



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 2013



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This report 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.

HIGHLIGHTS

- The unaudited revenue of the Group for the nine months ended 30 September 2013 was approximately HK\$1,398,000 with an increase of approximately HK\$49,000 as compared with that for the corresponding period in 2012.
- The Group recorded an unaudited loss attributable to owners of the Company of approximately HK\$25,763,000 for the nine months ended 30 September 2013, with a decrease of approximately HK\$114,527,000 as compared with that for the corresponding period in 2012.
- The unaudited loss per share of the Company was approximately HK1.39 cent for the nine months ended 30 September 2013.

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 and nine months ended 30 September 2013 together with the comparative figures for the corresponding periods in 2012 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2013

		(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	Notes	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Continuing operations					
Revenue	3	716	312	1,398	1,349
Cost of sales		(903)	(364)	(2,653)	(1,095)
Gross (loss)/profit		(187)	(52)	(1,255)	254
Other income and gains – net		394	7,498	3,137	8,709
Administrative expenses		(4,586)	(10,186)	(15,941)	(28,986)
Loss on early redemption of promissory note		–	(23,835)	–	(34,145)
Finance costs	4	(2,831)	(29,788)	(8,403)	(82,902)
Other operating expenses		(4,329)	(1,886)	(13,349)	(13,497)
Share of losses of associates		–	(2)	(484)	(4)
Loss before tax		(11,539)	(58,251)	(36,295)	(150,571)
Income tax credit	5	194	751	650	3,345
Loss for the period from continuing operations	6	(11,345)	(57,500)	(35,645)	(147,226)
Discontinued operations					
Loss for the period from discontinued operations	7	(5)	(2,120)	(5)	(2,785)
Loss for the period		(11,350)	(59,620)	(35,650)	(150,011)
Other comprehensive income/(expense)					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translating foreign operations		5,446	(1,743)	15,829	533
Reclassification adjustments relating to foreign operations disposed of during the period		–	(1,101)	–	(1,101)
Reclassification adjustments relating to share of exchange differences of associates		–	–	(75)	–
Share of other comprehensive income of associates		–	–	165	–
Other comprehensive income/(expense) for the period		5,446	(2,844)	15,919	(568)
Total comprehensive expense for the period		(5,904)	(62,464)	(19,731)	(150,579)
Loss attributable to:					
Owners of the Company		(8,533)	(57,640)	(25,763)	(140,290)
Non-controlling interests		(2,817)	(1,980)	(9,887)	(9,721)
		(11,350)	(59,620)	(35,650)	(150,011)
Total comprehensive expense attributable to:					
Owners of the Company		(5,754)	(59,631)	(17,653)	(141,050)
Non-controlling interests		(150)	(2,833)	(2,078)	(9,529)
		(5,904)	(62,464)	(19,731)	(150,579)
Loss per share					
	8				
From continuing and discontinued operations					
– Basic and diluted (HK cents per share)		(0.46)	(3.11)	(1.39)	(7.57)
From continuing operations					
– Basic and diluted (HK cents per share)		(0.46)	(2.99)	(1.39)	(7.42)

Notes:

1. BASIS OF PREPARATION

The unaudited consolidated statement of profit or loss and other comprehensive income of the Group for the three months and nine months ended 30 September 2013 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 and nine months ended 30 September 2013 has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2012, 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 2013:

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

Amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. 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 items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (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 do not change the option to present items of other comprehensive income either before tax or net of tax.

The Group has renamed “statement of comprehensive income” as “statement of profit or loss and other comprehensive income” and the presentation of items of other comprehensive income has been modified accordingly upon the adoption of the amendments.

HKFRS 13 *Fair Value Measurement*

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim condensed consolidated financial statements. In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement requirements prospectively. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group’s assets and liabilities.

Except for the above, 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 amendments that have been issued but are not yet effective:

Amendments to HKFRS 9 and HKFRS 7	<i>Mandatory Effective Date of HKFRS 9 and Transition Disclosures²</i>
HKFRS 9	<i>Financial Instruments²</i>
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	<i>Investment Entities¹</i>
Amendments to HKAS 32	<i>Offsetting Financial Assets and Financial Liabilities¹</i>
Amendments to HKAS 36	<i>Recoverable Amount Disclosures for Non-Financial Assets¹</i>
Amendments to HKAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting¹</i>
HK(IFRIC) – Int 21	<i>Levies¹</i>

Notes:

¹ Effective for annual periods beginning on or after 1 January 2014.

² Effective for annual periods beginning on or after 1 January 2015.

HKFRS 9 *Financial Instruments*

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described below:

- 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.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 of financial liabilities attributable to changes in the financial liabilities' 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 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 the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities and the related disclosures*

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities 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 HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Directors anticipate that the application of these amendments to HKAS 32 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

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

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	
	2013	2012	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sale of lottery equipment	-	-	26	-
Sale of computer hardware and software	449	-	449	540
Provision of management, marketing, and operating services for lottery system and lottery halls	267	312	923	809
	<u>716</u>	<u>312</u>	<u>1,398</u>	<u>1,349</u>

4. FINANCE COSTS

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Effective interest on convertible bonds	2,831	2,832	8,403	8,434
Effective interest on promissory note	-	26,956	-	74,468
	<u>2,831</u>	<u>29,788</u>	<u>8,403</u>	<u>82,902</u>

5. INCOME TAX CREDIT (RELATING TO CONTINUING OPERATIONS)

Income tax recognised in profit or loss

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Deferred tax	<u>194</u>	<u>751</u>	<u>650</u>	<u>3,345</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 (the "PRC"), the Enterprise Income Tax rate of the PRC subsidiaries, other than that stated below, is 25% for both periods.

In year 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 Group, 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 at 30 September 2013 and 2012.

6. LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period from continuing operations has been arrived at after (crediting)/charging:				
Crediting:				
Bank interest income	(216)	(315)	(511)	(1,354)
Net foreign exchange gain	(167)	–	(946)	–
Gain on disposal of property, plant and equipment	–	–	–	(47)
Net gain on disposal/derecognition of associates	–	–	(1,660)	–
Gain on disposal of subsidiaries	–	(7,280)	–	(7,280)
	<u>–</u>	<u>(7,280)</u>	<u>–</u>	<u>(7,280)</u>
Charging:				
Cost of inventories recognised as an expense (included in cost of sales)	413	–	422	492
Auditors' remuneration	225	225	675	675
Employee benefits expense (excluding directors' emoluments):				
– Salaries and other benefits	1,080	4,654	3,145	10,386
– Contributions to retirement benefits schemes	97	31	333	211
– Equity-settled share-based payments	–	–	527	–
Directors' emoluments	1,873	1,886	5,705	5,617
	<u>1,873</u>	<u>1,886</u>	<u>5,705</u>	<u>5,617</u>
Total staff costs	<u>3,050</u>	<u>6,571</u>	<u>9,710</u>	<u>16,214</u>
Minimum lease payments paid under operating leases in respect of:				
– Land and buildings	473	769	1,750	2,193
– Office equipment	–	–	–	–
Net foreign exchange loss	–	73	–	75
Depreciation	194	377	840	855
Amortisation of other intangible assets included in other operating expenses	4,311	1,886	12,633	13,020
Loss on disposal of property, plant and equipment included in other operating expenses	18	–	716	–
	<u>18</u>	<u>–</u>	<u>716</u>	<u>–</u>

7. DISCONTINUED OPERATIONS

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.

In July 2012, the Group disposed of its 80% equity interest in 雲南西部礦業有限公司 (transliterated as Yunnan Xibu Mining Company Limited), which carried out the exploration of mines operations, to an independent third party at a consideration of Renminbi (“RMB”) 130,000 (equivalent to approximately HK\$160,000), 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 loss for the period are set out below.

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Loss for the period from discontinued operations				
Revenue	-	-	-	-
Cost of sales	-	-	-	-
Administrative expenses	(5)	(26)	(5)	(691)
Loss before tax	(5)	(26)	(5)	(691)
Attributable income tax	-	-	-	-
	(5)	(26)	(5)	(691)
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)	-	(2,094)	-	(2,094)
Loss for the period from discontinued operations	(5)	(2,120)	(5)	(2,785)
Loss for the period from discontinued operations attributable to:				
Owners of the Company	(5)	(2,115)	(5)	(2,647)
Non-controlling interest	-	(5)	-	(138)
	(5)	(2,120)	(5)	(2,785)

	(Unaudited) Three months ended 30 September 2013		(Unaudited) Nine months ended 30 September 2013	
	2012	2012	2012	2012
	<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	–	301
– Contributions to retirement benefits scheme	–	6	–	52
Directors' emoluments	–	–	–	110
	<u>–</u>	<u>–</u>	<u>–</u>	<u>110</u>
Total staff costs	–	18	–	463
	<u>–</u>	<u>18</u>	<u>–</u>	<u>463</u>
Minimum lease payments paid under operating leases in respect of:				
– Land and buildings	–	1	–	55
– Office equipment	–	–	–	11
	<u>–</u>	<u>–</u>	<u>–</u>	<u>11</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) Three months ended 30 September 2013		(Unaudited) Nine months ended 30 September 2013	
	2012	2012	2012	2012
	<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>(8,533)</u>	<u>(57,640)</u>	<u>(25,763)</u>	<u>(140,290)</u>

Number of shares

	(Unaudited) Three months ended 30 September 2013		(Unaudited) Nine months ended 30 September 2013	
	2012	2012	2012	2012
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>1,854,235</u>	<u>1,854,235</u>	<u>1,854,235</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.

For continuing operations

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

Loss figures are calculated as follows:

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Loss for the period attributable to owners of the Company	(8,533)	(57,640)	(25,763)	(140,290)
Add:				
Loss for the period from discontinued operations attributable to owners of the Company	<u>5</u>	<u>2,115</u>	<u>5</u>	<u>2,647</u>
Loss for the purposes of basic and diluted loss per share from continuing operations	<u>(8,528)</u>	<u>(55,525)</u>	<u>(25,758)</u>	<u>(137,643)</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 operations are HK0.0003 cent per share for the three months and nine months ended 30 September 2013 respectively (three months and nine months ended 30 September 2012: HK0.11 cent per share and HK0.14 cent per share respectively), based on the loss for the three months and nine months ended 30 September 2013 from the discontinued operations of approximately HK\$5,000 and HK\$5,000 respectively (three months and nine months ended 30 September 2012: approximately HK\$2,115,000 and HK\$2,647,000 respectively) and the denominators detailed above for both basic and diluted loss per share.

9. CONVERTIBLE BONDS

Imputed interest expenses of approximately HK\$2,831,000 (three months ended 30 September 2012: HK\$2,832,000) and HK\$8,403,000 (nine months ended 30 September 2012: HK\$8,434,000) respectively have 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 and nine months ended 30 September 2013.

At 30 September 2013, the carrying amount of the liability component of the convertible bonds at amortised cost was approximately HK\$99,521,000 (31 December 2012: HK\$91,118,000).

10. RESERVES

For the nine months ended 30 September 2013

	Attributable to owners of the Company									Attributable to non-controlling interests	Total
	Share premium account	Capital redemption reserve	Warrants 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)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2012	2,608,610	1	-	66,267	14,571	111,435	(49)	(2,964,483)	(163,648)	304,940	141,292
Loss for the period	-	-	-	-	-	-	-	(140,290)	(140,290)	(9,721)	(150,011)
Other comprehensive income/(expense) for the period	-	-	-	-	-	(760)	-	-	(760)	192	(568)
Total comprehensive income for the period	-	-	-	-	-	(760)	-	(140,290)	(141,050)	(9,529)	(150,579)
Placing of warrants	-	-	1,740	-	-	-	-	-	1,740	-	1,740
Capital contribution by a non-controlling interest of a subsidiary	-	-	-	-	-	-	-	-	-	224	224
Release upon disposal of subsidiaries	-	-	-	-	-	-	-	-	-	2,906	2,906
Release of reserve upon share options forfeited	-	-	-	-	(1,230)	-	-	1,230	-	-	-
Balance at 30 September 2012	<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>(302,938)</u>	<u>298,541</u>	<u>(4,417)</u>

	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)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'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	-	-	-	-	-	-	-	(25,763)	(25,763)	(9,887)	(35,650)
Other comprehensive income for the period	-	-	-	-	-	8,110	-	-	8,110	7,809	15,919
Total comprehensive income/(expense) for the period	-	-	-	-	-	8,110	-	(25,763)	(17,653)	(2,078)	(19,731)
Recognition of equity-settled share-based payments	-	-	-	-	586	-	-	-	586	-	586
Reserve released upon disposal/derecognition of associates	-	-	-	-	-	-	-	-	-	2,126	2,126
Balance at 30 September 2013	<u>3,213,139</u>	<u>1,740</u>	<u>1</u>	<u>66,267</u>	<u>13,927</u>	<u>120,516</u>	<u>(49)</u>	<u>(3,279,877)</u>	<u>135,664</u>	<u>214,711</u>	<u>350,375</u>

11. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the nine months ended 30 September 2013 (nine months ended 30 September 2012: 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 nine months ended 30 September 2013, the Company focused on operating the sales halls for lottery games with high payouts and quick results since the opening of lottery sales halls of “Happy 12” in Shenyang and Dalian of Liaoning Province in the PRC in May 2012.

Major and connected transaction – lapse of the acquisition agreement and return of deposit

As announced by the Company on 6 February 2013, a conditional agreement dated 2 March 2011 supplemented by a supplemental agreement dated 23 August 2011 (collectively, the “**Acquisition Agreement**”) entered into between Greatest Profit Investment Limited (the “**Purchaser**”), an indirect wholly-owned subsidiary of the Company, Century Profit Holdings Limited (“**CPHL**” or the “**Vendor**”), the entire interest of which is beneficially owned by Mr. Lin Zhiwei and the other two beneficial shareholders of CPHL (the “**Warrantors**”), and the Warrantors in respect of the acquisition of the entire issued share capital of both of Carnix Investment Limited and Mutual International Limited, both of which are wholly-owned subsidiaries of CPHL, at the consideration of RMB73,500,000 had lapsed as certain conditions for completion of the Acquisition Agreement had not been satisfied or waived on or before the agreed date (the “**Lapse of the Acquisition Agreement**”). The Purchaser, the Vendor and the Warrantors agreed that the full amount of the deposit of RMB7,350,000 paid by the Purchaser should be returned to the Purchaser before 31 December 2013 in the manner set out in the announcement of the Company dated 6 February 2013 (the “**Return of Deposit**”). As at the date of this report, a total of RMB5,520,000 had been received by the Purchaser. Details of the Acquisition Agreement were set out in the announcements of the Company dated 2 March 2011, 9 March 2011, 31 May 2011, 23 August 2011, 6 March 2012 and 6 February 2013 and the circular of the Company dated 28 October 2011. Details of the Lapse of the Acquisition Agreement and the Return of Deposit were set out in the announcement of the Company dated 6 February 2013.

Discloseable transaction – disposal of 30% interest in Shenzhen Jingcai Mingtian Technology Company Limited

On 2 April 2013, Huancai Puda, as vendor, entered into an agreement with (i) the purchaser, a company established in the PRC and principally engaged in software development and holding of 60% equity interest in 深圳市精彩明天科技有限公司 (transliterated as Shenzhen Jingcai Mingtian Technology Company Limited) (the “**Target**”); and (ii) a third party who is a natural person of Chinese nationality holding 10% equity interest in the Target and an employee of Huancai Puda, in relation to the disposal of 30% equity interest in the Target held by Huancai Puda at the consideration of RMB8,571,429 (the “**Disposal**”). The Disposal constituted a disclosable transaction for the Company under the GEM Listing Rules. Details of the Disposal were set out in the announcement of the Company dated 2 April 2013.

Financial Review

For the nine months ended 30 September 2013, the Group recorded an unaudited revenue of approximately HK\$1,398,000 with an increase of approximately HK\$49,000 as compared with that for the corresponding period in 2012. During the nine months ended 30 September 2013, the revenue of the Group was mainly derived from the sale of lottery equipment, sale of computer hardware and software and provision of management, marketing, and operating services for lottery system and lottery halls. For the nine months ended 30 September 2013, the unaudited loss attributable to owners of the Company decreased by approximately HK\$114,527,000 as compared with that for the corresponding period in 2012. The difference was mainly because of the decrease in finance cost and the loss on early redemption of promissory note for the nine months ended 30 September 2013.

Capital structure

As at 30 September 2013, the Company had 1,854,235,049 ordinary shares of HK\$0.005 each (the “**Shares**”, each, a “**Share**”) (30 September 2012: 1,854,235,049 Shares) in issue.

Prospect

Looking forward, the Company will continue to expand its strong business relationship and management expertise to continue developing its lottery sales halls businesses. At the same time, the Group has obtained a money lenders licence and developed money lending business, apart from strengthening its existing businesses, it will keep looking for lottery industry projects as well as exploring other business opportunities in the PRC. Besides, the Company is in preliminary negotiation in relation to a possible acquisition/subscription of interests in a mobile games development corporation in the PRC and that no agreement has been reached as at the date of this report.

Other Information

Grant of Share Options

On 21 May 2013, the Company granted share options to certain eligible employees of the Group to subscribe for a total of 30,000,000 new Shares in the capital of the Company pursuant to the share option scheme adopted on 29 June 2007 (the “**Share Option Scheme**”) at an exercise price of HK\$0.063 per Share (the “**2013 First Grant of Share Options**”). Details of the 2013 First Grant of Share Options were set out in the announcement of the Company dated 21 May 2013.

Retirement of Director

Mr. Gao Shikui (“**Mr. Gao**”) retired as a non-executive Director upon conclusion of the annual general meeting of the Company held on 28 June 2013, but he has taken up a new role as the director of Business Development of the Group. Details of the retirement of Mr. Gao were set out in the announcement of the Company dated 28 June 2013.

Change of Company Secretary

Miss Man Tsz Sai, Lavender (“**Miss Man**”) resigned as the company secretary of the Company (the “**Company Secretary**”) with effect from 30 September 2013 and Mr. Wong Ka Bong had been appointed as the Company Secretary in place of Miss Man with effect from 30 September 2013 (the “**Change of Company Secretary**”). Details of the Change of Company Secretary were set out in the announcement of the Company dated 27 September 2013.

EVENT AFTER THE REPORTING PERIOD

Grant of Share Options

On 10 October 2013, the Company granted share options to an eligible employee of the Group to subscribe for a total of 16,000,000 new Shares in the capital of the Company pursuant to the Share Option Scheme at an exercise price of HK\$0.087 per Share (the “**2013 Second Grant of Share Options**”). Details of the 2013 Second Grant of Share Options were set out in the announcement of the Company dated 10 October 2013.

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 2013, 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 Ngai Man (“ Mr. Leung ”)	536,335,000 (Note 1)	294,880 (Notes 1 & 2)	1,683,416,666 (Notes 3, 4 & 5)	2,220,046,546	119.73%
Mr. Ng Kwok Chu, Winfield (“ Mr. Ng ”)	94,500 (Note 1)	–	5,000,000 (Notes 6 & 7)	5,094,500	0.27%
Ms. Wu Wei Hua (“ Ms. Wu ”)	–	–	2,000,000 (Note 8)	2,000,000	0.11%

Notes:

1. As a result of the 2012 Share Consolidation (as defined below), these Shares were adjusted.
2. These Shares were held by Speedy Well Investments Limited (“**Speedy Well**”) which was wholly and beneficially owned by Mr. Leung. By virtue of the SFO, Mr. Leung was deemed to be interested in the Shares held by Speedy Well.
3. These equity derivatives comprises 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 Subscriber 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 30 September 2013, 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 the 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 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 preferred shares at an issue price of HK\$0.60 per preferred share (the “**Subscriber 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 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 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 1,854,235,049 Shares in issue as at 30 September 2013.

Save as disclosed above, as at 30 September 2013, 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 30 September 2013, 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 nine months ended 30 September 2013, 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 2013	Granted	Exercised	Lapsed/ Cancelled/ Forfeited
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*	
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 nine months ended 30 September 2013, a total of 30,000,000 share options at an exercise price of HK\$0.063 per Share had been granted by the Company. No share options granted under the Share Option Scheme was exercised during the nine months ended 30 September 2013.

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 nine months ended 30 September 2013 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.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to maintaining high standards of corporate governance in order to uphold the transparency of the Group and safeguard the interests of the shareholders (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 (the “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 Board is performed by Mr. Leung who possesses essential leadership skills and has extensive knowledge in the business of the Group. The Board believes that vesting the role of the chairman in Mr. Leung provides the Company with strong and consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies, and ensures the generation of benefits to the Shareholders.

Although the appointment of the chief executive 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 of the chief executive in order to comply with the CG Code and Report.

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 nine months ended 30 September 2013.

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, Mr. Niu Zhihui (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 2013 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 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 nine months ended 30 September 2013.

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

Hong Kong, 12 November 2013

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 Mr. Niu Zhihui.