



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

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



THIRD QUARTERLY REPORT

2012

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HIGHLIGHTS

- The unaudited revenue of the Group for the nine months ended 30 September 2012 was approximately HK\$1,349,000 with a decrease of approximately HK\$575,000 as compared with that for the corresponding period in 2011.
- The Group recorded an unaudited loss attributable to owners of the Company of approximately HK\$140,290,000 for the nine months ended 30 September 2012, which decreased by approximately HK\$9,317,000 as compared with that for the corresponding period in 2011.
- The unaudited loss per share from continuing and discontinued operations was approximately HK7.57 cents for the nine months ended 30 September 2012.

RESULTS

The board of Directors (“**Board**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the three months and nine months ended 30 September 2012 together with the comparative figures for the corresponding periods in 2011 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2012

	Notes	(Unaudited) Three months ended 30 September 2012		(Unaudited) Nine months ended 30 September 2012	
		HKS'000	2011 HKS'000 (Restated)	HKS'000	2011 HKS'000 (Restated)
Continuing operations					
Revenue	3	312	642	1,349	1,924
Cost of sales		(364)	(1,100)	(1,095)	(3,356)
Gross (loss)/profit		(52)	(458)	254	(1,432)
Other income and gains – net		7,498	9,469	8,709	10,378
Administrative expenses		(12,072)	(6,466)	(42,483)	(22,650)
Loss on early redemption of promissory note		(23,835)	(11,841)	(34,145)	(63,801)
Finance costs	4	(29,788)	(27,053)	(82,902)	(76,977)
Share of loss of an associate		(2)	(25)	(4)	(42)
Loss before tax		(58,251)	(36,374)	(150,571)	(154,524)
Income tax credit	5	751	620	3,345	1,837
Loss for the period from continuing operations	6	(57,500)	(35,754)	(147,226)	(152,687)
Discontinued operations					
Loss for the period from discontinued operations	7	(2,120)	(278)	(2,785)	(921)
Loss for the period		(59,620)	(36,032)	(150,011)	(153,608)
Other comprehensive (expense)/income, net of income tax					
Exchange differences on translating foreign operations		(1,743)	11,689	533	36,451
Reclassification adjustment relating to foreign operations disposed of during the period		(1,101)	–	(1,101)	–
Share of other comprehensive income of an associate		–	4	–	11
Other comprehensive (expense)/income for the period, net of income tax		(2,844)	11,693	(568)	36,462
Total comprehensive expense for the period		(62,464)	(24,339)	(150,579)	(117,146)
Loss attributable to:					
Owners of the Company		(57,640)	(34,698)	(140,290)	(149,607)
Non-controlling interests		(1,980)	(1,334)	(9,721)	(4,001)
		(59,620)	(36,032)	(150,011)	(153,608)
Total comprehensive (expense)/income attributable to:					
Owners of the Company		(59,631)	(26,298)	(141,050)	(123,895)
Non-controlling interests		(2,833)	1,959	(9,529)	6,749
		(62,464)	(24,339)	(150,579)	(117,146)
Loss per share					
From continuing and discontinued operations – Basic and diluted (HK cents per share)	8	(3.11)	(1.91)	(7.57)	(8.24)
From continuing operations – Basic and diluted (HK cents per share)		(2.99)	(1.90)	(7.42)	(8.20)

Notes:

1. BASIS OF PREPARATION

The unaudited consolidated statement of comprehensive income of the Group for the three months and nine months ended 30 September 2012 has been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) which collective term include all applicable individual HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations (“**Ints**”), issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules. It has been prepared under historical cost convention.

The unaudited consolidated statement of comprehensive income for the three months and nine months ended 30 September 2012 has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2011, except for the adoption of the new and revised HKFRSs (which include individual HKFRSs, HKASs and Ints) as disclosed in note 2 below.

2. SIGNIFICANT ACCOUNTING POLICIES

In the current period, the Group has applied the following new and revised standards, amendments and interpretations issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2012:

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

The adoption of these amendments to standards has no significant impact on the results and financial position of the Group.

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle ²
Amendments to HKFRS 1	Government Loans ²
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities ²
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ⁴
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ²
HKFRS 9	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ¹
HKAS 19 (as revised in 2011)	Employee Benefits ²
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ³
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

Notes:

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

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

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

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

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

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The Directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of HKFRS 9 might have impact on amounts reported in respect of the Group's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

Key requirements of these five standards are described below.

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

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

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

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

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

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

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

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

The Directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

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

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

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

3. REVENUE

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

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of computer hardware and software	–	534	540	1,583
Provision of management, marketing, and operating services for lottery system and lottery halls	312	108	809	341
	312	642	1,349	1,924

4. FINANCE COSTS

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank overdraft	–	1	–	2
Effective interest on convertible bonds	2,832	3,751	8,434	11,132
Effective interest on promissory note	26,956	23,301	74,468	65,843
	29,788	27,053	82,902	76,977

5. INCOME TAX CREDIT (RELATING TO CONTINUING OPERATIONS)

Income tax recognised in profit or loss

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred tax:				
Current year	(751)	(620)	(3,345)	(1,837)

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

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

Pursuant to the relevant approval by the tax authority, 深圳環彩普達科技有限公司 (Shenzhen Huancai Puda Technology Company Limited, being its unofficial English translation) ("**Huancai Puda**"), an indirect 51% owned subsidiary of the Company, is recognised as a new high-tech enterprise from the year 2009, and is entitled a preferential tax rate of 15% for the three months and nine months ended 30 September 2012 (three months and nine months ended 30 September 2011: 15%). The Company has since been enjoying the preferential tax rate of 15% for three years effective from 31 December 2009.

The Group did not have significant unprovided deferred tax liabilities as at 30 September 2012 and 2011.

6. LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period from continuing operations has been arrived at after (crediting)/charging:				
Crediting:				
Bank interest income	(315)	(698)	(1,354)	(1,566)
Net foreign exchange gain	–	(512)	–	(190)
Gain on disposal of property, plant and equipment	–	–	(47)	–
Gain on disposal of subsidiaries	(7,280)	(8,120)	(7,280)	(8,120)
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>
Charging:				
Cost of inventories recognised as an expense (included in cost of sales)	–	1,100	492	3,356
Auditors' remuneration	225	295	675	695
Employee benefits expense (excluding Directors' emoluments):				
– Salaries and other benefits	4,654	2,703	10,386	7,090
– Contributions to retirement benefits scheme	31	61	211	160
– Equity-settled share-based payments	–	–	–	1,230
Directors' emoluments	1,886	1,750	5,617	5,310
Minimum lease payments paid under operating leases in respect of:				
– Land and buildings	769	585	2,193	1,548
– Office equipment	–	6	–	12
Net foreign exchange loss	73	–	75	–
Depreciation	377	151	855	454
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

7. DISCONTINUED OPERATIONS

Secondment business

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

Exploration of mining business

In July 2012, the Group disposed of 80% equity interest in 雲南西部礦業有限公司 (Yunnan Xibu Mining Company Limited, being its unofficial English translation) (“**Yunnan Western**”), which carried out the exploration of mines operations, to an independent third party at a consideration of RMB130,000 (equivalent to approximately HK\$159,000), as the Group plans to focus its resources on its core business of lottery business operations and to optimise its asset structure.

Analysis of loss for the period from discontinued operations

The combined results of the discontinued operations included in the unaudited consolidated statement of comprehensive income are set out below.

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Loss for the period from discontinued operations				
Revenue	–	–	–	–
Cost of sales	–	–	–	–
Administrative expenses	<u>(26)</u>	<u>(278)</u>	<u>(691)</u>	<u>(921)</u>
Loss before tax	(26)	(278)	(691)	(921)
Attributable income tax	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	(26)	(278)	(691)	(921)
Loss on disposal of discontinued operations (including approximately HK\$857,000 reclassification of foreign currency translation reserve from equity to profit or loss on disposal of the operation)	<u>(2,094)</u>	<u>–</u>	<u>(2,094)</u>	<u>–</u>
Loss for the period from discontinued operations	<u>(2,120)</u>	<u>(278)</u>	<u>(2,785)</u>	<u>(921)</u>
Loss for the period from discontinued operations attributable to:				
Owners of the Company	(2,115)	(223)	(2,647)	(737)
Non-controlling interests	<u>(5)</u>	<u>(55)</u>	<u>(138)</u>	<u>(184)</u>
	<u>(2,120)</u>	<u>(278)</u>	<u>(2,785)</u>	<u>(921)</u>

(Unaudited)		(Unaudited)	
Three months ended		Nine months ended	
30 September		30 September	
2012	2011	2012	2011
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>

Loss for the period from discontinued operations include the following:

Employee benefits expense (excluding Directors' emoluments):				
– Salaries and other benefits	12	132	301	391
– Contributions to retirement benefits scheme	6	31	52	72
Directors' emoluments	–	55	110	162
Minimum lease payments paid under operating leases in respect of:				
– Land and buildings	1	6	55	79
– Office equipment	–	–	11	–
Net foreign exchange loss	–	6	–	20
Depreciation	–	–	–	1
	<u>–</u>	<u>–</u>	<u>–</u>	<u>1</u>

8. LOSS PER SHARE

From continuing and discontinued operations

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

(Unaudited)		(Unaudited)	
Three months ended		Nine months ended	
30 September		30 September	
2012	2011	2012	2011
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>

Loss

Loss for the period attributable to owners of the Company for the purposes of basic and diluted loss per share	<u>(57,640)</u>	<u>(34,698)</u>	<u>(140,290)</u>	<u>(149,607)</u>
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Number of shares

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	'000	'000	'000	'000
		(Restated)		(Restated)
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>1,854,235</u>	<u>1,815,235</u>	<u>1,854,235</u>	<u>1,814,812</u>

The weighted average number of ordinary shares for the purposes of calculating basic and diluted loss per share for the three months and nine months ended 30 September 2011 have been retrospectively adjusted for the effect of the consolidation of shares in February 2012.

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

For continuing operations

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

Loss figures are calculated as follows:

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company	(57,640)	(34,698)	(140,290)	(149,607)
Less:				
Loss for the period from discontinued operations attributable to owners of the Company	<u>2,115</u>	<u>223</u>	<u>2,647</u>	<u>737</u>
Loss for the purposes of basic and diluted loss per share from continuing operations	<u>(55,525)</u>	<u>(34,475)</u>	<u>(137,643)</u>	<u>(148,870)</u>

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

For discontinued operations

Basic and diluted loss per share for the discontinued operation are HK0.11 cent per share and HK0.14 cent per share for the three months and nine months ended 30 September 2012 respectively (three months and nine months ended 30 September 2011: HK0.01 cent per share and HK0.04 cent per share respectively), based on the loss for the three months and nine months ended 30 September 2012 from discontinued operations of approximately HK\$2,115,000 and HK\$2,647,000 respectively (three months and nine months ended 30 September 2011: approximately HK\$223,000 and HK\$737,000 respectively) and the denominators detailed above for both basic and diluted loss per share.

9. CONVERTIBLE BONDS

Imputed interest expenses of approximately HK\$2,832,000 (three months ended 30 September 2011: HK\$3,751,000) and HK\$8,434,000 (nine months ended 30 September 2011: HK\$11,132,000) respectively have been recognised in the unaudited consolidated statement of comprehensive income in respect of the convertible bonds for the three months and nine months ended 30 September 2012.

As at 30 September 2012, the carrying amount of the liability component of the convertible bonds at amortised cost was approximately HK\$88,317,000.

10. RESERVES

For the nine months ended 30 September 2012

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

	Attributable to owners of the Company										
	Share premium account	Capital redemption reserve	Warrants reserve	Convertible bonds equity reserve	Share options reserve	Foreign currency translation reserve	Other reserve	Accumulated losses	Subtotal	Attributable to non-controlling interests	Total
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Balance at 1 January 2012 (Audited)	2,608,610	1	-	66,267	14,571	111,435	(49)	(2,964,483)	(163,648)	304,940	141,292
Loss for the period (Unaudited)	-	-	-	-	-	-	-	(140,290)	(140,290)	(9,721)	(150,011)
Other comprehensive (expense)/income for the period (Unaudited)	-	-	-	-	-	(760)	-	-	(760)	192	(568)
Total comprehensive expense for the period (Unaudited)	-	-	-	-	-	(760)	-	(140,290)	(141,050)	(9,529)	(150,579)
Placing of warrants (Unaudited)	-	-	1,740	-	-	-	-	-	1,740	-	1,740
Capital contribution by a non-controlling interest of a subsidiary (Unaudited)	-	-	-	-	-	-	-	-	-	224	224
Released upon disposal of subsidiaries (Unaudited)	-	-	-	-	-	-	-	-	-	2,906	2,906
Release of reserve upon share options forfeited (Unaudited)	-	-	-	-	(1,230)	-	-	1,230	-	-	-
Balance at 30 September 2012 (Unaudited)	<u>2,608,610</u>	<u>1</u>	<u>1,740</u>	<u>66,267</u>	<u>13,341</u>	<u>110,675</u>	<u>(49)</u>	<u>(3,103,543)</u>	<u>(302,958)</u>	<u>298,541</u>	<u>(4,417)</u>

11. DISPOSAL OF SUBSIDIARIES

On 22 August 2012, the Company entered into a disposal agreement with Mr. Leung Ngai Man (“**Mr. Leung**”), a substantial shareholder, the chairman and an executive Director of the Company, in relation to the disposal (the “**Disposal**”) of the entire issued share capital of Media Hong Kong Investment Limited (“**Media HK**”) which holds 65% equity interest in 北京彩贏樂科技有限公司 (“**Beijing Caiyingle**”), and the outstanding shareholder’s loan made by or on behalf of the Company to Media HK amounted to approximately HK\$12 million, at an aggregate consideration of HK\$9,300,000. The Disposal was completed on 28 August 2012.

During the nine months ended 30 September 2012, the Group disposed of 80% equity interest in Yunnan Western to an independent third party at a consideration of RMB130,000 (equivalent to approximately HK\$159,000).

12. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the nine months ended 30 September 2012 (nine months ended 30 September 2011: Nil).

13. COMPARATIVE FIGURES

The results of the staff secondment segment and exploration of mines segment have been presented as discontinued operations and accordingly, the comparative figures for the three months and nine months ended 30 September 2011 of the unaudited consolidated statement of comprehensive income had been reclassified in accordance with HKFRSs. For comparative purposes, certain comparative figures have also been reclassified to conform with current period presentation to align with the unaudited consolidated statement of comprehensive income of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

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.

Lottery Sales Halls in Liaoning Province

Since the opening of the lottery sales halls of “Happy 12” in Shenyang and Dalian of Liaoning Province in the PRC in May 2012, the Company continues to focus on operating and increasing the number of sales halls for this high payout with quick-result lottery game.

Completion of Placing of Unlisted Warrants

On 13 July 2012, an aggregate of 362,000,000 unlisted warrants were successfully placed by the Company to not less than six places, who are third parties independent of and not connected to the Company and its connected persons, at the placing price of HK\$0.005 per warrant and the subscription price of HK\$0.30 per warrant share. The subscription period for the warrants is 30 months from the date of issue of the warrants.

Upon the exercise in full of the subscription rights attached to the warrants, a maximum of 362,000,000 Shares will be allotted and issued. The maximum net proceeds from the placing (without taking into account of the exercise of the subscription rights attaching to the warrants) of unlisted warrants is approximately HK\$1.6 million. It is intended that the funds so raised be used as general working capital of the Group and for future investment opportunities as and when they arise. Details of the placing were disclosed in the announcements of the Company dated 19 June 2012 and 13 July 2012.

The Terminal Supply Agreement with SG

On 25 July 2012, Huancai Puda and 美彩科技(中國)有限公司 (Scientific Games (China) Company Limited, being its unofficial English translation) (“SG”) have jointly entered into a lottery terminal supply agreement (“**Lottery Terminal Supply Agreement**”), pursuant to which Huancai Puda will exclusively supply hardware of a type of floor-standing terminals to SG related market. Huancai Puda shall be entitled to receive a percentage of the sales revenues generated by such type of terminals. The Lottery Terminal Supply Agreement shall be valid for a minimum of five years and will extend for another three years provided that no written objection is received by either party to the Lottery Terminal Supply Agreement. Details of the Lottery Terminal Supply Agreement were set out in the announcement of the Company dated 7 August 2012.

Disposal of Subsidiary – Beijing Caiyingle

On 22 August 2012, the Company entered into a disposal agreement with Mr. Leung in relation to the Disposal regarding the entire issued share capital of Media HK, which holds 65% equity interests in Beijing Caiyingle, and the outstanding shareholder's loan made by or on behalf of the Company to Media HK which amounted to approximately HK\$12 million, at the aggregate consideration of HK\$9.3 million. The Disposal was completed on 28 August 2012.

The Board considers that the Disposal would enable the Group to divest its loss-making operation and commit the available resources to businesses that provide a better return to the shareholders of the Company (“Shareholders”). The gain derived from the Disposal amounted to approximately HK\$7.2 million. The Company intends to apply the proceeds from the Disposal as general working capital of the Group. Details of the Disposal were set out in the announcements of the Company dated 22 August 2012 and 28 August 2012.

Outlook and prospect

Prospect

Looking forward, the Company will continue to expand its strong business relationship and management expertise to continue developing lottery sales halls in the PRC. At the same time, the Group will continue to adopt an active and prudent strategy, and keep looking for development projects in line with China's 12th Five-Year Plan.

Financial review

For the three months and nine months ended 30 September 2012, the Group recorded an unaudited revenue of approximately HK\$312,000 and HK\$1,349,000 with a decrease of approximately 51% and decrease of approximately 30% as compared with those figures in the corresponding periods in 2011 respectively. The revenue of the Group was primarily derived from the trading of computer hardware and software business and lottery business.

For the nine months ended 30 September 2012, the unaudited loss attributable to owners of the Company decreased by approximately HK\$9,317,000 as compared with that for the corresponding period in 2011. The difference was mainly due to the decrease in loss on early redemption of promissory note for the nine months ended 30 September 2012.

Capital structure

As at 30 September 2012, the Company had 1,854,235,049 ordinary shares of HK\$0.005 each (each a “Share”) (30 September 2011: 1,815,235,049 Shares as restated) in issue.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES

Connected and Major Transaction – Acquisition of Carnix Investment Limited and Wise Mark Investments Ltd.

Reference is made to the announcements of the Company dated 2 March 2011, 9 March 2011, 31 May 2011, 23 August 2011 and 6 March 2012 and the circular of the Company dated 28 October 2011 (“**Circular**”) in relation to, among other matters, the acquisition (“**Acquisition**”) of the entire issued share capital of Carnix Investment Limited and Wise Mark Investments Ltd.. Details of the Acquisition were set out in the Circular. Up to the date of this report, the Acquisition has not yet been completed.

Discloseable and Connected Transaction

On 22 August 2012, the Company entered into a disposal agreement with Mr. Leung in relation to the disposal of the entire issued share capital of Media HK and the outstanding shareholder’s loan at an aggregate consideration of HK\$9,300,000. The Disposal was completed on 28 August 2012. Additional information were set out in “*Disposal of Subsidiary – Beijing Caiyingle*” under MANAGEMENT DISCUSSION AND ANALYSIS in this report.

OTHER DISCLOSURES AND EVENTS AFTER THE REPORTING PERIOD

Connected Transaction – Loan capitalisation and proposed amendments to the memorandum and articles of association

On 29 August 2012, Mr. Leung entered into a loan capitalisation agreement with the Company in respect of the loan capitalisation (“**Loan Capitalisation Agreement**”), pursuant to which Mr. Leung agreed to subscribe for, and the Company has agreed to allot and issue of 1,563,333,333 subscriber preferred shares at an issue price of HK\$0.60 per subscriber preferred share to capitalise the outstanding amount of HK\$938,000,000 due by the Company to Mr. Leung pursuant to the promissory note (“**Loan Capitalisation**”). The Loan Capitalisation constituted a connected transaction of the Company under Chapter 20 of the GEM Listing Rules and it will be subject to the independent Shareholders’ approval at the extraordinary general meeting of the Company to be held on 22 November 2012 (“**EGM**”).

In the meantime, the Board proposed to make certain amendments to the existing memorandum and articles of association of the Company (“**Memorandum and Articles of Association**”) regarding, amongst other things, the creation of the preferred shares with a par value of HK\$0.005 each in the share capital of the Company (“**Preferred Shares**”). In connection with the creation of 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 ordinary Shares to HK\$110,000,000 divided into 20,000,000,000 ordinary Shares and 2,000,000,000 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 proposed to make certain amendments 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. The increase of authorised share capital and the proposed amendments to the Memorandum and Articles of Association are subject to the approval by the Shareholders at the EGM.

Details of the above were disclosed in the announcements of the Company dated 29 August 2012, 19 September 2012 and 10 October 2012 and the circular of the Company dated 29 October 2012.

Sales agency agreement with Chongqing Welfare Lottery

On 28 September 2012, Huancai Puda and 重慶市福利彩票發行中心 (Chongqing Welfare Lottery Issuing Centre, being its unofficial English translation) (“**Chongqing Welfare Lottery**”) entered into a sales agency agreement, pursuant to which Huancai Puda agreed to set up and manage China Welfare Lottery “Lucky Farms” thematic sales points in Chongqing, the PRC and to act as the sales agent for the sales of welfare lottery in such sale points. Details of the sales agency agreement were set out in the announcement of the Company dated 10 October 2012.

Changes of independent non-executive Director, chairman of each of the audit committee and the remuneration committee and member of the nomination committee and the appointment of non-executive Director

Dr. Leung Wai Cheung (“**Dr. Leung**”) resigned as independent non-executive Director, chairman of each of the audit committee (“**Audit Committee**”) and the remuneration committee (“**Remuneration Committee**”) and member of the nomination committee (“**Nomination Committee**”) of the Company with effect from 1 November 2012. On the same date, Mr. Niu Zhihui (“**Mr. Niu**”) was appointed as independent non-executive Director, chairman of each of the Audit Committee and the Remuneration Committee and member of the Nomination Committee and Mr. Gao Shikui was appointed as non-executive Director.

According to Article 86(3) of the Company's articles of association, any Director appointed by the Board to fill a casual vacancy shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election. Hence, Mr. Niu will retire and, being eligible, will offer himself for re-election as Director at the forthcoming EGM. A supplemental circular has been issued and despatched to the Shareholders on 7 November 2012 to provide them with further information relating to the re-election of Mr. Niu as Director.

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 30 September 2012, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long position in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of issued share capital
Mr. Leung	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:

1. Mr. Leung was issued with convertible bond in an aggregate principal amount of HK\$797,500,000 on 27 August 2010 at a conversion price of HK\$0.24 per share. Upon full conversion of the convertible bonds, a maximum of 3,322,916,666 shares will be issued to Mr. Leung. As at 30 September 2012, convertible bond 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 the issued and unissued share capital of the Company into one consolidated share of HK\$0.005 each which became effective on 24 February 2012 (“**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 bond was adjusted from 600,416,666 shares to 120,083,333 Shares. Such interests constituted a long position of the Director in a physically settled equity derivative for the purpose of the SFO.
2. These Shares were held by Speedy Well Investments Limited (“**Speedy Well**”) which 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, the price and number of these Shares were adjusted.
3. On 10 July 2008, Mr. Ng was granted share options, pursuant to the share option scheme adopted by the Company on 29 June 2007 (“**Share Option Scheme**”), to subscribe for a total of 20,000,000 shares at an exercise price of HK\$0.1328 per share. The options would be exercisable during the period from 10 July 2008 to 29 June 2017. As a result of the consolidation of every two shares of HK\$0.0005 each in the issued and unissued share capital of the Company into one consolidated share of HK\$0.001 each which became effective on 21 October 2008 (“**2008 Share Consolidation**”), the relevant subscription price was adjusted from HK\$0.1328 to HK\$0.2656 per consolidated share and the number of consolidated shares falling to be issued under the outstanding share options was adjusted from 20,000,000 shares to 10,000,000 consolidated shares. As a result of the 2012 Share Consolidation, the relevant subscription price was adjusted from HK\$0.2656 to HK\$1.3280 per 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. Such interests constituted 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. Such interests constituted a long position of the Director in a physically settled equity derivative for the purpose of the SFO.

Save as disclosed above, as at 30 September 2012, none of the Directors and chief executive of the Company had any other interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken that was required to be recorded pursuant to section 352 of the SFO) or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules.

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

Save as disclosed above, as at 30 September 2012, no person or company (other than the Directors or chief executive of the Company whose interests are set out in the section “INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION” above) had an interest or short positions in the Shares, underlying Shares and debentures of the Company as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO and were directly or indirectly interest in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group.

SHARE OPTION SCHEME

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

For the nine months ended 30 September 2012, detailed movements under the Share Option Scheme were as follows:

Name or category of participant	Date of grant	Exercise price	Exercise period	As at 1 January 2012	Movement of share options (adjusted) during the period			As at 30 September 2012
					Granted	Exercised	Lapsed/ forfeited	
Consultants	9 July 2007	1.425*	9 July 2007 – 29 June 2017	48,000,000	-	-	-	9,600,000*
	22 August 2007	2.030*	22 August 2007 – 29 June 2017	41,000,000	-	-	-	8,200,000*
	10 July 2008	1.328*	10 July 2008 – 29 June 2017	36,000,000	-	-	-	7,200,000*
Employee	15 February 2011	1.665*	15 February 2011 – 29 June 2017	15,000,000	-	-	(3,000,000)*	-
Directors								
- Mr. Ng	10 July 2008	1.328*	10 July 2008 – 29 June 2017	10,000,000	-	-	-	2,000,000*
- Ms. Wu	10 July 2008	1.328*	10 July 2008 – 29 June 2017	10,000,000	-	-	-	2,000,000*

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

No option granted under the Share Option Scheme was exercised during the nine months ended 30 September 2012.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

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

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the GEM Listing Rules. The composition of the Audit Committee has been changed with effect from 1 November 2012 as a result of the resignation of Dr. Leung and the appointment of Mr. Niu. As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely, Mr. Niu Zihui (chairman of the Audit Committee), Mr. Cai Wei Lun and Mr. Qi Ji.

The Group's third quarterly results for the nine months ended 30 September 2012 have been reviewed by the Audit Committee which is of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other legal requirements and that adequate disclosures have been made.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

Chairman and Chief Executive

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

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

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

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

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct for securities transactions by Directors (“Code”) which is no less exacting than the required standard of dealings of securities by Directors as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific inquiry with all the Directors, and has been notified by Mr. Leung that he inadvertently dealt in the Shares in January 2012 during the blackout period for the publication of the annual results of the Group for the year ended 31 December 2011 and therefore he had not complied with the required standard for dealings of securities by Directors, under the GEM Listing Rules and the Code during the nine months ended 30 September 2012. In response to such non-compliance, the Directors have been reminded of the appropriate procedures for dealings in the Shares under the Code. Disclosure of the change of interest of Mr. Leung in the Company pursuant to such dealing was made in accordance with the SFO.

Save as disclosed above, the Company has not been notified of any non-compliance with the standard for dealings of securities by Directors and the Code during the nine months ended 30 September 2012.

COMPETING INTERESTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the nine months ended 30 September 2012.

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

Hong Kong, 8 November 2012

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