

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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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.



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)

**(1) CONNECTED TRANSACTION —
SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE;
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial Adviser to the Company

MESSIS  **大有融資**

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

 **VMS 鼎珮**

A letter from the Board is set out on pages 6 to 19 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 20 to 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 43 of this circular.

A notice convening an extraordinary general meeting of the Company (the “EGM”) to be held at 10:00 a.m. on Friday, 14 July 2017 at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong is set out on pages 50 to 51 of this circular. A form of proxy for use at the EGM is enclosed with 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 no later than Wednesday, 12 July 2017 at 10:00 a.m. (Hong Kong Time). 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.

This circular will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for seven days from the date of its publication and on the Company’s website at www.chinanetcomtech.com.

23 June 2017

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 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 herein shall have the following meanings:

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| “acting in concert” | has the same meaning as ascribed to this term under the Takeovers Code; |
| “Announcement” | means the announcement issued by the Company dated 16 June 2017 in relation to, among others, the second side letter to the Subscription Agreement; |
| “associate(s)” | has the same meaning as ascribed to this term under the GEM Listing Rules; |
| “Board” | means the board of Directors; |
| “BOCOM” | means BOCOM International Securities Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities) and Type 5 (advising on future contracts) regulated activities under the SFO, being the agent making the Offers for and on behalf of the Offeror; |
| “Business Day” | means a day (excluding a Saturday, Sunday, public holiday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 5:00 p.m. and is not lowered at or before 5:00 p.m. or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 5:00 p.m. and is not discontinued at or before 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours; |
| “Company” | means China Netcom Technology Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the GEM (Stock Code: 8071); |
| “connected person(s)” | has the same meaning as ascribed to this term under the GEM Listing Rules; |
| “controlling shareholder(s)” | has the meaning as ascribed to this term under the GEM Listing Rules; |
| “Convertible Bonds” | means the convertible bonds due 27 August 2020 issued by the Company on 27 August 2010 to Mr. Leung in the outstanding principal amount of HK\$68,016,000 which are convertible into 56,680,000 conversion shares of the Company upon full conversion; |

DEFINITIONS

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| “Convertible Preferred Share(s)” | means the 1,003,333,333 non-redeemable convertible preferred shares which are convertible on a one to one basis into a Share, issued and allotted by the Company to Mr. Leung pursuant to the loan capitalisation agreement dated 29 August 2012 at an issue price of HK\$0.600 per convertible preferred share; |
| “Convertible Preferred Share Purchase Agreement” | means the convertible preferred share purchase agreement entered into amongst Mr. Leung (as vendor) and the Offeror (as purchaser) on 11 April 2017 in relation to sale and purchase of 1,003,333,333 Convertible Preferred Shares; |
| “Director(s)” | means director(s) of the Company; |
| “EGM” | means an extraordinary general meeting of the Company to be convened to consider and seek, if thought fit, the approval of the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate); |
| “GEM” | means the Growth Enterprise Market of the Stock Exchange; |
| “GEM Listing Rules” | means the Rules Governing the Listing of Securities on the GEM; |
| “Group” | means the Company and its subsidiaries; |
| “Hong Kong” | means the Hong Kong Special Administrative Region of the PRC; |
| “Independent Board Committee” or “IBC” | means the independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Cai Wei Lun, Mr. Qi Ji and Ms. Xuan Hong, to advise the Independent Shareholders regarding the terms of the Subscription Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate; |
| “Independent Financial Adviser” or “VMS Securities” | VMS Securities Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Subscription Agreement and the transactions contemplated respectively thereunder and the grant of the Specific Mandate and is a corporation licensed under the SFO to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities for the purposes of the SFO; |

DEFINITIONS

- “Independent Shareholder(s)” means Shareholder(s) other than (i) Mr. Leung, his associate(s) and parties acting in concert with any of them; (ii) the Offeror and Tiantu, their respective associate(s) and parties acting in concert with any of them; and (iii) Shareholder(s) who are interested or involved in the Subscription Agreement;
- “Joint Announcement” means the joint announcement jointly issued by the Company and the Offeror dated 24 April 2017 in relation to, among others, the Subscription and the Offers;
- “Last Trading Day” means 10 April 2017, being the last trading day of the Shares before the publication of the Joint Announcement;
- “Latest Practicable Date” means 21 June 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
- “Letter of Undertaking” means the letter of undertaking dated 22 April 2017 issued by Mr. Leung in favour of the Company and the Offeror in respect of the Convertible Bonds and the remaining 100,000,000 Shares held by him upon Share Purchase Completion;
- “Loan” means the provision of a loan by Mr. Wang as lender, to the Offeror as borrower in the principal amount of HK\$400,000,000 pursuant to the Loan Agreement;
- “Loan Agreement” means the loan agreement entered into between Mr. Wang as lender, the Offeror as borrower and Mr. Sun as guarantor in relation to the provision of the Loan dated 6 April 2017;
- “Mr. Leung” means Mr. Leung Ngai Man, an executive Director and the chairman of the Company;
- “Mr. Sun” means 孫海濤 (Sun Haitao, Steven), the director and the ultimate controlling shareholder of the Offeror;
- “Mr. Wang” means 王永華 (Wang Yonghua), the ultimate controlling shareholder of Tiantu;
- “Offer Share(s)” means all the Share(s) in issue, other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it;
- “Offeror” or “Subscriber” means 51RENPIN.COM INC., a company incorporated under the laws of the British Virgin Islands with limited liability;

DEFINITIONS

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| “Offers” | together the Share Offer and the Option Offer; |
| “Option Offer” | means the mandatory conditional cash offer to be made by BOCOM on behalf of the Offeror to cancel all the outstanding Share Options pursuant to the Takeovers Code; |
| “PRC” | means the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, Macao Special Administrative Region of the PRC and Taiwan; |
| “Sale Shares” | means an aggregate of 806,629,880 Shares, legally and beneficially owned by Mr. Leung before Share Purchase Completion; |
| “SFC” | means the Securities and Futures Commission of Hong Kong; |
| “SFO” | means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong); |
| “Share(s)” | means ordinary share(s) of HK\$0.005 each in the capital of the Company; |
| “Share Offer” | means the mandatory conditional cash offer to be made by BOCOM, on behalf of the Offeror, for all the Offer Shares in accordance with the Takeovers Code; |
| “Share Option(s)” | means the option(s) granted under the Share Option Scheme; |
| “Share Option Scheme” | means the share option scheme of the Company adopted on 29 June 2007; |
| “Share Purchase Agreement” | means the conditional share purchase agreement entered into between Mr. Leung (as vendor), the Offeror and Tiantu (collectively as purchasers) on 12 April 2017 in respect of the Sale Shares (details of which were disclosed in the Joint Announcement); |
| “Share Purchase Completion” | means completion of the sale and purchase of the Sale Shares pursuant to the Share Purchase Agreement; |
| “Shareholder(s)” | means holder(s) of the Shares; |
| “Specific Mandate” | means the specific mandate to be sought from the Independent Shareholders at the EGM for the allotment and issue of the Subscription Shares; |

DEFINITIONS

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| “Stock Exchange” | means The Stock Exchange of Hong Kong Limited; |
| “Subscription” | means the subscription of the Subscription Shares by the Subscriber pursuant to the Subscription Agreement; |
| “Subscription Agreement” | means the subscription agreement entered into between the Company and the Subscriber on 12 April 2017 in relation to the Subscription as amended by a side letter dated 23 April 2017 and a second side letter dated 16 June 2017; |
| “Subscription Completion” | means the completion of the Subscription; |
| “Subscription Price” | the subscription price of HK\$0.082 per Subscription Share; |
| “Subscription Share(s)” | means 390,000,000 new Shares to be subscribed by the Subscriber and allotted and issued by the Company pursuant to the Subscription Agreement; |
| “Takeovers Code” | means the Hong Kong Code on Takeovers and Mergers; |
| “Tiantu” | means Tiantu Investments International Limited, a company incorporated under the laws of Hong Kong with limited liability, which is a wholly owned subsidiary of Shenzhen Tiantu in which Mr. Wang is interested in approximately 59.80% of the equity interest therein; |
| “HK\$” | means Hong Kong dollars, the lawful currency of Hong Kong; and |
| “%” | means per cent. |

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:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

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

Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

23 June 2017

To the Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION —
SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE;
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

As disclosed in the Joint Announcement and the Announcement, the Company entered into the Subscription Agreement with the Subscriber in respect of the Subscription which constitutes a connected transaction under the GEM Listing Rules.

The purpose of this circular is to provide you with, amongst other things, (i) further information on the Subscription Agreement and the transactions contemplated thereunder; (ii) the recommendation letter of the Independent Board Committee to the Independent Shareholders in respect of the Subscription; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Subscription; and (iv) the notice convening the EGM at which ordinary resolutions will be proposed, among other things, for the Independent Shareholders to consider and, if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate.

LETTER FROM THE BOARD

The Subscription and the Offers are not inter-conditional with each other.

SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

Principal terms of the Subscription Agreement

The principal terms of the Subscription Agreement were disclosed in the Joint Announcement and are reproduced below:

Date: 12 April 2017 (as amended by the side letter dated 23 April 2017 and the second side letter dated 16 June 2017)

Parties: Issuer: The Company
Subscriber: 51RENPIN.COM INC., a company incorporated under the laws of the British Virgin Islands with limited liability.

As at the Latest Practicable Date, the Subscriber is interested in 1,444,963,213 Shares, representing approximately 34.08% of the total Shares in issue of the Company. Therefore, the Subscriber is a controlling shareholder and a connected person of the Company.

Subject matter

The Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe, in cash, for the 390,000,000 Subscription Shares for total consideration of HK\$31,980,000, being HK\$0.082 per Subscription Share.

The Subscription Shares represents approximately 9.20% of the total Shares in issue as at the Latest Practicable Date and approximately 8.42% of the total Shares in issue as enlarged by the allotment and issue of the Subscription Shares.

The Subscription Shares shall rank pari passu in all respects with the Shares in issue as at the date of allotment and in particular will rank in full for all dividends and other distributions declared, made or paid at any time after the date of allotment.

Subscription Price

The Subscription Price of HK\$0.082 per Subscription Share represents:

- (i) a discount of approximately 79.5% to the closing price of the Shares of HK\$0.40 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 40.6% to the closing price of the Shares of HK\$0.138 per Share as quoted on the Stock Exchange on the Last Trading Day;

LETTER FROM THE BOARD

- (iii) a discount of approximately 38.3% to the average of the closing prices of HK\$0.133 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 33.3% to the average of the closing prices of approximately HK\$0.123 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and
- (v) a premium of approximately HK\$0.0821 per Share over the audited consolidated net liability value attributable to owners of the Company of approximately HK\$0.0001 per Share as at 31 December 2016, the date to which the latest audited consolidated financial results of the Company were made up.

The Subscription Price was negotiated and arrived at after arm's length negotiation basis and is considered fair and reasonable after taking into account that:

(i) The recent financial performance and financial position of the Group

According to the Company's latest annual report for the year ended 31 December 2016, the Group recorded net losses of approximately HK\$60.3 million and HK\$43.1 million for each of the two years ended 31 December 2016. The Directors consider that the weak financial performance of the Company had negative impact on the attractiveness of the Shares. Furthermore, as the Company reported loss-making results for the two years ended 31 December 2016, the equity attributable to the owners of the Company had been reduced from approximately HK\$48.2 million as at 31 December 2015 to approximately negative HK\$0.3 million as at 31 December 2016. The subscription price of HK\$0.082 per Subscription Share represents a premium of approximately HK\$0.0821 per Share over the audited consolidated net liability value attributable to owners of the Company of approximately HK\$0.0001 per Share as at 31 December 2016.

(ii) The recent trading performance of the Shares

According to the website of the Stock Exchange, the average trading volume of the Shares was relatively low and was only approximately 7,190,641 Shares per trading day for the six months between 11 October 2016 to 10 April 2017, being the Last Trading Day, which represented only approximately 0.23% of the total number of issued Shares of 3,120,035,049 Shares as at the Last Trading Day. The Directors consider that the relatively low liquidity of the Shares had reduced the attractiveness of the Shares.

(iii) The consolidated net liability value per Share of the Company

As the Company reported a loss-making result for the year ended 31 December 2016, it is not possible to calculate the price to earnings ratio of the Company based on the 2016 annual results. On the other hand, the subscription price of HK\$0.082 per Subscription Share represents a premium of approximately HK\$0.0821 over the unaudited consolidated net liability value attributable to owners of the Company of approximately

LETTER FROM THE BOARD

HK\$0.0001 per Share as at 31 December 2016 (based on the audited consolidated statement of financial position of the Company as at 31 December 2016 and the number of Shares in issue as at 31 December 2016).

(iv) The relatively high gearing ratio of the Company

Having said that the Company has a weak financial performance and reported loss-making results for the two years ended 31 December 2016, the Group's total equity decreased by approximately HK\$56.9 million or 73.3% from approximately HK\$77.6 million as at 31 December 2015 to approximately HK\$20.7 million as at 31 December 2016. As the Company has early redeemed certain portions of the Convertible Bonds from Mr. Leung at an aggregate total consideration of approximately HK\$36.1 million during the year ended 31 December 2016, the Group's total borrowings decreased by approximately HK\$15.7 million or 26.3% from approximately HK\$59.6 million as at 31 December 2015 to approximately HK\$43.9 million as at 31 December 2016. As a result of the above, the Group's gearing ratio deteriorated from approximately 76.9% to 212.5% over the two years ended 31 December 2015 and 2016.

Although the Subscription Price was at a deep discount of approximately 79.5% to the closing price of the Share as at the Latest Practicable Date, the Directors noticed that the discount was resulted from the upward movement trend of the recent market price of the Shares following the publication of the Joint Announcement in relation to, among others, the Subscription and the Offers. The Directors consider that the current market price reflects the positive market response over the introduction of the Subscriber and parties acting in concert with it as a new controlling Shareholder.

While the Subscription Price is at a discount to the closing price of the Shares prior to the Last Trading Day, after taking into account (i) the recent financial performance and financial position of the Group; (ii) the recent trading performance of the Shares; (iii) the premium over the latest published consolidated net liability value attributable to the owners of the Company per Share; (iv) the relatively high gearing ratio of the Company; and (v) potential benefits as further discussed in the section headed "Reasons for the Subscription and use of proceeds" in this letter, the Directors are of the view that the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions precedent to the Subscription Completion

Subscription Completion is conditional upon:

- (i) the GEM Listing Committee of the Stock Exchange granting or agreeing to grant and not having withdrawn or revoked approval for the listing of, and permission to deal in the Subscription Shares;
- (ii) the passing of the necessary resolution(s) at the EGM by the Independent Shareholders who are entitled to vote and not required to abstain from voting under the GEM Listing Rules and/or the Takeovers Code to approve the Subscription Agreement and the transactions contemplated thereunder, including among others the Specific Mandate and the allotment and issue of the Subscription Shares;

LETTER FROM THE BOARD

- (iii) the compliance of (a) any other requirements under the GEM Listing Rules and the Takeovers Code or otherwise of (b) the Stock Exchange and the SFC which requires compliance in relation to the Subscription and the allotment and issue of the Subscription Shares;
- (iv) there being no material breach of the representations and warranties of the Company under the terms of the Subscription Agreement; and
- (v) no material adverse change in relation to the business, financial or trading position of the Group as a whole having occurred.

The Company shall use its best endeavours to procure the fulfilment of the above conditions. The parties to the Subscription Agreement shall furnish such information, supply such documents, pay such fees, give such undertakings and do all such acts and things as may reasonably be required by the Stock Exchange and/or the SFC in connection with the fulfilment of such conditions. The Subscriber may at its discretion waive the conditions (iv) and (v) above. The other conditions set out above cannot be waived by either party to the Subscription Agreement.

If the conditions set out immediately above are not fulfilled (or, as the case may be, waived) on or before 30 September 2017 (or such later date as may be agreed between the Company and the Subscriber), or the 30th day after fulfilling the condition set out in (ii) above, whichever is earlier, all rights, obligations and liabilities of the parties to the Subscription Agreement shall cease and determine and none of the parties thereto shall have any claim against the other in respect of the Subscription Agreement (save for any antecedent breaches thereof).

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

The Subscription and the Offers are not inter-conditional with each other.

Subscription Completion

Subscription Completion shall take place within three Business Days at the principal place of business of the Company immediately after the date upon which the last of the conditions is satisfied (or, as the case may be, waived) or such other time and date as the parties thereto may agree.

Specific Mandate

The Subscription Shares will be allotted and issued under the Specific Mandate to be sought from the Independent Shareholders at the EGM.

An application will be made to the GEM Listing Committee of the Stock Exchange for the listing of and permission to deal in the Subscription Shares.

LETTER FROM THE BOARD

Equity fund raising activities by the Company in the past twelve months

The Company did not carry out any equity fund raising activities in the 12 months period immediately preceding the Latest Practicable Date.

Reasons for the Subscription and use of proceeds

The Group is principally engaged in the provision of lottery system management service and operation of lottery sales halls services in the PRC. It focused on consolidating and optimising the Group's existing lottery business and continued to deepen the research and development of wearable devices business.

The Directors consider that the Group will be benefited from the Subscription in the following manner:

(i) Strengthening of business synergy between the Subscriber and the Group

On 11 April 2017, Mr. Leung and the Subscriber entered into the Convertible Preferred Share Purchase Agreement pursuant to which Mr. Leung agreed to sell and the Offeror agreed to acquire 1,003,333,333 Convertible Preferred Shares. As a result of the exercise of the conversion rights attaching to the 1,003,333,333 Convertible Preferred Shares, 1,003,333,333 Converted Shares were allotted and issued to the Subscriber on 12 April 2017. After allotment and issue of the 1,003,333,333 Converted Shares, on the same date, Mr. Leung, the Subscriber and Tiantu entered into the Share Purchase Agreement pursuant to which the Subscriber and Tiantu agreed to acquire 441,629,880 Sale Shares and 365,000,000 Sale Shares from Mr. Leung. As at the Latest Practicable Date, the Subscriber and parties acting in concert with it was interested in an aggregate of 1,809,963,213 Shares, representing approximately 42.69% of the total number of issued Shares.

The Subscriber is principally engaged in the fields of, amongst others, internet and computer technology development, business investments, network engineering and e-commerce. Hangzhou Enniu, the holding company of the Subscriber, has a broad shareholder base and has 27 direct shareholders which include Mr. Sun, a number of investment funds and listed companies. Detail backgrounds of the Subscriber and its ultimate shareholders are set out in paragraph headed "Information of the Subscriber" in this circular. Upon the Subscription Completion, the Subscriber and parties acting in concert with it will be interested in an aggregate of 2,199,963,213 Shares, representing approximately 47.52% of the total number of issued Shares. The Directors consider that the Subscription will not only enhance the capital base of the Group but also strengthen the synergy between the Group and the Subscriber in future by (1) tapping into the extensive business network of the Subscriber and its ultimate shareholders in the PRC and (2) enjoying the extensive experiences of the Subscriber in the internet and computer technology development and related areas. The Directors consider that the Group's businesses would therefore be enhanced upon the Subscription Completion.

LETTER FROM THE BOARD

(ii) Enlarge the capital base and enhance the working capital position of the Group

For the year ended 31 December 2016, the revenue of the Group was approximately HK\$0.3 million, representing a decrease of approximately 65% as compared with that in 2015. The revenue was mainly derived from the provision of management, marketing and operating services for lottery system and lottery halls. The Group also recorded loss attributable to owners of the Company of approximately HK\$37.0 million for the year ended 31 December 2016. Due to the continuous loss making status of the Group over the past few years, the Group recorded a negative equity attributable to owners of the Company of approximately HK\$0.3 million as at 31 December 2016.

The Directors consider that the Subscription will enlarge the capital base of the Group and allow the equity attributable to owners of the Company to be turnaround from its negative position. Moreover, by making reference to the administrative expenses of the Group which amounted to approximately HK\$35.5 million and HK\$29.4 million for the two years ended 31 December 2016, the Directors consider that the Subscription will provide the Group with sufficient working capital for the Group's daily operations in supplement with its relatively low cash and bank balances of HK\$23.8 million as at 31 December 2016. The Subscription will also allow the Group with additional fund further to expand its existing business.

To raise fund to meet its funding requirement as discussed above, the Directors have considered alternative fund raising possibilities including but not limited to debt financing from financial institutions and other equity fund raising methods. However, in light of (a) high gearing ratio of the Company; (b) the continuous weak performance of the Company's financial results; (c) the negative position of equity attributable to owners of the Company as at 31 December 2016, the Directors are of the view that it may not be able to secure the funds required with a favourable term. With the similar reasons, the Company also considered that the Company may not be able to locate investors (or underwriters in case of open offer or rights issues) to raise fund through various fund raising methods. Among the possible fund raising alternatives available to the Company and considering the above factors and the benefits to be enjoyed by the Group from the Subscription as discussed above, the Directors consider that the Subscription is the most appropriate and beneficial to the Company. The Directors are of the view that the Subscription will provide an opportunity to raise additional funds to further strengthen the financial position and capital base of the Group. Hence, the Board considers that the fund raising through the Subscription is in the interests of the Company and the Shareholders as a whole.

The gross proceeds of the Subscription will be approximately HK\$32.0 million. The net proceeds from the Subscription, after the deduction of the related professional fees and other related expenses, are estimated to be approximately HK\$31.5 million which will be entirely used for the Group's general working capital.

The Directors consider that the net proceeds for general working capital would be mainly applied as to (i) approximately HK\$14.0 million for staff costs which includes salaries and other benefits of staff and Directors; (ii) approximately HK\$2.5 million for rental expenses for office premises; (iii) approximately HK\$4.5 million for legal and

LETTER FROM THE BOARD

professional fees including fees to auditors and consultants; (iv) approximately HK\$8.0 million for the business development of the Group's lottery business in the PRC; and (v) approximately HK\$2.5 million for other administrative and operating expenses which includes overseas travelling expenses, printing and other office expenses.

The net issue price per Subscription Share will be approximately HK\$0.0807. The nominal value of the Subscription Shares is HK\$1,950,000.

Financial effects of the Subscription to the Group

According to the Company's annual report for the year ended 31 December 2016, the Group had bank balances and cash of approximately HK\$23.8 million as at 31 December 2016. Upon Subscription Completion, the liquidity and cash position of the Group will be improved as the Subscription will facilitate the Company to raise gross proceeds of approximately HK\$32.0 million. Accordingly, the cash position, net current assets and current ratio of the Company are expected to be improved upon Subscription Completion.

Shareholding structure of the Company

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date and the shareholding structure of the Company immediately following the Subscription Completion (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date to the Subscription Completion):

| | As at the Latest Practicable Date | | Immediately after the Subscription Completion | |
|--|--|--------------------------|--|--------------------------|
| | <i>Number of Shares</i> | <i>Approximate %</i> | <i>Number of Shares</i> | <i>Approximate %</i> |
| Mr. Leung and parties acting in concert with him | 100,000,000 | 2.36 | 100,000,000 | 2.16 |
| The Subscriber/Offeror and parties acting in concert with it <i>The Offeror</i> | 1,444,963,213 | 34.08 | 1,834,963,213 | 39.64 |
| <i>Tiantu (Note)</i> | <u>365,000,000</u> | <u>8.61</u> | <u>365,000,000</u> | <u>7.88</u> |
| Sub-total | 1,809,963,213 | 42.69 | 2,199,963,213 | 47.52 |
| Public Shareholders | <u>2,329,405,169</u> | <u>54.95</u> | <u>2,329,405,169</u> | <u>50.32</u> |
| Total | <u><u>4,239,368,382</u></u> | <u><u>100.00</u></u> | <u><u>4,629,368,382</u></u> | <u><u>100.00</u></u> |

LETTER FROM THE BOARD

Note: Mr. Wang, being the lender under the Loan to the Subscriber, is the ultimate controlling shareholder of Tiantu and given that Tiantu is a party under the Share Purchase Agreement, Tiantu is therefore considered to be a party acting in concert with the Subscriber.

Information of the Group

The Company is an investment holding company. The Group is principally engaged in the trading of computer hardware and software, the provision of lottery system management service and operation of lottery sales halls services in the PRC.

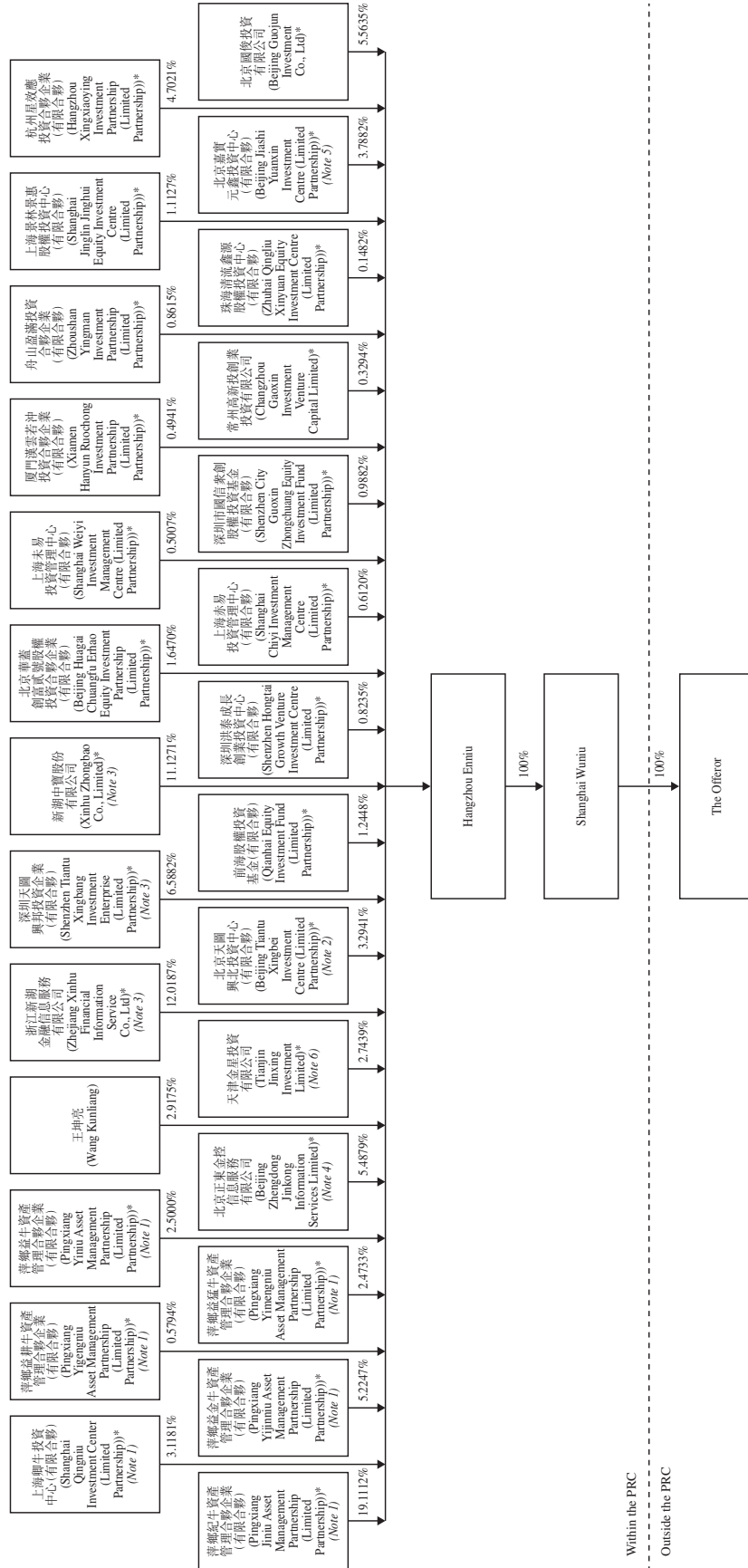
Information of the Subscriber

The Subscriber is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding and is wholly owned by 上海悟牛網絡科技有限公司 (transliterated as Shanghai Wuniu Network Technology Company Limited) (“**Shanghai Wuniu**”). The business scope of Shanghai Wuniu includes, amongst others, internet and computer technology development, business investments, network engineering and e-commerce.

Shanghai Wuniu is in turn wholly owned by 杭州恩牛網絡技術有限公司 (transliterated as Hangzhou Enniu Network Technology Company Limited) (“**Hangzhou Enniu**”). The business scope of Hangzhou Enniu includes, amongst others, development of internet technologies and network engineering.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Hangzhou Enniu has 27 direct shareholders. Below is a chart showing the shareholders of and their respective interests in Hangzhou Enniu:



LETTER FROM THE BOARD

Notes:

1. Mr. Sun, through 萍鄉紀牛資產管理合夥企業(有限合夥) (Pingxiang Jiniu Asset Management Partnership (Limited Partnership))*、上海卿牛投資中心(有限合夥) (Shanghai Qingniu Investment Center (Limited Partnership))*、萍鄉益耕牛資產管理合夥企業(有限合夥) (Pingxiang Yigengniu Asset Management Partnership (Limited Partnership))*、萍鄉益金牛資產管理合夥企業(有限合夥) (Pingxiang Yijinniu Asset Management Partnership (Limited Partnership))*、萍鄉益猛牛資產管理合夥企業(有限合夥) (Pingxiang Yimengniu Asset Management Partnership (Limited Partnership))* and 萍鄉益牛資產管理合夥企業(有限合夥) (Pingxiang Yiniu Asset Management Partnership (Limited Partnership))*、is the ultimate controlling shareholder of Hangzhou Enniu and is indirectly interested in approximately 33.01% of the equity interest therein.
2. Mr. Wang is ultimate controlling shareholder of Shenzhen Tiantu in which he is interested in approximately 59.80% of the equity interest therein. Shenzhen Tiantu is in turn indirectly interested in 100% of the equity interest in Tiantu Xingbang and approximately 19.01% of the equity interest in Tiantu Xingbei. Tiantu Xingbang and Tiantu Xingbei are interested in approximately 6.59% and 3.29% of the equity interest in Hangzhou Enniu respectively.
3. 新湖中寶股份有限公司 (Xinhu Zhongbao Co., Limited)* is directly interested in approximately 11.13% of the equity interest in Hangzhou Enniu and through 浙江新湖金融信息服務有限公司 (Zhejiang Xinhu Financial Information Service Co. Ltd)* indirectly interested in approximately 12.02% of the equity interest in Hangzhou Enniu.
4. 北京京東金融科技控股有限公司 (Beijing Jingdong Financial Technology Holding Co., Ltd)* through 北京正東金控信息服務有限公司 (Beijing Zhengdong Jinkong Information Services Limited)*, is indirectly interested in approximately 5.49% of the equity interest in Hangzhou Enniu.
5. 和潤領航投資管理(北京)有限公司 (Herun Linghang Investment Management (Beijing) Company Limited)* through 北京嘉實元鑫投資中心(有限合夥) (Beijing Jiashi Yuanxin Investment Centre (Limited Partnership))*、is indirectly interested in approximately 3.78% of the equity interest in Hangzhou Enniu.
6. 小米科技有限責任公司 (Xiaomi Technology Co. Ltd.)*, through 天津金星投資有限公司 (Tianjin Jinxing Investment Limited)*, is indirectly interested in approximately 2.74% of the equity interest of Hangzhou Enniu.

* *(The English names have been transliterated from their respective Chinese names and are for identification only)*

Mr Sun is the ultimate controlling shareholder of Hangzhou Enniu and is indirectly beneficially interested in approximately 33.01% of the equity interest therein. He is solely entitled to exercise and control approximately 33.01% of the voting rights in Hangzhou Enniu and there is no person(s) who may fetter the discretion of Mr. Sun in exercising his control over such shareholding position and voting rights in Hangzhou Enniu. Mr. Sun is also the sole director of each of the Offeror and Shanghai Wuniu, and also one of the directors and the chief executive officer of Hangzhou Enniu. Save for Mr. Sun, no other person is directly or indirectly beneficially interested in 30% or more of the equity interest and/or entitled to exercise and control 30% or more of the voting rights in Hangzhou Enniu.

Mr. Sun, aged 37, graduated from Hangzhou Dianzi University (formerly known as 杭州工業學院 (Hangzhou Industrial College)*), majoring in business management and administration. He is an entrepreneur who has engaged in internet businesses since 2004, and founded several internet companies before founding Hangzhou Enniu in 2012. In May 2012, Mr. Sun led the team to create for Hangzhou Enniu the credit card management application

LETTER FROM THE BOARD

named “51 Credit Card Management” which has an estimated user base of over 70 million users. Hangzhou Enniu together with its subsidiaries commonly referred to as “51 Credit Card”, completed its C round financing with total fund raised of over RMB2,600,000,000.

The ultimate beneficial substantial shareholders of Hangzhou Enniu include, amongst others, (i) 深圳市天圖投資管理股份有限公司 (Tian Tu Capital Co., Ltd) (“**Shenzhen Tiantu**”) which is indirectly interested in 100% of the equity interest in 深圳天圖興邦投資企業 (有限合夥) (transliterated as Shenzhen Tiantu Xingbang Investment Enterprise (Limited Partnership)) (“**Tiantu Xingbang**”) and approximately 19.01% of the equity interest in 北京天圖興北投資中心 (有限合夥) (transliterated as Beijing Tiantu Xingbei Investment Centre (Limited Partnership)) (“**Tiantu Xingbei**”) which in turn are interested in approximately 6.59% and 3.29% of the equity interest in Hangzhou Enniu respectively; and (ii) 新湖中寶股份有限公司 (Xinhu Zhongbao Co., Ltd) (“**Xinhu**”) which is directly interested in approximately 11.13% and indirectly interested in approximately 12.02% of the equity interest in Hangzhou Enniu.

Shenzhen Tiantu is a company established in the PRC in 2010 and listed on the National Equities Exchange and Quotations (NEEQ: 833979). Shenzhen Tiantu is principally engaged in investing in consumer goods companies and managing private equity funds. As at 31 December 2015, the total assets of Shenzhen Tiantu was approximately RMB5,824,770,000. Mr. Wang is the ultimate controlling shareholder of Shenzhen Tiantu and is interested in approximately 59.80% of the equity interest therein. Shenzhen Tiantu is in turn interested in approximately 19.01% of the equity interest in Tiantu Xingbei and 100% of the equity interest in Tiantu Xingbang. Tiantu Xingbei and Tiantu Xingbang are interested in approximately 3.29% and 6.59% of the equity interest in Hangzhou Enniu respectively. Tiantu is also a wholly-owned subsidiary of Shenzhen Tiantu.

Xinhu is a company established in the PRC whose shares are listed on the Shanghai Stock Exchange (stock code: 600208). Xinhu is principally engaged in property development and is engaged more than 30 property development projects spread out in 20 cities across the PRC. As at 31 December 2015, the total assets of Xinhu was approximately RMB89,100,000,000.

Other beneficial shareholders of Hangzhou Enniu include amongst others, (i) 北京京東金融科技控股有限公司 (transliterated as Beijing Jingdong Financial Technology Holding Co., Ltd) which is indirectly interested in approximately 5.49% of the equity interest in Hangzhou Enniu; and (ii) 小米科技有限責任公司 (transliterated as Xiaomi Technology Co. Ltd.) which is indirectly interested in approximately 2.74% of the equity interest of Hangzhou Enniu.

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE GEM LISTING RULES

As at the Latest Practicable Date, the Subscriber is interested in 1,444,963,213 Shares, representing approximately 34.08% of the total number of Shares in issue as at the Latest Practicable Date, and thus the Subscriber is a controlling shareholder and a connected person of the Company. The Subscription Agreement and the transactions contemplated thereunder will constitute a connected transaction for the Company under Chapter 20 of the GEM Listing Rules which requires the approval of the Independent Shareholders by way of poll at the EGM.

The Subscriber, being a connected person of the Company and having a material interest in the Subscription Agreement, and its associates and parties acting in concert with any of them (including Tiantu) are required to abstain from voting on the relevant resolution(s) to approve the Subscription Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate at the EGM.

Although the Subscription and the Offers are not inter-conditional with each other and the Convertible Preferred Share Purchase Agreement and Share Purchase Agreement had already completed, Mr. Leung and his associates elect to voluntarily abstain from voting on the board resolution of the Company and the relevant resolution at the EGM to consider and approve the Subscription Agreement and the transactions contemplated thereunder for good corporate governance purposes.

EGM

As such, the EGM will be held at 10:00 a.m. on Friday, 14 July 2017 at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong, for the Independent Shareholders to consider and approve, if thought fit, the Subscription and the transactions contemplated thereunder and the grant of the Specific Mandate, including (but not limited to) the allotment and the issue of the Subscription Shares in accordance with the terms of the Subscription Agreement.

The notice of the EGM is set out on pages 50 to 51 of this circular. 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, you are requested to 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, Wan Chai, Hong Kong, as soon as possible and in any event no later than Wednesday, 12 July 2017 at 10:00 a.m. (Hong Kong Time). Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may) if you so desire.

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 resolutions set out in the notice of the EGM will be voted on by way of poll.

LETTER FROM THE BOARD

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder will be required to abstain from voting on the resolutions to be proposed.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 20 to 21 of this circular which contains its recommendation to the Independent Shareholders in relation to the Subscription and the grant of the Specific Mandate. Your attention is also drawn to the letter of advice from Independent Financial Adviser as set out on pages 22 to 43 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the grant of the Specific Mandate. You are advised to read the said letters from the Independent Board Committee and Independent Financial Adviser before deciding how to vote at the EGM.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the opinion that the Subscription and the grant of the Specific Mandate are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned. While the Subscription and the grant of Specific Mandate are not in the ordinary and usual course of business of the Group, they are in the interests of the Company and its Shareholders as a whole and accordingly recommends the Independent Shareholders to vote in favour of the resolutions relating to the Subscription and the grant of the Specific Mandate to be proposed at the EGM.

Accordingly, the Directors (including the independent non-executive Directors having taken into account the advice of the Independent Financial Adviser) consider that the Subscription and the grant of the Specific Mandate are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Therefore, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

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



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)

23 June 2017

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION —
SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE**

We refer to the circular dated 23 June 2017 (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 defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on whether the Subscription and the grant of the Specific Mandate are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to (i) the “Letter from the Board”; (ii) the “Letter from the Independent Financial Adviser” to the Independent Board Committee and the Independent Shareholders which contains its advice in respect of the Subscription and the grant of Specific Mandate; and (iii) the additional information as set out in the appendix to the Circular.

Having taken into account the opinion of the Independent Financial Adviser and, in particular, the factors, reasons and recommendation as set out in the “Letter from the Independent Financial Adviser” on pages 22 to 43 of the Circular, we consider that the Subscription and the grant of the Specific Mandate are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned. While the Subscription and the grant of Specific Mandate are not in the ordinary and usual course of business of the Group, they are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) as set out in the notice of EGM to approve the Subscription and the grant of the Specific Mandate at the EGM.

Yours faithfully,
For and on behalf of

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 from VMS Securities Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in the Circular.



VMS Securities Limited
49/F, One Exchange Square
8 Connaught Place
Central, Hong Kong

23 June 2017

*To: The Independent Board Committee and the Independent Shareholders of
China Netcom Technology Holdings Limited*

Dear Sir,

CONNECTED TRANSACTION — SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with (i) the Subscription pursuant to the Subscription Agreement entered into between the Subscriber (also as the Offeror) and the Company; and (ii) the granting of the Specific Mandate. Details of the Subscription and the granting of the Specific Mandate are set out in the “Letter from the Board” contained in the circular (the “**Circular**”) of the Company issued to the Shareholders dated 23 June 2017, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular, unless otherwise defined herein.

On 12 April 2017, the Subscriber entered into the Subscription Agreement (as amended by the side letter dated 23 April 2017 and the second side letter dated 16 June 2017, details of which are set out in the Announcement), pursuant to which, the Company had conditionally agreed to allot and issue, and the Subscriber had conditionally agreed to subscribe, in cash, for the 390,000,000 Subscription Shares for a total consideration of HK\$31,980,000, being HK\$0.082 per Subscription Share. As at the Latest Practicable Date, the Subscriber was interested in 1,444,963,213 Shares, representing approximately 34.08% of the total issued Shares. Therefore, the Subscriber is a controlling Shareholder and a connected person of the Company. Accordingly, the Subscription Agreement and the transactions contemplated thereunder will constitute a connected transaction for the Company under the GEM Listing Rules and are subject to approval by the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 the Independent Shareholders on (1) whether the terms of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned; (2) whether the grant of the Specific Mandate is fair and reasonable so far as the Independent Shareholders are concerned; (3) whether the Subscription and the grant of the Specific Mandate are in the interests of the Company and the Shareholders as a whole; and (4) the voting action that should be taken by the Independent Shareholders. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, VMS Securities had been engaged as the independent financial adviser for the Offers and details were set out in the composite document dated 9 June 2017 jointly published by the Offeror and the Company. The past engagement was limited to providing independent advisory services to the independent board committee and independent shareholders of the Company pursuant to the relevant regulatory rules and codes. Under the past engagement, VMS Securities received normal professional fees from the Company. Notwithstanding the past engagement, as at the Latest Practicable Date, we were independent from and not connected with the Group under Rule 17.96 of the GEM Listing Rules, and accordingly, qualified to give independent advice regarding the Subscription Agreement and the grant of the Specific Mandate.

In formulating our opinion, we have reviewed, among other things, (i) the Circular; (ii) the Company's annual reports for the two years ended 31 December 2015 and 2016 (the "**Annual Reports**"); (iii) the Company's first quarterly report (the "**Quarterly Report**") for the three months ended 31 March 2017; and (iv) the announcements published by the Company on website of the Stock Exchange since 1 January 2017. We have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and the management of the Group, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the time they were provided or expressed to us and will remain so up to the time of EGM. We have further assumed that all representations contained or referred to in the Circular are true, accurate and complete as at the date of the Circular. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied or opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach the opinion and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Subscriber or their respective associates or parties acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering (1) whether the terms of the Subscription Agreement are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned; (2) whether the grant of the Specific Mandate is fair and reasonable so far as the Independent Shareholders are concerned; (3) whether the Subscription and the grant of the Specific Mandate are in the interests of the Company and the Shareholders as a whole; and (4) the voting action that should be taken by the Independent Shareholders, we have taken into account the principal factors and reasons set out below.

1. Background to and reasons for the Subscription

The Group is principally engaged in the provision of lottery system management service and operation of lottery sales halls services in the PRC.

The Group recorded net deficit attributable to the Shareholders of approximately HK\$252,000 as at 31 December 2016, and losses attributable to the Shareholders for the past five years (losses attributable to the Shareholders amounting to approximately HK\$290.9 million, HK\$75.3 million, HK\$186.1 million, HK\$54.7 million and HK\$37.0 million for the five years ended 31 December 2012, 2013, 2014, 2015 and 2016 respectively as shown in the financial summary contained in the Company's annual report for the year ended 31 December 2016 (the "**2016 Annual Report**"). In light of the net deficit position of the Group and the losses for the past five years as well as for the first quarter of 2017, the Subscriber and the executive Directors consider that it is essential to recapitalise the Company and restore its financial health so as to allow the Group to further develop its business with a view to bringing value to the Shareholders.

In response to this, we understand from the executive Directors that they have considered a number of alternative fund raising methods including rights issue, open offer, and bank and other borrowings. In view of the poor financial condition and performance of the Group, the executive Directors consider that it is uncertain whether bank and other lenders would be interested to lend money to the Group. Moreover, bank and other borrowings are interest bearing and cannot improve the net deficit position of the Group. The net deficit position of the Group cannot be improved by way of shareholders' loan from the Subscriber. The executive Directors also consider that the Group would experience difficulties in finding underwriters for a proposed rights issue or open offer on commercially acceptable terms due to the poor financial condition and performance of the Group. Accordingly, the Subscriber and the Company entered into the Subscription Agreement for the Subscriber to provide the Group with further capital.

The net proceeds from the Subscription are estimated by the executive Directors to be approximately HK\$31.5 million which will be used for the Group's general working capital. Such HK\$31.5 million is expected by the executive Directors to be applied (1) as to approximately HK\$8.0 million for the business development of the Group's lottery business in the PRC and (2) the rest of approximately HK\$23.5 million for staff costs, rental expenses for office premises, legal and professional fees, and other administrative and operating expenses. The executive Directors advise us that such HK\$23.5 million expenses are not overdue amount and are estimated by the executive Directors based on the Group's historical amount. The

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

executive Directors consider that based on the Group's existing working capital and cash and bank balances together with the net proceeds from the Subscription, the Group can meet these expenses in the near future. Further details of the use of proceeds from the Subscription are set out in the "Letter from the Board" contained in the Circular.

The executive Directors anticipate that the Group can be restored to a positive net asset position immediately after the Subscription Completion.

Having considered the above, the executive Directors are of the view that (1) the terms of the Subscription Agreement and the grant of the Specific Mandate are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the Subscription and the grant of the Specific Mandate are in the interests of the Company and the Shareholders as a whole.

The executive Directors advise us that the purpose of the Subscription is to (a) improve the Group's financial position by way of raising additional fund for future general capital of the Group; and (b) strengthen the synergy between the Company and the Subscriber so that the Group can potentially be benefited from the business network of the Subscriber and the Subscriber's experience in the internet and computer technology development and related areas. It was stated in the Annual Reports that the Group suffered net cash outflow in operating activities in an amount of approximately HK\$23.6 million, HK\$35.2 million and HK\$16.0 million for the past three years ended 31 December 2014, 2015 and 2016 respectively. The average annual net cash outflow in operating activities for the past three years ended 31 December 2014, 2015 and 2016 amounted to approximately HK\$24.9 million which exceeded slightly the Group's cash and bank balances (excluding pledged bank deposit) of approximately HK\$23.8 million as at 31 December 2016. Based on the average net cash outflow in operating activities of approximately HK\$24.9 million, the cash and bank balances (excluding pledged bank deposit) of the Group as at 31 December 2016 are expected to meet the net cash outflow in operating activities for around a year. Given the cash and bank balances being expected to meet the net cash outflow in operating activities for around a year, we consider that from prudent financial management point of view, it is necessary for the Group to raise further fund to replenish the general working of the Group.

We note from statement of cash flows of the Group that the Group recorded net increase in cash and cash equivalents in both of 2014 and 2015 in an amount of approximately HK\$27.8 million and HK\$16.2 million respectively. Such increase was mainly contributed by the net proceeds from issue of Shares under Share placing of approximately HK\$72.6 million and HK\$63.4 million in 2014 and 2015 respectively.

If the net proceeds from issue of Shares under the share placings were excluded, the Group would recorded net decrease in cash and cash equivalents of approximately HK\$44.8 million and HK\$47.2 million in 2014 and 2015 respectively. The Group recorded net decrease in cash and cash equivalents of approximately HK\$54.6 million in 2016. Per statement of cash flows of the Group for the year ended 31 December 2016, the Company did not receive any proceeds from placing of Shares in 2016. Since the Group suffered net cash outflow in operating activities for the past three financial years, the Group could not generate sufficient

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

fund from operating activities to meet its funding need, and had to raise fund to meet its funding need by issue of new Shares in 2014 and 2015. Accordingly, we consider that the Subscription is consistent with the Company's past fund raising practice.

As set out in the Chart 1 shown in the sub-section headed "Evaluation of the Subscription Price" below, there were significant increases (as compared to the Last Trading Day) in the closing Share prices after publication of the Joint Announcement. In addition, we note that the trading volume of the Shares (as quoted on the Stock Exchange) on 24 April 2017 (being the first trading day immediately after publication of the Joint Announcement) was approximately 145.9 million, which was much higher than the trading volume of the Shares of approximately 52.1 million on the Last Trading Day. Subsequent trading volume of the Shares were approximately 508.7 million and 296.7 million on 25 April 2017 and 26 April 2017 respectively. Given the significant increases in the closing Share price and trading volume after the Joint Announcement, we consider that comparison of the Subscription Price against current Share prices would be little relevant to the Independent Shareholders for the purpose of assessing the fairness and reasonableness of the Subscription Price.

Based principally on

- (1) the Group's incapability to generate sufficient fund from operating activities and the need to raise further fund to replenish the general working capital of the Group from prudent financial management point of view as discussed above;
- (2) the Subscription being consistent with the Company's past fund raising practice as discussed above;
- (3) the net deficit position of the Group not to be improved by way of shareholders' loan from the Subscriber;
- (4) the improvement and strengthening of the Group's financial position (i.e. restoring to a positive net asset position) and working capital of the Group immediately after the Subscription Completion;
- (5) the Subscription Price of HK\$0.082 per Subscription Share being considered by us to be fair and reasonable as set out in the sub-section headed "Evaluation of the Subscription Price" below of this letter; and
- (6) the estimated net proceeds from the Subscription of approximately HK\$31.5 million representing approximately (a) 34.2% of the Group's total assets as at 31 December 2016; and (b) 1.3 times of the Group's cash and bank balances of approximately HK\$23.8 million (excluding the pledged deposit of approximately HK\$216,000 which was pledged for obtaining the corporate card services) as at 31 December 2016 respectively,

we consider that the Subscription and the grant of the Specific Mandate are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Principal terms of the Subscription Agreement

Set out below is a summary of principal terms of the Subscription Agreement. Further details of terms of the Subscription Agreement are set out in the section headed “Subscription of New Shares under Specific Mandate” in the “Letter from the Board” contained in the Circular.

(i) The Subscription Agreement

Date: 12 April 2017 (as amended by the side letter dated 23 April 2017 and the second side letter dated 16 June 2017)

Issuer: (i) The Company

Subscriber: (ii) 51RENPIN.COM INC.

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe, in cash, for the 390,000,000 Subscription Shares for a total consideration of HK\$31,980,000, being HK\$0.082 per Subscription Share.

(ii) The size of the Subscription, rights of the Subscription Shares and the Specific Mandate

The Subscription Shares represents approximately 9.20% of the total Shares in issue as at the Latest Practicable Date and approximately 8.42% of the total Shares in issue as enlarged by the allotment and issue of the Subscription Shares. The Subscription Shares, when issued and fully paid-up, shall rank pari passu in all respects with the Shares in issue as at the date of allotment. The Subscription Shares will be allotted and issued under the Specific Mandate to be sought from the Independent Shareholders at the EGM. An application will be made to the GEM Listing Committee of the Stock Exchange for the listing of and permission to deal in the Subscription Shares.

(iii) The Subscription Price

The Subscription Price is HK\$0.082 per Subscription Share. As stated in the “Letter from the Board” contained in the Circular, the Subscription Price was negotiated and arrived at after arm’s length negotiation basis, with reference to the then financial performance and financial position of the Group and the then trading performance of the Shares, the consolidated net liability value per Share of the Company and the relatively high gearing ratio of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iv) Conditions of the Subscription

Subscription Completion is conditional upon the conditions having been fulfilled or waived (as the case may be). Certain conditions to the Subscription Completion cannot be waived by either party to the Subscription Agreement, including (1) the GEM Listing Committee of the Stock Exchange granting or agreeing to grant and not having withdrawn or revoked approval for the listing of, and permission to deal in the Subscription Shares; (2) the passing of the necessary resolution(s) at the EGM by the Independent Shareholders who are entitled to vote and not required to abstain from voting under the GEM Listing Rules and/or the Takeovers Code to approve the Subscription Agreement and the transactions contemplated thereunder, including among others, the Specific Mandate and the allotment and issue of the Subscription Shares; and (3) the compliance (a) of any other requirements under the GEM Listing Rules and the Takeovers Code or otherwise of (b) the Stock Exchange and the SFC which requires compliance in relation to the Subscription and the allotment and issue of the Subscription Shares. Further details of conditions to the Subscription Completion are set out in the sub-section headed “Conditions precedent to the Subscription Completion” under the section headed “Subscription of New Shares under Specific Mandate” in the “Letter from the Board” contained in the Circular.

Completion shall take place within three Business Day at the principal place of business of the Company immediately after the date upon which the last of the conditions is satisfied (or, as the case may be, waived) or such other time and date as the parties may agree. As at the Latest Practicable Date, we were informed by the executive Directors that none of the conditions has been satisfied.

If the conditions are not fulfilled (or, as the case may be, waived) on or before 30 September 2017 (or such later date as may be agreed by the Company and the Subscriber), or the 30th day after fulfilling the condition set out in (2) above, whichever is earlier, all rights, obligations and liabilities of the parties to the Subscription Agreement shall cease and determine and none of the parties thereto shall have any claim against the other in respect of the Subscription Agreement (save for any antecedent breaches thereof).

As stated in the “Letter from the Board” contained in the Circular, the Subscription and the Offers are not inter-conditional on each other.

3. Information of the Subscriber

The Subscriber is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding and is wholly owned by Shanghai Wuniu. The business scope of Shanghai Wuniu includes, amongst others, internet and computer technology development, business investments, network engineering and e-commerce. Further details of the information of the Subscriber are set out in the “Letter from the Board” contained in the Circular.

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4. Financial information and prospects of the Group

(i) Financial results

The following is a summary of (1) the audited consolidated results of the Company for the three years ended 31 December 2014, 2015 and 2016 respectively as extracted from the Annual Reports and (2) the unaudited consolidated results of the Company for the three months ended 31 March 2016 and 2017 respectively as extracted from the Quarterly Report.

| | For the year ended 31 December | | | For the three months ended 31 March | |
|--|-----------------------------------|-----------------------|-----------------------|--|-------------------------|
| | 2016 | 2015 | 2014 | 2017 | 2016 |
| | HK\$'000 (Audited) | HK\$'000 (Audited) | HK\$'000 (Audited) | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) |
| Revenue | 336 | 964 | 3,533 | 740 | 100 |
| Cost of sales | (649) | (1,135) | (3,896) | (490) | (139) |
| Gross (loss)/profit | (313) | (171) | (363) | 250 | (39) |
| Other income and gains | 1,799 | 1,120 | 2,462 | 3,029 | 128 |
| Administrative expenses | (29,364) | (35,524) | (29,731) | (6,106) | (4,827) |
| Impairment loss of concession rights | (8,460) | (4,500) | (374,217) | — | — |
| Gain/(loss) on early redemption of convertible bonds | 656 | (1,655) | (3,235) | — | 386 |
| Finance costs | (5,650) | (16,394) | (10,772) | (1,379) | (1,725) |
| Other operating expenses | (7,982) | (10,357) | (13,688) | (1,559) | (1,893) |
| Loss before tax | (49,314) | (67,481) | (429,544) | (5,765) | (7,970) |
| Income tax credit | 6,170 | 7,155 | 99,463 | 459 | 626 |
| Loss for the year/period | <u>(43,144)</u> | <u>(60,326)</u> | <u>(330,081)</u> | <u>(5,306)</u> | <u>(7,344)</u> |
| Loss attributable to: | | | | | |
| Owners of the Company | (37,043) | (54,679) | (186,051) | (6,128) | (6,421) |
| Non-controlling interests | (6,101) | (5,647) | (144,030) | 822 | (923) |
| | <u>(43,144)</u> | <u>(60,326)</u> | <u>(330,081)</u> | <u>(5,306)</u> | <u>(7,344)</u> |

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A. *For the year ended 31 December*

a. Revenue

The revenue was mainly derived from the provision of management, marketing and operating services for lottery system and lottery halls. The Group's revenue was approximately HK\$0.34 million for the year ended 31 December 2016, representing a decrease of approximately 65.1% as compared to that of 2015. For the year ended 31 December 2015, the Group recorded revenue of approximately HK\$0.96 million, representing a decrease of approximately 72.7% as compared with that of 2014. The executive Directors advised that the continual drop of revenue since 2014 and the minimal revenue in 2016 were due to the keen market competition as the market share of the lottery game in which the Company is running via the lottery issuing centres has kept decreasing.

b. Impairment loss of concession rights

The Group's impairment loss of concession rights was approximately HK\$8.5 million for the year ended 31 December 2016, representing an increase of approximately 88.9% as compared with that of 2015. For the year ended 31 December 2015, the impairment loss of concession rights amounted to approximately HK\$4.5 million, representing a decrease of approximately 98.8% as compared to that of 2014 in an amount of approximately HK\$374.2 million. The Group recorded a huge amount of impairment loss of concession rights for the year ended 31 December 2014 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 (transliterated as "Shenzhen Huancai Puda Technology Company Limited") ("**Huancai Puda**"), an indirect non-wholly-owned subsidiary of the Company, in the wake of the industry integration in the PRC during the second half of 2014.

c. Loss for the year

The Group recorded less loss attributable to owners of the Company in 2015 as compared to 2014 mainly due to the significant decrease of impairment loss of concession rights in 2015. The Company continued to early redeem the Convertible Bonds at a total consideration of approximately HK\$10.1 million, HK\$15.0 million and HK\$11.0 million in January 2016, April 2016 and June 2016 respectively and this resulted in the drop of finance costs. Although the Convertible Bonds are zero-coupon convertible bonds, imputed interests have to be recognised by the Group in the profit or loss on an effective interest method in respect of the liability component of the Convertible Bonds pursuant to the accounting policies of the Group. Accordingly, these imputed interests recorded by the Group in the profit or loss do not involve any actual cash outflow. Coupled with the drop of administrative and other operating expenses, less loss attributable to owners of the Company was recorded in 2016.

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B. For the three months ended 31 March

The revenue mainly derived from the sale of information technology products, provision of management, marketing, and operating services for lottery halls and provision of sports training services. The Group's revenue was approximately HK\$0.74 million for the three months ended 31 March 2017, representing an increase of approximately 640.0% as compared with the corresponding period of 2016. The Group recorded a gross profit of approximately HK\$250,000 for the three months ended 31 March 2017 as compared to the gross loss of approximately HK\$39,000 recorded by the Group for the corresponding period of 2016. The increase in revenue for the three months ended 31 March 2017 was mainly attributable to the increase in income from provision of sports training services for the first quarter of 2017. The Directors advise that given the existing cash positions and financial resources of the Group, the Group intends to focus on the Group's existing core business which is lottery-related business. Regarding the other income and gains, the Group recorded a significant increase by approximately 2,266.4%, representing an increase from approximately HK\$0.13 million for the three months ended 31 March 2016 to approximately HK\$3.03 million for the corresponding period of 2017. Combined with the effects of the decrease in finance cost which representing the imputed interest expenses as explained above and other operating expenses, the Group recorded a decrease in the loss attributable to owners of the Company for the three months ended 31 March 2017 as compared to the corresponding period in 2016, despite an increase in administrative expenses of approximately 26.5%. The Group's loss attributable to owners of the Company for the three months ended 31 March 2017 was approximately HK\$6.13 million, representing a decrease of approximately 4.6% as compared to the loss attributable to owners of the Company of approximately HK\$6.4 million for the corresponding period in 2016.

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(ii) Financial position

The following is a summary of the audited consolidated financial position of the Company as at 31 December 2014, 2015 and 2016 respectively (as extracted from the Annual Reports).

| | As at 31 December | | |
|--|--------------------------|-----------------------|------------------------|
| | 2016 | 2015 | 2014 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Audited) | (Audited) | (Audited) |
| Non-current assets | | | |
| Property, plant and equipment | 2,436 | 1,215 | 1,897 |
| Club debenture | 115 | 115 | 115 |
| Concession rights | <u>60,580</u> | <u>81,526</u> | <u>99,324</u> |
| Total non-current assets | 63,131 | 82,856 | 101,336 |
| Current assets | | | |
| Inventories | 911 | — | — |
| Prepayments, deposits and other receivables | 2,516 | 9,770 | 4,244 |
| Amounts due from non-controlling interests of subsidiaries | 1,497 | 2,227 | 240 |
| Pledged bank deposit | 216 | 215 | 214 |
| Cash and bank balances | <u>23,817</u> | <u>78,077</u> | <u>61,790</u> |
| Total current assets | 28,957 | 90,289 | 66,488 |
| Current liabilities | | | |
| Trade and other payables | 7,776 | 7,884 | 9,661 |
| Receipt in advance | 126 | — | — |
| Amount due to a director | — | 136 | — |
| Amount due to a non-controlling interest of a subsidiary | 472 | 215 | 227 |
| Convertible bonds | — | — | 93,820 |
| Current tax liabilities | <u>—</u> | <u>1</u> | <u>1</u> |
| Total current liabilities | 8,374 | 8,236 | 103,709 |
| Net current assets/(liabilities) | <u>20,583</u> | <u>82,053</u> | <u>(37,221)</u> |
| Total assets less current liabilities | <u>83,714</u> | <u>164,909</u> | <u>64,115</u> |

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| | As at 31 December | | |
|---|--------------------------|-----------------|-----------------|
| | 2016 | 2015 | 2014 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Audited) | (Audited) | (Audited) |
| Non-current liabilities | | | |
| Convertible bonds | 43,923 | 59,633 | — |
| Deferred tax liabilities | 19,120 | 27,719 | 27,718 |
| | <u>63,043</u> | <u>87,352</u> | <u>27,718</u> |
| Total non-current liabilities | 63,043 | 87,352 | 27,718 |
| Net assets | 20,671 | 77,557 | 36,397 |
| Capital and reserves | | | |
| Share capital — ordinary shares | 15,600 | 15,600 | 11,085 |
| Share capital — non-redeemable convertible preferred shares | 5,017 | 5,017 | 7,317 |
| Reserves | (20,869) | 27,627 | (17,299) |
| | <u>20,923</u> | <u>29,313</u> | <u>35,294</u> |
| Equity attributable to owners of the Company | (252) | 48,244 | 1,103 |
| Non-controlling interests | <u>20,923</u> | <u>29,313</u> | <u>35,294</u> |
| Total equity | 20,671 | 77,557 | 36,397 |

The total assets of the Group as at 31 December 2016 amounted to approximately HK\$92.1 million, mainly comprising concession rights and cash and bank balances (excluding pledged bank deposit). The amount of concession rights represented the value in use of contractual rights stated in cooperation agreements that Huancai Puda and its subsidiary entered into with several lottery issuing centres for provision of software system and technical service. This explained why concession rights amounted to approximately HK\$60.6 million as at 31 December 2016, contributing to approximately 65.8% of the total assets of the Group as at 31 December 2016. Carrying amount of concession rights continued to drop primarily due to the amortisation and the impairment provision for the past three years. Cash and bank balances (excluding pledged bank deposit) as at 31 December 2016 amounted to approximately HK\$23.8 million, representing approximately 25.9% of the total assets of the Group as at 31 December 2016. During the year of 2016, the net cash used in operating activities and the repayment of the Convertible Bonds amounted to approximately HK\$16.0 million and HK\$36.1 million respectively. This mainly led to the drop of cash and bank balances (excluding pledged bank deposit) from approximately HK\$78.1 million as at 31 December 2015 to HK\$23.8 million as at 31 December 2016.

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The total liabilities of the Group as at 31 December 2016 amounted to approximately HK\$71.4 million, mainly comprising the liability component of the Convertible Bonds and deferred tax liabilities of approximately HK\$43.9 million and HK\$19.1 million respectively. The liability component of the Convertible bonds was classified as current liabilities as at 31 December 2014, which amounted to approximately HK\$93.8 million. The liability component of the Convertible Bonds was reclassified as non-current liabilities and amounted to approximately HK\$59.6 million and HK\$43.9 million as at 31 December 2015 and 2016 respectively. The reclassification was due to the supplemental deed entered into between the Company and Mr. Leung, to extend the maturity date of the Convertible Bonds. Early redemption of the Convertible Bonds was made by the Company in both of 2015 and 2016. This resulted in the decrease of balance of the liability component of the Convertible Bonds.

Deferred tax liabilities decreased from approximately HK\$27.7 million as at 31 December 2015 to approximately HK\$19.1 million as at 31 December 2016, representing a decrease of approximately 31.0%.

(iii) Prospects of the Group

According to the information published by the Ministry of Finance of the PRC (中國財政部) (the “MOF”) on its official website on 23 January 2017, the total lottery sales for the twelve months ended 31 December 2016 had been increased by approximately RMB26.8 billion to approximately RMB394.6 billion, representing an increase of approximately 7.3% as compared to that of the previous year. The sales from welfare lottery and sports lottery amounted to approximately RMB206.5 billion and RMB188.1 billion in 2016, representing an increase of approximately 2.5% and 13.1% respectively as compared to that in 2015.

In addition, based on the information published by the MOF on its official website on 20 April 2017, the total lottery sales for the three months ended 31 March 2017 was approximately RMB95.2 billion, representing an increase of approximately 4.9% as compared to that of the corresponding period in 2016. The sales from welfare lottery and sports lottery amounted to approximately RMB51.3 billion and RMB43.9 billion for the three months ended 31 March 2017, representing an increase of approximately 3.5% and 6.6% respectively as compared to that of the corresponding period in 2016.

The executive Directors are confident on the long term prospects of the PRC lottery industry. Nevertheless, the executive Directors are of the view that there are challenges ahead in the PRC lottery industry such as evolving regulatory environment, keen market competition and rising operating costs. The executive Directors advised that the continual drop of revenue since 2014 and the minimal revenue in 2016 were due to the keen market competition as the market share of the lottery game in which the Company is running via the lottery issuing centres has kept decreasing. The executive Directors advised that for the past three years, the Group had been continuously exploring opportunities on the business cooperation with lottery issuing centres and potential business partners to grasp the business opportunities in the market and expand the Group’s business. However, the Group encountered difficulties to reach commercial terms that were acceptable to the

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Group. Moreover, certain lottery issuing centres and potential business partners showed little interest to establish business relationship with the Group primarily due to the Group's comparatively small operating size, unsatisfactory financial performance of the Group and high gearing of the Group. As such, the Group cannot grasp the opportunities to expand the business of the Group. In view of the challenges ahead and the difficulties for business development faced by the Group, we discuss with the executive Directors and understand that the Group will continue to explore new lottery games and means, and build up business relationship with the lottery issuing centres and potential business partners.

In considering the Group's prospects, we have also taken into reference the financial performance of the peer companies with principal business that are comparable to the Company. We consider that the companies which are principally engaged in provision of lottery systems, terminal and equipment, lottery games, development, distribution, lottery related or ancillary services and marketing of lottery related products with revenue generated from such operating segment contributing over 50% of the total revenue for the latest financial year as shown in their latest published annual reports available as at the date immediately prior to the Latest Practicable Date, are peer companies (the "**Peer Companies**") comparable to the Company.

We have identified in total five Peer Companies whose shares are listed on the Stock Exchange, namely AGTech Holdings Limited ("**AGTech**") (stock code: 8279), China Lotsynergy Holdings Limited (stock code: 1371), China Vanguard Group Limited (stock code: 8156), MelcoLot Limited (stock code: 8198) and RexLot Holdings Limited (stock code: 555).

We note from their respective latest annual reports that there was drop in revenue in the latest financial year as compared to that of previous financial year for four out of five Peer Companies. Moreover, all Peer Companies (except AGTech) suffered losses attributable to their respective shareholders. AGTech recorded consolidated profit attributable to its shareholders of approximately HK\$333.0 million for the year ended 31 December 2016. Gain on fair value changes of convertible bonds of approximately HK\$408.1 million was recorded by AGTech for the year ended 31 December 2016. If this gain was excluded, AGTech would suffered a loss in 2016.

In view of (i) the Group's difficulties to develop business with other lottery issuing centres and potential business partner for the past three years; and (ii) financial results of the Peer Companies as discussed above, we consider that the prospects of the Group is challenging in short term basis.

5. Evaluation of the Subscription Price

(i) *Comparison of the Subscription Price to recent Share prices*

The Subscription Price of HK\$0.082 per Subscription Share represents:

- (a) a discount of approximately 79.5% to the closing price of the Share of HK\$0.4 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

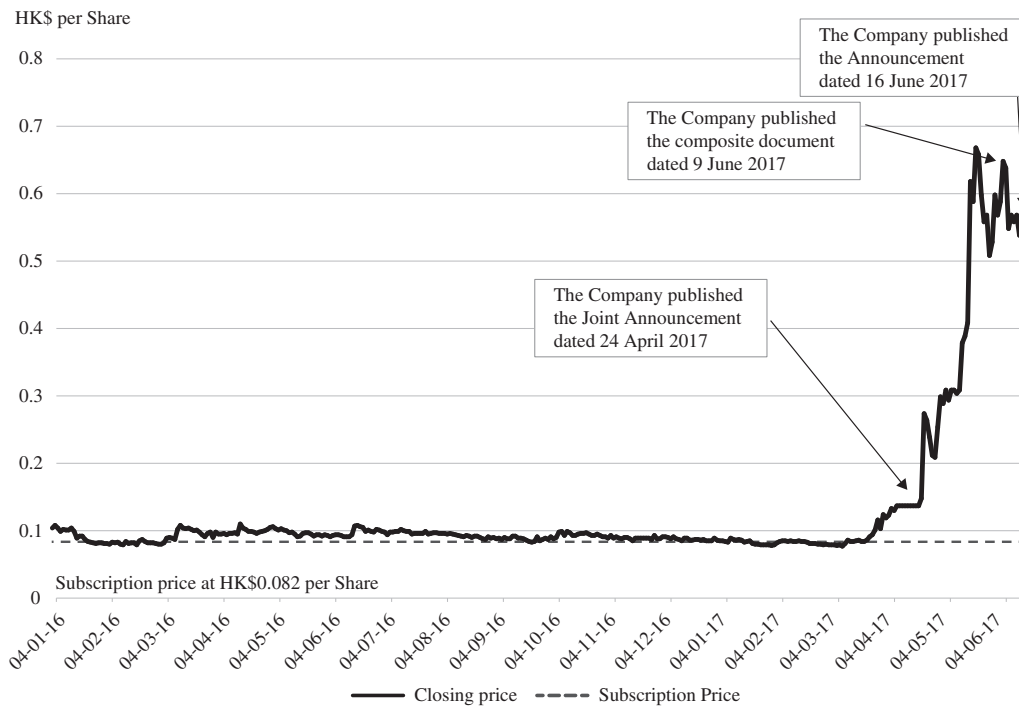
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- (b) a discount of approximately 40.6% to the closing price of the Shares of HK\$0.138 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 38.3% to the average of the closing prices of HK\$0.133 per Share for the last five trading days up to and including the Last Trading Day;
- (d) a discount of approximately 33.3% to the average of the closing prices of approximately HK\$0.123 per Share for the last ten trading days up to and including the Last Trading Day; and
- (e) a premium of approximately HK\$0.0821 per Share over the audited consolidated net liability value attributable to owners of the Company of approximately HK\$0.0001 per Share as at 31 December 2016 (calculated based on the audited consolidated net liability value attributable to owners of the Company of approximately HK\$252,000 as at 31 December 2016 and divided by the 3,120,035,049 Shares in issue as at 31 December 2016).

(ii) *Historical share price performance of the Shares*

The chart 1 below shows the daily closing prices per Share for the period from 4 January 2016 (the first trading day in 2016) up to and including the Latest Practicable Date (the “**Review Period**”).

Chart 1: Share price chart



Source: Bloomberg

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During the period from 4 January 2016 to 21 March 2017, the closing prices of the Shares fluctuated in a range of between HK\$0.078 and HK\$0.111 per Share and were at most of the time below HK\$0.1 per Share. Since 21 March 2017, the closing prices of the Shares were on an upward trend and reached HK\$0.138 per Share on the Last Trading Day. The Company published its 2016 annual results announcement after trading hours on 21 March 2017. The Group recorded audited consolidated losses attributable to owners of the Company of approximately HK\$37.0 million in 2016, representing an improvement of approximately 32.4% as compared to the audited consolidated loss of approximately HK\$54.7 million in 2015. The closing Share price increased by approximately 2.4% after the publication of the 2016 annual results announcement from HK\$0.085 on 21 March 2017 to HK\$0.087 on 22 March 2017. After publication of the 2016 annual results announcement, the Company published, among other things, the 2016 Annual Report, the annual general meeting circular and routine monthly return for the movement of securities of the Company prior to the Last Trading Day. The Directors were not aware of any reasons leading to the fluctuation of the Share prices during the period from 21 March 2017 up to the Last Trading Day.

Following the publication of the Joint Announcement, trading in the Shares resumed on 24 April 2017. The closing Share price surged after publication of the Joint Announcement from HK\$0.138 on the Last Trading Day to HK\$0.305 on 15 May 2017, representing an increase of approximately 121.0%. The Company announced its unaudited first quarter of 2017 results after trading hours on 15 May 2017. The Group's loss attributable to owners of the Company for the three months ended 31 March 2017 had been slightly decreased by approximately 4.6% as compared to the corresponding period of 2016 to approximately HK\$6.13 million. The closing Share price after the publication of the first quarter of 2017 results announcement increased from HK\$0.305 on 15 May 2017 to HK\$0.31 on 16 May 2017. The Shares closed at a price of HK\$0.4 per Share as at the Latest Practicable Date. The substantial increase of the closing Share prices after publication of the Joint Announcement suggests a positive market reaction to the Joint Announcement.

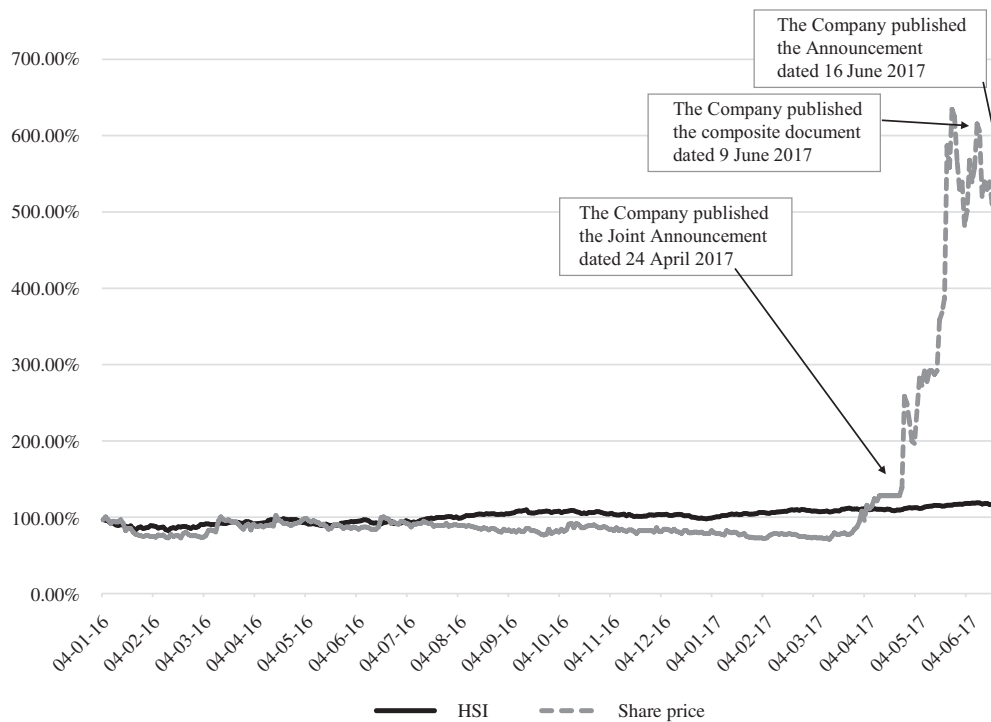
As shown in the chart above, the closing prices of the Shares were above the Subscription Price at most of the time throughout the Review Period.

(iii) Comparison of Share price performance versus Hang Seng Index (“HSI”)

The chart 2 below depicts the comparison of the closing Share price performance and that of HSI during the Review Period.

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Chart 2: Comparison of Share price performance with HSI



Source: Bloomberg

As shown in the above chart, the Shares had under-performed HSI for most period of time from 4 January to 30 March 2017 and the fluctuation of the closing Share prices was, in general, in line with the overall market. Following the publication of the Joint Announcement, the Shares significantly out-performed HSI.

(iv) Comparable Issues

For the purpose of our analysis, we have performed an analysis of comparable issues by searching the website of the Stock Exchange on a best effort basis for all share issues (the “**Comparable Issues**”) announced since 1 January 2016 and up to the date immediately prior to the Latest Practicable Date by companies listed on the Stock Exchange which involve (i) placing/subscription/issue of new shares of listed companies for cash to/by the subscriber(s) together with its concert parties (as disclosed in the respective announcements) pursuant to specific mandate without restructuring of assets and/or business of listed companies; (ii) the subscriber(s) together with its concert parties did not hold any shares of the respective listed companies as at the last trading day (as defined under the respective announcements) but a mandatory general offer obligation is triggered upon completion of the placing/subscription/issue of new shares; and (iii) the placing/subscription/issue of new shares and the specific mandate having been approved by the respective independent shareholders of listed companies in compliance with the Takeovers Code and/or the applicable listing rules (other than those having been announced to be lapsed) as at the date immediately prior to the Latest Practicable Date. We have excluded (i) issues announced by listed companies, which, as at the date of announcement and/or currently, were/are under prolonged suspension; (ii) issues involving

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only convertible securities; and (iii) open offers or rights issues of new shares, where different pricing considerations apply for these three types of issue. It should be noted that the subject companies involved in the Comparable Issues may have different principal activities, market capitalisations, profitability and financial positions as compared to those of the Company. However, as (1) there are in total of eight Comparable Issues identified during the period with a relative sufficient sample size; and (2) the Comparable Issues (a) fulfill the above criteria with deal structures similar to the Subscription; and (b) can provide a general understanding of this type of transaction in Hong Kong stock market, we consider them to be an appropriate basis to assess the fairness of the Subscription Price.

To the best of our knowledge, the Comparable Issues represent an exhaustive list of all issues fulfilling the said criteria above. The table below illustrates the details of the Comparable Issues:

| Date of announcement | Company name | Stock code | Discount of the relevant subscription price to | | |
|-------------------------|--|------------|---|---|---|
| | | | closing share price as at the last day of trading immediately prior to the announcement <i>(Notes 1&2)</i> <i>approximate (%)</i> | average closing share price for the 5 trading days immediately prior to the announcement <i>(Notes 1&2)</i> <i>approximate (%)</i> | average closing share price for the 10 trading days immediately prior to the announcement <i>(Notes 1&2)</i> <i>approximate (%)</i> |
| 5 January 2016 | ZZ Capital International Limited ("ZZ Capital" formerly known as "Asian Capital Holdings Limited") | 8295 | (21.58) | (19.46) | (19.57) |
| 14 February 2016 | Unisplendour Technology Holdings Limited (formerly known as "Sun East Technology (Holdings) Limited") | 365 | (72.79) | (70.59) | (68.92) |
| 16 February 2016 | Varitronix International Limited ("Varitronix") | 710 | (33.71) | (34.53) | (33.38) |
| 29 February 2016 | Qianhai Health Holdings Limited (formerly known as "Hang Fat Ginseng Holdings Company Limited") | 911 | (85.07) | (84.33) | (83.44) |
| 4 March 2016 | AGTech | 8279 | (82.52) | (82.05) | (81.94) |
| 13 July 2016 | Sino Golf Holdings Limited | 361 | (63.23) | (59.86) | (54.11) |
| 15 February 2017 | Runway Global Holdings Company Limited | 1520 | (70.25) | (70.32) | (70.43) |
| 21 March 2017 | Jutal Offshore Oil Services Limited ("Jutal Oil") | 3303 | (40.00) | (39.52) | (35.28) |
| Mean (simple average) | | | (58.64) | (57.58) | (55.88) |
| Median | | | (66.74) | (65.09) | (61.51) |
| Minimum | | | (85.07) | (84.33) | (83.44) |
| Maximum | | | (21.58) | (19.46) | (19.57) |
| The Subscription | | | (40.60) | (38.30) | (33.30) |

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Source: Relevant announcements of the companies of the Comparable Issues

Notes:

1. The closing prices are sourced from Bloomberg.
2. The last trading day refers to their respective last trading day of shares on the Stock Exchange immediately prior to the publication of respective announcements.

As set out in the table above, the Comparable Issues shown above have involved a placing, subscription or issue of new shares at discounts to their respective historical trading prices.

The Subscription Price of HK\$0.082 per Subscription Share represents (i) a discount of approximately 40.60% to the closing price on the Last Trading Day; (ii) a discount of approximately 38.30% to the average closing price for the 5 trading days immediately prior to and including the Last Trading Day; and (iii) a discount of approximately 33.30% to the average closing price for the 10 trading days immediately prior to and including the Last Trading Day. All of these are (i) within the range of discounts of the Comparable Issues; (ii) more favourable than the mean and median of the range of discounts of the Comparable Issues; and (iii) less favourable than (1) the relevant discounts for the subscription price to the closing share price as at the last trading day for the cases of Varitronix and Jutal Oil; (2) the relevant discount for the subscription price to the average closing share prices for the relevant 5 trading days for the case of Varitronix; and (3) all the relevant discounts for the subscription price to (a) the closing share price as at the last trading day and (b) the average closing share prices for the relevant 5 and 10 trading days for the case of ZZ Capital.

(v) Peer Companies

As the Group has reported consolidated loss attributable to the Shareholders for the year ended 31 December 2016, historical price-to-earnings ratio analysis cannot be performed. The Group recorded consolidated net deficit attributable to the Shareholders of approximately HK\$252,000 as at 31 December 2016. Accordingly, historical price-to-book ratio analysis by reference to net asset position as at 31 December 2016 cannot be carried out. We, therefore, do not conduct ratio analysis against the Peer Companies for assessing the fairness and reasonableness of the Subscription Price.

Based on the above analysis and having taken into account that:

- (a) the Group recorded net deficit attributable to the Shareholders of approximately HK\$252,000 as at 31 December 2016, and losses attributable to the Shareholders for the past five years as well as for the first quarter of 2017;
- (b) the operation size of the Group is minimal (in terms of the 2016 annual revenue and the revenue for the first three months ended 31 March 2017);
- (c) the short-term challenging prospects of the Group as discussed under the paragraph headed "Prospects of the Group" above;

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- (d) both of the financial position (i.e. restoring to a positive net asset position) and the working capital of the Group can be strengthened immediately after the Subscription Completion as set out in the sub-section headed “Financial effects of the Subscription” below;
- (e) the surge of Share price after publication of the Joint Announcement in relation to, among other things, the Subscription and the Offers benefits all Shareholders; and
- (f) the discounts associated with the Subscription Price fall within the range of discounts of the Comparable Issues and are more favourable than the mean and median of the range of discounts of the Comparable Issues but are less favourable than (i) the relevant discounts for the subscription price to the closing share price as at the last trading day for the cases of Varitronix and Jutal Oil; (ii) the relevant discount for the subscription price to the average closing share prices for the relevant 5 trading days for the case of Varitronix; and (iii) all the relevant discounts for the subscription price to (a) the closing share price as at the last trading day and (b) the average closing share prices for the relevant 5 and 10 trading days for the case of ZZ Capital as set out in the sub-section headed “Comparable Issues” above,

we are of the view that the Subscription Price of HK\$0.082 per Subscription Share is fair and reasonable.

6. Financial effects of the Subscription

As set out in the sub-section headed “Reasons for the Subscription and use of proceeds” in the “Letter from the Board” contained in the Circular, the gross proceeds and net proceeds from the Subscription are estimated to be approximately HK\$32.0 million and HK\$31.5 million respectively. Immediately upon the Subscription Completion, net proceeds from the Subscription of approximately HK\$31.5 million shall be received by the Company and the executive Directors expect that the Group’s working capital and cash position will be enhanced.

According to the 2016 Annual Report, the net deficit of the Group was approximately HK\$252,000 as at 31 December 2016. The executive Directors expect that the consolidated net deficit attributable to the owners of the Company immediately upon the Subscription Completion shall be improved roughly by the same amount of the estimated net proceeds of approximately HK\$31.5 million from the Subscription. Assuming the Subscription Completion having been taken place on 31 December 2016, it is estimated by the executive Directors that the consolidated net asset value of the Group would become approximately HK\$31.2 million (being HK\$31.5 million minus the Group’s consolidated net deficit of approximately HK\$252,000 as at 31 December 2016). Accordingly, the Group is expected by the executive Directors to be restored to a positive net asset position immediately upon the Subscription Completion.

Accordingly, the executive Directors expect that the financial position of the Group can be strengthened after the Subscription Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

7. Effects on shareholding

The following table summarises the effect of the Subscription on the shareholding structure of the Company immediately after the Subscription Completion, assuming that there is no change in the issued share capital of the Company (other than the issue of the Subscription Shares) from the Latest Practicable Date to the Subscription Completion. Further details for the effect of the Subscription on the shareholding structure are set out in the sub-section headed “Shareholding structure of the Company” in the “Letter from the Board” contained in the Circular.

| | As at the Latest Practicable Date | | Immediately after the Subscription Completion | |
|---|--|--------------------------|--|--------------------------|
| | <i>Number of Shares</i> | <i>Approximate %</i> | <i>Number of Shares</i> | <i>Approximate %</i> |
| Subscriber/Offeror and parties acting in concert with it | | | | |
| The Subscriber/Offeror | 1,444,963,213 | 34.08 | 1,834,963,213 | 39.64 |
| Tiantu (<i>Note</i>) | 365,000,000 | 8.61 | 365,000,000 | 7.88 |
| <i>Sub-total</i> | 1,809,963,213 | 42.69 | 2,199,963,213 | 47.52 |
| Mr. Leung and parties acting in concert with him | 100,000,000 | 2.36 | 100,000,000 | 2.16 |
| Public Shareholders | <u>2,329,405,169</u> | <u>54.95</u> | <u>2,329,405,169</u> | <u>50.32</u> |
| Total | <u><u>4,239,368,382</u></u> | <u><u>100.00</u></u> | <u><u>4,629,368,382</u></u> | <u><u>100.00</u></u> |

Note: Mr. Wang, being the lender under the Loan to the Subscriber, is the ultimate controlling shareholder of Tiantu and given that Tiantu is a party under the Share Purchase Agreement, Tiantu is therefore considered to be a party acting in concert with the Subscriber.

As illustrated above, the shareholding of existing public Shareholders in the Company will be reduced from approximately 54.95% as at the Latest Practicable Date to approximately 50.32% immediately after the Subscription Completion.

Although there will be dilution effect to the shareholding interest of the existing public Shareholders as a result of the Subscription, having considered the following:

- (i) the benefits to be derived by the Group from the Subscription as set out in the sub-section headed “Background to and reasons for the Subscription” above;
- (ii) the restoration of the Group’s financial position from net deficit to net asset position immediately upon the Subscription Completion as set out in the sub-section headed “Financial effects of the Subscription” above; and
- (iii) the Subscription Price being considered by us to be fair and reasonable as discussed under the sub-section headed “Evaluation of the Subscription Price” above,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

we consider that the dilution effect to the shareholding interest of the existing public Shareholders as a result of the Subscription is acceptable.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (1) the terms of the Subscription Agreement are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned; (2) the grant of the Specific Mandate is fair and reasonable so far as the Independent Shareholders are concerned; and (3) the Subscription and the grant of the Specific Mandate are in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Subscription and the grant of Specific Mandate.

Yours faithfully,
for and on behalf of
VMS Securities Limited
Richard Leung
Managing Director
Corporate Finance

Mr. Richard Leung is a licensed person and a responsible officer of VMS Securities Limited registered with the Securities and Futures Commission to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and have over ten 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

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 would have 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/or short positions of which they were 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 5.68 of the GEM Listing Rules relating to securities transactions by Directors were as follows:

| Name of Director | Number of Shares | | | Total | Approximate percentage of issued share capital (Note 6) |
|------------------------------|----------------------|-----------------------|-----------------------------|-------------|---|
| | Personal interest | Corporate interest | Equity derivatives | | |
| Mr. Leung | 99,705,120 | 294,880 (Note 1) | 56,680,000 (Notes 2 & 3) | 156,680,000 | 3.70% |
| Ms. Wu Wei Hua ("Ms. Wu") | — | — | 22,000,000 (Notes 4 & 5) | 22,000,000 | 0.52% |

Notes:

1. These Shares were held by Speedy Well Investments Limited (“**Speedy Well**”) which was wholly and beneficially owned by Mr. Leung. By virtue of the SFO, Mr. Leung was deemed to be interested in, and duplicate, the Shares held by Speedy Well.
2. These equity derivatives comprise 56,680,000 Shares to be allotted and issued upon exercise of conversion rights attaching to the remaining outstanding Convertible Bonds.
3. The Convertible Bonds were issued to Mr. Leung on 27 August 2010. As at the Latest Practicable Date, the Convertible Bonds in the amount of HK\$68,016,000 remained outstanding which are convertible into the maximum of 56,680,000 Shares upon its full conversion.
4. On 10 July 2008, Ms. Wu was granted Share Options pursuant to the Share Option Scheme to subscribe for a total of 20,000,000 Shares at an exercise price of HK\$1.328 per Share. Such share options would be exercisable during the period from 10 July 2008 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.
5. On 10 July 2014, Ms. Wu was further granted Share Options pursuant to the Share Option Scheme to subscribe for a total of 2,000,000 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.
6. The percentage is calculated on the basis of 4,239,368,382 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executives 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), which would have 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/or short positions of which they were 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 5.68 of the GEM Listing Rules relating to securities transactions by Directors.

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

As at the Latest Practicable Date, to the best knowledge, information and belief of the Directors and having made reasonable enquiries, the following person (not being a Director or a chief executive of the Company) had an interest and/or a short position in the Shares and/or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any members of the Group:

| Name | Capacity | Number and class of securities interested | Approximate percentage of issued share capital |
|-------------------|------------------|---|--|
| 51RENPIN.COM INC. | Beneficial owner | 1,834,963,213 Shares (Long position) | 43.28% |

Note: These Shares comprise of the Sale Shares, the Convertible Preferred Shares and the Subscription Shares. The allotment and issue of the Subscription Shares are subject to the Subscription Completion.

Save as disclosed above, as at the Latest Practicable Date, to the best knowledge, information and belief of the Directors and having made reasonable enquiries, there was no person (not being a Director or a chief executive of the Company) who had an interest and/or a short position in the Shares and/or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group, or any options in respect of such capital.

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 the Latest Practicable Date, detailed movements relating to Share 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 the |
|----------------------------------|-----------------|----------------|------------------------------|--|-------------|-------------|------------------------------|-------------------------|
| | | | | As at 1 January 2016 | Granted | Exercised | Lapsed/ Cancelled/ Forfeited | Latest Practicable Date |
| 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 |
| | 6 May 2016 | 0.105 | 6 May 2016–29 June 2017 | — | 100,000,000 | 100,000,000 | — | — |
| Director | 10 July 2008 | 1.328* | 10 July 2008–29 June 2017 | 2,000,000* | — | — | — | 2,000,000* |
| — Ms. Wu | 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 a share consolidation of the Company conducted in 2012.

Save as disclosed above, no share options granted under the Share Option Scheme were exercised during the period.

3. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors has any interest, direct or indirect, in any assets which have 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 since 31 December 2016, the date to which the latest published audited consolidated financial statements of the Group were made up.

None of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group taken as a whole, save for the Letter of Undertaking.

4. SERVICE CONTRACTS

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

5. COMPETING INTERESTS

None of the Directors nor the substantial Shareholder of the Company nor their respective associates had any interest in a business which competed or might compete with the business of the Group.

6. 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 2016, being the date to which the latest published audited financial statements of the Group was made up.

7. EXPERT AND CONSENT

The following is the qualification of the expert whose letter is contained in this circular:

| Name | Qualification |
|----------------|--|
| VMS Securities | A licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO |

As at the Latest Practicable Date, VMS Securities has no shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and has no direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

VMS Securities has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and the references to its name, in the form and context in which it appears.

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. 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 Subscription Agreement (together with the side letter dated 23 April 2017 and the second side letter dated 16 June 2017);
- (c) the Letter of Undertaking;
- (d) the Loan Agreement;
- (e) the Share Purchase Agreement;
- (f) the written consent of the expert referred to in the paragraph headed "**EXPERT AND CONSENT**" in this Appendix;
- (g) the letter from the Independent Board Committee, the text of which is set out on pages 20 to 21 in this circular;
- (h) 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 43 in this circular; and
- (i) 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 OF EXTRAORDINARY GENERAL MEETING

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 Friday, 14 July 2017 at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions of the Company:

ORDINARY RESOLUTIONS

“**THAT:**

- (a) the subscription (the “**Subscription**”) of 390,000,000 new shares in the share capital of the Company (each a “**Subscription Share**”, and collectively, the “**Subscription Shares**”) at the subscription price of HK\$0.082 per Subscription Share as contemplated under the subscription agreement dated 12 April 2017 (as amended by a side letter dated 23 April 2017 and a second side letter dated 16 June 2017) entered into between the Company as issuer and 51RENPIN.COM INC. as subscriber (the “**Subscriber**”) (the “**Subscription Agreement**”) (a copy of the Subscription Agreement is marked “A” and signed by the chairman of the meeting for identification purpose has been tabled at the meeting) and the Subscription Agreement be together with the side letter dated 23 April 2017 and the second side letter dated 16 June 2017 and are hereby approved;
- (b) subject to the fulfilment or waiver of the conditions precedent set out in the Subscription Agreement, the grant of specific mandate (the “**Specific Mandate**”) to the directors of the Company (the “**Director(s)**”) to exercise the powers of the Company to allot and issue the Subscription Shares at HK\$0.082 per Subscription Share to the Subscriber pursuant to and in accordance with the terms and conditions of the Subscription Agreement be and is hereby approved, and such Subscription Shares (upon issue) shall rank *pari passu* in all respects with the then existing issued shares of the Company (the “**Share(s)**”); and
- (c) any one Director be and is hereby authorised to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things that are ancillary to the Subscription and the grant of the Specific Mandate, as he/she may in his or her absolute discretion consider necessary or desirable for the purpose of and in connection with the implementation of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate and the allotment and issuance of the Subscription Shares, and to agree to such

NOTICE OF EGM

variations of the terms of the Subscription Agreement and the transactions contemplated thereunder as he or she may in his or her absolute discretion consider necessary or desirable.”

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

Hong Kong, 23 June 2017

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

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*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 no later than Wednesday, 12 July 2017 at 10:00 a.m. (Hong Kong Time).
4. In the case of joint holders of shares of the Company, any one of such holders may attend and 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.
5. The register of members will be closed from Tuesday, 11 July 2017 to Friday, 14 July 2017 both days inclusive, during which no transfer of shares will be registered. In order to be entitled to attend and vote at the EGM to be held on Friday, 14 July 2017, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with 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 no later than 4:30 p.m. (Hong Kong Time) on Monday, 10 July 2017.