“**Ordinary Shares**”) (as such term is described in Appendix II to the Circular) upon the exercise of the conversion rights attaching to the Preferred Shares be and are hereby approved; and

- (d) 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 Loan Capitalisation Agreement, the creation of the Preferred Shares, the allotment and issue of the Subscriber Preferred Shares and Ordinary Shares upon exercise of the conversion rights attaching to the Subscriber Preferred Shares or any of the transactions contemplated under the Loan Capitalisation 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 Loan Capitalisation Agreement) as are, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole.”

SPECIAL RESOLUTIONS

- (2) “**THAT** the memorandum of association (“**Memorandum**”) and the articles of association (“**Articles**”) of the Company be and are hereby amended as follows:
- (i) by deleting the words “1998” after the words “Except as prohibited or limited by the Companies Law (“ on the first line of existing Clause 4 of the Memorandum;
 - (ii) by deleting the words “The share capital of the Company is US\$50,000.00 divided into 50,000 shares of a nominal or par value of US\$1.00 each” before the words “with power for the Company insofar as is permitted by law” in the first sentence of the existing Clause 6 of the Memorandum and replacing them with “The share capital of the Company is HK\$110,000,000 divided into 20,000,000,000 Ordinary Shares of a nominal or par value of HK\$0.005 each and 2,000,000,000 Preferred Shares of a nominal or par value of HK\$0.005 each,” and by deleting the words “1998” before the word “Revision)” in the first sentence of the existing Clause 6 of the Memorandum;
 - (iii) by deleting the notes to the existing Clause 6 of the Memorandum in its entirety;
 - (iv) by deleting and replacing the existing definition of “Company” in the section headed “Interpretation” in Article 2 in its entirety with “China Netcom Technology Holdings Limited 中彩網通控股有限公司”;
 - (v) by deleting the word “registared” before the words “holder from time to time” in the existing definition of “Member” in the section headed “Interpretation” in Article 2 and replacing it with “registered”;

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- (vi) by the addition of the following new definitions into the section headed “Interpretation” in Article 2:

“Ordinary Shares” ordinary shares with a par value of HK\$0.005 each constituting the ordinary share capital of the Company from time to time;

“Preferred Shares” preferred shares with a par value of HK\$0.005 each in the share capital of the Company, entitling the holder thereof to convert into Ordinary Shares, the terms of which are set out in Article 15A;

“shares” shares (including Ordinary Shares or Preferred Shares) in the share capital of the Company, issued or to be issued by the Company;

- (vii) by deleting and replacing the existing Article 3(1) in its entirety with the following:

“3. (1) The share capital of the Company shall be divided into Ordinary Shares of HK\$0.005 each and Preferred Shares of HK\$0.005 each. The Preferred Shares shall confer on the holders thereof the rights and privileges and be subject to the restrictions as set out in Article 15A.”;

- (viii) by adding the words “(including, without restriction, Article 15A)” after the words “and the Memorandum and Articles of Association” on the first line of paragraph (1) of Article 8;

- (ix) by adding the words “and Article 15A” after the words “Subject to the Law” on the first line of Article 9;

- (x) by adding the words “and Article 15A” after the words “Subject to the Law” on the first line of Article 10;

- (xi) by deleting the words “The special rights” before the words “conferred upon the holders of any shares” on the first line of Article 11 and replacing them with “Subject to Article 15A, the special rights”;

- (xii) by inserting the following new Article 15A immediately after the existing Article 15:

“15A. Notwithstanding other provisions of these Articles, the Preferred Shares shall confer on the registered holders thereof the following rights and privileges and be subject to the following rights, restrictions and provisions:

(1) As regards terms of the Preferred Shares and conversion

- (a) The term of the Preferred Shares commences from the date of issue of the relevant Preferred Shares.

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- (b) During the period of the existence of the Preferred Shares, each holder of the Preferred Shares shall have the right at any time and from time to time to convert all or part (any conversion in part being in amounts or integral multiples of 5,000 Ordinary Shares or such other number as may for the time being be a board lot of Ordinary Shares on the Designated Stock Exchange) of his holding of such Preferred Shares into fully paid Ordinary Shares (subject as provided below).
- (c) The right to convert shall be exercisable on any date by completing the notice of conversion endorsed on the certificate relating to the Preferred Shares to be converted (“**Conversion Notice**”) and delivering it (together with such other evidence (if any) as the Directors may reasonably require to prove the title of the person exercising such right) to the Company, such Conversion Notice to specify the date when the conversion is to become effective (“**Conversion Date**”) provided that if any Conversion Date would otherwise fall on a Saturday, Sunday or other day which is a public holiday in Hong Kong, such Conversion Date shall be the next day which is not such a public holiday. A Conversion Notice once given may not be withdrawn without the consent in writing of the Company.
- (d) Each Preferred Share can, subject to adjustment as described below, be converted into one Ordinary Share.
- (e) Conversion of the Preferred Shares may be effected in such manner as the Board shall from time to time reasonably determine (subject to the provisions of the applicable laws and regulations). Notwithstanding any provisions herein to the contrary, the Board shall have the right to defer the allotment and issue of the Ordinary Shares to a date falling ninety (90) days after conversion or such longer period as the Board shall reasonably consider appropriate and necessary in the event a conversion will (i) trigger a mandatory offer obligation under Rule 26 of The Codes on Takeovers and Mergers and Share Repurchases issued by the Securities and Futures Commission of Hong Kong on the part of the Preferred Shares holder who exercised the conversion rights; or (ii) result in the failure by the Company to comply with the level of public float prescribed in the rules of any Designated Stock Exchange from time to time (“**Public Float Requirement**”). Notwithstanding any provision to the contrary contained herein, the Company shall be entitled to defer the allotment and issue of the Ordinary Shares to until the proposal by the holder of the Preferred Shares to restore the public float is implemented to its satisfaction.
- (f) The Company shall not later than the expiration of twenty-eight (28) days after conversion despatch the share certificates for the Ordinary Shares resulting from conversion and, if appropriate, the share certificates for any balance of the Preferred Shares remaining unconverted.

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- (g) Ordinary Shares resulting from conversion shall rank pari passu in all respects and form one class with the Ordinary Shares then in issue and fully paid.
- (h) If whilst any of the Preferred Shares remains capable of conversion to Ordinary Shares, the Company shall make any issue by way of capitalisation of profits or reserves including any share premium account to members of the Company, such issue shall be made only to the holders of the Ordinary Shares and shall be in the form of fully paid Ordinary Shares and the number of Ordinary Shares arising on any subsequent conversion of Preferred Shares shall be increased pro rata. Provided that (A) no such adjustment shall be made if the said issue of fully paid Ordinary Shares shall have been made in lieu of the payment of any dividend (or part thereof) pursuant to arrangements whereby a holder of Ordinary Shares shall be given the right in respect of the same to make an election to receive cash or to receive new Ordinary Shares issued by way of capitalisation and (B) the Company shall not make any such capitalisation issue (other than such a capitalisation issue as is referred to in proviso (A) above) unless the Company has sufficient profits or reserves and immediately following the date on such capitalisation issue the Company shall be able to pay its debts as they fall due in the ordinary course of business.
- (i) If the Company shall sub-divide or consolidate the Ordinary Shares while there remain outstanding any Preferred Shares capable of being converted into Ordinary Shares, the number of Ordinary Shares into which the Preferred Shares may be converted on any subsequent conversion shall, in the case of a sub-division be increased, or in the case of a consolidation, be reduced, in due proportion as if the Preferred Shares were also so sub-divided or consolidated.
- (j) If whilst any of the Preferred Shares remains capable of conversion to Ordinary Shares, any offer or invitation by way of rights or otherwise (not being an offer or invitation to which the provisions of sub-paragraph (k) below apply) is made to the holders of the Ordinary Shares, the Company shall make or, so far as it is able, procure that there is made a like offer or invitation at the same time to each holder of Preferred Shares as if his conversion rights had been exercisable and exercised in full on the record date for such offer or invitation.
- (k) If whilst any of the Preferred Shares remain capable of conversion to Ordinary Shares, an offer is made to the holders of Ordinary Shares (or such holders other than the offeror and/or any company controlled by the offeror and/or any persons acting in concert with the offeror) to acquire the whole or any of the issued Ordinary Shares and the Company becomes aware that the right to cast more than fifty (50) per cent of the votes which

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may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such companies or persons aforesaid, the Company shall give written notice to all holders of the Preferred Shares of such vesting as soon as practicable but in no event later than fourteen (14) days of its becoming so aware.

- (1) If whilst any of the Preferred Shares remain capable of conversion to Ordinary Shares a notice is given by the Company to the Members to convene a general meeting for the purposes of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same day as or soon after it despatches such notice to each Member give notice thereof to all holders of Preferred Shares (together with a notice of the existence of this provision) and thereupon, each holder of Preferred Shares shall be entitled to exercise all or any of his conversion rights at any time no later than five (5) business days prior to the proposed general meeting of the Company by giving the Conversion Notice to the Company whereupon the Company shall as soon as possible and, in any event, no later than two clear business days immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant number of Ordinary Shares to such holder of Preferred Shares credited as fully paid.

(2) As regards income and capital

- (a) The Preferred Shares shall rank pari passu with the Ordinary Shares as to the right to receive dividends and other distributions declared made or paid on the ordinary share capital of the Company.
- (b) The Preferred Shares shall rank pari passu with the Ordinary Shares for return of capital on liquidation and participation in the distribution of surplus assets of the Company with all other shares in the capital of the Company for the time being in issue.

(3) As regards further participation

The Preferred Shares shall not carry any right to participate in profits or assets of the Company beyond such rights as are expressly set out in the terms of the Preferred Shares.

(4) As regards voting

The Preferred Shares shall not entitle the holders thereof to any voting rights save and except as provided in paragraph (6) below.

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(5) As regards documents

While any of the Preferred Shares remain outstanding, the Company shall send to the holders of Preferred Shares, for information only, a copy of every document sent to the holders of other shares of the Company at the same time as it is sent to such holders.

(6) As regards variation of rights

Subject to the applicable laws, the Company shall not vary, alter or abrogate, or permit or cause the variation, alteration or abrogation of, all or any of the rights or privileges attached to the Preferred Shares without both the prior consent of a majority of the holders of the Ordinary Shares and a separate consent of the Preferred Shares holders of not less than seventy-five (75) per cent of the outstanding Preferred Shares for the time being.

(7) As regards dealings by connected person

Subject to the requirements of the rules of the Designated Stock Exchange from time to time (in particular those in relation to connected transactions) and the restriction on transfer as provided in paragraph (10) below and any other applicable regulations, the Preferred Shares may be issued to any connected person of the Company (as defined in the rules of the Designated Stock Exchange).

(8) As regards pre-emptive rights

In the event that the Company shall at any time issue to holders of new Ordinary Shares securities convertible into Ordinary Shares, the Company shall not be obliged to offer such shares/securities to the holders of Preferred Shares.

(9) As regards listing

The Preferred Shares will not be listed on any Designated Stock Exchange.

(10) As regards transferability

The Preferred Shares are freely transferable by the holders thereof. Once a Conversion Notice is served by the holder of the Preferred Shares, the Preferred Shares subject to the Conversion Notice shall not be transferable except where such conversion will result in the Company failing to comply with the Public Float Requirement, in which case, the holder of the Preferred Shares may transfer the Preferred Shares subject to the Conversion Notice.”;

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- (xiii) by deleting the words “Share certificates” before the words “shall be issued within the relevant time limit” on the first line of Article 19 and replacing them with “Subject to Article 15A, share certificates”;
- (xiv) by adding the words “(including, without restriction, Article 15A)” after the words “Subject to these Articles” on the first line of Article 46;
- (xv) by deleting the words “The Board” before the words “may whenever it thinks fit” on the first line of Article 58 and replacing them with “Subject to Article 15A, the Board”;
- (xvi) by deleting the words “Notice of every general meeting” before the words “shall be given” in the third sentence of paragraph (2) of Article 59 and replacing them with “Subject to Article 15A, notice of every general meeting”;
- (xvii) by adding the words “Article 15A and subject to” after the words “Subject to” on the first line of Article 66;
- (xviii) by adding the words “having the right to vote at the meeting and” before the words “present in person (or being a corporation is present by a representative duly authorised)” on the third line of Article 66;
- (xix) by adding the words “having the right to vote at the meeting and” before the words “present in person or by proxy” on the fourth line of Article 66;
- (xx) by adding the words “carrying the right to vote” before the words “of which he is the holder” on the sixth line of Article 66;
- (xxi) by deleting the word “special” before the words “resolution remove a Director” on the second line of paragraph (5) of Article 86 and replacing it with “ordinary”;
- (xxii) by adding the words “and Article 15A” after the words “Subject to the Law” on the first line of Article 136;
- (xxiii) by deleting the words “Dividends may be declared” before the words “and paid out of the profits” on the first line of Article 137 and replacing them with “Subject to Article 15A, dividends may be declared”;
- (xxiv) by deleting the word “Except” before the words “in so far as the rights attaching to” on the first line of Article 138 and replacing them with “Subject to Article 15A, except”;
- (xxv) by deleting the word “Whenever” before the words “the Board or the Company” on the first line of Article 144 and replacing them with “Subject to Article 15A, whenever”;
- (xxvi) by deleting the word “Whenever” before the words “the Board or the Company” on the first line of paragraph (1) of Article 145 and replacing them with “Subject to Article 15A, whenever”;

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- (xxvii) by adding the words “Subject to Article 15A,” before sub-paragraph (2)(a) of Article 145;
- (xxviii) by deleting the words “The Company” before the words “may upon the recommendation of the Board” on the first line of Article 145(3) and replacing them with “Subject to Article 15A, the Company”;
- (xxix) by adding the words “and these Articles” immediately after “comply with the provisions of the Law” in the last sentence of Article 146(1) and by adding the words “and subject to Article 15A” immediately after “the share premium account” in the last sentence of Article 146(1);
- (xxx) by deleting the words “The Company may” in the first line of Article 147 and replacing it with “Subject to Article 15A, the Company may”;
- (xxxi) by deleting the words “Any Notice” before the words “from the Company to a Member” on the first line of Article 159 and replacing them with “Subject to Article 15A, any Notice”;
- (xxxii) by deleting the words “The Board” before the words “shall have power” on the first line of paragraph (1) of Article 163 and replacing them with “Subject to Article 15A, the Board”;
- (xxxiii) by deleting the words “A resolution” before the words “that the Company be” on the first line of paragraph (2) of Article 163 and replacing them with “Subject to Article 15A, a resolution”;
- (xxxiv) by adding the words “Article 15A and” after the words “Subject to” on the first line of paragraph (1) of Article 164;
- (xxxv) by deleting the words “If the Company” before the words “shall be wound up” on the first line of paragraph (2) of Article 164 and replacing them with “Subject to Article 15A, if the Company”;
- (xxxvi) by deleting the words “In the event of” before the words “winding-up of the Company” on the first line of paragraph (3) of Article 164 and replacing them with “Subject to Article 15A, in the event of”;

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- (3) “**THAT** subject to the passing of special resolution (2) as set out in the notice of the EGM, the adoption of an amended and restated Memorandum and Articles (incorporating the amendments stated in special resolution (2) and all previous amendments to the existing Memorandum and Articles, a copy of which has been produced to this meeting and marked “C” and initialed by the chairman of this meeting for the purpose of identification) in substitution for and to the exclusion of the existing Memorandum and Articles be and is hereby approved.”

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

Hong Kong, 29 October 2012

As of the date hereof, the board comprised the following directors of the Company (“**Directors**”):

Executive Directors:

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

Principal Place of Business in Hong Kong:

Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

Independent non-executive Directors:

Dr. Leung Wai Cheung
Mr. Cai Wei Lun
Mr. Qi Ji

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint one or, if he/she/it is the holder of two or more shares, more than one proxy to attend and vote on his/her/its behalf in accordance with the Articles. 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 Company’s Hong Kong branch share registrar and transfer office, 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 holding of the EGM or any adjournment thereof.
3. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the EGM 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 EGM, 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.