

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



中彩網通控股有限公司

China Netcom Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8071)

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

THE LOAN CAPITALISATION

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

GEM LISTING RULES IMPLICATION

As at the date of this announcement, Mr. Leung, being a substantial Shareholder, the chairman of the Company and an executive Director, is a connected person of the Company.

As such, the Loan Capitalisation constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. As certain of the relevant applicable percentage ratios in respect of the Loan Capitalisation calculated in accordance with the GEM Listing Rules are more than 25%, the Loan Capitalisation will be subject to the independent Shareholders' approval at the EGM. Mr. Leung and his associate(s) are required to abstain from voting on the resolution(s) approving the Loan Capitalisation and the transactions contemplated thereunder at the EGM.

PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

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

GENERAL

A circular containing, amongst other things, details of the Loan Capitalisation and the proposed amendments to the Memorandum and Articles of Association, a letter from the Independent Board Committee, a letter from the independent financial adviser setting out its advice in relation to the Loan Capitalisation and a notice to convene the EGM, will be despatched to the Shareholders on or before 19 September 2012 in compliance with the GEM Listing Rules.

THE LOAN CAPITALISATION AGREEMENT

Date : 29 August 2012

Parties :

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

Issuer : the Company

Conditions precedent:

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

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

- (iii) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares to be issued upon conversion of the Convertible Preferred Shares, and (if necessary) to issue and allot the Convertible Preferred Shares.

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

Convertible Preferred Shares

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

Number of Convertible Preferred Shares:	1,563,333,333
Par value:	HK\$0.005
Issue Price:	HK\$0.60 per Convertible Preferred Share
Conversion rate for each Convertible Preferred Share:	One to one (one Convertible Preferred Share can be converted into one ordinary Share)
Conversion:	<p>The holders of the Convertible Preferred Shares shall have the right to convert the Convertible Preferred Shares, in whole or in part, at any time at the conversion rate set out above provided that:</p> <ul style="list-style-type: none">(i) any conversion of the Convertible Preferred Shares will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Convertible Preferred Shares holder who exercised the conversion rights; and(ii) the public float of the Shares shall not be less than 25% (or any given percentage as required by the GEM Listing Rules) of the issued Shares at any time in compliance with the GEM Listing Rules.
Dividends:	<p>The holders of the Convertible Preferred Shares shall be entitled to dividend to the same extent as holders of the ordinary Shares and the Convertible Preferred Shares shall rank pari passu with the ordinary Shares in dividend as declared by the Company from time to time</p>

Redemption:	The Convertible Preferred Shares are non-redeemable
Transferability:	The Convertible Preferred Shares are transferrable
Voting rights:	The Convertible Preferred Shares have no voting rights
Rights in liquidation:	<p>(i) The Convertible Preferred Shares shall rank pari passu with ordinary Shares for return of capital in the event of liquidation; and</p> <p>(ii) The Convertible Preferred Shares shall rank pari passu with ordinary Shares for the right to participate in distribution of surplus in the event of liquidation.</p>
Governing law:	Hong Kong

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

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

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

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

REASONS FOR THE LOAN CAPITALISATION

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

Reference is made to the announcement of the Company dated 24 June 2010. On 13 May 2010, Mr. Leung and Easywin International Holdings Limited (“**Easywin**”), a wholly-owned subsidiary of the Company, entered into an acquisition agreement (“**Acquisition Agreement**”) pursuant to which Mr. Leung agreed to sell and Easywin agreed to purchase the entire issued share capital of Pearl Sharp Limited at a consideration (“**Consideration**”) of HK\$2,112,500,000. Pursuant to the Acquisition Agreement, part of the Consideration, being HK\$1,200,000,000, shall be satisfied by Easywin procuring the Company to issue the Promissory Note in favour of Mr. Leung. The Promissory Note with principal amount of HK\$1,200,000,000 is unsecured, interest bearing at 0.15% per annum and has a maturity period of five years from the date of issue but can be repaid in whole or in part before maturity at the discretion of the Company at its principal amount and accrued interest up to the redemption date. The Promissory Note was fair valued at initial recognition with an effective interest rate of 17.35% per annum.

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

The Directors (excluding the independent non-executive Directors whose view will be rendered upon receiving the advice of the independent financial adviser) consider that the terms of the Loan Capitalisation (including the Issue Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

SHAREHOLDING STRUCTURE

Set out below are the shareholding structures of the Company (i) as at the date of this announcement; and (ii) immediately after Completion and the issue and allotment of the Convertible Preferred Shares and exercise in full of the conversion rights attaching to the Convertible Preferred Shares:

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

Notes:

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

GEM LISTING RULES IMPLICATION

As at the date of this announcement, Mr. Leung, being a substantial Shareholder, the chairman of the Company and an executive Director, is a connected person of the Company.

As such, the Loan Capitalisation constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. As certain of the relevant applicable percentage ratios in respect of the Loan Capitalisation calculated in accordance with the GEM Listing Rules are more than 25%, the Loan Capitalisation will be subject to the independent Shareholders' approval at the EGM. Mr. Leung and his associate(s) are required to abstain from voting on the resolution approving the Loan Capitalisation and the transactions contemplated thereunder at the EGM.

PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

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

Accordingly, the Directors propose to seek the approval of the Shareholders by way of special resolutions for the amendments to the Memorandum and Articles of Association at the EGM.

CIRCULAR

A circular containing, amongst other things, details of the Loan Capitalisation and the proposed amendments to the Memorandum and Articles of Association, a letter from the Independent Board Committee, a letter from the independent financial adviser setting out its advice in relation to the Loan Capitalisation and a notice to convene the EGM, will be despatched to the Shareholders on or before 19 September 2012 in compliance with the GEM Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Board”	the board of Directors
“Company” or “Issuer”	China Netcom Technology Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“Completion”	completion of the Loan Capitalisation in accordance with the terms and conditions of the Loan Capitalisation Agreement
“connected person(s)”	has the meaning ascribed thereto in the GEM Listing Rules

“Convertible Preferred Shares”	1,563,333,333 convertible preferred shares to be issued and allotted to the Subscriber by the Company pursuant to the Loan Capitalisation Agreement
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, amongst other things, approve the Loan Capitalisation and the transactions contemplated thereunder and the proposed amendments to the Memorandum and Articles of Association
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent board committee of the Company formed by all the independent non-executive Directors to advise the independent Shareholders on the terms of the Loan Capitalisation and the transactions contemplated thereunder
“Issue Price”	HK\$0.60 per Convertible Preferred Share
“Last Trading Day”	29 August 2012, being the last trading day prior to the entering into of the Loan Capitalisation Agreement
“Loan”	the outstanding amount of HK\$938,000,000 due by the Company to the Subscriber pursuant to the Promissory Note
“Loan Capitalisation”	the subscription of the 1,563,333,333 Convertible Preferred Shares at the Issue Price by the Subscriber in accordance with the terms and conditions of the Loan Capitalisation Agreement by capitalising of the entire amount of the Loan
“Loan Capitalisation Agreement”	the agreement dated 29 August 2012 entered into between the Subscriber and the Company in respect of the Loan Capitalisation

“Memorandum and Articles of Association”	the memorandum of association and articles of association of the Company as amended from time to time
“Mr. Leung” or “Subscriber”	Mr. Leung Ngai Man, a substantial Shareholder, the chairman of the Company and an executive Director
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Promissory Note”	the promissory note in the principal amount of HK\$1,200,000,000 executed by the Company in favour of Mr. Leung for the purpose of settling part of the consideration for the acquisition of the entire issued share capital of Pearl Sharp Limited, details of which were set out in the announcement of the Company dated 24 June 2010 and the circular of the Company dated 30 July 2010
“Share(s)”	existing ordinary share(s) of HK\$0.005 each in the share capital of the Company
“Shareholder(s)”	the holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers
“%”	per cent.

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

Hong Kong, 29 August 2012

As at the date of this announcement, 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 Dr. Leung Wai Cheung, Mr. Cai Wei Lun and Mr. Qi Ji.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement 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.