



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
2014

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HIGHLIGHTS

- The unaudited revenue of the Group for the nine months ended 30 September 2014 was approximately HK\$3,205,000 with an increase of approximately HK\$1,807,000 as compared with that for the corresponding period in 2013.
- The Group recorded an unaudited loss attributable to owners of the Company of approximately HK\$31,856,000 for the nine months ended 30 September 2014, with an increase of approximately HK\$6,093,000 as compared with that for the corresponding period in 2013.
- The unaudited loss per share of the Company was approximately HK1.47 cent for the nine months ended 30 September 2014.

RESULTS

The board of Directors (the “**Board**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the three months and nine months ended 30 September 2014 together with the comparative figures for the corresponding periods in 2013 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2014

		(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	Notes	HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Continuing operations					
Revenue	3	274	716	3,205	1,398
Cost of sales		(845)	(903)	(3,217)	(2,653)
Gross loss		(571)	(187)	(12)	(1,255)
Other income and gains – net		748	394	1,815	3,137
Administrative expenses		(5,535)	(4,586)	(24,370)	(15,941)
Finance costs	4	(2,824)	(2,831)	(8,380)	(8,403)
Other operating expenses		(3,521)	(4,329)	(10,256)	(13,349)
Share of losses of associates		–	–	–	(484)
Loss before tax		(11,703)	(11,539)	(41,203)	(36,295)
Income tax credit	5	1,101	194	4,619	650
Loss for the period from continuing operations	6	(10,602)	(11,345)	(36,584)	(35,645)
Discontinued operation					
Loss for the period from discontinued operation	7	–	(5)	–	(5)
Loss for the period		(10,602)	(11,350)	(36,584)	(35,650)
Other comprehensive income/(expense)					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translating foreign operations		884	5,446	(2,822)	15,829
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		884	5,446	(2,822)	15,919
Total comprehensive expense for the period		(9,718)	(5,904)	(39,406)	(19,731)

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>

Loss attributable to:

Owners of the Company	(8,539)	(8,533)	(31,856)	(25,763)
Non-controlling interests	(2,063)	(2,817)	(4,728)	(9,887)

	(10,602)	(11,350)	(36,584)	(35,650)
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Total comprehensive expense attributable to:

Owners of the Company	(8,086)	(5,754)	(33,301)	(17,653)
Non-controlling interests	(1,632)	(150)	(6,105)	(2,078)

	(9,718)	(5,904)	(39,406)	(19,731)
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Loss per share

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From continuing and discontinued operations

– Basic and diluted (HK cents per share)	(0.39)	(0.46)	(1.47)	(1.39)
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From continuing operations

– Basic and diluted (HK cents per share)	(0.39)	(0.46)	(1.47)	(1.39)
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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 2014 have 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 2014 have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2013, except for the adoption of the new and revised HKFRSs (which include individual HKFRSs, HKASs and Ints) as disclosed in note 2 below.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

The Group has not early adopted any new and revised HKFRSs that have been issued but are not yet effective.

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	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of lottery equipment	–	–	2,393	26
Sale of computer hardware and software	–	449	–	449
Provision of management, marketing, and operating services for lottery system and lottery halls	274	267	812	923
	274	716	3,205	1,398

4. FINANCE COSTS

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Effective interest on convertible bonds	2,824	2,831	8,380	8,403

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	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred tax	1,101	194	4,619	650

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 2014 and 2013.

6. LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Loss for the period from continuing operations has been arrived at after (crediting)/charging:				
Crediting:				
Bank interest income	(653)	(216)	(1,667)	(511)
Net foreign exchange gain	(155)	(167)	-	(946)
Net gain on disposal/derecognition of associates	-	-	-	(1,660)
Gain on disposal of a subsidiary	-	-	(10)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Charging:				
Cost of inventories recognised as an expense (included in cost of sales)	-	413	1,355	422
Auditors' remuneration	205	225	675	675
Employee benefits expense (excluding directors' emoluments):				
- Salaries and other benefits	907	1,080	3,306	3,145
- Contributions to retirement benefits schemes	101	97	343	333
- Equity-settled share-based payments	-	-	-	527
Directors' emoluments	3,292	1,873	6,971	5,705
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total staff costs	<u>4,300</u>	<u>3,050</u>	<u>10,620</u>	<u>9,710</u>
Minimum lease payments paid under operating leases in respect of land and buildings	614	473	1,392	1,750
Net foreign exchange loss	-	-	1,456	-
Depreciation of property, plant and equipment	190	194	578	840
Expenses in relation to share options granted to consultants	-	-	7,500	-
Amortisation of other intangible assets (included in other operating expenses)	3,416	4,311	10,151	12,633
Net loss on disposal of property, plant and equipment	148	18	105	716
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

7. DISCONTINUED OPERATION

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

Analysis of loss for the period from discontinued operation

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	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Loss for the period from discontinued operations				
Revenue	-	-	-	-
Cost of sales	-	-	-	-
Administrative expenses	-	(5)	-	(5)
	<u>-</u>	<u>(5)</u>	<u>-</u>	<u>(5)</u>
Loss before tax	-	(5)	-	(5)
Attributable income tax	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss for the period from discontinued operations	<u>-</u>	<u>(5)</u>	<u>-</u>	<u>(5)</u>
Loss for the period from discontinued operations attributable to:				
Owners of the Company	-	(5)	-	(5)
Non-controlling interest	-	-	-	-
	<u>-</u>	<u>(5)</u>	<u>-</u>	<u>(5)</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		(Unaudited) Nine months ended 30 September	
	2014	2013	2014	2013
	<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	(8,539)	(8,533)	(31,856)	(25,763)

Number of shares

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2014	2013	2014	2013
	<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	2,217,035	1,854,235	2,166,023	1,854,235

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		(Unaudited) Nine months ended	
	30 September 2014	2013	30 September 2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company	(8,539)	(8,533)	(31,856)	(25,763)
Add:				
Loss for the period from discontinued operations attributable to owners of the Company	—	5	—	5
Loss for the purposes of basic and diluted loss per share from continuing operations	<u>(8,539)</u>	<u>(8,528)</u>	<u>(31,856)</u>	<u>(25,758)</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 Nil for the three months and nine months ended 30 September 2014 respectively (three months and nine months ended 30 September 2013: HK0.0003 cent per share and HK0.0003 cent per share respectively), based on the loss for the three months and nine months ended 30 September 2014 from the discontinued operations of Nil respectively (three months and nine months ended 30 September 2013: approximately HK\$5,000 and HK\$5,000 respectively) and the denominators detailed above for both basic and diluted loss per share.

9. CONVERTIBLE BONDS

Imputed interest expenses of approximately HK\$2,824,000 (three months ended 30 September 2013: HK\$2,831,000) and HK\$8,380,000 (nine months ended 30 September 2013: HK\$8,403,000) 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 2014.

At 30 September 2014, the carrying amount of the liability component of the convertible bonds at amortised cost was approximately HK\$110,703,000 (31 December 2013: HK\$102,323,000).

10. RESERVES

For the nine months ended 30 September 2014

	Attributable to owners of the Company								Attributable to non-controlling interests	Total	
	Share premium account	Warrants reserve	Capital redemption reserve	Convertible bonds equity reserve	Share options reserve	Foreign currency translation reserve	Other reserve	Accumulated losses			
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	Subtotal (Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) 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>

	Attributable to owners of the Company								Subtotal (Unaudited) HK\$'000	Attributable to non- controlling interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
	Share premium account (Unaudited) HK\$'000	Warrants reserve (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Convertible bonds equity reserve (Unaudited) HK\$'000	Share options reserve (Unaudited) HK\$'000	Foreign currency translation reserve (Unaudited) HK\$'000	Other reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000			
Balance at 1 January 2014	3,213,139	1,740	1	66,267	14,347	122,407	(49)	(3,329,439)	88,413	180,775	269,188
Loss for the period	-	-	-	-	-	-	-	(31,856)	(31,856)	(4,728)	(36,584)
Other comprehensive expense for the period	-	-	-	-	-	(1,445)	-	-	(1,445)	(1,377)	(2,822)
Total comprehensive expense for the period	-	-	-	-	-	(1,445)	-	(31,856)	(33,301)	(6,105)	(39,406)
Recognition of equity-settled share-based payments	-	-	-	-	8,952	-	-	-	8,952	-	8,952
Issue of new ordinary shares	73,332	-	-	-	-	-	-	-	73,332	-	73,332
Transaction costs attributable to issue of new ordinary shares	(1,943)	-	-	-	-	-	-	-	(1,943)	-	(1,943)
Release of reserve upon share options lapsed	-	-	-	-	(994)	-	-	994	-	-	-
Issue of ordinary shares under share option scheme	2,328	-	-	-	(588)	-	-	-	1,740	-	1,740
Balance at 30 September 2014	<u>3,286,856</u>	<u>1,740</u>	<u>1</u>	<u>66,267</u>	<u>21,717</u>	<u>120,962</u>	<u>(49)</u>	<u>(3,360,301)</u>	<u>137,193</u>	<u>174,670</u>	<u>311,863</u>

11. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the nine months ended 30 September 2014 (nine months ended 30 September 2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

During the nine months ended 30 September 2014, the Company focused on operating the sales halls for lottery games with high payout and quick results of lottery game sales halls of “Happy 12” in Shenyang and Dalian of Liaoning Province in the PRC.

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

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

Framework agreements in relation to possible acquisitions

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

On 22 April 2014, Treasure Holy Investment Development Limited (“**Treasure Holy**”), a wholly-owned subsidiary of the Company, entered into a framework agreement (the “**2014 Framework Agreement**”) with, among others, two independent third parties (the “**2014 Potential Vendors**”) in relation to a possible acquisition by Treasure Holy of 60% of the entire equity interests in a company (the “**Target Company**”) principally engaged in the provision of trading settlement and deferred spot delivery services of petrochemical and energy products and the associated electronic trading, trading data clearing and settlement custodian services. Pursuant to the 2014 Framework Agreement, Treasure Holy is required to pay a deposit of HK\$1 million to a payee designated by the 2014 Potential Vendors. During the period of one year from the date of receipt of the deposit, Treasure Holy is entitled on an exclusive basis to acquire the 60% of the entire equity interest in the Target Company. The 2014 Framework Agreement was terminated on 22 August 2014 (the “**Termination**”). The advanced deposit of HK\$1 million was refunded. Details of the 2014 Framework Agreement and the Termination were set out in the Company’s announcements dated 23 April 2014 and 22 August 2014 respectively.

Supply contract of sports entertainment electronic video lottery terminals

On 5 June 2014, the Group announced the winning of the open bid (quotation required) for the procurement of sports entertainment electronic video lottery terminals (“**VLT**”) by Hainan Provincial Government. Huancai Puda has entered into a supply contract with Hainan Provincial Sports Lottery Administration Centre.

The Company is aware that, the procurement of sports entertainment electronic VLT in Hainan is the first open bid (quotation required) for government VLT procurement in the sports lottery market in the PRC. In 2013, sales of sports lotteries in the PRC reached Renminbi (“**RMB**”)132.8 billion. In comparison, sales of welfare lotteries in the PRC amounted to RMB176.53 billion in 2013 within that the video lottery “China Welfare Lottery Online” recorded sales of approximately RMB17.014 billion, approximately RMB22.423 billion and approximately RMB28.939 billion respectively for 2011, 2012 and 2013. The sales of electronic video lottery recorded a year-on-year growth of 29.1%.

The Group is the sports entertainment electronic VLT provider in the first open bid (quotation required) for government procurement in the PRC’s sports lottery market. Capitalising on our technical strengths, the Group will extend its VLT business presence in other provincial sports lottery markets.

Financial Review

For the nine months ended 30 September 2014, the Group recorded an unaudited revenue of approximately HK\$3,205,000 with an increase of approximately HK\$1,807,000 and as compared with that for the corresponding period in 2013. The revenue of the Group was mainly derived from the sale of lottery equipment and the provision of management, marketing and operating services for lottery system and lottery halls. For the nine months ended 30 September 2014, the unaudited loss attributable to owners of the Company increased by approximately HK\$6,093,000 as compared with that for the corresponding period in 2013. The difference was mainly derived from the increase in administrative expenses.

Capital structure

As at 30 September 2014, the Company had 2,217,035,049 Shares (30 September 2013: 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 lottery sales halls in the PRC, striving to become the leading operator of high frequency lottery sales hall in the PRC. The Group will also extend its VLT business presence in other provincial sports lottery markets. At the same time, the Group will continue to adopt an active and prudent strategy, and keep looking for projects in the PRC's lottery industry as well as other opportunities in line with China's 12th Five-Year Plan.

Other Information

Issue of Shares under the Share Option Scheme

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

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

On 8 April 2014, the Company allotted and issued 3,000,000 Shares to Mr. Ng (as defined below) due to the exercise of share options at an exercise price of HK\$0.063 per Share which were granted on 21 May 2013.

Issue of Shares under the conversion of the Convertible Preferred Shares

On 9 April 2014, the Company allotted and issued 100,000,000 Shares to Mr. Leung due to the conversion of 100,000,000 Convertible Preferred Shares (as defined below) which were allotted and issued by the Company on 17 December 2012.

Grant of share options

On 25 March 2014, the Company granted share options to certain eligible participants to subscribe for a total of 32,000,000 new Shares pursuant to the Share Option Scheme at an exercise price of HK\$0.364 per Share. Details of which were set out in the announcement of the Company dated 25 March 2014.

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

On 10 July 2014, the Company granted share options to Ms. Wu Wei Hua (“**Ms. Wu**”), an executive Director of the Company, to subscribe for a total of 20,000,000 new Shares pursuant to the Share Option Scheme at an exercise price of HK\$0.280 per Share. Details of which were set out in the announcement of the Company dated 10 July 2014.

Change of Director

Mr. Ng Kwok Chu, Winfield (“**Mr. Ng**”) resigned as an executive Director with effect from 26 May 2014 (the “**Resignation of Director**”) and Mr. Sung Kin Man had been appointed as the executive Director in place of Mr. Ng with effect from 26 May 2014 (the “**Change of Director**”). Details of the Change of Director were set out in the announcement of the Company dated 26 May 2014.

EVENT AFTER THE REPORTING PERIOD

Early redemption of Convertible Bonds

On 10 October 2014, the Company early redeemed an aggregate principal amount of HK\$25,000,000 Convertible Bonds (as defined below) which were issued by the Company to Mr. Leung on 27 August 2010.

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

Long position in the Shares and underlying Shares

Name of Director	Number of Shares		Equity derivatives	Total	Approximate percentage of issued share capital (Note 8)
	Personal interest	Corporate interest			
Mr. Leung	436,335,000 (Note 1)	294,880 (Notes 1 & 2)	1,583,416,666 (Notes 3, 4 & 5)	2,030,046,546	91.57%
Ms. Wu	–	–	22,000,000 (Note 6 & 7)	22,000,000	0.99%

Notes:

- As a result of the 2012 Share Consolidation (as defined below), these Shares were adjusted.
- These Shares were held by Speedy Well Investments Limited (“Speedy Well”) which was wholly and beneficially owned by Mr. Leung. By virtue of the SFO, Mr. Leung was deemed to be interested in the Shares held by Speedy Well.
- These equity derivatives comprises 120,083,333 Shares to be issued upon exercise of conversion rights attaching to the Convertible Bonds (as defined below) which were issued by the Company on 27 August 2010 and 1,463,333,333 Convertible Preferred Shares (as defined below) were allotted and issued by the Company on 17 December 2012.

4. The convertible bonds in an aggregate principal amount of HK\$797,500,000 at a conversion price of HK\$0.240 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 2014, the Convertible Bonds in the amount of HK\$144,100,000 remains outstanding. As a result of the consolidation of every five shares of HK\$0.001 each in both issued and unissued share capital of the Company into one consolidated share of HK\$0.005 each which became effective on 27 February 2012 (the “**2012 Share Consolidation**”), the relevant conversion price was adjusted from HK\$0.240 to HK\$1.200 per Share and the number of Shares falling to be issued under the outstanding Convertible Bonds was adjusted from 600,416,666 shares of HK\$0.001 each in the share capital of the Company to 120,083,333 consolidated shares. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.
5. 1,563,333,333 convertible preferred shares at an issue price of HK\$0.600 per convertible preferred share were allotted and issued to Mr. Leung on 17 December 2012 (the “**Convertible Preferred Shares**”) 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. As at 30 September 2014, 1,463,333,333 allotted and issued Convertible Preferred Shares have not been converted yet.
6. 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\$0.0005 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 consolidation of every two shares in both issued and unissued share capital of the Company into one consolidated share of HK\$0.001 each which became effective on 21 October 2008, the 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 10 July 2014, Ms. Wu was further 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\$0.280 per share. Such share options would be exercisable during the period from 10 July 2014 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. The percentage is calculated on the basis of 2,217,035,049 Shares in issue as at 30 September 2014.

Save as disclosed above, as at 30 September 2014, none of the Directors and the chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Required Standard of Dealings.

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

Save as disclosed above, as at 30 September 2014, the Company had not been notified by any person or company, other than the Directors or the chief executive of the Company whose interest are set out in the section headed “INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION” in this report, who had interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

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

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 29 June 2007 to replace its previous share option scheme adopted on 19 February 2001 and refreshed its 10% general limit on the grant of share options on 9 April 2009, 20 April 2010 and 5 May 2014 respectively. 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 2014, detailed movements relating to options granted under the Share Option Scheme were as follows:

Name or category of participant	Date of grant	Exercise price	Exercise period	Movements of share options during the period				As at 30 September 2014
				As at 1 January 2014	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*
	10 October 2013	0.087	10 October 2013 – 29 June 2017	16,000,000	–	–	–	16,000,000
	25 March 2014	0.364	25 March 2014 – 29 June 2017	–	32,000,000	–	–	32,000,000
	26 March 2014	0.365	26 March 2014 – 29 June 2017	–	2,700,000	–	–	2,700,000
Continuous Contract Employees	21 May 2013	0.063	21 May 2013 – 29 June 2017	27,000,000	–	(27,000,000)	–	–
Directors								
– Mr. Ng	10 July 2008	1.328*	10 July 2008 – 29 June 2017	2,000,000*	–	–	(2,000,000)	–
(Resigned on 26 May 2014)	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*
	10 July 2014	0.280	10 July 2014 – 29 June 2017	–	20,000,000	–	–	20,000,000

* 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 2014, 32,000,000 share options at an exercise price of HK\$0.364 per Share, 2,700,000 share options at an exercise price of HK\$0.365 per Share and 20,000,000 share options at an exercise price of HK\$0.280 per Share had been granted by the Company. A total of 30,000,000 share options granted under the Share Option Scheme was exercised at HK\$0.063 per Share and 2,000,000 share options at an exercise price of HK\$1.328 per Share had been lapsed due to the Resignation of Director.

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 2014 and up to the date of this report, was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporation as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

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 interests of the shareholders of the Company (the “Shareholders”).

For the period under review from 1 January 2014 to 30 September 2014, the Company has complied with all the code provisions in the Corporate Governance Code (the “CG Code”) as set out in Appendix 15 to the GEM Listing Rules except the following:

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code 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 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, implementation of business decisions and strategies, and ensures the generation of benefits to the Shareholders.

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

The Company is still looking for a suitable candidate to fill the vacancy of the chief executive officer in order to comply with the CG Code.

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 2014.

AUDIT COMMITTEE

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

The Group’s third quarterly results for the nine months ended 30 September 2014 have been reviewed by the Audit Committee which is of the opinion that such statements complied with the applicable accounting standards, the GEM Listing Rules and other legal requirements and that adequate disclosures have been made.

COMPETING INTERESTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the nine months ended 30 September 2014.

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

Hong Kong, 12 November 2014

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