
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Netcom Technology Holdings Limited** (the “Company”), you should at once hand this circular and the accompanied form of proxy to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sales or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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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 –
EXTENSION OF THE MATURITY DATE OF THE CONVERTIBLE BOND
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser



大有融資有限公司
MESSIS CAPITAL LIMITED

Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders

Nuada Limited

Corporate Finance Advisory

A letter from the board of directors of the Company is set out on pages 4 to 20 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on page 21 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 33 of this circular.

A notice convening an extraordinary general meeting of the Company (the “EGM”) to be held at 10:00 a.m. on 3 November 2015 at Unit 1006, 10th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong is set out on pages 40 to 41 of this circular. Whether or not you intend to attend and/or vote at the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjournment thereof (as the case may be). Completion and return of the accompanying form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

15 October 2015

CHARACTERISTICS OF THE GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

In this circular, unless the context otherwise requires, capitalised terms used shall have the following meanings:

“Amendment of Terms”	the proposed amendment to the terms and conditions of the Convertible Bond pursuant to the Supplemental Deed to extend the maturity date of the Convertible Bond
“Board”	the board of Directors
“Bondholder”	holder of the Convertible Bond, being Mr. Leung
“Business Day”	a day (other than Saturday) on which banks in Hong Kong are generally open for business
“Company”	China Netcom Technology Holdings Limited (中彩網通控股有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the GEM under the stock code 8071
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Conversion Price”	HK\$1.20 per Conversion Share, subject to adjustments, pursuant to the terms and conditions of the Convertible Bond
“Conversion Share(s)”	new Share(s) which would fall to be issued by the Company upon the exercise of the conversion rights attached to the Convertible Bond
“Convertible Bond”	the convertible bond in the aggregate principal amount of HK\$797.5 million issued by the Company to the Bondholder on 27 August 2010
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Supplemental Deed and the Amendment of Terms and transactions contemplated thereunder
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders as to the terms of the Supplemental Deed and the Amendment of Terms and the transactions contemplated thereunder
“Independent Financial Adviser” or “Nuada”	Nuada Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the Amendment of Terms
“Independent Shareholders”	the Shareholders who are not interested or involved in the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder
“Latest Practicable Date”	13 October 2015, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Committee”	has the meaning as described to this team under the GEM Listing Rules
“Mr. Leung”	Mr. Leung Ngai Man, an executive Director and the chairman of the Board
“PRC”	the People’s Republic of China
“Previous Circular”	the circular dated 30 July 2010 issued by the Company in relation to, amongst other things, the issue of the Convertible Bond
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.005 each in the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Deed”	the supplemental deed dated 24 August 2015 executed between the Company and the Bondholder in relation to the Convertible Bond

DEFINITIONS

“Takeovers Code”	the code on Takeover and Mergers issued by the SFC in Hong Kong
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

* *The English translation of Chinese names or words in this circular, where indicated, are included for information purposes only, and should not be regarded as the official English translation of such Chinese names or words.*

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Leung Ngai Man (*Chairman*)

Ms. Wu Wei Hua

Independent non-executive Directors:

Mr. Cai Wei Lun

Mr. Qi Ji

Ms. Xuan Hong

Registered office:

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Hong Kong

15 October 2015

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION – EXTENSION OF THE MATURITY DATE OF THE CONVERTIBLE BOND

INTRODUCTION

Reference is made to the announcement of the Company dated 24 August 2015 in relation to the Supplemental Deed and the Amendment of Terms.

As mentioned in the Previous Circular, upon completion of the very substantial acquisition and connected transaction, part of the consideration was settled by the issue of the Convertible Bond to the Bondholder, Mr. Leung (an executive Director and the chairman of the Board), in the principal amount of HK\$797,500,000. The Convertible Bond was issued to the Bondholder on 27 August 2010.

As at the Latest Practicable Date, the Convertible Bond in the principal amount of HK\$104,100,000 remained outstanding, which is held by Mr. Leung. All outstanding principal amount under the Convertible Bond matured on 27 August 2015 pursuant to the original terms and conditions of the Convertible Bond.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, amongst other things, (i) further details of the Supplemental Deed and the Amendment of Terms; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Deed and the Amendment of Terms; and (iv) a notice of the EGM to consider and if thought fit, to approve the resolution in relation to the Supplemental Deed and the Amendment of Terms.

SUPPLEMENTAL DEED RELATING TO THE CONVERTIBLE BOND

On 24 August 2015, the Company entered into the Supplemental Deed with the Bondholder, pursuant to which the Company and the Bondholder agreed to extend the maturity date of the Convertible Bond for 5 years from the date falling on the fifth year to the date falling on the tenth year from the date of issue of the Convertible Bond. Pursuant to the Supplemental Deed, the Amendment of Terms is conditional upon the satisfaction of the following conditions:

1. the passing by the Independent Shareholders at the EGM of the necessary resolution(s) to approve the Supplemental Deed and the Amendment of Terms;
2. the Stock Exchange having approved the Amendment of Terms in accordance with the GEM Listing Rules and the Listing Committee granting approval for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange and the approval not having been subsequently revoked or cancelled; and
3. all necessary consents and approvals required to be obtained on the part of the Company and the Bondholder in respect of the Amendment of Terms having been obtained.

The conversion period under the Convertible Bond, which is between the date immediately following the issue of the Convertible Bond and the maturity date (both dates inclusive), will be extended accordingly.

PRINCIPAL TERMS OF THE CONVERTIBLE BOND AS SUPPLEMENTED BY THE SUPPLEMENTAL DEED

Save and except the amendment to the maturity date pursuant to the Supplemental Deed, all the terms and conditions in the Convertible Bond remain unchanged, valid and in full force.

The principal terms of the Convertible Bond as amended pursuant to the Supplemental Deed are summarised as follows:

Issuer	:	The Company
Principal amount	:	The Convertible Bond in the aggregate principal amount of HK\$797.5 million was issued on 27 August 2010. As at the Latest Practicable Date, the Convertible Bond in the principal amount of HK\$104,100,000 remained outstanding.

LETTER FROM THE BOARD

Conversion Price : HK\$1.20 per Conversion Share

The Conversion Price was initially at HK\$0.24 per conversion share, subject to adjustment upon the occurrence of capitalisation of profits and reserves, rights issue, subdivision of Shares, consolidation of Shares or reduction of share capital or other changes (including issuance of convertible securities, warrants or options to subscribe for the Company's securities) to the share capital structure.

As a result of the consolidation of Shares effective on 27 February 2012 (as set out in the Company's announcement dated 19 January 2012 and the circular dated 8 February 2012), the Conversion Price was adjusted from HK\$0.24 to HK\$1.20 per Conversion Share.

Interest : Interest free

Transferability : The Convertible Bond may be transferred or assigned in whole or in part by the Bondholder to any person or company provided that (i) where such transfer is made to a connected person of the Company, such transfer shall comply with the requirements (if any) of the Stock Exchange and (ii) prior written consent of the Company is obtained.

Maturity date : Originally the date falling on the fifth year from the date of issue. Pursuant to the Supplemental Deed, the maturity date is extended to the date falling on the tenth year from the date of issue, subject to the satisfaction of the conditions set out in the Supplemental Deed as mentioned above.

Conversion rights : The Bondholder may convert the whole or part (in multiples of HK\$100,000) of the principal amount of the Convertible Bond into Conversion Shares at the Conversion Price for the period commencing from the date of issue of the Convertible Bond up to the maturity date.

The Bondholder shall have the right to convert the Convertible Bond, in whole or in part, at any time at the Conversion Price set out above provided that:

LETTER FROM THE BOARD

- (i) no conversion of the Convertible Bond shall be made if immediately upon such conversion, the Bondholder and parties acting in concert with it will hold more than 29% (or any other voting right percentage which triggers a mandatory general offer obligation under Rule 26 of the Takeovers Code); 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 one time in compliance with the GEM Listing Rules.

Early redemption	:	Upon occurrence of an event of default set out in the conditions of the Convertible Bond, including among others, a sufficient number of authorised but unissued Shares are not available for the fulfilment of the obligations regarding the conversion of the Convertible Bond, a breach of the provisions of the Convertible Bond, breach of major terms of the Acquisition Agreement and dissolution or winding up of the Company, the Bondholder may give written notice to the Company that the Convertible Bond are immediately due and repayable. Upon any such notice being given to the Company, the Convertible Bond will become due and repayable on the Business Day falling the seventh Business Day from the date of such notice at their principal amount.
Ranking of the Conversion Shares	:	The Conversion Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Conversion Shares.
Ranking of the Convertible Bonds	:	The Convertible Bond constitutes direct, unconditional, unsubordinated and unsecured obligations of the Company and rank pari passu and ratably without preference among themselves, and with other current and future unsubordinated and unsecured obligations of the Company.
Voting	:	The Convertible Bond does not confer any voting rights at any meetings of the Company.

LETTER FROM THE BOARD

Public float : The Company, at all times, shall use its reasonable endeavours to ensure that the relevant provisions as to the minimum public float requirement of the GEM Listing Rules are complied with. It will be a term of the Convertible Bond that the Bondholder shall not exercise any of the conversion rights attaching to the Convertible Bond if, following such exercise, the Company's minimum public float cannot be maintained.

No application will be made for the listing of, or permission to deal in, the Convertible Bond on the Stock Exchange or any other stock exchange. An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be issued upon the conversion of the Convertible Bond.

Please refer to the Previous Circular for further details of the Convertible Bond.

REASON FOR AND BENEFIT OF THE TRANSACTION

The Convertible Bond would mature on 27 August 2015 under its original terms unless further extended. The extension of the maturity date of the Convertible Bond allows the Company to finance the debts under the Convertible Bond without any interest cost under the same terms for a further 5 years. By taking the advantage of such interest-free debt financing under the Convertible Bond, the Board is of the view that the extension of the maturity date will enhance the sufficiency of working capital of the Group without incurring any interest expenses. Based on the foregoing, the Board considers that it is not in the interest of the Company to use the Group's current cash balance to repay the whole or a portion of the Convertible Bond when the opportunity to extend the maturity date of such interest-free debt is now available to the Company.

The Amendment of Terms was arrived at after arm's length negotiation between the Company and the Bondholder. The Board considers that the terms and conditions of the Supplemental Deed are fair and reasonable, and the Amendment of Terms is in the interests of the Company and the Shareholders as a whole. The Directors are of the view that the Amendment of Terms will not pose any significant impact on the operations of the Group.

THE GROUP'S PRINCIPAL BUSINESS ACTIVITIES

The Group is mainly engaged in (i) the trading of computer hardware and software in the PRC (the "Trading Business"); and (ii) the provision of lottery system management service and operation of lottery sales halls services in the PRC (the "Lottery Business").

LETTER FROM THE BOARD

INFORMATION REGARDING THE LOTTERY BUSINESS ACQUISITION, SUBSEQUENT DEVELOPMENT AND IMPAIRMENT LOSSES

Lottery Business Acquisition

As mentioned in the Previous Circular, on 13 May 2010, Easywin International Holdings Limited (“Easywin”), a wholly-owned subsidiary of the Company, entered into an acquisition agreement (“Acquisition Agreement”) with Mr. Leung, pursuant to which Mr. Leung agreed to sell and Easywin agreed to purchase the entire issued share capital of Pearl Sharp Limited, whose sole asset was the entire issued capital of Greatest Profit Investment Limited, which in turn owned 51% of the registered and paid up capital of 深圳環彩普達科技有限公司 (Shenzhen Huancai Puda Technology Company Limited*) (“Huancai Puda”), for a consideration of HK\$2,112.5 million (the “Lottery Business Acquisition”).

Huancai Puda specialised in the provision of innovative sales channel technical service and operation service of lottery sales to lottery issue centres in the PRC. Huancai Puda developed various innovative sales systems and softwares including lottery sales through mobile phone networks, short message-services of mobile phones, and interactive voice response system of telephones as well as lottery sales through banks’ automatic-teller machines, self-service terminals, digital televisions, internet protocol television and mobile terminals.

Upon completion of the Lottery Business Acquisition on 27 August 2010, part of the consideration was settled by the issue of the Convertible Bond to the Bondholder, in the principal amount of HK\$797,500,000.

Further details regarding the Lottery Business Acquisition were set out in the announcements of the Company dated 8 June 2010, 24 June 2010, 16 August 2010 and 27 August 2010 and the Previous Circular.

Impairment losses

As a result of the Lottery Business Acquisition, goodwill of approximately HK\$432 million and intangible assets of approximately HK\$2,307 million were recognised upon completion of the Lottery Business Acquisition. As at 31 December 2012, the goodwill arising from the Lottery Business Acquisition was fully impaired. As at 31 December 2014, the carrying amount of intangible assets arising from the Lottery Business Acquisition was reduced to approximately HK\$99 million. The reasons for the impairment are discussed below.

(a) Year ended 31 December 2010

For the year ended 31 December 2010, the Group recorded impairment loss of approximately HK\$408 million on the goodwill and impairment loss of approximately HK\$1,630 million on the intangible assets arising from the Lottery Business Acquisition due to the issue of new PRC regulations in October 2010 resulting in Huancai Puda and its subsidiary (“Huancai Puda Group”) being unable to fulfil its obligations under three cooperation agreements for the sales of lottery through mobile phones and internet before obtaining the relevant operation permits required by the new regulations.

LETTER FROM THE BOARD

The recoverable amount attributable to the Lottery Business was determined based on value-in-use calculation which used cash flow projections based on financial budgets approved by the management in accordance with the terms of the cooperation agreements. The key assumptions for the value-in-use calculation were those regarding the discount rate, growth in revenue and direct costs. The management estimated the discount rate based on the prevailing market assessments of the time value of money and the risk specific to the Lottery Business. In performing the impairment testing, the Directors made reference to the valuation performed by Norton Appraisals Limited (“**Norton**”), an independent valuer. Based on the above, an impairment loss on goodwill of approximately HK\$408 million was charged to the consolidated statement of comprehensive income of the Group for the year ended 31 December 2010.

The intangible assets recognised as a result of the Lottery Business Acquisition represented the amount of the concession rights, which in turn represented the fair value of contractual rights stated in the various cooperation agreements that Huancai Puda Group entered into with different lottery issuing centres for providing software system and technical service. The fair value of the concession rights was arrived at based on the valuation carried out by Norton. The valuation was determined by reference to discounted cash flows projections. The amount of concession rights was amortised on a straight-line method over the period of three to eight years in accordance with the terms of such cooperation agreements. During the year ended 31 December 2010, in view of the aforesaid new PRC regulations and consequently the Huancai Puda Group’s inability to perform its obligations under these cooperation agreements during the period prior to its obtaining the relevant operation permits, the recoverable amount of the concession rights as at 31 December 2010 was reassessed and an impairment loss of concession rights of approximately HK\$1,630 million was charged to the consolidated statement of comprehensive income of the Group for the year ended 31 December 2010.

(b) Year ended 31 December 2011

During the year ended 31 December 2011, the Group recognised an impairment loss of approximately HK\$12.4 million in relation to goodwill attributable to the Lottery Business. The recoverable amount attributable to the Lottery Business was determined based on value-in-use calculation which used cash flows projections based on financial budgets approved by the management in accordance with the terms of the cooperation agreements. The key assumptions for the value-in-use calculation were those regarding the discount rate, growth in revenue and direct costs. The management estimated the discount rate based on the prevailing market assessments of the time value of money and the risk specific to the Lottery Business. In performing the impairment testing, the Directors have made reference to the valuation performed by Peak Vision Appraisals Limited (“**Peak Vision**”) which stated that the market value for the 100% equity interest of Huancai Puda as at 31 December 2011 was RMB857 million based on the income-based approach. Based on the above, an impairment loss of approximately HK\$12.4 million in relation to goodwill attributable to the Lottery Business was charged.

Regarding the intangible assets, as at 31 December 2011, the recoverable amount of the concession rights was assessed by the Directors with reference to the valuation as at 31 December 2011 performed by Peak Vision. The Directors were of the opinion that based on the assessment, the concession rights were not impaired compared with its carrying amount as at 31 December 2011.

LETTER FROM THE BOARD

(c) Year ended 31 December 2012

As at 31 December 2012, the carrying amount of goodwill attributable to the Lottery Business was fully impaired and an impairment loss on goodwill of approximately HK\$34 million was charged to the consolidated statement of comprehensive income of the Group for the year ended 31 December 2012. Same as in the previous financial years, the recoverable amount attributable to the Lottery Business was determined based on value-in-use calculation which used cash flow projections based on financial budgets approved by the management in accordance with the terms of the cooperation agreements. The key assumptions for the value-in-use calculation were those regarding the discount rate, growth in revenue and direct costs. The management estimated the discount rate based on the prevailing market assessments of the time value of money and the risk specific to the Lottery Business. In performing the impairment testing, the Directors made reference to the valuation performed by Peak Vision. Based on the above, an impairment loss of goodwill of approximately HK\$34 million was charged to the consolidated statement of comprehensive income of the Group for the year ended 31 December 2012.

For the year ended 31 December 2012, an impairment loss on intangible assets of approximately HK\$137 million in relation to the Lottery Business was charged to the consolidated statement of comprehensive income of the Group. The amount of concession rights represents the value in use of contractual rights stated in the cooperation agreements that Huancai Puda Group entered into with several lottery issuing centres for providing software system and technical service. The valuation was determined by reference to discounted cash flow projections. At the end of each reporting period, the concession rights are measured using the cost model subject to impairment. In performing the impairment testing, the Directors made reference to the valuation performed by Peak Vision. The impairment loss of approximately HK\$137 million in relation to intangible assets was mainly due to the combined effect of (i) the expected growth rate of one of the lottery issuing centres has decreased as compared to the expected growth rate used in the valuation in 2011 resulting in the decrease in the revenue; and (ii) the increase in the estimated applicable PRC tax rate used in the valuation in 2012 as compared to the tax rate used in the valuation in 2011 in relation to high technology enterprises in the PRC in accordance with the applicable PRC tax law. Based on the above, the Directors were of the view that the recoverable amount of the concession rights would be lower and therefore an impairment loss of intangible assets of approximately HK\$137 million was charged to the consolidated statement of comprehensive income of the Group for the year ended 31 December 2012.

(d) Year ended 31 December 2013

For the year ended 31 December 2013, an impairment loss on intangible assets of approximately HK\$93 million in relation to the Lottery Business was charged to the consolidated statement of profit or loss and other comprehensive income. Same as in the previous financial years, the recoverable amount of the concession rights was assessed by the Directors with reference to the valuation as at 31 December 2013 performed by Peak Vision. The impairment loss of approximately HK\$93 million in relation to intangible assets was mainly due to the combined effect of (i) the decrease in the number of users and the annual sales per unit of one of the lottery issuing centres in the valuation in 2013, resulting in a decrease in the projected revenue; and (ii) the increase in specific risk for the Lottery Business due to the further delay in the business plan in the Lottery Business, resulting in an increase in the discount rate used in the valuation in 2013. Based on the above, the Directors were of the view that the recoverable amount of the concession rights would be lower and therefore an impairment loss of concession rights of approximately HK\$93 million was charged to the consolidated statement of profit or loss and other comprehensive income.

LETTER FROM THE BOARD

(e) Year ended 31 December 2014

For the year ended 31 December 2014, an impairment loss on intangible assets of approximately HK\$374 million in relation to the Lottery Business was charged to the consolidated statement of profit or loss and other comprehensive income. Such impairment loss was mainly due to the termination of a cooperation agreement in the first quarter of 2015 as agreed after negotiations between one of the lottery issuing centres and Huancai Puda in the wake of the industry integration in the PRC during the second half of 2014. Since the amount of concession rights represents the value in use of contractual rights stated in the cooperation agreements that Huancai Puda Group entered into with several lottery issuing centres for providing software system and technical service, the Directors were of the view that the termination of a cooperation agreement will lower the recoverable amount of the concession rights. In performing the impairment testing, the Directors also made reference to the valuation performed by Peak Vision. Based on the above, an impairment loss of intangible assets of approximately HK\$374 million in relation to the Lottery Business was charged to the consolidated statement of comprehensive income of the Group for the year ended 31 December 2014.

Subsequent development

The table below sets out the segment revenue and the segment loss of the Lottery Business for each of the five years ended 31 December 2014 as extracted from the relevant annual reports of the Company:

	For the year ended 31 December				
	2014	2013	2012	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue	3,533	1,280	1,708	424	681
Segment loss	(405,692)	(122,211)	(321,933)	(220,623)	(2,121,699)

After the Lottery Business Acquisition, Huancai Puda entered into various agreements with different parties in relation to the Lottery Business, which are discussed in the paragraphs below.

As disclosed in annual report 2011:

- On 16 May 2011, an agreement was entered into with 廣州珠江在線多媒體信息有限公司 (Guangzhou Zhujiang Online Multimedia Company Limited*) regarding the development of interactive TV lottery service.

Details of the agreement were set out in the announcement of the Company dated 19 May 2011.

- On 28 July 2011, a framework agreement was entered into with 廣州魯銀投資有限公司 (Guangzhou Luyin Investment Co., Limited*) in relation to the co-operation in the development of digital TV lottery sales projects in order to enlarge the market share and increase the profitability of the digital TV lottery sales projects operated by the parties.

Details of the agreement were set out in the announcement of the Company dated 8 August 2011.

LETTER FROM THE BOARD

- On 12 December 2011, a contract was entered into with Scientific Games Worldwide Limited (“**Scientific Games**”) in relation to (i) the joint development of tabletop and mobile terminals in the PRC; (ii) the implementation of the construction of the self-service terminal sales network; and (iii) the joint promotion of the construction and operation of the China Sports Lottery self-service terminals sales system. Scientific Games is one of the world’s leading producers of instant lottery tickets and the exclusive service provider of the instant lottery tickets of the China Sports Lottery.

Details of the agreement were set out in the announcement of the Company dated 15 December 2011.

As disclosed in annual report 2012:

- On 7 February 2012, Huancai Puda and 遼寧省福利彩票發行中心 (Liaoning Province Welfare Lottery Issuing Centre*) (“**Liaoning Welfare Lottery**”) entered into (i) a cooperation agreement, pursuant to which Huancai Puda agreed to set up and manage the sales halls of a high payout and quick-result lottery game, namely China Welfare Lottery “Happy 12”, in Liaoning Province and act as the sales agent; and (ii) a service agreement, pursuant to which Liaoning Welfare Lottery appointed Huancai Puda to undertake the development and maintenance of the sales management system of “Happy 12”.

Details of the cooperation agreement and the service agreement were set out in the announcement of the Company dated 13 February 2012. Such sales halls are located in Shenyang and Dalian, Liaoning Province, the PRC and commenced operation in May 2012.

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

Details of the Lottery Terminal Supply Agreement were set out in the announcement of the Company dated 7 August 2012.

- On 28 September 2012, Huancai Puda and 重慶市福利彩票發行中心 (Chongqing Welfare Lottery Issuing Centre, being its unofficial English name) entered into a sales agency agreement (“**Sales Agency Agreement**”), pursuant to which Huancai Puda agreed to set up and manage China Welfare Lottery “Lucky Farms” thematic sales points in Chongqing, the PRC and to act as the sales agent for the sales of welfare lottery in such sales points. “Lucky Farms” is a quick-result lottery game with a payout rate of 59%. It draws at an interval of every ten minutes with a total of 97 draws every day. The business hour of “Lucky Farms” runs from 10 a.m. to 2 a.m. the next day. The Sales Agency Agreement shall be valid for five years and will automatically renew for another three years upon expiry if there is no objection from each party.

Details of the Sales Agency Agreement were set out in the announcement of the Company dated 10 October 2012.

LETTER FROM THE BOARD

As disclosed in annual report 2014:

- During the year ended 31 December 2014, the Group won the open bid for the procurement of sports entertainment electronic video lottery terminals (“VLT”) by Hainan Provincial Government (the “**Hainan VLT Project**”). Huancai Puda has entered into a supply contract with Hainan Provincial Sports Lottery Administration Centre. Hainan Province is a well-known international tourist island in the PRC, and has served approximately 36 million visitors in 2013. As a special economic zone, Hainan Province enjoys special national policies and Hainan Provincial Sports Lottery Administration Centre is the only official lottery agency in Hainan Province, which is responsible for the coordination and management of the sale and distribution of lottery in Hainan Province. As disclosed in the announcement of the Company dated 2 January 2015, certain lottery games of the sports entertainment electronic VLT in Hainan have been approved for launching onto the market by the Ministry of Finance of the PRC in October 2014. The project is the sole electronic VLT instant lottery in the PRC’s sports lottery market. In particular, the video horse racing game of the project is an innovative PRC’s lottery. The relevant lottery games of the aforesaid project have been open for betting since 1 January 2015 through the electronic VLT provided by the Group.

Details of the Hainan VLT Project were set out in the Company’s announcements dated 5 June 2014, 9 June 2014 and 2 January 2015 respectively.

LATEST BUSINESS DEVELOPMENT, FUTURE PLANS AND UP-TO-DATE STATUS OF THE GROUP

Trading Business

For the year ended 31 December 2014, the Trading Business recorded no segment revenue (2013: HK\$451,000) and a segment loss of approximately HK\$548,000 (2013: HK\$642,000). For the six months ended 30 June 2015, the Trading Business recorded no segment revenue (2014: nil) and a segment loss of approximately HK\$250,000 (2014: HK\$279,000).

As at the Latest Practicable Date, the Group was not contemplating any material change in the Trading Business.

Lottery Business

For the year ended 31 December 2014, the Lottery Business recorded a segment revenue of approximately HK\$3,533,000 (2013: HK\$1,280,000) and a segment loss of approximately HK\$405.7 million (2013: HK\$122.2 million). For the six months ended 30 June 2015, the Lottery Business recorded a segment revenue of approximately HK\$489,000 (2014: HK\$2,931,000) and segment loss of approximately HK\$14.0 million (2014: HK\$13.6 million). The revenue of the Lottery Business for the six months ended 30 June 2015 was derived from the operation and management of the sales hall of a quick-result lottery game of China Welfare Lottery “Happy 12” in Liaoning Province.

As disclosed in the interim report for the six months ended 30 June 2015, during the period, the Group operated and managed the sales hall of a quick-result lottery game of China Welfare Lottery “Happy 12” in Liaoning Province, the PRC, and co-operated the DTV lottery sales system with Chongqing Welfare

LETTER FROM THE BOARD

Lottery Issuing Centre and Chongqing Broadcasting Bureau (重慶廣播電視局) in Chongqing. Besides, the Group is also the terminal equipment provider for the Hainan sports entertainment electronic VLT instant lottery project in the PRC.

Subsequent to 31 December 2014, the major developments of the Lottery Business are as follows:

- As disclosed in the announcement of the Company dated 26 May 2015, on 22 May 2015, Far East Golden Star Limited, a wholly-owned subsidiary of the Company, entered into the letter of intent (the “**LOI**”) with Shoutz, Inc. (“**Shoutz**”) for the possible cooperation in relation to the proposed use of Shoutz’s software in the PRC lottery markets (the “**Project**”). Pursuant to the LOI, the mutual intent of the Project includes (i) to introduce Shoutz’s program to certain provinces of the PRC lottery industry, including but not limited to Hainan and Chongqing; (ii) to use sponsorship and advertising to provide prizes and cover operating costs; (iii) to position the program for rollout in other cities and provinces; (iv) to build database of mobile information for current lottery players; and (v) to position the Project to rapidly include online ticket sales once government approval is available. The Directors consider that cooperating with Shoutz is in line with the development strategy of the Group, and will bring new elements and opportunities for the Group to develop its lottery business in the PRC.

Pursuant to the LOI, Shoutz is responsible for deploying software (online and mobile programs) and maintaining and operating the platform of the Project while the Group is responsible for marketing the platform at retail level. The Group and the Shoutz are mutually responsible for procuring advertisers, sponsors and sponsor-supported prizes. Both parties will share the operation profits on a 50/50 basis. As stated above, Shoutz needs to set up the platform and the Group will introduce the Shoutz’s program to certain provinces of the PRC lottery industry. The program is a second chance reward program. The program offers a second chance for the players to enter the lottery ticket serial number to have a lucky draw again for winning for small prizes and coupons, provided that no prize has been given for such lottery ticket. The major revenue component of the Project will be the income received from the advertisers, who make advertisement in the program, and the sponsors for supporting the program. On the other hand, the major cost components in respect of the Project include the cost for maintaining, operating and marketing the platform and the staff costs.

As disclosed in the interim report for the six months ended 30 June 2015, both parties have established a joint venture in August 2015 and will continue to push forward the aforementioned cooperation.

- As disclosed in the announcement of the Company dated 9 June 2015, 深圳高榮財智科技有限公司 (Shenzhen Gaorong Caizhi Technology Company Limited*) (“**Shenzhen Gaorong**”), a wholly-owned subsidiary of the Company, entered into the strategic cooperation agreement with 北京雷客天地科技有限公司 (Beijing Skyrocker Technology Company Limited*) (“**Beijing Skyrocker**”) and 北京雷旺鑫科技有限公司 (Beijing Leiwangxin Technology Company Limited*) (“**Beijing Leiwangxin**”). All parties agreed to cooperate on the business development of the sales and related value-added services of national lottery (including welfare lottery and sports lottery) in the KTV premises covered by Beijing Skyrocker’s products nationwide.

LETTER FROM THE BOARD

Pursuant to the aforementioned cooperation agreement, Beijing Skyrocker shall be responsible for providing connection portals to its existing karaoke song selection system. Beijing Leiwangxin shall be responsible for designing and supervising the development of the front-end software for the lottery sales, as well as the overall operational management statistical analysis and income distribution of the lottery sales operations. Shenzhen Gaorong shall be responsible for providing the qualifications for lottery sales channels, as well as the investment, development and maintenance of the back-end operational system (including mainframe computers and networks). By setting up the qualified sales channel for the sales of lottery, Shenzhen Gaorong shall receive certain percentage of the sales amount from the PRC lottery centre as lottery sales commission. Such sales commissions are the major revenue component for Shenzhen Gaorong in respect of the strategic cooperation agreement. On the other hand, the major cost components for Shenzhen Gaorong in respect of the strategic cooperation agreement include the costs for the one-off development fee of the front-end software and the maintenance cost of the back-end operational system.

The Directors consider that the Group has the competitive advantage in relation to the aforementioned two cooperation agreements, because of the business network and connections of the Group and the management expertise for the Lottery Business as the relevant management personnel, namely, Mr. Leung, Mr. Ji Feng Qing, Mr. Wu Bin and Ms. Wu Wei Hua have the business connections and solid experience in the area of innovative lottery sales channel operations and technical service.

Looking forward, the Company will continue to build a strong business relationship and recruit management personnel of high caliber. The Company will also explore and identify more lottery business opportunities in Hainan and other provinces of the PRC pursuant to the relevant national policies for the lottery entertainment sector. Meanwhile, the Group will be continuously looking for new projects in the PRC's lottery industry as well as other opportunities in line with China's development under the 12th Five-Year Plan while keeping a close eye on the business development opportunities.

The future plan of the Group is to continue to focus on its existing business, in particular the Lottery Business. In addition, the Group may seek for new business development opportunities in order to maximise Shareholders' value if suitable opportunities arise in relation to the Lottery Business or other business. As at the Latest Practicable Date, the Group was in a preliminary discussion for a potential investment in relation to the further development of the Group's Lottery Business and no legally binding or non-legally binding contract or agreement has been entered into by the Group in this connection. Save as disclosed in this circular and previously disclosed by the Group in its announcements, as at the Latest Practicable Date, the Group did not have any agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about any (a) disposal/termination/scaling down of its existing business; (b) acquisition or investment; or (c) fund raising exercise.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the Company has 3,120,035,049 Shares in issue. The shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) for illustrative purpose, immediately after the exercise of the conversion rights attached to the Convertible Bond in full at the Conversion Price of HK\$1.20 per Conversion Share, assuming that there will be no other change in the shareholding structure of the Company immediately before the exercise of the conversion rights attached to the Convertible Bond will be as follows:

Shareholders	Shareholding as at the Latest Practicable Date		Shareholding immediately after the full conversion of the Convertible Bond at the Conversion Price	
	No. of Shares	%	No. of Shares	%
Mr. Leung and his associates	906,629,880	29.06	993,379,880	30.98
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	
Public Shareholders	<u>2,213,405,169</u>	<u>70.94</u>	<u>2,213,405,169</u>	<u>69.02</u>
	<u>3,120,035,049</u>	<u>100.00</u>	<u>3,206,785,049</u>	<u>100.00</u>

Note:

1. Among the 906,629,880 Shares, 294,880 Shares are held by Speedy Well Investments Limited (“**Speedy Well**”), which is wholly and beneficially owned by Mr. Leung. By virtue of the SFO, Mr. Leung is deemed to be interested in the Shares held by Speedy Well. For further details of the interests of the Directors, please refer to the section headed “**DISCLOSURE OF INTERESTS**” in the appendix to this circular.
2. Pursuant to the terms of the Convertible Bond, no conversion of the Convertible Bond shall be made if immediately upon such conversion, the Bondholder and parties acting in concert with him will hold more than 29% of the issued share capital of the Company. As at the Latest Practicable Date, Mr. Leung and parties acting in concert with him together held approximately 29.06% of the issued share capital of the Company. The shareholding interest of Mr. Leung and parties acting in concert with him having exceeded the aforesaid 29% threshold was caused by the conversion of the convertible preferred shares held by Mr. Leung (rather than the conversion of the Convertible Bond) where the terms of the convertible preferred shares imposed a conversion threshold of below 30% instead of 29%. Meanwhile, pursuant to the terms of the Convertible Bond, the Bondholder and parties acting in concert with it will not be allowed to convert any Convertible Bond unless their shareholdings are less than 29% of the issued share capital of the Company.
3. This scenario of full conversion of the Convertible Bond is for illustrative purposes only because pursuant to the terms of the Convertible Bond, no conversion of the Convertible Bond shall be made if immediately upon such conversion, the Bondholder and parties acting in concert with it will hold more than 29% of the issued share capital of the Company.

FINANCIAL EFFECT OF THE AMENDMENT OF TERMS

As set out in the Company’s interim report for the year ended 30 June 2015, the Group had unaudited cash and cash equivalents amounted to approximately HK\$112,872,000. Furthermore, the Group recorded unaudited current liabilities of approximately HK\$109,946,000 as at 30 June 2015. The extension of the

LETTER FROM THE BOARD

maturity date of the Convertible Bond pursuant to the Supplemental Deed will enable the Group to postpone a substantial cash outflow for the repayment of the outstanding debt under the Convertible Bond. In light of the above, the extension of the maturity date of the Convertible Bond pursuant to the Supplemental Deed would release the liquidity and working capital pressure of the Group.

FUND RAISING EXERCISE OF THE COMPANY IN THE PAST TWELVE MONTHS

The following table summarises the fund raising activities of the Company in the past twelve months immediately prior to the Latest Practicable Date:

Date of placing agreement	Date of completion	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds as at the Latest Practicable Date
19 May 2015	21 May 2015	Placing of existing shares and top-up subscription of new shares under the general mandate	Approximately HK\$63.30 million	General working capital and future business development (including for the settlement of payments for cost of sales in the Group's business operations, salaries of staff and the Directors, auditors' remuneration, rental expenses of office premises, and other administrative expenses)	Not yet utilised. Remained at the Company's bank.

IMPLICATIONS UNDER THE GEM LISTING RULES

Pursuant to Rule 34.05 of the GEM Listing Rules, any alteration in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alteration takes effect automatically under the existing terms of such convertible debt securities. On 25 August 2015, the Company applied to the Stock Exchange for its approval of the Amendment of Terms contemplated by the Supplemental Deed pursuant to Rule 34.05 of the GEM Listing Rules. On 2 September 2015, the Stock Exchange granted its approval for the Amendment of Terms under GEM Listing Rules 34.05 subject to (i) the Independent Shareholders' approval; (ii) fulfilment of all other conditions of the Amendment of Terms as contemplated under the Supplemental Deed; and (iii) disclosure of the approval for the Amendment of Terms by way of an announcement.

The Bondholder is Mr. Leung, who is an executive Director and a substantial Shareholder and hence a connected person of the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the Amendment of Terms as contemplated under the Supplemental Deed constitutes a connected transaction for the Company under the GEM Listing Rules and is subject to the announcement and shareholders' approval

LETTER FROM THE BOARD

requirements of Chapter 20 of the GEM Listing Rules. The Bondholder and his associates (who together held an aggregate of 906,629,880 Shares as at the Latest Practicable Date, representing approximately 29.06% of the existing issued Shares) will abstain from voting in the EGM for the approval of the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder.

Mr. Leung is a party to the Supplemental Deed and therefore has a material interest in the Supplemental Deed. As such, Mr. Leung has abstained from voting on the relevant Board resolution in relation to the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder.

GENERAL

The Group's principal activities are the trading of computer hardware and software, the provision of lottery system management service and the operation of lottery sales halls in the PRC.

The Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder, including the issue and allotment of Conversion Shares, are subject to, inter alia, the approval of Independent Shareholders at the EGM. A specific mandate for the issue of new Shares will be sought in the EGM to cater for the issue of the Conversion Shares.

An Independent Board Committee has been established to make recommendation to the Independent Shareholders regarding, among other matters, the Supplemental Deed and the Amendment of Terms. Nuada Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to, among other matters, the Supplemental Deed and the Amendment of Terms.

EGM

A notice for convening the EGM to be held at 10:00 a.m. on 3 November 2015 at Unit 1006, 10th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong is set out on pages 40 to 41 of this circular.

Pursuant to Rule 17.47(4) of the GEM Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, the resolution set out in the notice of the EGM will be voted on by way of poll in accordance with Rule 17.47(4) of the GEM Listing Rules.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for use in connection with the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, please complete, sign and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not

LETTER FROM THE BOARD

less than 48 hours before the time appointed for holding the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting (as the case may) should you so wish.

RECOMMENDATION

Having considered the reasons set out herein, the Board is of the view that the Supplemental Deed, the Amendment of Terms and the transaction contemplated thereunder are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. The Board hereby recommends all Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Supplemental Deed, the Amendment of Terms and the transaction contemplated thereunder.

Your attention is drawn to the letter from the Independent Board Committee set out on page 21 of this circular which contains its recommendation to the Independent Shareholders in relation to the Supplemental Deed, the Amendment of Terms and the transaction contemplated thereunder. Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages 22 to 33 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders as regards to the Supplemental Deed, the Amendment of Terms and the transaction contemplated thereunder and the principal factors and reasons it has taken into account in arriving at its recommendation.

Your attention is also drawn to the additional information set out in the appendix to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

15 October 2015

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION -
EXTENSION OF THE MATURITY DATE OF THE CONVERTIBLE BOND**

We refer to the circular dated 15 October 2015 (the “**Circular**”) issued by the Company, of which this letter forms part. Unless the context otherwise requires, capitalised terms used herein have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders in connection with the Supplemental Deed, the Amendment of Terms and the transaction contemplated thereunder. Nuada has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Details of their advice, together with the principal factors and reasons it has taken into consideration in giving such advice, are set out on pages 22 to 33 of the Circular. Your attention is also drawn to the “Letter from the Board” in the Circular and the additional information set out in the appendices thereto.

Having taken into account the advice of Nuada, in particular the principal factors reasons and recommendation as set out in its letter, we consider that the Supplemental Deed, the Amendment of Terms and the transaction contemplated thereunder are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to approve the Supplemental Deed, the Amendment of Terms and the transaction contemplated thereunder at the EGM.

Yours faithfully,

Independent Board Committee

Mr. Cai Wei Lun

Mr. Qi Ji

Ms. Xuan Hong

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Nuada Limited dated 15 October 2015 prepared for the purpose of inclusion in this circular.

Nuada Limited
Corporate Finance Advisory

Unit 1805-08, 18/F
OfficePlus@Sheung Wan
93-103 Wing Lok Street
Sheung Wan, Hong Kong
香港上環永樂街93-103號
協成行上環中心18樓1805-08室

15 October 2015

*To the independent board committee and the independent shareholders
of China Netcom Technology Holdings Limited*

Dear Sirs,

CONNECTED TRANSACTION – EXTENSION OF THE MATURITY DATE OF THE CONVERTIBLE BOND

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the proposed amendment to the terms and conditions of the Convertible Bond pursuant to the Supplemental Deed to extend the maturity date of the Convertible Bond, details of which are set out in letter from the Board (the “**Letter**”) contained in the Company’s circular dated 15 October 2015 (the “**Circular**”) to the Shareholders, of which this letter forms part. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As stated in the Letter, on 24 August 2015, the Company entered into the Supplemental Deed with the Bondholder, pursuant to which the Company and the Bondholder agreed to extend the maturity date of the Convertible Bond which was matured on 27 August 2015 under its original terms for 5 years from the date falling on the fifth year to the date falling on the tenth year from the date of issue of the Convertible Bond. Pursuant to the Supplemental Deed and as stated in the Letter, the Amendment of Terms is conditional upon the satisfaction of: (i) the passing by the Independent Shareholders at the EGM of the necessary resolution(s) to approve the Supplemental Deed and the Amendment of Terms; (ii) the approval from the Stock Exchange for the Amendment of Terms in accordance with the GEM Listing Rules and the Listing Committee granting approval for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange and the approval not having been subsequently revoked or cancelled; and (iii) all the necessary consents and approvals required to be obtained on the part of the Company and the Bondholder in respect of the Amendment of Terms having been obtained. As stated in the Letter, save and except for the Amendment of Terms pursuant to the Supplemental Deed, all the terms and conditions in the Convertible

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Bond remain unchanged, valid and enforceable. Please refer to the section headed “Principal Terms of the Convertible Bond as supplemented by the Supplemental Deed” in the Letter for detailed information of the terms of the Convertible Bond and the Supplemental Deed.

As disclosed in the Letter, the Bondholder is Mr. Leung who is a Director and a substantial Shareholder and hence a connected person of the Company under chapter 20 of the GEM Listing Rules. As the Amendment of Terms does not fall into any exemption events under rule 20.71 of the GEM Listing Rules, the Amendment of Terms as contemplated under the Supplemental Deed constitutes a connected transaction of the Company under the GEM Listing Rules and is subject to the announcement and Independent Shareholders’ approval requirements of chapter 20 of the GEM Listing Rules. The Bondholder and its associates, who together held an aggregate of 906,629,880 Shares as at the Latest Practicable Date, representing approximately 29.06% of the existing issued Shares will abstain from voting in the EGM for approval of the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Cai Wei Lun, Mr. Qi Ji and Ms. Xuan Hong, has been established to advise (i) the Independent Shareholders as to whether the terms and conditions of the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the Independent Shareholders on how to vote in respect of the relevant resolution(s) to approve the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder, taking into account the recommendations of the Independent Financial Adviser.

We, Nuada Limited, has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. During the past two years, we did not act as the independent financial adviser of the Company. Apart from normal professional fees for our services to the Company in connection with the engagements described above, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. As at the Latest Practicable Date, we are not aware of any relationships or interests between us and the Company or its substantial Shareholders, Directors or chief executive, or any of their respective associates. We are independent under rule 17.96 of the GEM Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Amendment of Terms.

Our role as the Independent Financial Adviser is to (i) give our recommendation to the Independent Board Committee and the Independent Shareholders as to whether the Supplemental Deed, the Amendment of Terms are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) advise the Independent Shareholders how to vote in relation to (i) above.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date and should there be any material changes after the despatch of the Circular, Shareholders would be notified as soon as possible.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed in the Circular, having made all reasonable enquiries, that to the best of their knowledge, opinion expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Group.

We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group, the Bondholder and their respective associates.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Principal terms of the Supplemental Deed

As stated in the Letter, On 24 August 2015, the Company entered into the Supplemental Deed with the Bondholder, pursuant to which the Company and the Bondholder agreed to extend the maturity date of the Convertible Bond which was matured on 27 August 2015 under its original terms for 5 years from the date falling on the fifth year to the date falling on the tenth year from the date of issue of the Convertible Bond. Pursuant to the Supplemental Deed and as stated in the Letter, the Amendment of Terms is conditional upon the satisfaction of: (i) the passing by the Independent Shareholders at the EGM of the necessary resolution(s) to approve the Supplemental Deed and the Amendment of Terms; (ii) the approval

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

from the Stock Exchange for the Amendment of Terms in accordance with the GEM Listing Rules and the Listing Committee granting approval for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange and the approval not having been subsequently revoked or cancelled; and (iii) all the necessary consents and approvals required to be obtained on the part of the Company and the Bondholder in respect of the Amendment of Terms having been obtained. As stated in the Letter, save and except for the amendment to the maturity date pursuant to the Supplemental Deed, all the terms and conditions in the Convertible Bond remain unchanged, valid and enforceable. As disclosed in the Letter and according to the management of the Company, the Amendment of Terms is arrived after arm's length negotiation between the Company and the Bondholder. Please refer to the section headed "Principal Terms of the Convertible Bond as supplemented by the Supplemental Deed" in the Letter for detailed information of the terms of the Convertible Bond and the Supplemental Deed.

Pursuant to the terms of the Convertible Bond, no conversion of the Convertible Bond shall be made if immediately upon such conversion, the Bondholder and parties acting in concert with him will hold more than 29% of the issued share capital of the Company or any other voting right percentage which triggers a mandatory general offer obligation under rule 26 of the Takeovers Code. As at the Latest Practicable Date, Mr. Leung and parties acting in concert with him together held approximately 29.06% of the issued share capital of the Company. The shareholding interest of Mr. Leung and parties acting in concert with him having exceeded the aforesaid 29% threshold was caused by the conversion of the convertible preferred shares held by Mr. Leung (rather than the conversion of the Convertible Bond) where the terms of the convertible preferred shares imposed a conversion threshold of below 30% instead of 29%. Meanwhile, pursuant to the terms of the Convertible Bond, the Bondholder and parties acting in concert with it will not be allowed to convert any Convertible Bond unless their shareholdings are less than 29% of the issued share capital of the Company.

As disclosed in the Letter, the Bondholder is wholly-owned by Mr. Leung, who is a Director and a substantial Shareholder of the Company, the Bondholder thus is a connected person of the Group under chapter 20 of the GEM Listing Rules. Accordingly, the Amendment of Terms as contemplated under the Supplemental Deed constitutes a connected transaction of the Group under the GEM Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements of chapter 20 of the GEM Listing Rules.

2. Background of the Amendment of Terms

In arriving at our opinion in respect of the Amendment of Terms, we have taken into consideration the following principal factors and reasons:

2(a) Business overview of the Group

As stated in the Letter and according to the management of the Company, as at the Latest Practicable Date, the Group is principally engaged in the trading of computer hardware, computer software, the provision of lottery system management service and the operation of lottery sales halls in the PRC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following table summarized the consolidated financial results of the Group for (i) the year ended 31 December 2013; (ii) the year ended 31 December 2014 and (iii) the six months ended 30 June 2015 which are extracted from the Company's annual report for the year ended 31 December 2014 (the "Annual Report") and the Company's interim report for the six month ended 30 June 2015 (the "Interim Report"):

**Table A – Extract of consolidated statement of profit or loss
and other comprehensive income**

	For the six month ended 30 June 2015 (unaudited) HK\$'000	For the year ended 31 December 2014 (audited) HK\$'000	For the year ended 31 December 2013 (audited) HK\$'000
Revenue	489	3,533	1,731
Gross loss	(104)	(363)	(1,562)
Loss attributable to the owners of the Company	(23,406)	(186,051)	(75,325)

Table B – Extract of consolidated statement of financial position

	As at 30 June 2015 (unaudited) HK\$'000	As at 31 December 2014 (audited) HK\$'000	As at 31 December 2013 (audited) HK\$'000
Non-current assets	99,483	101,336	492,584
Current assets	117,602	66,488	40,924
– Cash and bank balances	112,872	61,790	33,985
Current liabilities	(109,946)	(103,709)	(15,456)
Non-current liabilities	(25,412)	(27,718)	(231,776)
Net assets	81,727	36,397	286,276

Table A above shows that the revenue of the Group has increased from approximately HK\$1,731,000 for the year ended 31 December 2013 ("FY2013") to approximately HK\$3,533,000 for the year ended 31 December 2014 ("FY2014"), representing an increase of approximately 1.0 times. According to the Annual Report, the amount of sales of lottery equipment in FY2014 is approximately HK\$2,392,000 (FY2013: approximately HK\$10,000), which represents an increase of approximately 238.2 times and generates approximately 67.7% of the total revenue in FY2014. Therefore, the increase in revenue was mainly attributable to the increase of sales of lottery equipment.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group recorded a loss attributable to the owners of the Company of approximately HK\$186,051,000 in FY2014 (FY2013: approximately HK\$75,325,000) which has increased by approximately 1.5 times as compared with FY2013. With reference to the Annual Report, such increase in loss attributable to the owners of the Company was mainly due to the increase of impairment loss on concession rights approximately HK\$374,217,000 in FY2014 (FY2013: approximately HK\$93,200,000), representing an increase of approximately 3.0 times. According to the Annual Report and the management of the Company, the increase of impairment loss on concession rights is mainly due to the termination of a cooperation agreement in the first quarter of 2015 as agreed after negotiations between one of the lottery issuing centres and 深圳環彩普達科技有限公司 (Shenzhen Huancai Puda Technology Company Limited) (“**Huancai Puda**”), which is the subsidiary of the Company in the wake of the industry integration in the PRC during the second half of 2014.

The Group has recorded net assets of approximately HK\$36,397,000 as at 31 December 2014 as compared with that of approximately HK\$286,276,000 as at 31 December 2013, representing a decrease of approximately 87.3%. According to the Annual Report, the deteriorated financial position of the Group was mainly attributable to the impairment loss on concession rights (approximately HK\$374,217,000) in FY2014. As disclosed in the Interim Report, the placing of existing shares and top-up subscription of new shares by the Group was successfully completed on 21 May 2015 which attributes the main cause of the increasing of net assets for the six months ended 30 June 2015. The net proceeds from the placing of existing shares and top-up subscription of new shares were approximately HK\$63,300,000. Details of the placing of existing shares and top-up subscription of new shares were set out in the Company’s announcements dated 20 May 2015 and 1 June 2015 respectively. In addition, according to the condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2015 as stated in the Interim Report, the Company recorded a negative cashflow used in operating activities of approximately HK\$10.7 million for the aforesaid period.

According to the management of the Company, the unaudited cash and bank balances of the Group was approximately HK\$91.1 million as at 31 August 2015. According to the Letter, as at the Latest Practicable Date, the outstanding principal amount of the Convertible Bond was HK\$104,100,000.

As stated in the section headed “Information regarding the lottery business acquisition, subsequent development and impairment losses” in the Letter, it stated the current status and subsequent development of the Company’s lottery business. As disclosed in the aforesaid section and according to the management of the Company, after the completion of the acquisition of the Greatest Profit Investment Limited, which in turn owned 51% of the registered and paid up capital of Huancai Puda (“the **Lottery Business Acquisition**”) in August 2010, Huancai Puda entered into various agreements with different parties in relation to the Company’s lottery business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter, the Group recorded a goodwill of approximately HK\$432 million and relevant intangible assets of approximately HK\$2,307 million upon completion of the Lottery Business Acquisition. As at 31 December 2012, the goodwill arising from the Lottery Business Acquisition was fully impaired. As at 31 December 2014, the carrying amount of intangible assets arising from the Lottery Business Acquisition was reduced to approximately HK\$99 million. Please refer to the paragraph headed “Impairment losses” in the Letter for the detailed information of the impairment of the Group’s lottery business.

As stated in the Interim Report and the Letter, and according to the management of the Company, the Company recorded a segment revenue of approximately HK\$489,000 in the operation and management of sales hall of a quick-result lottery game of China Welfare Lottery “Happy 12” in Liaoning Province of the Group’s lottery business for the six months ended 30 June 2015. The management of the Company will continue to explore and identify more lottery business opportunities in Hainan and other province of the PRC pursuant to the relevant national policies for the lottery entertainment sector or other business opportunity in order to maximize the Company’s revenue. Meanwhile, in considering with the inadequate cash flow in the Company for its operation (please refer to analysis in paragraph headed “2(b) Reasons for entering into the Supplemental Deed” below), we are of the view and concur with the view of the management of the Company that the Company has to enhance the working capital of the Company and has to postpone the repayment of Convertible Bond.

Given (i) the outstanding principal amount of the Convertible Bond of HK\$104,100,000; (ii) the cash and cash balance of the Group was approximately HK\$91.1 million; and (iii) the Group’s negative cashflow used in operating activities of approximately HK\$10.7 million for the six month ended 30 June 2015, we are of the view and concur with the view of the management of the Company that the Group have to raise fund to repay the outstanding amount of the Convertible Bond upon its initial maturity date, i.e. 27 August 2015.

2(b) Reasons for entering into the Supplemental Deed

The Convertible Bond was matured on 27 August 2015 under its original maturity date. According to the management of the Company, the Amendment of Terms allows the Company to postpone the repayment date of the outstanding principal amount of the Convertible Bond under the same terms for a further 5 years. As stated in the Letter and according to the Board, the Amendment of Terms will enhance the level of working capital of the Group as the Group do not have to repay the outstanding principal amount of the Convertible Bond for a further five years. According to the management of the Company, the Group’s cash and bank balances was approximately HK\$91.1 million as at 31 August 2015 which is less than the outstanding principal amount of the Convertible Bond, i.e. HK\$104,100,000. As stated in the Interim Report, the Company recorded a net negative cash used in the operating activities of approximately HK\$10.7 million for the six months period ended 30 June 2015 which reflects that the Company have to utilize the cash on hand to support the operation of the Group’s business. In addition, the Convertible Bond does not bear any interest. Based on above, we are of the view and concur with the view of the management of the Company that it is not in the interest for the Company to make partial or whole repayment for the outstanding principal amount of the Convertible Bond.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter and according to the management of the Company, the Company is entering into the Supplemental Deed to extend the maturity date of the Convertible Bond in order to enhance the sufficiency of working capital for the Group. According to the management of the company, instead of entering into the Supplemental Deed, the Company also considers to use other fund raising methods, including debt financing such as bank borrowing and equity financing such as placing of new Shares, rights issue and open offer (please refer to the section headed “3. Other fund raising alternatives considered by the Group and the reasons for entering into the Supplemental Deed” below for detailed discussion) to raise funds to implement the above financial management of working capital. However, the management of the Company are of the view that the ability of the Group to obtain bank borrowing/debt financing usually depends on the Group’s financial position (where the financial performance of the Group was not good as stated in the sub-section headed “2(a) Business overview of the Group” above in this section) and the prevailing market condition. Furthermore, such alternative may be subject to lengthy due diligence and negotiations with banks and would incur interest burden to the Group.

Based on (i) the Group do not have sufficient internal resources to repay the outstanding principal amount of the Convertible Bond as stated above; (ii) the net negative cash used in the operating activities of the Group as stated above; (iii) the terms of the Convertible Bond is fair and reasonable, such as the Conversion Price and the interest rate of the Convertible Bonds (please refer to analysis in paragraph headed “2(c) Comparison with other issue and subscription of convertible bonds” below for detailed information); (iv) there is lack of other fund raising alternatives available to the Company based on the existing financial performance of the Group (Please refer to analysis in paragraph headed “3. Other fund raising exercises considered by the Group” below for detailed information); and (v) the financial effect of entering of the Supplemental Deed (Please refer to analysis in paragraph headed “4. Financial effect of entering into the Supplemental Deed” below for detailed information), we are of the view and concur with the view of the management of the Company that the Amendment of Terms is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2(c) Comparison with other issue and subscription of convertible bonds

In order to assess the fairness and reasonableness of the terms of the Convertible Bond, we have reviewed the relevant issue and subscription of convertible bonds by listed issuers in Hong Kong (the “**Comparables**”) as announced during the last three months prior to and including 24 August 2015, being the date of the Supplemental Deed (the “**Comparable Period**”) and identified 27 Comparables. We consider that a review period of three months is appropriate to capture the recent market practice because the Comparables are considered for the purpose of taking a general reference for the recent market practice in relation to the issue and subscription of convertible bonds under the recent market condition and sentiment. However, given the differences between the listed issuers in the Comparables and the Group in terms of business nature, financial performance, financial position as well as funding requirements, we consider that the Comparables might not constitute close reference, but a market general reference for the recent market practice in relation to the issue and subscription of convertible bonds. Details of the Comparables are set out in Table C below:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table C: Summary of Comparables

No.	Date of initial announcement	Stock code	Name of company	The ratio of the conversion price premium over/(discount to) the closing price on the last trading day prior to the dates of relevant agreements (approximate %)	Interest rate (% per annual)	Term to maturity (number of years)
1	14 August 2015	1280	Huiyin Smart Community Co., Ltd	3.48	4.00	1.00
2	13 August 2015	6828	Blue Sky Power Holdings Limited	1.27	0.00	3.00
3	27 July 2015	8317	Finet Group Limited	(41.76)	3.00	2.00
4	20 July 2015	381	Kiu Hung International Holdings Limited	2.74	0.00	3.00
5	15 July 2015	3800	GCL-Poly Energy Holdings Limited	61.49	0.75	4.00
6	14 July 2015	1004	China Smarter Energy Group Holdings Limited	(10.73)	6.00	3.00
7	10 July 2015	8011	Polyard Petroleum International Group Limited	1.27	10.00	2.00
8	10 July 2015	8175	China Digital Culture (Group) Limited	(9.09)	0.00	5.00
9	8 July 2015	254	National United Resources Holdings Limited	42.86	0.00	3.00
10	6 July 2015	8088	AID Partners Capital Holdings Limited	12.06	8.00	5.00
11	6 July 2015	360	New Focus Auto Tech Holdings Limited	96.08	6.00	2.00
12	3 July 2015	996	Carnival Group International Holdings Limited	11.50	8.00	3.00
13	3 July 2015	989	Ground Properties Company Limited	(35.11)	2.00	5.00
14	3 July 2015	59	Skyfame Realty (Holdings) Limited	4.65	10.00	2.00
15	3 July 2015	1131	Agritrade Resources Limited	33.33	5.83	3.00
					<i>(Note 1)</i>	
16	30 June 2015	875	Cypress Jade Agricultural Holdings Limited	(1.15)	0.00	3.00
17	25 June 2015	8089	Chinese Strategic Holdings Limited	39.71	12.00	15 June 2016, approximately 1.03 years
18	22 June 2015	449	Chigo Holding Limited	35.52	7.00	2.00
19	15 June 2015	698	Tongda Group Holdings Limited	27.03	1.00	25 June 2018, approximately 3.03 years
20	15 June 2015	702	Sino Oil and Gas Holdings Limited	4.15	8.00	2.00
21	10 June 2015	1439	China Packaging Holdings Development Limited	(10.53)	7.50	1.00
22	9 June 2015	633	China All Access (Holdings) Limited	(22.26)	0.00	3.00
23	7 June 2015	996	Carnival Group International Holdings Limited	7.64	0.00	3.00
24	3 June 2015	978	China Merchants Land Limited	25.00	0.50	23 June 2020, approximately 5.05 years
25	29 May 2015	8166	China Eco-Farming Limited	(3.85)	0.00	31 March 2017, approximately 1.83 years
26	29 May 2015	8166	China Eco-Farming Limited	(3.85)	0.00	30 September 2018, approximately 3.33 years
27	28 May 2015	686	United Photovoltaics Group Limited	(12.44)	7.00	3.00
			Mean (approximately)	9.59	3.95	2.86
			Maximum (approximately)	96.08	12.00	5.05
			Minimum (approximately)	(41.76)	0.00	1.00
	24 August 2015	8071	The Company	1,248.31	0.00	5.00

Source: The official website of the Stock Exchange (www.hkex.com.hk)

Note:

1. 5.50% for the first year and 6.00% for the second year and third year, i.e. approximately 5.83% in average.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(i) *Conversion Price*

The ratio of the initial Conversion Price per Conversion Share of HK\$1.2 to the closing price of the Shares as at the date of the Supplemental Deed has been compared to the ratio of the conversion price of the Comparables to their respective closing share prices on the last trading days prior to the dates of relevant agreements of the Comparables. The conversion prices of the Comparables represent a range of discount of approximately 41.76% to a premium of approximately 96.08% to/over their respective closing share prices on the last trading days prior to the dates of relevant agreements of the Comparables and with an average premium of approximately 9.59%. The initial Conversion Price per Conversion Share of HK\$1.2 represents a premium of approximately 1,248.31% to the closing Share price on the date of the Supplemental Deed, which is above the upper limit and the average of that of the Comparables.

In addition, with reference to the Interim Report, the net assets per Share of the Company is approximately HK\$0.020 per Share (i.e. $\text{HK\$}81,727,000 / (3,120,035,000 \text{ ordinary Shares}) + (1,003,333,000 \text{ preferred Shares})$). The initial Conversion Price per Conversion Share of HK\$1.2 therefore also represents a premium of approximately 59 times to the aforesaid net assets per Share of the Company.

Based on the above, we are of the view and concur with the view of the management of the Company that the initial Conversion Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(ii) *Interest rate*

The interest rate of the Convertible Bond has been compared with the interest rates of the Comparables. As shown in Table C above, the interest rates of the Comparables range from nil to approximately 12.00%, with an average interest rate of approximately 3.95%. Zero percentage of interest rate of the Convertible Bond is the lowest limit and lower than the average interest rate of the Comparables. Based on the above, we are of the view and concur with the view of the management of the Company that the interest rate of the Convertible Bond is fair and reasonable and in the interest of the Company and the Shareholder as a whole.

(iii) *Term to maturity*

The Amendment of Terms has been compared with the initial terms to maturity of the Comparables. According to Table C, the initial terms to maturity of the Comparables range from a minimum of 1.00 year to a maximum of 5.05 years, with an average term to maturity approximately 2.86 years. So, the Amendment of Terms of 5 years falls within the range of the terms to maturity of the Convertible Bonds Comparables. Based on the above, we are of the view and concur with the view of the management of the Company that the Amendment of Terms is justified.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered that (i) the Conversion Price is at a premium of approximately 1,248.31% and approximately 59 times to the closing Share price on the date of the Supplemental Deed and the net assets per Share respectively; (ii) zero percentage of interest rate represents no burden of paying interest expenses of the Company and is the lowest limit and lower than the average interest rate of the Comparables; and (iii) the Amendment of Terms of 5 years fall within the range of the terms to maturity of the Convertible Bonds Comparables as stated above, we are of the view and concur with the view of the management of the Company that the Conversion Price, interest rate and term to maturity of the Convertible Bond are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

3. Other fund raising alternatives considered by the Group

As discussed with the Directors and the management of the Company, we note that the Board has considered other alternative means of fund raising before entering into the Supplemental Deed including the followings:

(a) Debt financing

According to the management of the Company, debt financing may subject to lengthy due diligence and negotiations with banks and would incur extra interest burden to the Group. Also, the Board are of the view that the financial performance of the Group is not well and it is not easy for the Company to obtain bank borrowing (please refer to the paragraph headed “2(a) Business overview of the Group” above in this letter for detailed information). So, the Board considers that it is prudent to enter into the Supplemental Deed with no interest burden of the Convertible Bond and the extension of repayment obligation rather than increasing the financial burden of the Group by debt financing.

(b) Placing of new Shares, open offer and rights issue

According to the management of the Company, based on (i) the financial performance of the Company as stated in the paragraph headed “Business overview of the Group” above in this letter for detailed information and (ii) the instability of recent financial market, it is not easy for the Company to appoint placing agent/underwriter to underwrite the fund raising exercises, such as placing of new Shares, open offer and rights issue. Based on the statistics information in the website of GEM, we noted that the post-listing fund raised activities in the GEM market decreased from approximately HK\$3,011.56 million for June 2015 to approximately HK\$1,524.80 million for July 2015, which represents a decrease of approximately 49.4%. Therefore, based on the above, we are of the view and concur with the view of the management of the Company that it is not easy for the Company to appoint placing agent/underwriter to underwrite the fund raising exercises, such as placing of new Shares, open offer and rights issue.

In view of the above, we are of the view and concur with the view of the management of the Company that the entering of the Supplemental Deed is the most suitable way available to the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Financial effect of entering into the Supplemental Deed

As stated in the Interim Report, the net current assets of the Group as at 30 June 2015 was approximately HK\$7,656,000. The entering into the Supplemental Deed would allow to postpone a substantial cash outflow of approximately HK\$104,100,000 as a result of repayment of the Convertible Bond, and hence help relieve the forthcoming repayment of the Group. According to the management of the Company, the relevant Convertible Bond will be reclassified as non-current liabilities if the conditions of the Amendment of Terms is satisfied. So, the entering into the Supplemental Deed is expected to have positive impacts on the current ratio (current assets/current liabilities) of the Group.

RECOMMENDATION

Taking into account the above principal factors and reasons considered, we are of the opinion that the entering of the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and not the ordinary course of business of the Company. Therefore, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders to vote in favour of the relevant resolution(s) at the EGM to approve the Supplemental Deed, the Amendment of Terms and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Nuada Limited
Kevin Wong
Vice President

Mr. Kevin Wong is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 13 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, 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 circular 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 circular misleading.

2. DISCLOSURE OF INTERESTS

I. Interests of Directors and chief executive in the Shares, underlying Shares and debentures of the Company

As at the Latest Practicable Date, 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 its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange (a) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Number of Shares			Total	Approximate percentage of issued share capital (Note 8)
	Personal interest	Corporate interest	Equity derivatives		
Mr. Leung	906,335,000	294,880 (Note 1)	1,090,083,333 (Note 2, 3 & 4)	1,996,713,213	64.00%
Ms. Wu Wei Hua ("Ms. Wu")	-	-	22,000,000 (Note 5 & 6)	22,000,000	0.71%

Note:

- These Shares were held by Speedy Well which was wholly and beneficially owned by Mr. Leung. By virtue of the SFO, Mr. Leung was deemed to be interested in the Shares held by Speedy Well.
- These equity derivatives comprise 86,750,000 Shares to be issued upon exercise of conversion rights attaching to the Convertible Bond and 1,003,333,333 Convertible Preferred Shares (as defined below) were allotted and issued by the Company on 17 December 2012.
- The Convertible Bond was issued to Mr. Leung on 27 August 2010. Upon full conversion of the Convertible Bond, 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 the Latest Practicable Date, the Convertible Bond in the amount of HK\$104,100,000 remained 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 Bond 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.

4. 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 Latest Practicable Date, 1,003,333,333 allotted and issued Convertible Preferred Shares have not been converted yet.
5. On 10 July 2008, Ms. Wu was granted share options pursuant to the share option scheme adopted on 29 June 2007 (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.
6. 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.
7. The percentage is calculated on the basis of 3,120,035,049 Shares in issue as at Latest Practicable Date.

Save as disclosed above, as at Latest Practicable Date, 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 in securities by directors of listed issuer as referred to in rule 5.46 of the GEM Listing Rules.

II. Interest and short positions of substantial shareholder in the Shares, underlying Shares and debentures of the Company

Save as disclosed above, up to the Latest Practicable Date, 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 above, who had interest or short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

III. Other interests discloseable under the SFO

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

IV. Share option scheme

The Company 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.

As at Latest Practicable Date, detailed movements relating to options granted under the Share Option Scheme were as follows:

Name or category of participants	Date of grant	Exercise price	Exercise period	Movements of share options during the period				As at Latest Practicable Date
				As at 1 January 2015	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
	27 May 2015	0.290	27 May 2015 – 29 June 2017	–	66,000,000	–	–	66,000,000
	4 June 2015	0.270	4 June 2015 – 29 June 2017	–	10,000,000	–	–	10,000,000
Director – 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.

As at Latest Practicable Date, 66,000,000 share options at an exercise price of HK\$0.290 per Share and 10,000,000 share options at an exercise price of HK\$0.270 per Share were granted by the Company. No share options granted under the Share Option Scheme was exercised during the period from 1 January 2015 to the Latest Practicable Date (both days inclusive).

3. DIRECTORS' INTERESTS IN ASSETS

None of the Directors has any interest, either directly or indirectly, in any assets which has since 31 December 2014 (being the date to which the latest published audited accounts of the Group were made up) up to the Latest Practicable Date, been acquired or disposed of by, or leased to, any member of the Group or are proposed to be acquired or disposed of by, or leased to, any member of the Group, except the interest in the Convertible Bond as supplemented by the Supplemental Deed.

Save as disclosed in this circular, there is no contract or arrangement subsisting as at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into a service contract or a proposed service contract with the Company or any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, 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.

6. QUALIFICATION AND CONSENT OF EXPERT

- (a) The following is the qualification of the expert who has given opinion or advice contained in this circular:

Name	Qualification
Nuada Limited	A licensed corporation permitted to carry out type 6 (advising on corporate finance) regulated activity under the SFO

- (b) Nuada Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter dated 15 October 2015 and references to its name in the form and context in which they appear.

7. EXPERTS' INTERESTS

As at the Latest Practicable Date,

- (a) Nuada Limited did not have any direct or indirect interest in any asset which had since 31 December 2014, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by, or leased to, any member of the Group, or was proposed to be acquired or disposed of by, or leased to, any member of the Group; and
- (b) Nuada Limited did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

9. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2014, being the date to which the latest published audited financial statements of the Group was made up.

10. MISCELLANEOUS

In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at Unit 1006, 10th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong during normal office hours from 10:00 a.m. to 5:00 p.m. on any Business Day from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual report, first quarterly report and interim report of the Company for the year ended 31 December 2014, for the three months ended 31 March 2015 and for the six months ended 30 June 2015 respectively;
- (c) the Supplemental Deed;
- (d) the written consent of the expert referred to in the paragraph headed "**QUALIFICATION AND CONSENT OF EXPERT**" in this Appendix;
- (e) the letter from the Independent Board Committee, the text of which is set out on page 21 in this circular;
- (f) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 22 to 33 in this circular; and
- (g) this circular.

NOTICE OF EGM



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of China Netcom Technology Holdings Limited (the “**Company**”) will be held at 10:00 a.m. on 3 November 2015 at Unit 1006, 10th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the supplemental deed dated 24 August 2015 (“**Supplemental Deed**”) entered into between the Company and the holder of the Convertible Bond (as defined below) in relation to the convertible bond issued by the Company on 27 August 2010 (the “**Convertible Bond**”) (a copy of the Supplemental Deed having been produced to the EGM and marked “A” and initialled by the chairman of the EGM for the purpose of identification) to extend the maturity date of the Convertible Bond for 5 years from the date falling on the fifth year to the date falling on the tenth year from the date of issue of the Convertible Bond, and all transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) subject to the approval of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) for the listing of, and permission to deal in, the Conversion Shares (as defined below), the grant of specific mandate to authorise the directors of the Company (the “**Directors**”) to issue and allot new shares with a nominal value of HK\$0.005 each in the Company (the “**Conversion Shares**”) upon exercise of the conversion rights attaching to the Convertible Bond be and is hereby approved and any one or more of the Directors be and is/are hereby authorised to allot and issue the Conversion Shares pursuant to and in accordance with the terms and conditions of the Conversion Shares; and
- (c) subject to the Stock Exchange consenting to the alteration to the terms and conditions of the Convertible Bond pursuant to the Supplemental Deed, any one or more of Directors be and is/are hereby authorised to exercise all the powers of the Company and take all steps as might in his/their opinion be desirable, necessary or expedient to give effect to or in connection with the Supplemental Deed including without limitation to the allotment and issue of the Conversion

NOTICE OF EGM

Shares upon exercise of the conversion rights attached to the Convertible Bond and taking of all necessary actions to implement the transactions contemplated under the Supplemental Deed.”

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

Hong Kong, 15 October 2015

As of the date hereof, the Board comprised the following Directors:

Executive Directors

Mr. Leung Ngai Man (Chairman)

Ms. Wu Wei Hua

Independent Non-executive Directors

Mr. Cai Wei Lun

Mr. Qi Ji

Ms. Xuan Hong

*Head office and principal place of
business in Hong Kong*

Unit 1006, 10th Floor

Tower One Lippo Centre

89 Queensway

Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or, if he/she is the holder of two or more shares of the Company, more than one proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish and in such event, the form of proxy shall be deemed to be revoked.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
4. In the case of joint holders of shares of the Company, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.