



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

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



First Quarterly Report
2014

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

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HIGHLIGHTS

- The unaudited revenue of the Group for the three months ended 31 March 2014 was approximately HK\$282,000 with a decrease of approximately HK\$36,000 as compared with that for the corresponding period in 2013.
- The Group recorded an unaudited loss attributable to owners of the Company of approximately HK\$16,200,000 for the three months ended 31 March 2014, with an increase of approximately HK\$7,015,000 as compared with that for the corresponding period in 2013.
- The unaudited loss per share of the Company was approximately HK0.78 cent for the three months ended 31 March 2014.

RESULTS

The board of Directors (the “**Board**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the three months ended 31 March 2014 together with the comparative figures for the corresponding period in 2013 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2014

| | | (Unaudited) | |
|---|--------------|--------------------|-----------------|
| | | Three months ended | |
| | | 31 March | |
| | | 2014 | 2013 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Continuing operations | | | |
| Revenue | 3 | 282 | 318 |
| Cost of sales | | <u>(517)</u> | <u>(894)</u> |
| Gross loss | | (235) | (576) |
| Other income and gains | | 414 | 384 |
| Administrative expenses | | (13,792) | (4,877) |
| Finance costs | 4 | (2,764) | (2,770) |
| Other operating expenses | | (3,565) | (4,296) |
| Share of losses of associates | | <u>–</u> | <u>(317)</u> |
| Loss before tax | | (19,942) | (12,452) |
| Income tax credit | 5 | <u>2,301</u> | <u>463</u> |
| Loss for the period | 6 | <u>(17,641)</u> | <u>(11,989)</u> |
| Other comprehensive (expense)/income | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences on translating foreign operations | | (3,847) | 4,098 |
| Reclassification adjustment relating to share of exchange differences of an associate | | – | (16) |
| Share of other comprehensive income of associates | | <u>–</u> | <u>57</u> |
| Other comprehensive (expense)/income for the period | | <u>(3,847)</u> | <u>4,139</u> |
| Total comprehensive expense for the period | | <u>(21,488)</u> | <u>(7,850)</u> |
| Loss attributable to: | | | |
| Owners of the Company | | (16,200) | (9,185) |
| Non-controlling interests | | <u>(1,441)</u> | <u>(2,804)</u> |
| | | <u>(17,641)</u> | <u>(11,989)</u> |

| | | (Unaudited) | |
|---|----------|---------------------------|-----------------|
| | | Three months ended | |
| | | 31 March | |
| | | 2014 | 2013 |
| <i>Notes</i> | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Total comprehensive expense attributable to: | | | |
| Owners of the Company | | (18,170) | (7,074) |
| Non-controlling interests | | (3,318) | (776) |
| | | <u>(21,488)</u> | <u>(7,850)</u> |
| Loss per share | <i>7</i> | | |
| – Basic and diluted (HK cents per share) | | <u>(0.78)</u> | <u>(0.50)</u> |

Notes:

1. BASIS OF PREPARATION

The unaudited consolidated statement of profit or loss and other comprehensive income of the Group for the three months ended 31 March 2014 has been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term include all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (“Ints”), issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules. It has been prepared under historical cost convention.

The unaudited consolidated statement of profit or loss and other comprehensive income for the three months ended 31 March 2014 has been prepared in accordance with the same accounting policies adopted in the annual financial statements of the Group for the year ended 31 December 2013, except for the adoption of the new and revised HKFRSs (which include individual HKFRSs, HKASs and Ints) as disclosed in note 2 below.

2. SIGNIFICANT ACCOUNTING POLICIES

In the current period, the Group has applied the following amendments and interpretations issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2014:

| | |
|--|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | <i>Investment Entities</i> |
| Amendments to HKAS 32 | <i>Offsetting Financial Assets and Financial Liabilities</i> |
| Amendments to HKAS 36 | <i>Recoverable Amount Disclosures for Non-Financial Assets</i> |
| Amendments to HKAS 39 | <i>Novation of Derivatives and Continuation of Hedge Accounting</i> |
| HK(IFRIC) – Int 21 | <i>Levies</i> |

The Directors anticipate that the application of the amendments or interpretations has had no material impact on the Group’s financial performance and positions for the current and prior periods.

3. REVENUE

An analysis of the Group’s revenue for the period from continuing operations is as follows:

| | (Unaudited) Three months ended 31 March | |
|---|---|------------------|
| | 2014 HK\$’000 | 2013 HK\$’000 |
| Sale of lottery equipment | – | 26 |
| Provision of management, marketing, and operating services for lottery system and lottery halls | 282 | 292 |
| | 282 | 318 |

4. FINANCE COSTS

| | (Unaudited) | |
|---|--------------------|-----------------|
| | Three months ended | |
| | 31 March | |
| | 2014 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Effective interest on convertible bonds | <u>2,764</u> | <u>2,770</u> |

5. INCOME TAX CREDIT

Income tax recognised in profit or loss

| | (Unaudited) | |
|--|--------------------|-----------------|
| | Three months ended | |
| | 31 March | |
| | 2014 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current tax | | |
| PRC Enterprise Income Tax | - | - |
| Deferred tax | <u>(2,301)</u> | <u>(463)</u> |
| Total income tax credit recognised in profit or loss | <u>(2,301)</u> | <u>(463)</u> |

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

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

In 2009, 深圳環彩普達科技有限公司 (transliterated as Shenzhen Huancai Puda Technology Company Limited) ("**Huancai Puda**"), an indirect 51% owned subsidiary of the Company, was recognised as a new high-tech enterprise and was entitled to a preferential tax rate of 15% from 31 December 2009 to 31 December 2012. From 1 January 2013 onwards, provision for PRC Enterprise Income Tax for Huancai Puda is calculated as 25% of its estimated assessable profits.

The Group did not have significant unprovided deferred tax liabilities as at 31 March 2013 and 2014.

6. LOSS FOR THE PERIOD

| | (Unaudited) | |
|--|--------------------|-------------------|
| | Three months ended | |
| | 31 March | |
| | 2014 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Loss for the year has been arrived at after charging/(crediting): | | |
| Crediting: | | |
| Bank interest income | (414) | (110) |
| Net foreign exchange gain | – | (267) |
| | <u> </u> | <u> </u> |
| Charging: | | |
| Cost of inventories recognised as an expense (included in cost of sales) | – | 9 |
| Auditors' remuneration | 225 | 225 |
| Employee benefits expense (excluding directors' emoluments) | | |
| – Salaries and other benefits | 1,104 | 772 |
| – Contributions to retirement benefits schemes | 89 | 32 |
| Directors' emoluments | 1,872 | 1,830 |
| Minimum lease payments paid under operating leases in respect of land and buildings | 384 | 410 |
| Net foreign exchange loss (included in administrative expenses) | 1,642 | – |
| Depreciation of property, plant and equipment | 134 | 94 |
| Expense in relation to share options granted to consultants (included in administrative expenses) | 7,500 | – |
| Amortisation of other intangible assets (included in other operating expenses) | 3,565 | 4,119 |
| | <u> </u> | <u> </u> |

7. LOSS PER SHARE

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

| | (Unaudited) | |
|---|---------------------------|-----------------------|
| | Three months ended | |
| | 31 March | |
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| Loss | | |
| Loss for the period attributable to owners of the Company for the purposes of basic and diluted loss per share | <u>(16,200)</u> | <u>(9,185)</u> |
| Number of shares | | |

| | (Unaudited) | |
|--|---------------------------|-------------------------|
| | Three months ended | |
| | 31 March | |
| | 2014 | 2013 |
| | '000 | '000 |
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | <u>2,071,422</u> | <u>1,854,235</u> |

The computation of diluted loss per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option scheme, non-redeemable convertible preferred shares, convertible bonds and outstanding warrants since their exercise and conversion would have an anti-dilutive effect.

8. CONVERTIBLE BONDS

Imputed interest expenses of approximately HK\$2,764,000 (three months ended 31 March 2013: HK\$2,770,000) has been recognised in the unaudited consolidated statement of profit or loss and other comprehensive income in respect of the convertible bonds for the three months ended 31 March 2014.

9. RESERVES

For the three months ended 31 March 2014

| | Attributable to owners of the Company | | | | | | | | | | Attributable to non-controlling interests | Total |
|--|---------------------------------------|------------------|----------------------------|----------------------------------|-----------------------|--------------------------------------|---------------|--------------------|----------------|----------------|---|-------|
| | Share premium account | Warrants reserve | Capital redemption reserve | Convertible bonds equity reserve | Share options reserve | Foreign currency translation reserve | Other reserve | Accumulated losses | Subtotal | | | |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | | |
| | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | | |
| Balance at 1 January 2014 | 3,213,139 | 1,740 | 1 | 66,267 | 14,347 | 122,407 | (49) | (3,329,439) | 88,413 | 180,775 | 269,188 | |
| Loss for the period | - | - | - | - | - | - | - | (16,200) | (16,200) | (1,441) | (17,641) | |
| Other comprehensive expense for the period | - | - | - | - | - | (1,970) | - | - | (1,970) | (1,877) | (3,847) | |
| Total comprehensive expense for the period | - | - | - | - | - | (1,970) | - | (16,200) | (18,170) | (3,318) | (21,488) | |
| Recognition of equity-settled share-based payments | - | - | - | - | 7,500 | - | - | - | 7,500 | - | 7,500 | |
| Issue of new ordinary shares | 73,332 | - | - | - | - | - | - | - | 73,332 | - | 73,332 | |
| Transaction costs attributable to issue of new ordinary shares | (1,943) | - | - | - | - | - | - | - | (1,943) | - | (1,943) | |
| Issue of ordinary shares under share option scheme | 2,095 | - | - | - | (529) | - | - | - | 1,566 | - | 1,566 | |
| Balance at 31 March 2014 | 3,286,623 | 1,740 | 1 | 66,267 | 21,318 | 120,437 | (49) | (3,345,639) | 150,698 | 177,457 | 328,155 | |

For the three months ended 31 March 2013

| | Attributable to owners of the Company | | | | | | | | | | Attributable to non-controlling interests | Total |
|---|---------------------------------------|------------------|----------------------------|----------------------------------|-----------------------|--------------------------------------|---------------|--------------------|----------------|----------------|---|-------|
| | Share premium account | Warrants reserve | Capital redemption reserve | Convertible bonds equity reserve | Share options reserve | Foreign currency translation reserve | Other reserve | Accumulated losses | Subtotal | | | |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | | |
| | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | | |
| Balance at 1 January 2013 | 3,213,139 | 1,740 | 1 | 66,267 | 13,341 | 112,406 | (49) | (3,254,114) | 152,731 | 214,663 | 367,394 | |
| Loss for the period | - | - | - | - | - | - | - | (9,185) | (9,185) | (2,804) | (11,989) | |
| Other comprehensive income for the period | - | - | - | - | - | 2,111 | - | - | 2,111 | 2,028 | 4,139 | |
| Total comprehensive income/(expense) for the period | - | - | - | - | - | 2,111 | - | (9,185) | (7,074) | (776) | (7,850) | |
| Released upon deregistration of an associate | - | - | - | - | - | - | - | - | - | 144 | 144 | |
| Balance at 31 March 2013 | 3,213,139 | 1,740 | 1 | 66,267 | 13,341 | 114,517 | (49) | (3,263,299) | 145,657 | 214,031 | 359,688 | |

10. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the three months ended 31 March 2014 (three months ended 31 March 2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

During the three months ended 31 March 2014, the Company focused on operating sales halls for lottery games with high payouts and quick results of lottery sales halls of “Happy 12” in Shenyang and Dalian of Liaoning province in the PRC.

Completion of placing of existing Shares and top-up subscription of new Shares

On 7 January 2014, an aggregate of 232,800,000 ordinary shares of the Company of HK\$0.005 each (the “**Shares**”, each, a “**Share**”) were successfully placed by Mr. Leung Ngai Man (“**Mr. Leung**” or the “**Subscriber**”), the chairman of the Board and an executive Director, to not less than six placees (the “**Placing**”) who are independent third parties at the placing price of HK\$0.320 per placing share (the “**Placing Share**”). Completion of the subscription (the “**Subscription**”) took place on 15 January 2014 whereby 232,800,000 subscription shares (equivalent to the number of Placing Shares placed) were allotted and issued to the Subscriber at the subscription price of HK\$0.320 per subscription share. The net proceeds from the Subscription are approximately HK\$72.6 million. The net price for the Subscription was approximately HK\$0.312 per Share. The Company intends to utilise the net proceeds from the Subscription for general working capital of the Group and such proceeds have not been utilised as at the date of this report. Details of the Placing and the Subscription were set out in the Company’s announcements dated 6 January 2014 and 15 January 2014 respectively.

Framework agreement in relation to a possible acquisition

On 11 November 2011, a subsidiary of the Company (the “**Subsidiary**”) entered into a framework agreement (the “**2011 Framework Agreement**”) with, among others, an independent third party (the “**Potential Vendor**”) in relation to a possible acquisition by the Subsidiary of equity interests in a company principally engaged in the provision of services for an instant lottery game in the PRC from the Potential Vendor. Details of the 2011 Framework Agreement were set out in the Company’s announcement dated 14 November 2011. Pursuant to the supplemental agreements to the 2011 Framework Agreement, the period during which the Subsidiary had the exclusive right to negotiate with the Potential Vendor in relation to such possible acquisition expired on 28 February 2014 and the 2011 Framework Agreement was terminated on 4 March 2014. An advance deposit of HK\$2 million shall be refunded.

Financial Review

For the three months ended 31 March 2014, the Group recorded an unaudited revenue of approximately HK\$282,000 with a decrease of approximately HK\$36,000 as compared with that for the corresponding period in 2013. During the three months ended 31 March 2014, the revenue of the Group was mainly derived from the provision of management, marketing, and operating services for lottery system and lottery halls. For the three months ended 31 March 2014, the unaudited loss attributable to owners of the Company increased by approximately HK\$7,015,000 as compared with that for the corresponding period in 2013. The difference was mainly derived from the net foreign exchange loss and expense in relation to the grants of share options to consultants.

Prospect

Looking forward, the Company will continue to expand its strong business relationship and management expertise to continue developing lottery sales halls and outlets in the PRC, striving to become the leading operator of high frequency lottery sales hall and outlets in the PRC. At the same time, the Group will continue to adopt an active and prudent strategy, and keep looking for projects of the PRC's lottery industry (such as possible acquisition or subscription shares in a mobile games development corporation and a professional internet lottery website corporation in the PRC which is an independent third party) as well as other opportunities in line with China's development of 12th Five-Year Plan.

Other Information

Issue of Shares under the share option scheme

On 22 January 2014, the Company allotted and issued 18,000,000 Shares to a staff of the Group due to the exercise of share options at an exercise price of HK\$0.063 per Share which were granted on 21 May 2013.

On 23 January 2014, the Company allotted and issued 9,000,000 Shares to a staff of the Group due to the exercise of share options at an exercise price of HK\$0.063 per Share which were granted on 21 May 2013.

Grant of share options

On 25 March 2014, the Company granted share options to certain eligible participants to subscribe for a total of 32,000,000 new Shares pursuant to the share option scheme adopted by the Company on 29 June 2007 (the "**Share Option Scheme**") at an exercise price of HK\$0.364 per Share. Details of which were set out in the announcement of the Company dated 25 March 2014.

On 26 March 2014, the Company granted share options to an eligible participant to subscribe for a total of 2,700,000 new Shares pursuant to the Share Option Scheme at an exercise price of HK\$0.365 per Share. Details of which were set out in the announcement of the Company dated 26 March 2014.

EVENTS AFTER THE REPORTING PERIOD

Issue of Shares under the Share Option Scheme

On 8 April 2014, the Company allotted and issued 3,000,000 Shares to an executive Director due to the exercise of share options at an exercise price of HK\$0.063 per share which were granted on 21 May 2013.

Conversion of convertible preferred shares

On 9 April 2014, the Company allotted and issued 100,000,000 Shares to Mr. Leung pursuant to the conversion of the convertible preferred shares issued by the Company on 17 December 2012.

Framework agreement in relation to a possible acquisition

On 22 April 2014, the Board announced that a wholly-owned subsidiary of the Company (the “**Purchaser**”), entered into a framework agreement (the “**2014 Framework Agreement**”) with two independent third parties (the “**Vendors**”) in relation to a possible acquisition of 60% of the entire equity interest in a company (the “**Target Company**”) at a proposed total consideration of not exceeding RMB300 million (the “**Possible Acquisition**”).

Details of the 2014 Framework Agreement were set out in the Company’s announcement dated 23 April 2014. Pursuant to the 2014 Framework Agreement, the Vendors have agreed to grant an exclusive right to the Purchaser during the period of one year from the date of receipt of the deposit, and the Purchaser (and/or its subsidiary(ies)) is entitled on an exclusive basis to acquire the equity interest in the Target Company during such period.

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

As at 31 March 2014, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings in securities by directors of listed issuer as referred to in rule 5.46 of the GEM Listing Rules (the “Required Standard of Dealings”), were as follows:

Long position in the Shares and underlying Shares

| Name of Director | Number of Shares | | Equity derivatives | Total | Approximate percentage of issued share capital (Note 9) |
|---|-------------------------|--------------------------|-----------------------------------|---------------|--|
| | Personal interest | Corporate interest | | | |
| Mr. Leung | 436,335,000 (Note 1) | 294,880 (Notes 1 & 2) | 1,683,416,666 (Notes 3, 4 & 5) | 2,120,046,546 | 100.28% |
| Mr. Ng Kwok Chu, Winfield (“Mr. Ng”) | 94,500 (Note 1) | – | 5,000,000 (Notes 6 & 7) | 5,094,500 | 0.24% |
| Ms. Wu Wei Hua (“Ms. Wu”) | – | – | 2,000,000 (Note 8) | 2,000,000 | 0.09% |

Notes:

- As a result of the 2012 Share Consolidation (as defined below), these Shares were adjusted.
- These Shares were held by Speedy Well Investments Limited (“Speedy Well”) which was wholly and beneficially owned by Mr. Leung. By virtue of the SFO, Mr. Leung was deemed to be interested in the Shares held by Speedy Well.
- These equity derivatives comprise 120,083,333 Shares to be issued upon exercise of conversion rights attaching to the Convertible Bonds (as defined below) issued by the Company on 27 August 2010 and 1,563,333,333 Convertible Preferred Shares (as defined below) were allotted and issued by the Company on 17 December 2012.

4. The convertible bonds in an aggregate principal amount of HK\$797,500,000 at a conversion price of HK\$0.24 per share were issued to Mr. Leung on 27 August 2010 (the “**Convertible Bonds**”). Upon full conversion of the Convertible Bonds, a maximum of 3,322,916,666 shares of HK\$0.001 each in the share capital of the Company will be issued to Mr. Leung. As at 31 March 2014, the Convertible Bonds in the amount of HK\$144,100,000 remains outstanding. As a result of the consolidation of every five shares of HK\$0.001 each in both issued and unissued share capital of the Company into one consolidated Share 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 of HK\$0.001 each in the share capital of the Company to 120,083,333 consolidated Shares. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.
5. 1,563,333,333 convertible preferred shares at an issue price of HK\$0.60 per convertible preferred share (the “**Convertible Preferred Shares**”) were issued to Mr. Leung on 17 December 2012 to capitalise the outstanding amount of approximately HK\$938,000,000 due by the Company to Mr. Leung pursuant to the promissory note issued by the Company to Mr. Leung on 27 August 2010 as part of the consideration for the acquisition of the entire equity interest in Pearl Sharp Limited. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.
6. On 10 July 2008, Mr. Ng was granted share options pursuant to the Share Option Scheme to subscribe for a total of 20,000,000 shares of HK\$0.001 each in the share capital of the Company at an exercise price of HK\$0.1328 per share. The options would be exercisable during the period from 10 July 2008 to 29 June 2017. As a result of the consolidation of every two shares in both 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 further 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 consolidated shares to 2,000,000 Shares. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.
7. On 21 May 2013, Mr. Ng was further granted share options pursuant to the Share Option Scheme to subscribe for a total of 3,000,000 Shares at an exercise price of HK\$0.063 per Share. Such share options would be exercisable during the period from 21 May 2013 to 29 June 2017. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.

8. 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 of HK\$0.001 each in the share capital of the Company at an exercise price of HK\$0.1328 per share. Such share 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 further 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 consolidated shares to 2,000,000 Shares. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.
9. The percentage is calculated on the basis of 2,114,035,049 Shares in issue as at 31 March 2014.

Save as disclosed above, as at 31 March 2014, none of the Directors and the chief executive of the Company had any 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) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Required Standard of Dealings.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDER IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

Save as disclosed above, as at 31 March 2014, the Company had not been notified by any person or company, other than the Directors or the chief executive of the Company whose interest are set out in the section headed “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” in this report, who had interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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 of the Company as recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 29 June 2007 to replace its previous share option scheme adopted on 19 February 2001 and refreshed its 10% general limit on the grant of share options on 9 April 2009 and 20 April 2010. The principal purpose of the Share Option Scheme is to motivate and give incentive to the eligible participants as defined in the Share Option Scheme for their contributions to the Group.

For the three months ended 31 March 2014, detailed movements relating to options granted under the Share Option Scheme were as follows:

| Name or category of participant | Date of grant | Exercise price | Exercise period | Movements of share options (adjusted) during the period | | | | |
|---------------------------------|-----------------|----------------|--------------------------------|--|------------|--------------|------------------------------------|---------------------|
| | | | | As at 1 January 2014 | Granted | Exercised | Lapsed/ Cancelled/ Forfeited | As at 31 March 2014 |
| Other Participants | 9 July 2007 | 1.425* | 9 July 2007 – 29 June 2017 | 9,600,000* | – | – | – | 9,600,000* |
| | 22 August 2007 | 2.030* | 22 August 2007 – 29 June 2017 | 8,200,000* | – | – | – | 8,200,000* |
| | 10 July 2008 | 1.328* | 10 July 2008 – 29 June 2017 | 7,200,000* | – | – | – | 7,200,000* |
| | 10 October 2013 | 0.087 | 10 October 2013 – 29 June 2017 | 16,000,000 | – | – | – | 16,000,000 |
| | 25 March 2014 | 0.364 | 25 March 2014 – 29 June 2017 | – | 32,000,000 | – | – | 32,000,000 |
| | 26 March 2014 | 0.365 | 26 March 2014 – 29 June 2017 | – | 2,700,000 | – | – | 2,700,000 |
| Continuous Contract Employees | 21 May 2013 | 0.063 | 21 May 2013 – 29 June 2017 | 27,000,000 | – | (27,000,000) | – | – |
| Directors | | | | | | | | |
| – Mr. Ng | 10 July 2008 | 1.328* | 10 July 2008 – 29 June 2017 | 2,000,000* | – | – | – | 2,000,000* |
| | 21 May 2013 | 0.063 | 21 May 2013 – 29 June 2017 | 3,000,000 | – | – | – | 3,000,000 |
| – Ms. Wu | 10 July 2008 | 1.328* | 10 July 2008 – 29 June 2017 | 2,000,000* | – | – | – | 2,000,000* |

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

During the three months ended 31 March 2014, 32,000,000 share options at an exercise price of HK\$0.364 per Share and 2,700,000 share options at an exercise price of HK\$0.365 per Share had been granted by the Company. A total of 27,000,000 share options granted under the Share Option Scheme was exercised at HK\$0.063 per Share.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections “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” and “SHARE OPTION SCHEME” in this report, at no time during the three months ended 31 March 2014 and up to the date of this report, was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporation as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions by Directors (the “**Code**”) which is on terms no less exacting than the Required Standard of Dealings. The Company has made specific inquiry with all the Directors, and has not been notified of any non-compliance with the Required Standard of Dealings and the Code by the Directors during the three months ended 31 March 2014.

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with the GEM Listing Rules. As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely, Ms. Xuan Hong (chairman of the Audit Committee), Mr. Cai Wei Lun and Mr. Qi Ji.

The Group’s first quarterly results for the three months ended 31 March 2014 have been reviewed by the Audit Committee which is of the opinion that such statements complied with the applicable accounting standards, the GEM Listing Rules and other legal requirements and that adequate disclosures have been made.

COMPETING INTERESTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2014.

By order of the Board
China Netcom Technology Holdings Limited
Leung Ngai Man
Chairman and Executive Director

Hong Kong, 12 May 2014

As at the date of this report, the executive Directors are Mr. Leung Ngai Man, Mr. Ng Kwok Chu, Winfield and Ms. Wu Wei Hua; and the independent non-executive Directors are Mr. Cai Wei Lun, Mr. Qi Ji and Ms. Xuan Hong.