

THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offers, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in China Netcom Technology Holdings Limited, you should at once hand this Composite Document and the accompanying Form(s) of Acceptance to the purchaser or the licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser(s).

This Composite Document should be read in conjunction with the accompany Form(s) of Acceptance, the contents of which from part of the terms of the Offers contained herein.

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



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)

51RENPIN.COM INC.

(Incorporated in the British Virgin Islands with limited liability)

**COMPOSITE DOCUMENT RELATING TO
MANDATORY CONDITIONAL CASH OFFERS BY
BOCOM INTERNATIONAL SECURITIES LIMITED
FOR AND ON BEHALF OF 51RENPIN.COM INC.
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF CHINA NETCOM
TECHNOLOGY HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)**

**Financial adviser to China Netcom Technology
Holdings Limited**

MESSIS  **大有融資**

Independent Financial Adviser to the Independent Board Committee

 **VMS 鼎珮**

Financial adviser to 51RENPIN.COM INC.

AMASSE CAPITAL
寶 積 資 本

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” in this Composite Document, unless the context otherwise requires.

A letter from BOCOM containing, among other things, details of the terms of the Offers are set out on pages 8 to 23 of this Composite Document. A letter from the Board is set out on pages 24 to 32 of this Composite Document. A letter from the Independent Board Committee containing its advice on the Offers to the Independent Shareholders and the Optionholders is set out on pages 33 to 34 of this Composite Document. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee in respect of the Offers, is set out on pages 35 to 61 of this Composite Document.

The procedures for acceptance and settlement of the Offers and other related information are set out in Appendix I to this Composite Document and in the accompanying Form(s) of Acceptance. Acceptances of the Offers should be received by the Registrar (in respect of the Share Offer) or the company secretary of the Company (in respect of the Option Offer) by not later than 4.00 p.m. on Friday, 30 June 2017 or such later time and/or date as the Offeror may decide and announce in accordance with the requirements under the Takeovers Code.

Persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the accompanying Form(s) of Acceptance to any jurisdiction outside Hong Kong should read the details in this regard which are contained in the paragraph headed “7. Overseas Holders” of Appendix I to this Composite Document before taking any action. It is the responsibility of each Overseas Holder wishing to accept the Offers to satisfy himself, herself or itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of all governmental, exchange control or other consents which may be required and the compliance with all necessary formalities, regulatory and/or legal requirements and the payment of any issue, transfer or other taxes payable by such Overseas Holder in respect of the acceptance of the Offers (as applicable) in such jurisdiction. Each Overseas Holder is advised to seek professional advice on deciding whether or not to accept the Offers (as applicable).

The Composite Document will remain on the websites of the Stock Exchange at <http://www.hkexnews.hk> and the Company at <http://www.chinanetcomtech.com> as long as the Offers remain open.

9 June 2017

CHARACTERISTICS OF GEM

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

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

The principal means of information dissemination on GEM is publication on the website of the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, Shareholders and prospective investors should note that they need to have access to the website of the Stock Exchange at www.hkexnews.hk in order to obtain up-to-date information on GEM-listed issuers.

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EXPECTED TIMETABLE

The expected timetable set out below is indicative only and may be subject to changes. Further announcement(s) will be made in the event of any changes to the timetable as and when appropriate. Unless otherwise specified, all time and date references contained in this Composite Document refer to Hong Kong time and dates.

Event	Time & Date
Despatch date of this Composite Document and the Form(s) of Acceptance (<i>Note 1</i>)	Friday, 9 June 2017
Offers open for acceptance (<i>Note 1</i>)	Friday, 9 June 2017
Offer Closing Date (<i>Notes 2 and 8</i>)	Friday, 30 June 2017
Latest time and date for acceptance of Offers on the Offer Closing Date (<i>Notes 3 and 8</i>)	4:00 p.m. on Friday, 30 June 2017
Announcement of the results of the Offers as at the Offer Closing Date	not later than 7:00 p.m. on Friday, 30 June 2017
Latest date for posting of remittances in respect of valid acceptances received on or before the latest time for acceptance of the Offers on the Offer Closing Date (assuming the Offers become or are declared unconditional in all respects on the Offer Closing Date) (<i>Notes 4 and 5</i>)	Tuesday, 11 July 2017
Latest time and date for the Offers to remain open for acceptance (assuming the Offers become or are declared unconditional on the Offer Closing Date) (<i>Notes 3, 6 and 8</i>)	4:00 p.m. on Friday, 14 July 2017
Announcement of the final results of the Offers (assuming the Offers become unconditional on the Offer Closing Date)	by 7:00 p.m. on Friday, 14 July 2017
Latest date of posting of remittances in respect of valid acceptances received under the Offers on or before 4:00 p.m. on Friday, 14 July 2017, being the latest date on which the Offers remain open for acceptance assuming the Offers have become or are declared unconditional in all respects on the Offer Closing Date (<i>Notes 4 and 5</i>)	Tuesday, 25 July 2017
Latest time and date by which the Offers can become or are declared unconditional as to acceptances (<i>Note 7</i>)	Tuesday, 8 August 2017

EXPECTED TIMETABLE

- Note 1:* The Offers, which are conditional in all respects, are made on the date of posting of this Composite Document, and are capable of acceptance on and from that date until the Offer Closing Date.
- Note 2:* The latest time for acceptance of the Offers is 4:00 p.m. on Friday, 30 June 2017 unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. The Offeror has the right under the Takeovers Code to extend the Offers until such date as it may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). The Offeror will issue an announcement in relation to any extension of the Offers, which announcement will state either the next Offer Closing Date or, if the Offers are at that time unconditional as to acceptances, a statement that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given before the Offers are closed to the Independent Shareholders and the Optionholders who have not accepted the relevant Offers.
- Note 3:* Beneficial owners of Offer Shares who hold their Offer Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (as set out in Appendix I to this Composite Document) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.
- Note 4:* Acceptances of the Offers are irrevocable and are not capable of being withdrawn, except in the circumstances as set out in the section headed "6. Right of Withdrawal" in Appendix I to this Composite Document.
- Note 5:* Remittances in respect of the cash consideration (after deducting the seller's ad valorem stamp duty in respect of the acceptances of the Share Offer) payable for the Offer Shares under the Share Offer or the Share Options under the Option Offer will be posted to the accepting Independent Shareholders or the Optionholders by ordinary post at their own risk as soon as possible, but in any event within 7 Business Days of (i) the date of receipt by the Registrar (in the case of the Share Offer) or the company secretary of the Company (in case of the Option Offer) of all the relevant documents render the acceptance under the Offers complete and valid, or (ii) the date on which the Offers become or are declared unconditional in all respects, whichever is the later.
- Note 6:* In any event, in accordance with the Takeovers Code, when the Offers become or are declared unconditional in all respects, at least 14 days' notice in writing must be given before the Offers are closed to the Independent Shareholders and the Optionholders who have not accepted the Offers. The Offeror has the right, subject to the Takeovers Code, to extend the Offers until such date as it may determine or as permitted by the Executive. The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respect and will remain open for as long as the Share Offer remains open for acceptance.
- Note 7:* In accordance with the Takeovers Code, except with the consent of the Executive, the Offers may not become or be declared unconditional as to acceptances after 7:00 p.m. on Tuesday, 8 August 2017, being the 60th day after the day this Composite Document is posted. Where a period laid down by the Takeovers Code ends on a day which is not a Business Day, the period is extended until the next Business Day. Accordingly, unless the Offers have previously become or are declared unconditional as to acceptances or have been extended with the consent of the Executive, the Offers will lapse after 7:00 p.m. on Tuesday, 8 August 2017.
- Note 8:* The latest time and date for acceptance of the Offers and the latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances will not take effect if there is a tropical cyclone warning signal number 8 or above, or a black rainstorm warning, in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offers and the latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances. Instead the latest time for acceptance of the Offers and the posting of remittances will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

DEFINITIONS

In this Composite Document, unless otherwise defined or the context otherwise requires, the following expressions shall have the following meanings:

“acting in concert”	has the same meaning ascribed to it under the Takeovers Code;
“Amasse Capital”	means Amasse Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to the Offeror in respect of the Offers;
“associate”	has the same meaning ascribed to it under the GEM Listing Rules or the Takeovers Code (as appropriate);
“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 futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO, being the agent making the Offers for and on behalf of the Offeror;
“Business Day(s)”	means a day on which the Stock Exchange is open for the transaction of business;
“CCASS”	means the Central Clearing and Settlement System established and operated by HKSCC;
“Company”	means China Netcom Technology Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the GEM (Stock Code: 8071);
“Composite Document”	means this composite offer and response document dated 9 June 2017 jointly issued by the Offeror and the Company which sets out, among others, details of the Offers in accordance with the Takeovers Code;
“Condition”	the condition of the Share Offer, as set out in the paragraph headed “Condition to the Offers” in this Composite Document;
“connected persons”	has the meaning ascribed to it under the GEM Listing Rules;
“controlling shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules;

DEFINITIONS

“Converted Shares”	means the 1,003,333,333 new Shares being allotted and issued by the Company to the Offeror as a result of the exercise of the conversion rights attaching to the Convertible Preferred Shares;
“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;
“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, allotted and issued 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 between 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 seek the approval of the Independent Shareholders in respect of the Subscription Agreement, the Special Deal and the transactions contemplated thereunder (including the Specific Mandate);
“Executive”	means the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
“Form(s) of Acceptance”	means the Form of Share Offer Acceptance and the Form of Option Offer Acceptance, and the phrase “Form of Acceptance” shall mean any one of them;
“Form of Option Offer Acceptance”	means the YELLOW form of acceptance and cancellation of the Share Options in respect of the Option Offer which accompanies this Composite Document;
“Form of Share Offer Acceptance”	means the WHITE form of acceptance and transfer of the Offer Shares in respect of the Share Offer which accompanies this Composite Document;

DEFINITIONS

“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;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC;
“HKSCC”	means Hong Kong Securities Clearing Company Limited;
“Independent Board Committee”	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 and the Optionholders in respect of the Offers;
“Independent Financial Adviser” or “VMS Securities”	VMS Securities Limited, the independent financial adviser to the Independent Board Committee in respect of the Offers 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;
“Independent Shareholder(s)”	means shareholder(s) other than (i) Mr. Leung, his associate(s) and parties in concert with any of them; (ii) the Offeror, its associates and parties acting in concert with any of them; and (iii) any person who is involved in or interested in the Special Deal;
“Joint Announcement”	means the joint announcement jointly issued by the Offeror and the Company dated 24 April 2017 in relation to, among other things, the Convertible Preferred Share Purchase Agreement (including the exercise of the conversion rights attaching to the Convertible Preferred Shares), the Share Purchase Agreement, the Offers, the Subscription Agreement and the Redemption which constitutes the Special Deal;

DEFINITIONS

“Last Trading Day”	means 10 April 2017, being the last trading day of the Shares immediately prior to the suspension of trading in the Shares on the Stock Exchange pending the release of the Joint Announcement;
“Latest Practicable Date”	means 6 June 2017, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained herein;
“Letter of Undertaking”	means the letter of undertaking dated 22 April 2017 executed 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 following 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;
“Messis Capital”	means Messis Capital Limited, a licensed corporation to carry out business in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the financial adviser to the Company in respect of the Offers and the Subscription;
“Mr. Leung”	means Mr. Leung Ngai Man, the chairman and an executive Director;
“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 Closing Date”	means 30 June 2017, being the first closing date of the Offers, or if the Offers are extended, any subsequent closing date of the Offers as extended and announced jointly by the Offeror and the Company, with the consent of the Executive in accordance with the Takeovers Code;

DEFINITIONS

“Offer Period”	has the meaning ascribed to it under the Takeovers Code and commencing from 24 April 2017, being the date of publication of the Joint Announcement and ending on 4:00 p.m. the Offer Closing Date or such other later date as revised or extended by the Offeror, with the consent of the Executive, in accordance with the Takeovers Code;
“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”	means 51RENPIN.COM INC., a company incorporated under the laws of the British Virgin Islands with limited liability;
“Offers”	means the Share Offer and the Option Offer;
“Option Offer”	means the mandatory conditional cash offer made by BOCOM on behalf of the Offeror to cancel all the outstanding Share Options pursuant to the Takeovers Code;
“Optionholder(s)”	means the holder(s) of the Share Options;
“Overseas Holders”	means those Independent Shareholders and/or Optionholders whose addresses, as shown on the register of members of the Company, are outside Hong Kong;
“Personal Guarantee”	means the personal guarantee executed by Mr. Sun on 6 April 2017 in favour of Mr. Wang guaranteeing the obligations of the Offeror under the Loan Agreement;
“PRC”	means the People’s Republic of China which, for the purpose of this Composite Document, excludes Hong Kong, Macao Special Administrative Region of the PRC and Taiwan;
“Redemption”	means the redemption as to HK\$40,000,000 out of the total outstanding principal amount of HK\$68,016,000 of the Convertible Bonds by the Company;
“Registrar”	means Tricor Tengis Limited, the Company’s branch share registrar and transfer office in Hong Kong located at Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong;
“Relevant Period”	means the period commencing on the date falling six months immediately preceding the Last Trading Day, up to and including the Latest Practicable Date;

DEFINITIONS

“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);
“Shareholder(s)”	means holder(s) of the Shares;
“Share(s)”	means the ordinary share(s) of HK\$0.005 each in the capital of the Company;
“Share Charge”	means the share charge entered into between Mr. Wang (as chargee) and Offeror (as chargor) on 6 April 2017 whereby the Offeror has charged in favour of Mr. Wang, the Converted Shares, the Sale Shares, the Subscription Shares and the Offer Shares as security for the obligations of the Offeror pursuant to the terms and conditions of the Loan;
“Share Offer”	means the mandatory conditional cash offer made by BOCOM, on behalf of the Offeror, for all the Offer Shares in accordance with the Takeovers Code;
“Share Offer Price”	the price at which the Share Offer will be made, being HK\$0.082 per Share;
“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) and the Offeror and Tiantu (as purchasers) on 12 April 2017 in respect of the Sale Shares;
“Share Purchase Completion”	means completion of the sale and purchase of the Sale Shares pursuant to the Share Purchase Agreement;
“Special Deal”	means the Redemption contemplated under the Subscription Agreement which constitutes a special deal under Note 5 to Rule 25 of the Takeovers Code;

DEFINITIONS

“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;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Subscription”	means the subscription of the Subscription Shares by the Offeror pursuant to the Subscription Agreement;
“Subscription Agreement”	means the subscription agreement entered into between the Company and the Offeror on 12 April 2017 in relation to the Subscription and as amended by a side letter dated 23 April 2017;
“Subscription Completion”	means the completion of the Subscription;
“Subscription Share(s)”	means 1,445,000,000 new Shares to be subscribed by the Offeror 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;
“Trading Day”	means a day when the Stock Exchange is open for trading in Hong Kong; and
“%”	per cent.

* *For identification purposes only*

LETTER FROM BOCOM



BOCOM International Securities Limited
15/F Man Yee Building
68 Des Voeux Road Central
Hong Kong

To: The Independent Shareholders; and Optionholders

9 June 2017

Dear Sirs/Madam,

**MANDATORY CONDITIONAL CASH OFFERS BY
BOCOM INTERNATIONAL SECURITIES LIMITED
FOR AND ON BEHALF OF 51RENPIN.COM INC.
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF CHINA
NETCOM TECHNOLOGY HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY
THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)**

(I) INTRODUCTION

Reference is made to the Joint Announcement in relation to, amongst other things, the Convertible Preferred Share Purchase Agreement (including the exercise of the conversion rights attaching to the Convertible Preferred Shares), the Share Purchase Agreement, the Offers, the Subscription Agreement and the Redemption which constitutes the Special Deal.

On 11 April 2017, Mr. Leung (as seller) and the Offeror (as purchaser) 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 at the consideration of HK\$82,273,333.31, being HK\$0.082 per Convertible Preferred Share. Completion of the Convertible Preferred Share Purchase Agreement was effected on the same day. Immediately upon completion of the sale and purchase of the Convertible Preferred Shares, the Offeror exercised the conversion rights attaching to the Convertible Preferred Shares to convert all the Convertible Preferred Shares into the Converted Shares. The Convertible Preferred Shares are convertible on a one-to-one basis upon exercise of the conversion rights attaching to them into the 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 Offeror on 12 April 2017, representing approximately 24.33% of the total number of issued Shares as enlarged by the issuance of the Converted Shares.

LETTER FROM BOCOM

Immediately after the issue and allotment of the 1,003,333,333 Converted Shares, on 12 April 2017, Mr. Leung, the Offeror and Tiantu had entered into the Share Purchase Agreement pursuant to which the Offeror and Tiantu have conditionally agreed to acquire 441,629,880 Sale Shares and 365,000,000 Sale Shares, representing approximately 10.71% and 8.85% of the then total number of issued Shares, respectively and Mr. Leung has conditionally agreed to sell an aggregate of 806,629,880 Sale Shares at an aggregate consideration of HK\$66,143,650.16, being HK\$0.082 per Sale Share, representing approximately 19.56% of the then total Shares in issue. Completion of the Share Purchase Agreement was effected on 18 April 2017.

Immediately after the allotment and issue of the Converted Shares to the Offeror and the Share Purchase Completion, the Offeror and parties acting in concert with it became interested in an aggregate of 1,809,963,213 Shares representing approximately 42.69% of the total number of issued Shares as at the Latest Practicable Date. Accordingly, the Offeror and parties acting in concert with it will be required to make a conditional mandatory cash offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code. Pursuant to Rule 13.5 of the Takeovers Code, the Option Offer will also be made to cancel all the outstanding Share Options.

This letter forms part of this Composite Document and sets out, among other things, details of the Offers, information on the Offeror and its intention regarding the Group. Further details on the terms and the procedures for acceptances of the Offers are set out in Appendix I to this Composite Document and the accompanying Form(s) of Acceptance.

The Independent Shareholders and Optionholders are strongly advised to carefully consider the information contained in the “Letter from the Board”, the “Letter from the Independent Board Committee”, the “Letter from the Independent Financial Adviser” and the appendices as set out in this Composite Document and to consult their professional advisers before reaching a decision as to whether or not to accept the Offers.

(II) THE OFFERS

Principal terms of the Offers

BOCOM is making, for and on behalf of the Offeror, the Offers in accordance with the Takeovers Code on the following basis:

The Share Offer

For each Offer Share. HK\$0.082 in cash

The Share Offer Price of HK\$0.082 for each Offer Share is the same as the purchase price per Sale Share under the Share Purchase Agreement and the purchase price per Convertible Preferred Share under the Convertible Preferred Share Purchase Agreement which was arrived at after arm’s length negotiations between the Offeror and/or Tiantu and Mr. Leung.

LETTER FROM BOCOM

The Share Offer will be extended to all Independent Shareholders other than the Offeror and the parties acting in concert with it in accordance with the Takeovers Code. The Shares to be acquired under the Share Offer shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them including, without limitation, the right to receive in full all dividends and other distributions, if any, recommended, declared, made or paid on or after the date of the Composite Document.

As at the Latest Practicable Date, there were 4,239,368,382 Shares in issue of which, the Offeror and the parties acting in concert with it collectively held a total of 1,809,963,213 Shares, representing approximately 42.69% of the issued share capital of the Company.

The Share Offer is also extended to all Shares in issue as at the date of the Composite Document and to any further Shares which are unconditionally allotted or issued after the date of the Composite Document and before the Offer Closing Date, including any Shares which are unconditionally allotted or issued pursuant to the exercise of the Share Options.

The Option Offer

- (i) For cancellation of each Share Option
with the exercise price of HK\$1.425 per ShareHK\$0.0001 in cash
- (ii) For cancellation of each Share Option
with the exercise price of HK\$2.030 per ShareHK\$0.0001 in cash
- (iii) For cancellation of each Share Option
with the exercise price of HK\$1.328 per ShareHK\$0.0001 in cash
- (iv) For cancellation of each Share Option
with the exercise price of HK\$0.364 per ShareHK\$0.0001 in cash
- (v) For cancellation of each Share Option
with the exercise price of HK\$0.365 per ShareHK\$0.0001 in cash
- (vi) For cancellation of each Share Option
with the exercise price of HK\$0.280 per ShareHK\$0.0001 in cash
- (vii) For cancellation of each Share Option
with the exercise price of HK\$0.290 per ShareHK\$0.0001 in cash
- (viii) For cancellation of each Share Option
with the exercise price of HK\$0.270 per ShareHK\$0.0001 in cash

LETTER FROM BOCOM

Under the Option Offer, as the relevant exercise prices of all the outstanding Share Options are above the Share Offer Price, the outstanding Share Options are out-of-money and therefore the Option Offer price for the cancellation of each outstanding Share Option is set at the nominal value of HK\$0.0001.

The Option Offer will be extended to all Optionholders other than the Offeror and the parties acting in concert with it in accordance with the Takeovers Code.

As at the Latest Practicable Date, there were a total of 157,700,000 outstanding Share Options (corresponding to 157,700,000 new Shares).

Pursuant to the terms of the Share Option Scheme, if a general offer is made to all the Shareholders (other than the Offeror and/or any person controlled by the Offeror and/or any person acting in association or concert with the Offeror), and such offer becomes or is declared unconditional during the option period of the relevant Share Options, the Optionholders shall be entitled to exercise the Share Options to the fullest extent at any time thereafter and up to the close of such offer. All unexercised Share Options shall lapse automatically upon the close of such offer.

The Convertible Bonds are subject to the Letter of Undertaking, as such no offer will be made to Mr. Leung in respect of the Convertible Bonds. Save for the Share Options and the Convertible Bonds, the Company has no outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares and the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date.

Condition to the Offers

The Share Offer is conditional upon valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on or prior to the Offer Closing Date (or such later time(s) and/or date(s) as the Offeror may decide and the Executive may approve) in respect of such number of Shares which, together with the Shares already owned or agreed to be acquired before or during the Offers (including the Subscription Shares), would result in the Offeror and parties acting in concert with it holding in aggregate more than 50% of the voting rights in the Company.

In the event that (i) the Offers have become unconditional as to acceptances on or before the 60th day (the “**Final Day**”) after the day the Composite Document was posted; and (ii) the Subscription has yet to be completed on the Final Day, the Offeror will proceed with the Offers in accordance with Rule 15 of the Takeovers Code.

In the event that (i) the Offers have not become unconditional as to acceptances on the Final Day; and (ii) the Subscription has yet to be completed on the Final Day, the Offeror intends to and the Company has undertaken to give consent to the extension of the Final Day to a day falling on or after the Subscription Completion in accordance with Rule 15.5 of the Takeovers Code, and an application will be made to the Executive for its consent on such extension.

LETTER FROM BOCOM

Under the circumstance that such consent is not granted by the Executive, the Offers will lapse on the Final day accordingly. In such event, if the Subscription Completion is to take place on or before 30 September 2017 (i.e. the long stop date of the Subscription Agreement) but after the lapse of the Offers, the allotment and issue of the Subscription Shares to the Offeror will trigger the obligations of the Offeror and parties acting in concert with it to make another mandatory cash offer pursuant to Rule 26.1 of the Takeovers Code, which is, however, prohibited under Rule 31.1 of the Takeovers Code to launch such offer within 12 months from the date of the lapse of the Offers (except with the consent of the Executive). If by that time, the Offeror decides not to seek consent from the Executive in relation to the aforementioned obligations or such consent is not granted by the Executive, as the Subscription Completion is conditional upon, among others, the compliance of the requirements of the Takeovers Code, such condition to the Subscription Completion will remain unfulfilled and the Subscription Agreement will cease and determine on 30 September 2017 accordingly.

The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Offeror reserves the right to revise the terms of the Offers in accordance with the Takeovers Code.

In accordance with Rule 15.3 of the Takeovers Code, the Offeror must publish an announcement when the Share Offer becomes unconditional as to acceptances and when the Offers become unconditional in all respects. The Offers must also remain open for acceptance for at least fourteen (14) days after the Offers become unconditional in all respects.

WARNING: INDEPENDENT SHAREHOLDERS, OPTIONHOLDERS, AND/OR POTENTIAL INVESTORS OF THE COMPANY SHOULD NOTE THAT THE SHARE OFFER IS SUBJECT TO THE SATISFACTION OF THE CONDITION, AND THE OPTION OFFER IS SUBJECT TO, AND CONDITIONAL UPON, THE SHARE OFFER BECOMING OR BEING DECLARED UNCONDITIONAL IN ALL RESPECTS. ACCORDINGLY THE OFFERS MAY OR MAY NOT BECOME UNCONDITIONAL. INDEPENDENT SHAREHOLDERS, OPTIONHOLDERS, AND/OR POTENTIAL INVESTORS OF THE COMPANY SHOULD THEREFORE EXERCISE CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY (INCLUDING THE SHARES AND SHARE OPTIONS OR RIGHTS IN RESPECT OF THEM). PERSONS WHO ARE IN DOUBT AS TO THE ACTION THEY SHOULD TAKE SHOULD CONSULT THEIR PROFESSIONAL ADVISERS.

LETTER FROM BOCOM

Comparison of value

The Share Offer Price of HK\$0.082 per Offers Share represents:

- (i) a discount of approximately 40.6% over the closing price of HK\$0.138 per Share quoted on the Stock Exchange on 10 April 2017, being the Last Trading Day;
- (ii) a discount of approximately 38.3% to the average closing price of approximately HK\$0.133 per Share quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) a discount of approximately 33.3% to the average closing price of approximately HK\$0.123 per Share quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a discount of approximately 15.5% to the average closing price of approximately HK\$0.097 per Share quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a discount of approximately 85.6% to the closing price of HK\$0.57 per Share quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) 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.

Highest and lowest Share prices

During the Relevant Period:

- (i) the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.67 on 24 May 2017; and
- (ii) the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.078 on 9 March 2017.

Value of the Offers

Assuming the Offers are accepted in full on the basis that (i) none of the Share Options are exercised prior to the close of the Offers; and (ii) there is no change in the issued share capital of the Company up to the close of the Offers, a total of 2,329,405,169 issued Shares (representing the Shares not already held or agreed to be acquired by the Offeror and parties acting in concert with it, but excluding the 100,000,000 Shares held by Mr. Leung who has given the Letter of Undertaking) will be subject to the Share Offer

LETTER FROM BOCOM

and a total of 157,700,000 Share Options will be subject to the Option Offer, and the maximum cash consideration payable by the Offeror under the Offers would be approximately HK\$191,026,994.

Assuming that (i) all of the Share Options are exercised in full prior to the close of the Offers and there will be no outstanding Share Options remaining for acceptance under the Option Offer; and (ii) there is no other change in the issued share capital of the Company up to the close of the Offers, there will be a total of 2,487,105,169 Shares (representing the Shares not already held or agreed to be acquired by the Offeror and parties acting in concert with it, including the 157,700,000 new Shares to be issued pursuant to the exercise in full of the Share Options, but excluding the 100,000,000 Shares held by Mr. Leung which is subject to the Letter of Undertaking) will be subject to the Share Offer, and the maximum cash consideration payable by the Offeror under the Share Offer would amount to approximately HK\$203,942,624.

Save and except for the Letter of Undertaking, the Offeror has not received any indication or irrevocable commitment from any Independent Shareholder or Optionholder that he/she/it will accept or reject the Offers as at the Latest Practicable Date.

Letter of Undertaking

On 22 April 2017, Mr. Leung executed the Letter of Undertaking in favour of the Company and the Offeror and has irrevocably undertaken that:

- (i) during and until close, termination or lapse of the Offers, Mr. Leung will not exercise the conversion rights attaching to the Convertible Bonds;
- (ii) subject to the Subscription Completion, Mr. Leung shall give consent to the Company for the Redemption pursuant to the terms of the Convertible Bonds;
- (iii) Mr. Leung will not from the date of the Letter of Undertaking up to and including the date of maturity of the Convertible Bonds, sell, assign, transfer or otherwise dispose of and/or encumbrance over the Convertible Bonds without the prior written consent of the Offeror;
- (iv) Mr. Leung will not accept any convertible bonds offer made in relation to the Convertible Bonds;
- (v) Mr. Leung will not from the date of the Letter of Undertaking up to and including the close, termination or lapse of the Offers, sell, assign, transfer or otherwise dispose of and/or encumbrance over his remaining 100,000,000 Shares; and
- (vi) Mr. Leung and his party acting in concert will not accept the Share Offer in respect of his remaining 100,000,000 Shares.

In view of the aforementioned undertakings, no offer will be made to Mr. Leung, the holder of the Convertible Bonds.

LETTER FROM BOCOM

Financial resources sufficiency

The maximum aggregate amount payable by the Offeror upon full acceptance of the Offers is HK\$203,942,624 (assuming that the Share Options are exercised in full). The Offeror will satisfy the consideration payable under the Offers by way of the Loan.

Amasse Capital, being the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to satisfy the consideration payable upon full acceptance of the Offers.

Pursuant to the terms of the Loan Agreement, the Offeror has entered into the Share Charge in favour of Mr. Wang. Mr. Sun, the ultimate controlling shareholder of the Offeror, has also entered into the Personal Guarantee in favour of Mr. Wang.

The Offeror confirms that payment of interest on, repayment of or security for any liability (contingent or otherwise) in relation to the facility referred to above will not depend to any significant extent on the business of the Company.

Compulsory acquisition

The Offeror does not intend to avail herself of any powers of compulsory acquisition of any Shares outstanding after the close of the Offers.

Effect of accepting the Offers

Acceptance of the Share Offer by any Independent Shareholder will be deemed to constitute a warranty by such person that all Offer Shares sold by such person under the Share Offer are free from all encumbrances whatsoever together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date of the Composite Document. Acceptance of the Share Offer would be irrevocable and would not be capable of being withdrawn, subject to the provisions of the Takeovers Code.

Acceptance of the Option Offer by the Optionholders will result in the cancellation of those outstanding Share Options, together with all rights attaching thereto.

Hong Kong stamp duty

Sellers' Hong Kong ad valorem stamp duty on acceptances of the Share Offer at a rate of 0.1% of the consideration payable in respect of the relevant acceptances or, if higher, the market value of the Offer Shares subject to such acceptance, will be deducted from the amounts payable to Independent Shareholders who accept the Share Offer. The Offeror will arrange for payment of sellers' ad valorem stamp duty on behalf of Independent Shareholders who accept the Share Offer and pay the buyer's Hong Kong ad valorem stamp duty in connection with the acceptance of the Share Offer and the transfers of the relevant Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

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No stamp duty is payable in connection with the acceptance of the Option Offer.

Taxation advice

Independent Shareholders and Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offers. None of the Offeror, parties acting in concert with it, the Company, BOCOM, Amasse Capital and (as the case may be) their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

Payment

Subject to the Offers having become unconditional, settlement of the consideration in cash in respect of the acceptances of the Offers will be made as soon as, but in any event within seven Business Days of (i) the date of receipt of a duly completed acceptance in respect of the Offers, or (ii) the date of the Offers have become or are declared unconditional in all respects, whichever is the later. Relevant documents evidencing title must be received by or on behalf of the Offeror to render such acceptance of the Offers complete and valid.

Overseas Holders

The availability of the Offers to any Overseas Holders may be affected by the applicable laws and regulations of their relevant jurisdictions of residence. Overseas Holders should observe any applicable legal and regulatory requirements and, where necessary, consult their own professional advisers. It is the responsibilities of the Overseas Holders who wish to accept the Offers to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offers (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due by such Overseas Holders in respect of such jurisdictions).

Any acceptance by any Overseas Holders will be deemed to constitute a representation and warranty from such Overseas Holders to the Offeror that the local laws and requirements have been complied with. The Overseas Holders should consult their professional advisers if in doubt.

Dealing and interests in the Company's securities

Save for the Shares that are the subject of the Convertible Preferred Share Purchase Agreement, the Share Purchase Agreement, the Subscription Agreement and the Share Charge respectively, none of the Offeror or parties acting in concert with it has dealt in any Shares, options, derivatives, warrants or other securities convertible into Shares during the Relevant Period.

LETTER FROM BOCOM

The Offeror, Tiantu and Mr. Leung confirm that other than the consideration paid under the Convertible Preferred Shares Purchase Agreement and/or the Share Purchase Agreement, each of the Offeror, Tiantu, their respective nominees or representatives has not and will not pay any other consideration in whatever form to Mr. Leung, his nominees or representatives in connection with the Convertible Preferred Share Purchase Agreement and/or the Share Purchase Agreement or otherwise.

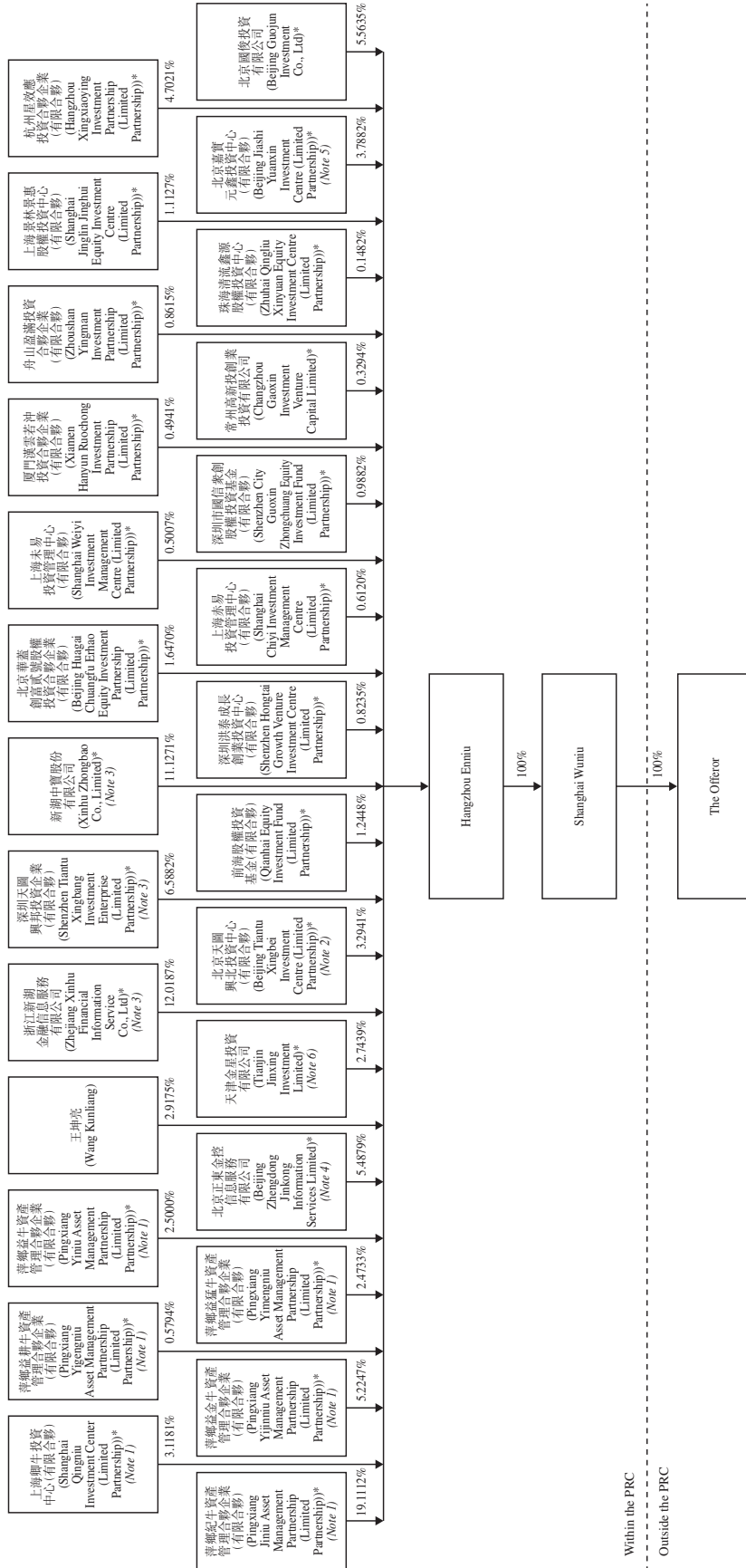
(III) INFORMATION OF THE OFFEROR

The Offeror 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, the development of internet technologies and network engineering.

LETTER FROM BOCOM

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 BOCOM

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 creating for Hangzhou Enniu, the credit card management application

LETTER FROM BOCOM

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

(IV) INTENTIONS OF THE OFFEROR IN RELATION TO THE COMPANY

It is the intention of the Offeror that the Group will continue with its existing principal activities after the close of the Offers. However, the Offeror will conduct a detailed review of the business activities and assets of the Group for the purpose of formulating business plans and strategies for the future business development of the Group with the aim of growing and expanding its business and strengthening its financial position. Subject to the results of the review, the Offeror may explore other business opportunities for the Company and consider whether any asset disposals, asset acquisitions, business rationalization, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance long-term growth potential of the Company.

However, as at the Latest Practicable Date, no such investment or business opportunities has been identified nor has the Offeror entered into an agreement, arrangements, understandings or negotiation in relation to the injection of any assets or business into the Group. Further, the Offeror has no intention to discontinue the employment of the employees or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business.

Proposed change to the Board composition of the Company

It is intended that all existing Directors will resign as Directors, and new Directors will be nominated with effect from the earliest time permitted for resignation and appointment of directors under the Takeovers Code. Such resignations will not take effect earlier than the date of the close of the Offers. As at the Latest Practicable Date, the Offeror has not reached any final decision as to who will be nominated as new Directors. Further announcement(s) will be made by the Company in compliance with the requirements of the GEM Listing Rules as and when there are changes in the composition of the Board.

Public float and maintaining the listing status of the Company

The Offeror intends the Company to remain listed on the Stock Exchange after the close of the Offers. The Stock Exchange has stated that, if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public, or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Shares; or
- (b) there are insufficient Shares in public hands to maintain an orderly market;

then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

LETTER FROM BOCOM

The Offeror has undertaken, and the new Directors will jointly and severally undertake, to the Stock Exchange, that if the public float of the Company falls below 25% following the close of the Offers, they will take appropriate steps to ensure that a sufficient public float exists for the Shares, being that at least 25% of the Shares will be held by the public.

(V) ACCEPTANCE AND SETTLEMENT

Your attention is drawn to the further details regarding further terms and conditions of the Offers, the procedures for acceptance and settlement and the acceptance period as set out in Appendix I to this Composite Document and the accompanying Form(s) of Acceptance.

(VI) DEALING DISCLOSURE

In accordance with Rule 3.8 of the Takeovers Code, all associates (as defined in the Takeovers Code) including persons who owns or controls 5% or more of any class of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company and the Offeror are hereby reminded to disclose their dealings in the securities of the Company pursuant to the Takeovers Code.

In accordance with Rule 3.8 of the Takeovers Code, the text of Note 11 to Rule 22 of the Takeovers Code is reproduced below:

“Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates and other persons under Rule 22 of the Takeovers Code and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant rules of the relevant rules. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7-day period is less than HK\$1 million.

This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.

Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.”

(VII) GENERAL

This Composite Document has been prepared for the purposes of complying the laws of Hong Kong, the Takeovers Code and the GEM Listing Rules and the information disclosed may not be the same as which would have been disclosed if this Composite Document had been prepared in accordance with the laws of jurisdictions outside Hong Kong.

LETTER FROM BOCOM

Attention of the Overseas Holders is drawn to paragraph headed “7. Overseas Holders” of Appendix I to this Composite Document.

All documents and remittances to be sent to the Independent Shareholders and the Optionholders will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to them at their respective addresses as they appear in the register of members of the Company or register of Optionholders, or, in the case of joint Independent Shareholders and the Optionholders, to such Independent Shareholder and Optionholder whose name appears first in the register of members of the Company or register of Optionholders, unless otherwise specified in the accompanying Form(s) of Acceptance completed, returned and received by the Registrar or the Company. None of the Offeror, the Company, BOCOM, Amasse Capital, the Registrar nor any of their respective directors, officers, professional advisers, associates, agents or any other parties involved in the Offers accepts any liabilities for any loss or delay in transmission or any other liabilities that may arise as a result thereof or in connection therewith.

(VIII) ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Composite Document which form part of this Composite Document. You are reminded to carefully read the “Letter from the Board”, the “Letter from the Independent Board Committee”, the “Letter from the Independent Financial Adviser” and other information about the Group, which are set out in this Composite Document before deciding whether or not to accept the Offers.

Yours faithfully,
For and on behalf of
BOCOM International Securities Limited
Cheng Chuange
Responsible Officer

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

9 June 2017

To the Independent Shareholders and Optionholders

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFERS BY
BOCOM INTERNATIONAL SECURITIES LIMITED
FOR AND ON BEHALF OF 51RENPIN.COM INC.
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF CHINA
NETCOM TECHNOLOGY HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY
THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

Reference is made to the Joint Announcement.

Immediately after the allotment and issue of the 1,003,333,333 Converted Shares, on 12 April 2017, Mr. Leung, the Offeror and Tiantu had entered into the Share Purchase Agreement pursuant to which the Offeror and Tiantu have conditionally agreed to acquire 441,629,880 Sale Shares and 365,000,000 Sale Shares respectively, representing approximately 10.42% and 8.61% of the total number of issued Shares respectively and Mr. Leung has conditionally agreed to sell an aggregate of 806,629,880 Sale Shares at an aggregate consideration of

LETTER FROM THE BOARD

HK\$66,143,650.16, being HK\$0.082 per Sale Share, representing approximately 19.03% of the total Shares in issue as at the Latest Practicable Date. Completion of the Share Purchase Agreement was effected on 18 April 2017.

Immediately after the allotment and issue of the Converted Shares to the Offeror and upon the Share Purchase Completion, the Offeror and parties acting in concert with it became interested in an aggregate of 1,809,963,213 Shares representing approximately 42.69% of the total number of issued Shares as at the Latest Practicable Date. Accordingly, the Offeror and parties acting in concert with it are required to make a conditional mandatory cash offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code. Pursuant to Rule 13.5 of the Takeovers Code, the Option Offer will also be made to cancel all the outstanding Share Options.

The purpose of this Composite Document is to provide you with, among other things, (i) information relating to the Group, the Offeror and the Offers; (ii) the “Letter from the Independent Board Committee” containing its recommendation to the Independent Shareholders and the Optionholders in respect of the Offers; and (iii) the “Letter from the Independent Financial Adviser” containing its advice and recommendation to the Independent Board Committee in respect of the Offers.

INDEPENDENT BOARD COMMITTEE AND 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 by the Board to advise the Independent Shareholders and the Optionholders as to whether the Offers are, or are not, fair and reasonable and as to its acceptance. With the approval of the Independent Board Committee, the Company has appointed VMS Securities as the Independent Financial Adviser to advise the Independent Board Committee on the terms of the Offers and in particular as to whether the Offers are, or are not, fair and reasonable and as to its acceptance.

CONNECTED TRANSACTION IN RELATION TO PROPOSED SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

Reference is also made to the Joint Announcement, simultaneously with the entering into of the Share Purchase Agreement, the Company (as issuer) and the Offeror (as subscriber) entered into the Subscription Agreement. The Company has conditionally agreed to allot and issue, and the Offeror has conditionally agreed to subscribe, in cash, for the 1,445,000,000 Subscription Shares for total consideration of HK\$72,250,000, being HK\$0.05 per Subscription Share. The Subscription Shares represents approximately 34.33% of the total Shares in issue as at the Latest Practicable Date and approximately 25.56% of the total Shares in issue as enlarged by the allotment and issue of the Subscription Shares.

As a result of the allotment and issue of the Converted Shares and the Share Purchase Completion, the Offeror is interested in 1,444,963,213 Shares, representing approximately 35.04% of the total Shares in issue as at the Latest Practicable Date, and thus the Offeror is a controlling shareholder and a connected person of the Company. The Subscription Agreement

LETTER FROM THE BOARD

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.

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;
- (iii) the compliance of (i) any other requirements under the GEM Listing Rules and the Takeovers Code or otherwise of (ii) 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;
- (v) no material adverse change in relation to the business, financial or trading position of the Group as a whole having occurred; and
- (vi) the consent of the Executive in relation to the Redemption as a “special deal” under Rule 25 of the Takeovers Code having been obtained and any condition for the giving of such consent having been fulfilled, and such consent not having been revoked prior to the Subscription Completion.

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 Offeror 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 Offeror), 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

LETTER FROM THE BOARD

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 on 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.

EGM

The EGM will be convened and held for the Independent Shareholders to consider and if thought fit, to approve the Subscription Agreement (including the Redemption), the Special Deal and the respective transactions contemplated thereunder.

The Offeror, 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 it are required to abstain from voting on the relevant resolution(s) to approve the Subscription Agreement (including the Redemption), the Special Deal and the respective transactions contemplated thereunder at the EGM. As a portion of the net proceeds of the Subscription will be utilized for the Redemption, Mr. Leung and his associates will also be required to abstain from voting on the relevant resolution(s) to approve the Subscription Agreement (including the Redemption), the Special Deal and the respective transactions contemplated thereunder at the EGM.

A circular containing, among other things, (i) further details about the Subscription Agreement (including the Redemption); (ii) the recommendation letter of the Independent Board Committee to the Independent Shareholders in respect of the Subscription and the Special Deal; (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 the Special Deal; and (iv) the notice convening the EGM is expected to be despatched to the Independent Shareholders on or before 9 June 2017 (or on other dates as further announced by the Company as and when necessary).

For further details of the Subscription, please refer to the Joint Announcement.

SHARE CAPITAL AND SHAREHOLDING STRUCTURE OF THE COMPANY

The authorised share capital of the Company as at the Latest Practicable Date was HK\$100,000,000.

LETTER FROM THE BOARD

The following table sets out the shareholding structure of the Company (i) immediately prior to the allotment and issue of the Converted Shares, the Share Purchase Completion and the Subscription Completion; (ii) immediately after the allotment and issue of the Converted Shares but before the Share Purchase Completion and Subscription Completion; (iii) immediately after the allotment and issue of the Converted Shares and the Share Purchase Completion but before the Subscription Completion; (iv) immediately after the allotment and issue of the Converted Shares, the Share Purchase Completion and the Subscription Completion (assuming no other changes to the shareholding structure of the Company prior to the Subscription Completion):

	(i) immediately prior to the allotment and issue of the Converted Shares, the Share Purchase Completion and the Subscription Completion		(ii) immediately after the allotment and issue of the Converted Shares but before the Share Purchase Completion and Subscription Completion		(iii) immediately after the allotment and issue of the Converted Shares and the Share Purchase Completion as at the Latest Practicable Date but before the Subscription Completion		(iv) immediately after the allotment and issue of the Converted Shares, the Share Purchase Completion and the Subscription Completion	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Mr. Leung and parties acting in concert with him	906,629,880	29.06	906,629,880	21.99	100,000,000	2.36	100,000,000	1.76
The Offeror and parties acting in concert with it								
<i>The Offeror</i>	—	0.00	1,003,333,333	24.33	1,444,963,213	34.08	2,889,963,213	50.84
<i>Tiantu (Note)</i>	—	0.00	—	0.00	365,000,000	8.61	365,000,000	6.42
Sub-total	—	0.00	1,003,333,333	24.33	1,809,963,213	42.69	3,254,963,213	57.26
Public Shareholders	2,213,405,169	70.94	2,213,405,169	53.68	2,329,405,169	54.95	2,329,405,169	40.98
Total	<u>3,120,035,049</u>	<u>100.00</u>	<u>4,123,368,382</u>	<u>100.00</u>	<u>4,239,368,382</u>	<u>100.00</u>	<u>5,684,368,382</u>	<u>100.00</u>

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

All existing issued Shares rank *pari passu* in all respect including all rights as to dividends, voting and interests in capital.

Save for the Share Options and the Convertible Bonds, the Company does not have any outstanding options, warrants, derivatives and other securities that are convertible or exchangeable into Shares or other types of equity interest and the Company has not entered into any agreement for the issue of such warrants, options, derivatives or securities convertible into Shares as at the Latest Practicable Date.

MANDATORY CONDITIONAL CASH OFFERS

Immediately after the allotment and issue of the Converted Shares to the Offeror and the Share Purchase Completion, the Offeror and parties acting in concert with it became interested in an aggregate of 1,809,963,213 Shares representing approximately 42.69% of the total number of issued Shares as at the Latest Practicable Date. Accordingly, the Offeror and parties acting in concert with it are required to make a conditional mandatory cash offer to acquire all

LETTER FROM THE BOARD

the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code. Pursuant to Rule 13.5 of the Takeovers Code, the Option Offer will also be made to cancel all the outstanding Share Options.

Details of the Offers are set out in the “Letter from BOCOM” on pages 8 to 23 of this Composite Document and in the Forms of Acceptance.

Principal terms of the Offers

BOCOM is making, for and on behalf of the Offeror, the Offers in accordance with the Takeovers Code on the following basis:

The Share Offer

for each Offer Share HK\$0.082 in cash

The Share Offer Price of HK\$0.082 for each Offer Share is the same as the purchase price per Sale Share under the Share Purchase Agreement and the purchase price per Convertible Preferred Share under the Convertible Preferred Share Purchase Agreement which was arrived at after arm’s length negotiations between the Offeror and/or Tiantu and Mr. Leung.

The Share Offer will be extended to all Independent Shareholders other than the Offeror and the parties acting in concert with it in accordance with the Takeovers Code. The Shares to be acquired under the Share Offer shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them including, without limitation, the right to receive in full all dividends and other distributions, if any, recommended, declared, made or paid on or after the date of the Composite Document.

As at the Latest Practicable Date, there are 4,239,368,382 Shares in issue of which, and the Offeror and the parties acting in concert with it collectively hold a total of 1,809,963,213 Shares, representing approximately 42.69% of the issued share capital of the Company.

The Share Offer is also extended to all Shares in issue as at the date of the Composite Document and to any further Shares which are unconditionally allotted or issued after the date of the Composite Document and before the Offer Closing Date, including any Shares which are unconditionally allotted or issued pursuant to the exercise of the Share Options.

The Option Offer

for cancellation of each Share Option HK\$0.0001 in cash

Under the Option Offer, as the relevant exercise prices of all the outstanding Share Options are above the Share Offer Price, the outstanding Share Options are out-of-money and therefore the Option Offer price for the cancellation of each outstanding Share Option are set at the nominal value of HK\$0.0001.

LETTER FROM THE BOARD

The Option Offer will be extended to all Optionholders other than the Offeror and the parties acting in concert with it in accordance with the Takeovers Code.

As at the Latest Practicable Date, there are a total of 157,700,000 outstanding Share Options (corresponding to 157,700,000 new Shares).

Pursuant to the terms of the Share Option Scheme, if a general offer is made to all the Shareholders (other than the Offeror and/or any person controlled by the Offeror and/or any person acting in association or concert with the Offeror), and such offer becomes or is declared unconditional during the option period of the relevant Share Options, the Optionholders shall be entitled to exercise the Share Options to the fullest extent at any time thereafter and up to the close of such offer. All unexercised Share Options shall lapse automatically upon the close of such offer.

The Convertible Bonds are subject to the Letter of Undertaking, as such no offer will be made to Mr. Leung in respect of the Convertible Bonds. Save for the Share Options and the Convertible Bonds, the Company has no other outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares and the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date.

Independent Shareholders and Optionholders are advised to refer to the “Letter from BOCOM”, Appendix I to this Composite Document and the accompanying Forms of Acceptance for further details and procedures for acceptance and settlement of the Offers.

INFORMATION OF THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability and its Shares are listed on GEM. The Company and its subsidiaries are principally engaged in the provision of lottery system management service and the operation of lottery sales halls services in the PRC.

Set out below is the summary of financial information of the Group for each of the two financial years ended 31 December 2015 and 2016 as extracted from the annual report of the Company for the year ended 31 December 2016:

	Year ended 31 December	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)
Revenue	336	964
Loss before tax	(49,314)	(67,481)
Loss attributable to the owners of the Company	(37,043)	(54,679)

Further financial information of the Group will be set out in the Composite Document to be despatched to the Independent Shareholders and the Optionholders.

LETTER FROM THE BOARD

Further Information

Further information in relation to the Company is set out in Appendix III to this Composite Document. An expected timetable in relation to the Offers is set out under the section headed “Expected timetable” of this Composite Document.

INFORMATION ON THE OFFEROR

Your attention is drawn to the section headed “Information of the Offeror” in the “Letter from BOCOM” as set out on pages 17 to 20 of this Composite Document.

INTENTIONS OF THE OFFEROR ON THE GROUP

It is the intention of the Offeror that the Group will continue with its existing principal activities after the close of the Offers. However, the Offeror will conduct a detailed review of the business activities and assets of the Group for the purpose of formulating business plans and strategies for the future business development of the Group with the aim of growing and expanding its business and strengthening its financial position. Subject to the results of the review, the Offeror may explore other business opportunities for the Company and consider whether any asset disposals, asset acquisitions, business rationalization, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance long-term growth potential of the Company. However, as at the Latest Practicable Date, no such investment or business opportunities has been identified nor has the Offeror entered into an agreement, arrangements, understandings or negotiation in relation to the injection of any assets or business into the Group. Further, the Offeror has no intention to discontinue the employment of the employees or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business. The Board is aware of the intention of the Offeror in respect of the Group and its employees and is willing to co-operate with the Offeror further which is in the interests of the Company and the Shareholders as a whole.

BOARD COMPOSITION OF THE COMPANY

As at the Latest Practicable Date, the Board is made up of five Directors, comprising two executive Directors, namely Mr. Leung Ngai Man and Ms. Wu Wei Hua and three independent non-executive Directors, namely Mr. Cai Wei Lun, Mr. Qi Ji and Ms. Xuan Hong.

Your attention is drawn to the section headed “Proposed change to the Board composition of the Company” in the “Letter from BOCOM” on page 21 of this Composite Document.

After the despatch of this Composite Document, the Offeror will nominate new Director(s) to the Board. Any changes to the Board composition will be made in compliance with the memorandum and articles of association of the Company, the Takeovers Code and the GEM Listing Rules and a further announcement will be made accordingly.

LETTER FROM THE BOARD

MAINTAINING THE LISTING STATUS OF THE COMPANY AND COMPULSORY ACQUISITION

As mentioned in the “Letter from BOCOM”, the Offeror intends the Company to remain listed on the Stock Exchange after the close of the Offers. The Stock Exchange has stated that, if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public, or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Shares; or
- (b) there are insufficient Shares in public hands to maintain an orderly market;

then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

The Offeror has undertaken, and the new Directors will jointly and severally undertake, to the Stock Exchange, that if the public float of the Company falls below 25% following the close of the Offers, they will take appropriate steps to ensure that a sufficient public float exists for the Shares, being that at least 25% of the Shares will be held by the public.

RECOMMENDATION

The Independent Board Committee has been established to make recommendation to the Independent Shareholders and the Optionholders as to whether the terms of the Offers are fair and reasonable and as to acceptance of the Offers.

Your attention is drawn to the “Letter from the Independent Board Committee” as set out on pages 33 to 34 of this Composite Document which contains its recommendation to the Independent Shareholders and the Optionholders in respect of the Offers, and the “Letter from the Independent Financial Adviser” as set out on pages 35 to 61 of this Composite Document containing its advice and recommendation to the Independent Board Committee in respect of the Offers.

ADDITIONAL INFORMATION

Your attention is drawn to the “Letter from BOCOM” as set out on pages 8 to 23 of and Appendix I to this Composite Document and the Forms of Acceptance, which contain details of the Offers. Your attention is also drawn to the information set out in the appendices to this Composite Document.

In considering which action is to be taken in connection with the Offers, the Independent Shareholders and the Optionholders should consider their own tax positions and, if they are in any doubt, they should consult their professional advisers.

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)

9 June 2017

To the Independent Shareholders and Optionholders

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFERS BY
BOCOM INTERNATIONAL SECURITIES LIMITED
FOR AND ON BEHALF OF 51RENPIN.COM INC.
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF CHINA
NETCOM TECHNOLOGY HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY
THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to the composite offer and response document dated 9 June 2017 (the “**Composite Document**”) jointly issued by the Offeror and 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 Composite Document.

We have been appointed by the Board as members of the Independent Board Committee to consider the terms of the Offers and to advise the Independent Shareholders and the Optionholders as to whether, in our opinion, the terms of the Offers are fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned and as to acceptance thereof.

VMS Securities has been appointed as the Independent Financial Adviser to the Independent Board Committee to advise and give recommendation to the Independent Board Committee and the Independent Shareholders and the Optionholders in respect of the terms of the Offers and as to acceptance thereof. Details of its advice and principal factors taken into consideration in arriving its recommendation are set out in the “Letter from the Independent Financial Adviser” of the Composite Document.

We also wish to draw your attention to the “Letter from the Board”, the “Letter from BOCOM” and the additional information as set out in the appendices to the Composite Document.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

Having taken into account the terms of the Offers and the advice from the Independent Financial Adviser and the principal factors taken into account in arriving at its recommendation, we are of the opinion that the terms of the Offers are fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned and recommend the Independent Shareholders and Optionholders to accept the Offers (as applicable).

However, Independent Shareholders and the Optionholders are reminded that they should carefully and closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market during the Offer Period, rather than accepting the Offers, if the net proceeds from the sale of such Shares in the open market would exceed the net amount receivable under the Offers. In addition, the Independent Shareholders and the Optionholders who wish to realise their investments in the Company in the open market should also consider and monitor the trading volume of the Shares during the Offer Period as they may experience difficulty in disposing of the Shares in the open market without creating downward pressure on the price of the Shares.

In any case, the Independent Shareholders and the Optionholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, the Independent Shareholders and the Optionholders should consult their own professional advisers for professional advice. Furthermore, the Independent Shareholders and the Optionholders who wish to accept the Offers (as applicable) are recommended to read carefully the procedures for accepting the Offers as detailed in the Composite Document.

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 letter of advice from VMS Securities Limited to the Independent Board Committee regarding the Offers which has been prepared for the purpose of inclusion in the Composite Document.



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

9 June 2017

To: The Independent Board Committee

Dear Sir,

**MANDATORY CONDITIONAL CASH OFFERS BY
BOCOM INTERNATIONAL SECURITIES LIMITED
FOR AND ON BEHALF OF 51RENPIN.COM INC.
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF
CHINA NETCOM TECHNOLOGY HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee, the Independent Shareholders and the Optionholders in respect of the Offers. Details of the Offers are set out in the composite document (the “**Composite Document**”) jointly issued by the Offeror and the Company dated 9 June 2017, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless otherwise specified herein.

The Board comprises two executive Directors and three independent non-executive Directors. Pursuant to the Takeovers Code, the Independent Board Committee comprising all the three independent non-executive Directors, namely Mr. Cai Wei Lun, Mr. Qi Ji and Ms. Xuan Hong, has been established for the purpose of making a recommendation to the Independent Shareholders and the Optionholders as to whether the Offers are fair and reasonable, and as to acceptance of the Offers. The Independent Board Committee has approved our appointment as the independent financial adviser to the Independent Board Committee, the Independent Shareholders and the Optionholders in connection with the Offers. In our capacity as the independent financial adviser to the Independent Board Committee, the Independent Shareholders and the Optionholders, our role is to provide the Independent Board Committee, the Independent Shareholders and the Optionholders with independent advices as to whether the Offers are fair and reasonable, and as to acceptance of the Offers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We are not associated or connected with the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Offers. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice and recommendation, we have reviewed, among other things, (i) the Composite Document; (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 material change statement set out in Appendix II to the Composite Document. We have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and 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 respects at the time they were made, and continue to be true, accurate and complete in all material respects up to the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Composite Document are true, accurate and complete as at the date of the Composite Document. Should there be any subsequent material changes in such information during the Offer Period, the Company will inform the Independent Shareholders and the Optionholders as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Independent Shareholders and the Optionholders shall also be informed as soon as practicable when there are any material changes to the information contained or referred to herein and our opinion after the Latest Practicable Date and throughout the Offer Period. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information have been omitted or withheld, or 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 Offeror or respective 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.

In relation to the Offers, we have not considered the tax implications on the Independent Shareholders and the Optionholders of the acceptance or non-acceptance of the Offers since these depend on their individual circumstances. In particular, the Independent Shareholders and the Optionholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Offers, we have taken into account the following principal factors and reasons:

1. Background leading to, and principal terms of the Offers

On 11 April 2017, Mr. Leung (as seller) and the Offeror (as purchaser) entered into the Convertible Preferred Share Purchase Agreement, pursuant to which Mr. Leung agreed to sell and the Offeror agreed to acquire the 1,003,333,333 Convertible Preferred Shares at the consideration of HK\$82,273,333.31, which is equivalent to approximately HK\$0.082 per Convertible Preferred Share. Completion of the Convertible Preferred Share Purchase Agreement was effected on the same day. Immediately upon completion of the sale and purchase of the Convertible Preferred Shares, the Offeror exercised the conversion rights attaching to the Convertible Preferred Shares to convert all the Convertible Preferred Shares into the Converted Shares. As a result, a total of 1,003,333,333 Converted Shares were allotted and issued to the Offeror on 12 April 2017. In addition, on 12 April 2017, Mr. Leung, the Offeror and Tiantu entered into the Share Purchase Agreement pursuant to which the Offeror and Tiantu had conditionally agreed to acquire 441,629,880 Sale Shares and 365,000,000 Sale Shares respectively and Mr. Leung had conditionally agreed to sell an aggregate of 806,629,880 Sale Shares at an aggregate consideration of HK\$66,143,650.16, being approximately HK\$0.082 per Sale Share. The Share Purchase Completion took place on 18 April 2017.

Immediately after the allotment and issue of the 1,003,333,333 Converted Shares and the Share Purchase Completion, the Offeror and parties acting in concert with it became interested in 1,809,963,213 Shares, representing 43.89% of the then total number of issued Shares as set out in the Joint Announcement. Accordingly, pursuant to the Takeovers Code, the Offeror and parties acting in concert with it are required to make (i) a conditional mandatory cash offer to acquire all the issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and the parties acting in concert with it); and (ii) an appropriate offer to the Optionholders for the cancellation of the outstanding Share Options. BOCOM is making, for and on behalf of the Offeror, the Offers in accordance with the Takeovers Code on the following basis:

The Share Offer

For each Offer Share HK\$0.082 in cash

The Share Offer Price of HK\$0.082 for each Offer Share is equal to the price per Sale Share under the Share Purchase Agreement and the purchase price per Convertible Preferred Share under the Convertible Preferred Share Purchase Agreement. The Shares to be acquired under the Share Offer shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them including, without limitation, the right to receive in full all dividends and other distributions, if any, recommended, declared, made or paid on or after the date of the Composite Document. Acceptance of the Share Offer would be irrevocable and would not be capable of being withdrawn, subject to the provisions of the Takeovers Code.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Share Offer is conditional upon valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on or prior to the Offer Closing Date (or such later time(s) and/or date(s) as the Offeror may decide and the Executive may approve) in respect of such number of Shares which, together with the Shares already owned or agreed to be acquired before or during the Offers (including the Subscription Shares), would result in the Offeror and the parties acting in concert with it holding in aggregate more than 50% of the voting rights in the Company.

The Option Offer

- (i) For cancellation of each Share Option
with the exercise price of HK\$1.425 per Share HK\$0.0001 in cash
- (ii) For cancellation of each Share Option
with the exercise price of HK\$2.030 per Share HK\$0.0001 in cash
- (iii) For cancellation of each Share Option
with the exercise price of HK\$1.328 per Share HK\$0.0001 in cash
- (iv) For cancellation of each Share Option
with the exercise price of HK\$0.364 per Share HK\$0.0001 in cash
- (v) For cancellation of each Share Option
with the exercise price of HK\$0.365 per Share HK\$0.0001 in cash
- (vi) For cancellation of each Share Option
with the exercise price of HK\$0.280 per Share HK\$0.0001 in cash
- (vii) For cancellation of each Share Option
with the exercise price of HK\$0.290 per Share HK\$0.0001 in cash
- (viii) For cancellation of each Share Option
with the exercise price of HK\$0.270 per Share HK\$0.0001 in cash

As at the Latest Practicable Date, the Company had 157,700,000 outstanding Share Options conferring rights on the Optionholders to subscribe for an aggregate of 157,700,000 Shares. Under the Option Offer, since the exercise prices of all the outstanding Share Options are above the Share Offer Price, the outstanding Share Options are out-of-money and therefore the Option Offer price for the cancellation of each outstanding Share Option is set at nominal value of HK\$0.0001.

The Option Offer will be extended to all Optionholders other than the Offeror and the parties acting in concert with it in accordance with the Takeovers Code. The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects. Acceptance of the Option Offer by the Optionholders will result in the cancellation of those outstanding Share Options, together with all rights attaching thereto.

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Pursuant to the terms of the Share Option Scheme, if a general offer is made to all the Shareholders (other than the Offeror and/or any person controlled by the Offeror and/or any person acting in association or concert with the Offeror), and such offer becomes or is declared unconditional during the option period of the relevant Share Options, the Optionholders shall be entitled to exercise the Share Options to the fullest extent at any time thereafter and up to the close of such offer. All unexercised Share Options shall lapse automatically upon the close of such offer. Accordingly, the exercise periods for the relevant outstanding Share Options are accelerated.

Optionholders should therefore monitor the situation closely. If the Share Offer becomes unconditional, Optionholders may consider either to accept the Option Offer or to exercise their Share Options before the close of the Offers because they will lose value of their Share Options if they simply allow their Share Options to lapse. In the event that any of the Share Options are exercised before the close of the Offers in accordance with the provisions of the Share Option Scheme, the Shares issued as a result thereof will be subject to the Share Offer.

The Share Offer Price and the price for the Option Offer shall be payable in cash. The Offeror reserves the right to revise the terms of the Offers in accordance with the Takeovers Code. Further details of the Offers, including the expected timetable, terms of the Offers and procedures for acceptance of the Offers, are set out in the sections headed “Expected timetable”, “Letter from BOCOM”, Appendix I to the Composite Document and the accompanying Forms of Acceptance. Independent Shareholders and Optionholders are urged to read the Composite Document in full.

2. The Subscription

(a) Background to the Subscription

As set out in the Joint Announcement, on 12 April 2017 (as amended by a side letter dated 23 April 2017), the Company had conditionally agreed to allot and issue, and the Offeror had conditionally agreed to subscribe, in cash, for 1,445,000,000 Subscription Shares for a total consideration of HK\$72,250,000, being HK\$0.05 per Subscription Share. Assuming that (i) there is no change of shareholding held by the Offeror and parties acting in concert with it in the Company immediately prior to the Subscription Completion; and (ii) there is no change in issued share capital of the Company (other than the issue of the Subscription Shares) between the Latest Practicable Date and the Subscription Completion, the Offeror and parties acting in concert with it will hold an aggregate of 3,254,963,213 Shares (being 1,809,963,213 Shares owned by the Offeror and parties acting in concert with it as at the Latest Practicable Date plus 1,445,000,000 Subscription Shares to be issued to the Offeror upon the Subscription Completion), representing approximately 57.26% of the total number of issued Shares of 5,684,368,382 as enlarged by the allotment and issue of the Subscription Shares upon the Subscription Completion. Further details of the Subscription are set out in the Joint Announcement and the circular in respect of, among other things, the Subscription (the “**Circular**”) to be despatched by the Company in due course.

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(b) Conditions to the Subscription Completion

As set out in the Joint Announcement, the Subscription Completion is conditional upon the conditions have 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 granting or agreeing to grant 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 under the GEM Listing Rules and/or the Takeovers Code to approve the Subscription Agreement and the Specific Mandate; (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 in relation to the Subscription and the allotment and issue of the Subscription Shares; and (4) the obtaining of the consent of the Executive in relation to the Redemption as a “special deal” under Rule 25 of the Takeovers Code. Further details of conditions to the Subscription Completion are set out under the sub-section headed “Conditions precedent to the Subscription Completion” under the section headed “D. Connected transaction in relation to the proposed Subscription of new Shares under Specific Mandate” of the Joint Announcement and the Circular to be despatched by the Company in due course.

In addition, as disclosed in “Letter from BOCOM” of the Composite Document, in the event that (i) the Offers have become unconditional as to acceptances on or before the 60th day (being the Final Day) after the day the Composite Document was posted; and (ii) the Subscription has yet to be completed on the Final Day, the Offeror will proceed with the Offers in accordance with Rule 15 of the Takeovers Code.

In the event that (i) the Offers have not become unconditional as to acceptances on the Final Day; and (ii) the Subscription has yet to be completed on the Final Day, the Offeror intends to and the Company has undertaken to give consent to the extension of the Final Day to a day falling on or after the Subscription Completion in accordance with Rule 15.5 of the Takeovers Code, and an application will be made to the Executive for its consent on such extension.

It is further disclosed in “Letter from BOCOM” of the Composite Document that under the circumstances that such consent is not granted by the Executive, the Offers will lapse on the Final Day accordingly. In such event, if the Subscription Completion is to take place on or before 30 September 2017, (i.e. the long stop date of the Subscription Agreement) but after the lapse of the Offers, the allotment and issue of the Subscription Shares to the Offeror will trigger the obligations of the Offeror and parties acting in concert with it to make another mandatory cash offer pursuant to Rule 26.1 of the Takeovers Code, which is, however, prohibited under Rule 31.1 of the Takeovers Code to launch such offer within 12 months from the date of the lapse of the Offers (except with the consent of the Executive). If by that time, the Offeror decides not to seek consent from the Executive in relation to the aforementioned obligations or such consent is not granted by the Executive, as the Subscription Completion is conditional upon, among other things, the compliance of the requirements of the Takeovers Code, such condition to the Subscription Completion will remain unfulfilled and the Subscription Agreement will

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cease and determine on 30 September 2017 accordingly. Further details are set out in the sub-section headed “Condition to the Offers” under the section headed “(II) The Offers” of the Composite Document.

As advised by the Directors, the Offers and the Subscription are not inter-conditional.

(c) Financial effects of the Subscription and the Redemption

As set out in the sub-section headed “Reasons for the Subscription and use of proceeds” under the section headed “D. Connected transaction in relation to the proposed Subscription of new Shares under Specific Mandate” of the Joint Announcement, the gross proceeds and net proceeds from the Subscription are estimated to be approximately HK\$72.3 million and HK\$71.8 million respectively. The executive Directors expect that the Group’s working capital and cash position will be enhanced immediately upon the Subscription Completion. The net proceeds of approximately HK\$71.8 million from the Subscription will be used as to approximately HK\$40.0 million for the Redemption, and the remaining balance of approximately HK\$31.8 million for the Group’s general working capital.

According to the Company’s annual report for the year ended 31 December 2016 (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 but before the Redemption shall be improved roughly by the same amount of the estimated net proceeds of approximately HK\$71.8 million from the Subscription. Assuming the Subscription Completion but not the Redemption 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 be approximately HK\$71.55 million (being the estimated net proceeds from the Subscription of approximately HK\$71.8 million minus the Company’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 but before Redemption.

Moreover, the imputed interest expenses in relation to the Convertible Bonds (the details of which are explained under the sub-section headed “(i) Financial results” under the section headed “Financial information and prospects of the Group” below) to be recorded in the Group’s profit or loss, are expected to be lowered immediately upon completion of the Redemption. The gearing ratio of the Group is also expected by the executive Directors to be improved upon completion of the Redemption. In addition, the Convertible Bonds are recorded by the Group in its financial statements as two components, which are liability component and equity component. Upon completion of the Redemption, the difference between the Redemption amount of HK\$40 million and the total carrying amounts of the liability component and equity component of the Convertible Bonds subject to the Redemption will be recorded in the Company’s consolidated statement of profit or loss and other comprehensive income as gain or loss.

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

3. 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 Company's 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 (Audited) HK\$'000	2015 (Audited) HK\$'000	2014 (Audited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Revenue	336	964	3,533	740	100
Cost of sales	<u>(649)</u>	<u>(1,135)</u>	<u>(3,896)</u>	<u>(490)</u>	<u>(139)</u>
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	<u>(7,982)</u>	<u>(10,357)</u>	<u>(13,688)</u>	<u>(1,559)</u>	<u>(1,893)</u>
Loss before tax	(49,314)	(67,481)	(429,544)	(5,765)	(7,970)
Income tax credit	<u>6,170</u>	<u>7,155</u>	<u>99,463</u>	<u>459</u>	<u>626</u>
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	<u>(6,101)</u>	<u>(5,647)</u>	<u>(144,030)</u>	<u>822</u>	<u>(923)</u>
	<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 in 2016 and this resulted in the drop of finance costs which representing the imputed interest expenses recognised for the Convertible Bonds. 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 interest charges 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 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. 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. 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 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
	(Audited) <i>HK\$'000</i>	(Audited) <i>HK\$'000</i>	(Audited) <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	2,436	1,215	1,897
Club debenture	115	115	115
Concession rights	60,580	81,526	99,324
	<u>63,131</u>	<u>82,856</u>	<u>101,336</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	23,817	78,077	61,790
	<u>28,957</u>	<u>90,289</u>	<u>66,488</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	—	1	1
	<u>8,374</u>	<u>8,236</u>	<u>103,709</u>
Total current liabilities	8,374	8,236	103,709
Net current assets/(liabilities)	20,583	82,053	(37,221)
Total assets less current liabilities	83,714	164,909	64,115

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	As at 31 December		
	2016	2015	2014
	(Audited)	(Audited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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)
Equity attributable to owners of the Company	(252)	48,244	1,103
Non-controlling interests	20,923	29,313	35,294
	<u>20,671</u>	<u>77,557</u>	<u>36,397</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 balance (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.

We have identified five peer companies with principal business similar to that of the Group and details are set out under the sub-section headed "(v) Peer companies" under the section headed "6. Evaluation of the Share Offer Price" below. 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 (as defined in this letter)) 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 loss in 2016.

In view of (i) the Group's difficulties to develop business with other lottery issuing centres and potential business partners 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.

As set out in the sub-section headed "Financial effects of the Subscription and the Redemption" under the section headed "The Subscription" above, immediately after the Subscription Completion, the Group will be restored from a net deficit position to a net asset position. Furthermore, immediately after the completion of the Redemption, the Group's gearing ratio as well as the imputed interest expenses in respect of the Convertible Bonds recorded by the Group can be lowered which will be beneficial to the Group. In addition, the remaining estimated net proceeds from the Subscription of approximately HK\$31.8 million (after deduction of HK\$40 million for the Redemption) will be used for the Group's general working capital. In view of the improvement of financial position and financial resources of the Group immediately upon the Subscription Completion, we consider that the Subscription can promote prospects of the Group.

4. Information of the Offeror

As set out in "Letter from BOCOM" contained in the Composite Document, the Offeror 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.

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Shanghai Wuniu is in turn wholly owned by Hangzhou Enniu. The business scope of Hangzhou Enniu includes, amongst others, development of internet technologies and network engineering. As at the Latest Practicable Date, Hangzhou Enniu has 27 direct shareholders.

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 creating for Hangzhou Enniu, the credit card management application named “51 Credit Card Management” which has an estimated user base of over 70 million users. Hangzhou Enniu together with its subsidiaries is commonly referred to as “51 Credit Card”, which completed its C round financing, with total funds raised of over RMB2,600 million.

The ultimate beneficial substantial shareholders of Hangzhou Enniu include, amongst others, (i) Shenzhen Tiantu which is indirectly interested in 100% of the equity interest in Tiantu Xingbang and approximately 19.01% of the equity interest in Tiantu Xingbei which in turn are interested in approximately 6.59% and 3.29% of the equity interest in Hangzhou Enniu respectively; and (ii) Xinhua 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 RMB5,824.77 million. 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.

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

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Further details in relation to, among other things, the Offeror and other beneficial shareholders of Hangzhou Enniu are set out in “Letter from BOCOM” contained in the Composite Document.

5. Intentions of the Offeror in relation to the Company and the proposed change to the Board composition of the Company

As stated in “Letter from BOCOM” contained in the Composite Document, following the close of the Offers, it is the intention of the Offeror that the Group will continue with its existing principal activities. The Offeror will conduct a detailed review of the business activities and assets of the Group for the purpose of formulating business plans and strategies for the future business development of the Group with the aim of growing and expanding its business and strengthening its financial position. Subject to the results of the review, the Offeror may explore other business opportunities for the Company and consider whether any asset disposals, asset acquisitions, business rationalization, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance long-term growth potential of the Company.

As at the Latest Practicable Date, no such investment or business opportunities has been identified nor has the Offeror entered into any agreement, arrangements, understandings or negotiation in relation to the injection of any assets or business into the Group. Further, the Offeror has no intention to discontinue the employment of the employees or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business.

As disclosed in “Letter from BOCOM” contained in the Composite Document, it is intended that all the existing Directors will resign as Directors, and new Directors will be nominated with effect from the earliest time permitted for resignation and appointment of directors under the Takeovers Code. As at the Latest Practicable Date, the Offeror has not reached any final decision as to who will be nominated as new Directors. Further announcement(s) be made by the Company in compliance with the requirements of the GEM Listing Rules as and when there are changes in the composition of the Board.

Further details of intentions of the Offeror in relation to the Company and proposed change to the Board composition of the Company are set out in “Letter from BOCOM” contained in the Composite Document.

6. Evaluation of the Share Offer Price

(i) Comparison of the Share Offer Price and recent Share prices

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

- (a) a discount of approximately 40.6% to the closing price of HK\$0.138 per Share quoted on the Stock Exchange on 10 April 2017, being the Last Trading Day;

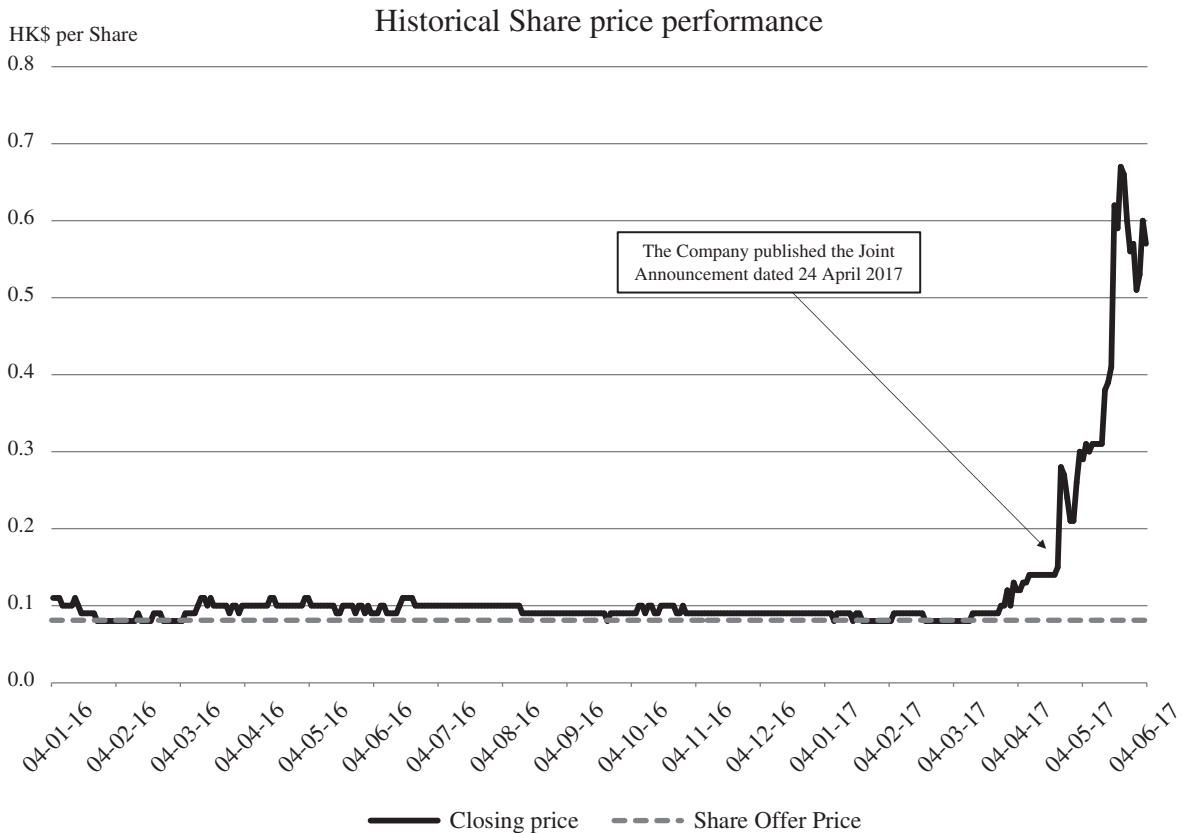
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- (b) a discount of approximately 38.3% to the average closing price of approximately HK\$0.133 per Share quoted on the Stock Exchange for the 5 consecutive trading days immediately prior to and including the Last Trading Day;
- (c) a discount of approximately 33.3% to the average closing price of approximately HK\$0.123 per Share quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (d) a discount of approximately 15.5% to the average closing price of approximately HK\$0.097 per Share quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (e) a discount of approximately 9.04% to the average closing price of approximately HK\$0.090 per Share quoted on the Stock Exchange for the 60 consecutive trading days immediately prior to and including the Last Trading Day;
- (f) a discount of approximately 8.35% to the average closing price of approximately HK\$0.089 per Share quoted on the Stock Exchange for the 90 consecutive trading days immediately prior to and including the Last Trading Day;
- (g) a discount of approximately 10.13% to the average closing price of approximately HK\$0.091 per Share quoted on the Stock Exchange for the 180 consecutive trading days immediately prior to and including the Last Trading Day;
- (h) a discount of approximately 85.61% to the closing price of HK\$0.57 per Share quoted on the Stock Exchange on the Latest Practicable Date; and
- (i) 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 of approximately HK\$252,000 as at 31 December 2016 and divided by 3,120,035,049 Shares in issue as at 31 December 2016).

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(ii) *Historical Share price performance*

The chart 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**”)



Source: Bloomberg

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.

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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 unaudited consolidated 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\$0.57 per Share as at the Latest Practicable Date. The substantial increase of the closing Share prices after publication of the Joint Announcement was probably due to market reaction towards the change in control of the Company, the Offers and the Subscription. It is uncertain whether the current level of Share price will be sustainable in the absence of these corporate actions.

(iii) Recent and longer term Share price comparison

We note in paragraph headed “Comparison of the Share Offer Price and recent Share prices” above that the discounts of the Share Offer Price to the closing price on the Last Trading Day and the average closing prices for the 5 and 10 consecutive trading days immediately prior to the Last Trading Day have ranged from approximately 33.3% to 40.6%.

As set out in the chart in paragraph headed “Historical Share price performance” above, the closing prices of the Shares were on an upward trend since 21 March 2017 and reached HK\$0.138 per Share on the Last Trading Day (representing a surge of approximately 62.4% as compared to the closing price of HK\$0.085 on 21 March 2017). The Company published its 2016 annual results announcement after trading hours on 21 March 2017. 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. Accordingly, the 2016 annual results announcement did not lead to the surge of the closing Share price during the period from 21 March 2017 to the Last Trading Day. After publication of the 2016 annual results announcement and up to the Last Trading Day, the Company published a number of routine announcements and documents as discussed in paragraph headed “Historical Share price performance” above. The Directors were not aware of any reasons leading to the fluctuation of the Share prices during the period from 21 March 2017 to the Last Trading Day. Therefore, we consider that the surge of closing Share prices for the period from 21 March 2017 to the Last Trading Day may not be supported by the fundamentals of the Company. In these circumstances, we are of the view that a comparison of the Share Offer Price with longer term average market prices of 30, 60, 90 and 180 consecutive trading days immediately prior to the Last Trading Day is more relevant to the Independent Shareholders to assess the fairness and reasonableness of the Share Offer Price. The discounts of the Share Offer Price to the average closing prices for the 30, 60, 90 and 180 consecutive trading days immediately prior to the Last Trading Day have ranged from approximately 8.35% to 15.5%.

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(iv) Liquidity of the Shares

The following table sets out the trading volume of the Shares during the Review Period (including (i) the monthly total and average daily trading volume of the Shares for the respective month/period; (ii) the percentage of the average daily trading volume to the total issued Share capital as at the Last Trading Day (for the months from January 2016 to March 2017) and as at the Latest Practicable Date (for the months of April and May 2017 and for the period from 1 June 2017 to the Latest Practicable Date); and (iii) the percentage of the average daily trading volume to the public float as at the Last Trading Day (for the months from January 2016 to March 2017) and as at the Latest Practicable Date (for the months of April and May 2017 and for the period from 1 June 2017 to the Latest Practicable Date). It was disclosed in the Joint Announcement that 1,003,333,333 Converted Shares were allotted and issued to the Offeror on 12 April 2017, representing approximately 32.2% of the total issued Shares immediately prior to the allotment and issue of the Converted Shares. In view of the substantial number of the Converted Shares issued in April 2017 and in order to provide an objective analysis, we have adopted the total number of issued Shares as at the Last Trading Day for calculating the liquidity of the Shares for the months from January 2016 to March 2017.

	Monthly total trading volume <i>(Note 1)</i>	No. of trading days for the month/period	Average daily trading volume for the month/ period <i>(Note 2)</i>	% of average daily trading volume of the Shares to total issued Share capital as at the Last Trading Day or the Latest Practicable Date (as the case may be) <i>(Note 3)</i>	% of average daily trading volume of the Shares to the public float as at the Last Trading Day or the Latest Practicable Date (as the case may be) <i>(Note 4)</i>
2016					
January	66,357,000	20	3,317,850	0.11%	0.15%
February	27,750,001	18	1,541,667	0.05%	0.07%
March	140,840,900	21	6,706,710	0.21%	0.30%
April	92,723,000	20	4,636,150	0.15%	0.21%
May	48,192,500	21	2,294,881	0.07%	0.11%
June	74,238,000	21	3,535,143	0.11%	0.16%
July	30,048,000	20	1,502,400	0.05%	0.07%
August	45,469,000	22	2,066,773	0.07%	0.09%
September	47,812,500	21	2,276,786	0.07%	0.11%
October	78,442,500	19	4,128,553	0.13%	0.19%
November	27,995,000	22	1,272,500	0.04%	0.06%
December	20,746,000	20	1,037,300	0.03%	0.05%

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	Monthly total trading volume <i>(Note 1)</i>	No. of trading days for the month/period	Average daily trading volume for the month/ period <i>(Note 2)</i>	% of average daily trading volume of the Shares to total issued Share capital as at the Last Trading Day or the Latest Practicable Date (as the case may be) <i>(Note 3)</i>	% of average daily trading volume of the Shares to the public float as at the Last Trading Day or the Latest Practicable Date (as the case may be) <i>(Note 4)</i>
2017					
January	40,238,000	19	2,117,789	0.07%	0.10%
February	108,082,000	20	5,404,100	0.17%	0.24%
March	445,293,400	23	19,360,583	0.62%	0.87%
April	1,322,507,000	10	132,250,700	3.12%	5.97%
May	1,554,908,975	20	77,745,449	1.83%	3.34%
June (up to the Latest Practicable Date)	136,431,500	4	34,107,875	0.80%	1.46%

Notes:

1. Source: Bloomberg
2. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period, excluding any trading days on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.
3. Based on 3,120,035,049 Shares in issue as at the Last Trading Day for the months from January 2016 to March 2017 and based on 4,239,368,382 Shares in issue as at the Latest Practicable Date for the months of April and May 2017 and for the period from 1 June 2017 to the Latest Practicable Date.
4. Based on 2,213,405,169 Shares as at the Last Trading Day held by the public Shareholders for the months from January 2016 to March 2017 and based on 2,329,405,169 Shares as at the Latest Practicable Date held by the public Shareholders for the months of April and May 2017 and for the period from 1 June 2017 to the Latest Practicable Date.

As set out above, the average daily trading volume during the Review Period ranged from approximately 1.04 million Shares in December 2016 (representing approximately 0.03% of the total number of issued Share capital or approximately 0.05% of the total number of Shares held by the public Shareholders as at the Last Trading Day) to approximately 132.25 million Shares in April 2017 (representing approximately 3.12% of the total number of issued Share capital or approximately 5.97% of the total number of Shares held by the public Shareholders as at the Latest Practicable Date).

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Based on the table above, the liquidity of the Shares, in our view, was generally thin during the Review Period, except for the period after publication of the Joint Announcement. The high level of trading volume after the publication of the Joint Announcement is probably due to market reaction towards the change in control of the Company, the Offers and the Subscription. Such high level of trading volume may not be sustained. The Independent Shareholders, especially those with significant shareholdings in the Company, should note that if they wish to realise their investments in the Company, they might not be able to dispose of the Shares in the market without exerting a downward pressure on the market price of the Shares. The Share Offer consequently provides an assured exit to the Independent Shareholders to dispose of their Shares should they wish to do so.

(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, have adopted the price-to-sales (“P/S”) ratio for assessing fairness and reasonableness of the Share Offer Price.

For the purpose of assessing the fairness and reasonableness of the Share Offer Price, we have sought to compare the historical P/S ratio of the Group by reference to the market capitalisation of the Group implied by the Share Offer Price against those of the companies listed on the Stock Exchange with principal business 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 meaningful references for this purpose.

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We have identified a total of five companies (the “**Peer Companies**”) which form an exhaustive list based on the aforesaid criteria. Details of the analysis are as below.

Peer Companies	Stock code	Closing market capitalisation as at the Latest Practicable Date <i>(Note 1)</i> <i>HK\$’ million</i> <i>(approximate)</i>	Sales revenue as per the latest annual report <i>(Note 2)</i> <i>HK\$’ million</i> <i>(approximate)</i>	Historical P/S ratio <i>(Note 3)</i> <i>times</i> <i>(approximate)</i>
AGTech Holdings Limited (“ AGTech ”)	8279	14,757.1	251.5	58.68
China Lotsynergy Holdings Limited (“ China Lotsynergy ”)	1371	1,497.2	200.3	7.47
China Vanguard Group Limited (“ China Vanguard ”)	8156	2,731.4	34.7	78.81
MelcoLot Limited (“ MelcoLot ”)	8198	1,163.9	60.3	22.96
RexLot Holdings Limited (“ RexLot Holdings ”)	555	1,183.4	1,252.1	0.95
Mean (simple average)				33.04
Minimum				0.95
Maximum				78.81
The Company		347.6 <i>(Note 4)</i>	0.3	1,034.61 <i>(Note 5)</i>

Notes:

1. Source: Bloomberg
2. Figures are extracted from the latest annual reports of the Peer Companies available as at the date immediately prior to the Latest Practicable Date.
3. Historical P/S ratios of the Peer Companies are calculated based on their respective closing market capitalisation as at the Latest Practicable Date divided by their respective sales revenue as published in their respective latest annual reports.

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4. The market capitalisation of the Company is computed based on the Share Offer Price and the total number of Shares of 4,239,368,382 as at the Latest Practicable Date.
5. The implied P/S ratio of the Company is calculated based on the market capitalisation of the Company represented by the Share Offer Price of HK\$0.082 and the sales revenue of approximately HK\$336,000 of the Company as set out above.

As shown in the table set out above, the implied P/S ratio of the Company represented by the Share Offer Price is substantially higher than the historical P/S ratios of the Peer Companies. This is because the operation size of the Group is minimal as compared to the Peer Companies (in terms of the annual revenue) with revenue of approximately HK\$336,000 for the year ended 31 December 2016. We note from the financial summary of the 2016 Annual Report that the highest revenue of the Group for the past 5 financial years (i.e. 2012 to 2016) was approximately HK\$3.5 million in 2014. The implied P/S ratio of the Company represented by the Share Offer Price and the revenue in 2014 would be approximately 98.4 times which is much higher than the mean of historical P/S ratios of the Peer Companies. Accordingly, the comparison of implied P/S ratio of the Company against the historical P/S ratios of the Peer Companies may not be meaningful and is included herein for the Shareholders' information purpose only.

7. Maintaining the listing status of the Company

The Offeror intends the Company to remain listed on the Stock Exchange after the close of the Offers. The Stock Exchange has stated that, if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public, or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Shares; or
- (b) there are insufficient Shares in public hands to maintain an orderly market,

then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

It is further stated in "Letter from BOCOM" contained in the Composite Document that the Offeror has undertaken, and the new Directors will jointly and severally undertake, to the Stock Exchange, that if the public float of the Company falls below 25% following the close of the Offers, they will take appropriate steps to ensure that a sufficient public float exists for the Shares, being that at least 25% of the Shares will be held by the public.

8. Option Offer

As at the Latest Practicable Date, the Company has 157,700,000 outstanding Share Options conferring rights on the Optionholders to subscribe for Shares at exercise prices in a range of between HK\$0.27 and HK\$2.030 per Share.

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Since all outstanding Share Options are with exercise prices above the Share Offer Price, the Option Offer is a nominal amount of HK\$0.0001 per Share Option. This is consistent with the normal practice adopted in Hong Kong in such circumstance. On the basis that (i) the Group had been loss-making for the past five years and for the three months ended 31 March 2017; (ii) it is normal practice in Hong Kong to set the Option Offer at a nominal amount for outstanding Share Options with exercise prices exceeding the Share Offer Price; and (iii) the Share Offer Price is considered by us to be fair and reasonable as discussed above, we consider the Option Offer to be fair and reasonable so far as the Optionholders are concerned.

Optionholders should note that as stated in the “Letter from the BOCOM” contained in the Composite Document, if the Share Offer becomes or is declared to be unconditional, all Options (to the extent not exercised) will lapse automatically upon the close of the Share Offer. Optionholders are advised to monitor the situation in this regard.

Closing price of the Shares has substantially increased and consistently closed above the Share Offer Price following the publication of the Joint Announcement. Optionholders are reminded to closely monitor the market price of the Shares during the Offer Period (i.e. period for acceptance of the Share Offer). Optionholders may consider exercising their Share Options into Shares and selling such Shares in the open market should the market price be above the exercise prices of the Share Options, or Optionholders may also consider accepting the Option Offer if the market price of the Shares falls below the exercise prices of the Share Options.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular,

- (i) the financial result of the Group was unsatisfactory as the Group recorded losses attributable to the Shareholders over the past five financial years up to and including the year of 2016 as well as for the three months ended 31 March 2017;
- (ii) 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);
- (iii) the net liabilities attributable to the Shareholders as at 31 December 2016;
- (iv) the short term challenging prospects of the Group as discussed under the paragraph headed “Prospects of the Group” above;
- (v) notwithstanding that the Share Offer Price represents a discount of approximately 40.6% to the closing Share price of HK\$0.138 per Share on the Last Trading Day as discussed under the paragraph headed “Recent and longer term Share price comparison” above, the comparison of the Share Offer Price with longer term average market prices of 30, 60, 90 and 180 consecutive trading days immediately prior to the Last Trading Day is more relevant to the Independent Shareholders to assess the fairness and reasonableness of the Share Offer Price and the discounts of

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the Share Offer Price to the average closing prices for the 30, 60, 90 and 180 consecutive trading days immediately prior to the Last Trading Day have ranged from approximately 8.35% to 15.5%;

- (vi) the Share Offer Price representing a premium of HK\$0.0821 over the audited consolidated net liability attributable to the Shareholders of approximately HK\$0.0001 per Share as at 31 December 2016, being appropriate in the context of the business nature of the Group;
- (vii) the liquidity of the Shares was generally thin prior to publication of the Joint Announcement and those Independent Shareholders with significant shareholdings in the Company may find it difficult to dispose of their Shares in the market without exerting a downward pressure on the market price of the Shares. The Share Offer provides an assured opportunity for the Independent Shareholders to realise their investment in the Company should they wish to do so; and
- (viii) no dividend has been declared and paid by the Company for the past five financial years. Those Independent Shareholders who seek for dividend return for their investment may consider accepting the Share Offer and invest proceeds receivable therefrom in other securities with better dividend yield than the Shares,

we consider that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Share Offer.

In addition, since the exercise prices of all outstanding Share Options are higher than the Share Offer Price, we consider that the cancellation price of HK\$0.0001 for each of the Share Option under the Option Offer is fair and reasonable so far as the Optionholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Optionholders to accept the Option Offer. Optionholders should note that as stated in “Letter from BOCOM” contained in the Composite Document, all unexercised Share Options will lapse automatically upon close of the Share Offer if the Share Offer becomes or is declared to be unconditional.

We would like to draw the attention of the Independent Shareholders and Optionholders that the closing price of the Shares had surged since publication of the Joint Announcement and consistently exceeded (i) the Share Offer Price; and (ii) exercise prices for some of the outstanding Share Options. The Shares price is closed at HK\$0.57 as at the Latest Practicable Date. The Share Offer Price represents a discount of approximately 85.61% to the closing Share price of HK\$0.57 as at the Latest Practicable Date. Independent Shareholders and Optionholders who wish to realise part or all their investments in the Company are reminded to carefully and closely monitor the market price of the Shares during Offer Period. Moreover, Independent Shareholders and the Optionholders who wish to realise part or all their investments in the Company may consider selling their Shares (in case of Optionholders, upon exercise of their Share Options) in the open market instead of accepting the Offers if the market price of the Shares exceeds the Share Offer Price and the exercise prices of the Share Options (in case of Optionholders) during the Offer Period and the sales proceeds, net of transaction costs, from disposal of the Shares exceed the amount receivable under the Offers. Independent Shareholders and Optionholders should also monitor the overall trading volume of

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the Shares, as they may or may not be able to dispose of their Shares (in case of Optionholders, upon exercise of their Share Options) in the market at prices higher than the Share Offer Price.

Independent Shareholders should also be aware that, if the number of Shares held by the public, as defined in the GEM Listing Rules, comprises less than 25% of the issued Shares of the Company at the close of the Offers, trading in the Shares may be suspended. Should this happen, the Independent Shareholders who choose not to accept the Share Offer will not be able to sell their Shares on the Stock Exchange until trading in the Shares resumes.

Independent Shareholders and Optionholders are strongly recommended to read carefully the terms and procedures for accepting the Share Offer and the Option Offer as set out in "Letter from BOCOM", Appendix I to the Composite Document and the accompanying Forms of Acceptance.

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 has over ten years of experience in corporate finance industry.

1. PROCEDURES FOR ACCEPTANCE

To accept any of the Offers, you should complete and sign the Form(s) of Acceptance in accordance with the instructions printed thereon, which instructions forms part of the terms of the relevant Offers.

1.1 The Share Offer

- (a) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Share Offer in respect of your Shares (whether in full or in part), you must send the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong marked "China Netcom Technology holdings Limited — Share Offer" on the envelope as soon as possible but in any event so as to reach the Registrar by not later than 4:00 p.m. on the Offer Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your Shares (whether in full or in part), you must either:
 - (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares with the nominee company, or other nominee, and with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar; or

- (iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
 - (iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, give your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.
- (c) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an irrevocable authority to the Offeror and/or BOCOM and/or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar on your behalf and to authorise and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions of the Share Offer, as if it was/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance.
- (d) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer in respect of your Shares, the **WHITE** Form of Share Offer Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares or that it is/they are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares should be forwarded to the Registrar as soon as possible thereafter. If you have lost the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your

Shares, you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given should be provided to the Registrar.

- (e) Acceptance of the Share Offer will be treated as valid only if the completed and signed **WHITE** Form of Share Offer Acceptance is received by the Registrar by not later than 4:00 p.m. on the Offer Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code and the Registrar has recorded that the acceptance and any relevant documents required by Note 1 to Rule 30.2 of the Takeovers Code have been so received, and is:
 - (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares and, if that/those share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or
 - (ii) from a registered Independent Shareholder or his/her personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or
 - (iii) certified by the Registrar or the Stock Exchange.
- (f) Seller's ad valorem stamp duty payable by the Independent Shareholders who accept the Share Offer and calculated at a rate of 0.1% of the market value of the Offer Shares or consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer, whichever is the higher, will be deducted from the amount payable by the Offeror to the relevant Independent Shareholders on the acceptance of the Share Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of the Independent Shareholders who accept the Share Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptance of the Share Offer and the transfer of the Offer Shares.
- (g) No acknowledgement of receipt of any **WHITE** Form of Share Offer Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares will be given.

1.2 The Option Offer

- (a) If you are an Optionholder and you wish to accept the Option Offer in respect of your Share Options (whether in full or in part), you must send the duly completed and signed **YELLOW** Form of Option Offer Acceptance together with the relevant certificate(s) or other documents (if any) evidencing the grant of the Share Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) for the aggregate principal amount of Share Options which you hold that you wish to tender to the Option Offer to the company secretary of the Company at Unit 1006, 10th Floor, Tower One, Lippo Centre, 89 Queensway Hong Kong, marked “China Netcom Technology Holdings Limited — Option Offer” on the envelope as soon as possible but in any event so as to reach the company secretary of the Company by not later than 4:00 p.m. on the Offer Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.
- (b) No stamp duty will be deducted from the amount paid or payable to the Optionholder(s) who accept(s) the Option Offer.
- (c) No acknowledgement of receipt of any **YELLOW** Form of Option Offer Acceptance and/or the certificate(s) or other documents (if any) evidencing the grant of the Share Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Share Options will be given.

2. SETTLEMENT UNDER THE OFFERS

2.1 The Share Offer

Provided that a valid **WHITE** Form of Share Offer Acceptance and the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the relevant Shares as required by Note 1 to Rule 30.2 of the Takeovers Code are complete and in good order and in all respects and have been received by the Registrar by not later than 4:00 p.m. on the Offer Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code, a cheque for the amount due to each of the Independent Shareholders who accept the Share Offer less seller’s ad valorem stamp duty in respect of the Offer Shares tendered by him/her under the Share Offer will be despatched to such Independent Shareholder by ordinary post at his/her own risk as soon as possible but in any event within seven (7) business days (as defined in the Takeovers Code) of (i) the date on which the duly completed acceptances of the Share Offer and the relevant documents of title in respect of such acceptances are received by the Registrar to render each such acceptance complete and valid or (ii) the date on which the Offers become or are declared unconditional in all respects, whichever is the later.

2.2 The Option Offer

Provided that a valid **YELLOW** Form of Option Offer Acceptance and the relevant option certificate(s) or other documents (if any) evidencing the grant of the Options and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the relevant Share Options are complete and in good order and in all respects and have been received by the company secretary of the Company by not later than 4:00 p.m. on the Offer Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code, a cheque for the amount due to each of the Optionholders who accept the Option Offer in respect of the Options tendered by him/her under the Option Offer will be despatched to such Optionholder by ordinary post at his/her own risk as soon as possible but in any event within seven (7) business days (as defined in the Takeovers Code) of (i) the date on which the duly completed acceptances of the Option Offer and the relevant documents of title in respect of such acceptances are received by the company secretary of the Company to render each such acceptance complete and valid or (ii) the date on which the Offers become or are declared unconditional in all respects, whichever is the later.

Settlement of the consideration to which any Independent Shareholder or Optionholder is entitled under the Share Offer or the Option Offer, as the case may be, will be implemented in full in accordance with its terms (save in respect of the payment of the seller's ad valorem stamp duty in respect of the Share Offer) without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Independent Shareholder or Optionholder.

3. ACCEPTANCE PERIOD AND REVISIONS

- (a) Unless the Offers have previously been revised or extended with the consent of the Executive, to be valid, the **WHITE** Form of Share Offer Acceptance must be received by the Registrar and the **YELLOW** Form of Option Offer Acceptance must be received by the company secretary of the Company, in each case, in accordance with the instructions printed thereon by 4:00 p.m. on the Offer Closing Date.
- (b) If the Offers are extended, the Offeror will issue an announcement in relation to any extension of the Offers, which announcement will state either the next Offer Closing Date or, a statement that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given before the Offers are closed to those Independent Shareholders and Optionholders who have not accepted the relevant Offers before the Offers are closed. If, in the course of the Offers, the Offeror revises the terms of the Offers, all Independent Shareholders and Optionholders, whether or not they have already accepted the Offers, will benefit under the revised terms. A revised offer must be kept open for at least 14 days following the date on which the revised offer document is posted.
- (c) If the Offer Closing Date is extended, any reference in this Composite Document and in the Forms of Acceptance to the Offer Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent closing date.

4. NOMINEE REGISTRATION

To ensure equality of treatment of all Independent Shareholders, those Independent Shareholders who hold Shares as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owner separately. It is essential for the beneficial owners of the Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Share Offer.

5. ANNOUNCEMENTS

- (a) By 6:00 p.m. on the Offer Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the expiry, revision and extension of the Offers. The Offeror must publish an announcement in accordance with the Takeovers Code on the Stock Exchange's website by 7:00 p.m. on the Offer Closing Date stating the results of the Offers and whether the Offers have been revised, extended or expired. The announcement will state the following:
- (i) the total number of Offer Shares for which acceptances of the Share Offer have been received;
 - (ii) the total number of Share Options for which acceptances of the Option Offer have been received;
 - (iii) the total number of Shares and Share Options held, controlled or directed by the Offeror and parties acting in concert with it before the Offer Period; and
 - (iv) the total number of Shares and Share Options acquired or agreed to be acquired during the Offer Period by the Offeror and parties acting in concert with it.

The announcement must also include details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror or any person acting in concert with it has borrowed or lent (save for any borrowed Shares which have been either on lent or sold) and specify the percentages of the issued share capital of the Company and the percentages of voting rights of the Company represented by these numbers.

- (b) In computing the total number of Shares and Share Options represented by acceptances, only valid acceptances that are completed and in good order, and which have been received by the Registrar (in the case of the Share Offer) or the company secretary of the Company (in case of the Option Offer), no later than 4:00 p.m. on the Offer Closing Date, being the latest time and date for acceptance of the Offers, shall be included.
- (c) As required under the Takeovers Code, all announcements in relation to the Offers will be made in accordance with the requirements of the Takeovers Code and the GEM Listing Rules.

6. RIGHT OF WITHDRAWAL

The Share Offer is conditional upon the fulfilment of the Condition, and the Option Offer is subject to, and conditional upon, the Share Offer becoming or being declared unconditional in all respects. Acceptance of the Offers tendered by the Independent Shareholders and the Optionholders, shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the following paragraph or in compliance with Rule 17 of the Takeovers Code, which provides that an acceptor of the Offers shall be entitled to withdraw his/her/its consent within 21 days from the Offer Closing Date (being, 30 June 2017) and if the Offers have not by then become unconditional as to acceptances. An acceptor of the Offers may withdraw his/her/its acceptance by lodging a notice in writing signed by the acceptor (or his/her/its agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Registrar and/or company secretary of the Company.

Furthermore, in the circumstances set out in Rule 19.2 of the Takeovers Code (which is to the effect that if the Offeror is unable to comply with any of the requirements of making announcements relating to the Offers as described under the paragraph headed “5. Announcement” above), the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met.

Save as aforesaid, acceptances of the Offers shall be irrevocable and not capable of being withdrawn.

7. OVERSEAS HOLDERS

The making of the Offers to the Overseas Holders may be affected by the laws of the relevant jurisdictions. The Overseas Holders should observe any applicable legal or regulatory requirements. The Overseas Holders should obtain appropriate legal advice regarding the implications of the Offers in the relevant jurisdictions with a view to observing any applicable legal or regulatory requirements. It is the responsibility of the Overseas Holders who wish to accept the Offers to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection therewith, including but not limited to the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or regulatory or legal requirements. The Overseas Holders will also be fully responsible for the payment of any transfer or other taxes and duties by the accepting Overseas Holders payable in respect of all relevant jurisdictions. Acceptance of the Offers by the Overseas Holders will constitute a representation and warranty by such person that the local laws and requirements have been complied with and such person is permitted under all applicable laws to receive and accept the Offers, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws. For the avoidance of doubt, neither HKSCC nor HKSCC Nominees Limited will give, or be subject to, any of the above representation and warranty.

8. TAX IMPLICATIONS

Independent Shareholders and the Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their acceptance of the Offers. It is emphasised that none of the Offeror and parties acting in concert with it, the Company and its ultimate beneficial owners and parties acting in concert with any of them, BOCOM, Amasse Capital, the Registrar or any of their respective directors or professional advisers or any other parties involved in the Offers or any of their respective agents is in a position to advise the Independent Shareholders and the Optionholders on their individual tax implications nor accepts responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance of the Offers.

9. GENERAL

- (i) All communications, notices, Form(s) of Acceptance, share certificates, certificate(s) of Options, transfer receipts (as the case may be), other documents of title and/or any satisfactory indemnity or indemnities required in respect thereof and remittances to settle the consideration payable under the Offers to be delivered by or sent to or from the Independent Shareholders and/or the Optionholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of the Company, the Offeror, BOCOM, Amasse Capital and any of their respective agents nor the Registrar or the company secretary of the Company or other parties involved in the Offers accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (ii) The provisions set out in the Form(s) of Acceptance form part of the terms and conditions of the Offers.
- (iii) The accidental omission to despatch this Composite Document and/or Form(s) of Acceptance or any of them to any person to whom the Offers are made will not invalidate the Offers in any way.
- (iv) The Offers and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (v) Due execution of the Form(s) of Acceptance will constitute an authority to the Offeror, BOCOM, or such person or persons as the Offeror may direct, to complete and execute any document on behalf of the person or persons accepting the Offers and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shares in respect of which such person or persons has accepted the Offers.
- (vi) Acceptance of the Offers by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares are sold to the Offeror free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attached to them as at the date of this Composite Document or subsequently becoming attached to them,

including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of despatch of this Composite Document. For the avoidance of doubt, neither HKSCC nor HKSCC Nominees Limited will give, or be subject to, any of the above representation and warranty.

- (vii) Reference to the Offers in this Composite Document and in the Form(s) of Acceptance shall include any extension or revision thereof.
- (viii) In making their decision, the Independent Shareholders and Optionholders must rely on their own examination of the Offeror, the Group and the terms of the Offers, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Form(s) of Acceptance, shall not be construed as any legal or business advice on the part of the Offeror, its beneficial owner, the Company and BOCOM. The Independent Shareholders and Optionholders should consult their own professional advisers for professional advice.
- (ix) The English texts of this Composite Document and the Form(s) of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation in case of inconsistency.

1. THREE-YEAR FINANCIAL SUMMARY

Set out below is a summary of the financial results of the Group for each of the three years ended 31 December 2016 as extracted from the published annual reports of the Group.

	Year ended 31 December		
	2016	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)
Revenue	336	964	3,533
Gross loss	(313)	(171)	(363)
Loss before tax	(49,314)	(67,481)	(429,544)
Loss attributable to the owners of the Company	(37,043)	(54,679)	(186,051)

The following financial information has been extracted from the published audited reports of the Group for each of the two years ended 31 December 2015 and 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Revenue	336	964	3,533
Cost of sales	<u>(649)</u>	<u>(1,135)</u>	<u>(3,896)</u>
Gross loss	(313)	(171)	(363)
Other income	1,799	1,120	2,462
Administrative expenses	(29,364)	(35,524)	(29,731)
Impairment loss of concession rights	(8,460)	(4,500)	(374,217)
Gain/(loss) on early redemption of convertible bonds	656	(1,655)	(3,235)
Finance costs	(5,650)	(16,394)	(10,772)
Other operating expenses	<u>(7,982)</u>	<u>(10,357)</u>	<u>(13,688)</u>
Loss before tax	(49,314)	(67,481)	(429,544)
Income tax credit	<u>6,170</u>	<u>7,155</u>	<u>99,463</u>
Loss for the year	<u>(43,144)</u>	<u>(60,326)</u>	<u>(330,081)</u>
Other comprehensive expense			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations	<u>(4,853)</u>	<u>(4,961)</u>	<u>(2,975)</u>
Other comprehensive expense for the year	<u>(4,853)</u>	<u>(4,961)</u>	<u>(2,975)</u>
Total comprehensive expense for the year	<u>(47,997)</u>	<u>(65,287)</u>	<u>(333,056)</u>
Loss attributable to:			
Owners of the Company	(37,043)	(54,679)	(186,051)
Non-controlling interests	<u>(6,101)</u>	<u>(5,647)</u>	<u>(144,030)</u>
	<u>(43,144)</u>	<u>(60,326)</u>	<u>(330,081)</u>
Total comprehensive expense attributable to:			
Owners of the Company	(39,607)	(57,306)	(187,575)
Non-controlling interests	<u>(8,390)</u>	<u>(7,981)</u>	<u>(145,481)</u>
	<u>(47,997)</u>	<u>(65,287)</u>	<u>(333,056)</u>
Loss per share			
Basic and diluted (HK cents per share)	<u>(1.19)</u>	<u>(1.99)</u>	<u>(8.54)</u>

For the financial year ended 31 December 2015, the Group recorded a provision for impairment loss on deposits and other receivables of HK\$2.0 million. For further details of the impairment loss on deposits and other receivables, please refer to notes 10 and 16 to the consolidated financial statements set out in the annual report of the Company for the financial year ended 31 December 2015.

Save as disclosed above, there were no extraordinary items or exceptional items in respect of the consolidated income statement of the Group for each of the three years ended 31 December 2016.

No qualified opinion had been given in the auditor's reports issued by the auditors of the Company in respect of the three years ended 31 December 2016.

2. AUDITED FINANCIAL INFORMATION

The following are the audited financial statements of the Group for the year ended 31 December 2016 as extracted from the annual report of the Company for the year ended 31 December 2016 (the "**2016 Annual Report**"). Capitalised terms used in this section shall have the same meanings as those defined in the 2016 Annual Report. Reference to notes numbers therein are to the notes numbers in the 2016 Annual Report.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue	5	336	964
Cost of sales		<u>(649)</u>	<u>(1,135)</u>
Gross loss		(313)	(171)
Other income	7	1,799	1,120
Administrative expenses		(29,364)	(35,524)
Impairment loss of concession rights	15	(8,460)	(4,500)
Gain/(loss) on early redemption of convertible bonds		656	(1,655)
Finance costs	8	(5,650)	(16,394)
Other operating expenses		<u>(7,982)</u>	<u>(10,357)</u>
Loss before tax		(49,314)	(67,481)
Income tax credit	9	<u>6,170</u>	<u>7,155</u>
Loss for the year	10	<u>(43,144)</u>	<u>(60,326)</u>
Other comprehensive expense			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		<u>(4,853)</u>	<u>(4,961)</u>
Other comprehensive expense for the year		<u>(4,853)</u>	<u>(4,961)</u>
Total comprehensive expense for the year		<u>(47,997)</u>	<u>(65,287)</u>
Loss attributable to:			
Owners of the Company		(37,043)	(54,679)
Non-controlling interests		<u>(6,101)</u>	<u>(5,647)</u>
		<u>(43,144)</u>	<u>(60,326)</u>
Total comprehensive expense attributable to:			
Owners of the Company		(39,607)	(57,306)
Non-controlling interests		<u>(8,390)</u>	<u>(7,981)</u>
		<u>(47,997)</u>	<u>(65,287)</u>
Loss per share			
Basic and diluted (HK cents per share)	<i>13</i>	<u>(1.19)</u>	<u>(1.99)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>14</i>	2,436	1,215
Club debenture		115	115
Concession rights	<i>15</i>	<u>60,580</u>	<u>81,526</u>
		<u>63,131</u>	<u>82,856</u>
Current assets			
Inventories	<i>16</i>	911	—
Prepayments, deposits and other receivables	<i>17</i>	2,516	9,770
Amounts due from non-controlling interests of subsidiaries	<i>18</i>	1,497	2,227
Pledged bank deposit	<i>19</i>	216	215
Cash and bank balances	<i>19</i>	<u>23,817</u>	<u>78,077</u>
		<u>28,957</u>	<u>90,289</u>
Current liabilities			
Trade and other payables	<i>20</i>	7,776	7,884
Receipt in advance		126	—
Amount due to a director	<i>21</i>	—	136
Amount due to a non-controlling interest of a subsidiary	<i>21</i>	472	215
Current tax liabilities		<u>—</u>	<u>1</u>
		<u>8,374</u>	<u>8,236</u>
Net current assets		<u>20,583</u>	<u>82,053</u>
Total assets less current liabilities		<u>83,714</u>	<u>164,909</u>
Non-current liabilities			
Convertible bonds	<i>22</i>	43,923	59,633
Deferred tax liabilities	<i>23</i>	<u>19,120</u>	<u>27,719</u>
		<u>63,043</u>	<u>87,352</u>
Net assets		<u><u>20,671</u></u>	<u><u>77,557</u></u>

		2016	2015
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital and reserves			
Share capital — ordinary shares	24	15,600	15,600
Share capital — non-redeemable convertible preferred shares	25	5,017	5,017
Reserves		<u>(20,869)</u>	<u>27,627</u>
Equity attributable to owners of the Company		(252)	48,244
Non-controlling interests		<u>20,923</u>	<u>29,313</u>
Total equity		<u><u>20,671</u></u>	<u><u>77,557</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company												Total
	Share capital — ordinary shares	Share redeemable capital — convertible preferred shares	Share premium account	Warrants reserve	Capital redemption reserve	Convertible bonds equity reserve	Share options reserve	Foreign currency translation reserve	Other reserve	Accumulated losses	Subtotal	Attributable to non- controlling interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note i)	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note ii)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2015	11,085	7,317	3,286,855	1,740	1	54,771	21,718	120,883	(49)	(3,503,218)	1,103	35,294	36,397
Loss for the year	—	—	—	—	—	—	—	—	—	(54,679)	(54,679)	(5,647)	(60,326)
Other comprehensive expense for the year	—	—	—	—	—	—	—	(2,627)	—	—	(2,627)	(2,334)	(4,961)
Total comprehensive expense for the year	—	—	—	—	—	—	—	(2,627)	—	(54,679)	(57,306)	(7,981)	(65,287)
Recognition of equity-settled share-based payments	—	—	—	—	—	—	11,004	—	—	—	11,004	—	11,004
Conversion of non-redeemable convertible preferred shares	2,300	(2,300)	—	—	—	—	—	—	—	—	—	—	—
Issue of new ordinary shares	2,215	—	63,349	—	—	—	—	—	—	—	65,564	—	65,564
Transaction costs attributable to issue of new ordinary shares	—	—	(2,201)	—	—	—	—	—	—	—	(2,201)	—	(2,201)
Redemption of convertible bonds	—	—	—	—	—	(8,261)	—	—	—	8,231	(30)	—	(30)
Extension of convertible bonds upon maturity	—	—	—	—	—	(9,619)	—	—	—	46,885	37,266	—	37,266
Deferred tax relating to convertible bonds	—	—	—	—	—	(7,156)	—	—	—	—	(7,156)	—	(7,156)
Capital contribution by a non- controlling interest of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	2,000	2,000
Release of reserve upon lapse of warrants	—	—	—	(1,740)	—	—	—	—	—	1,740	—	—	—
Balance at 31 December 2015	15,600	5,017	3,348,003	—	1	29,735	32,722	118,256	(49)	(3,501,041)	48,244	29,313	77,557

Attributable to owners of the Company

	Share capital — non- redeemable	Share capital — convertible	Share premium account	Capital redemption reserve	Convertible bonds equity reserve	Share options reserve	Foreign currency translation reserve	Other reserve	Accumulated losses	Subtotal	Attributable to non- controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Note i)				(Note ii)				
Balance at 1 January 2016	15,600	5,017	3,348,003	1	29,735	32,722	118,256	(49)	(3,501,041)	48,244	29,313	77,557
Loss for the year	—	—	—	—	—	—	—	—	(37,043)	(37,043)	(6,101)	(43,144)
Other comprehensive expense for the year	—	—	—	—	—	—	(2,564)	—	—	(2,564)	(2,289)	(4,853)
Total comprehensive expense for the year	—	—	—	—	—	—	(2,564)	—	(37,043)	(39,607)	(8,390)	(47,997)
Recognition of equity- settled share-based payments	—	—	—	—	—	4,061	—	—	—	4,061	—	4,061
Redemption of convertible bonds	—	—	—	—	(15,824)	—	—	—	444	(15,380)	—	(15,380)
Deferred tax relating to convertible bonds	—	—	—	—	2,430	—	—	—	—	2,430	—	2,430
Balance at 31 December 2016	15,600	5,017	3,348,003	1	16,341	36,783	115,692	(49)	(3,537,640)	(252)	20,923	20,671

Notes:

- (i) The capital redemption reserve represents the nominal value of the share capital of the Company repurchased and cancelled.
- (ii) Other reserve represents the difference between the consideration paid for the additional interest in the subsidiary and the non-controlling interest's share of the assets and liabilities reflected in the consolidated statement of financial position at the date of the acquisition of the non-controlling interests.

CONSOLIDATED STATEMENT OF CASH FLOWS*For the year ended 31 December 2016*

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from operating activities		
Loss for the year	(43,144)	(60,326)
Adjustments for:		
Income tax credit recognised in profit or loss	(6,170)	(7,155)
Finance costs recognised in profit or loss	5,650	16,394
Interest income	(31)	(990)
Loss on disposal of property, plant and equipment	65	—
(Gain)/loss on early redemption of convertible bonds	(656)	1,655
Depreciation of property, plant and equipment	1,100	613
Amortisation of concession rights	7,470	8,357
Impairment loss of concession rights	8,460	4,500
Impairment loss on deposits and other receivables	—	2,000
Expense recognised in respect of equity-settled share-based payments	<u>4,061</u>	<u>11,004</u>
	(23,195)	(23,948)
Movements in working capital		
Increase in inventories	(911)	—
Decrease/(increase) in prepayments, deposits and other receivables	7,254	(7,584)
Decrease/(increase) in amounts due from non-controlling interests of subsidiaries	730	(2,000)
Decrease in trade and other payables	(108)	(1,777)
Increase in receipt in advance	126	—
(Decrease)/increase in amount due to a director	(136)	136
Increase in amount due to a non-controlling interest of a subsidiary	<u>257</u>	<u>—</u>
Net cash used in operating activities	<u>(15,983)</u>	<u>(35,173)</u>
Cash flows from investing activities		
Interest received	31	1,048
Increase in pledged bank deposit	(1)	(1)
Payment for property, plant and equipment	(2,524)	(9)
Proceed from disposal of property, plant and equipment	<u>1</u>	<u>—</u>
Net cash (used in)/from investing activities	<u>(2,493)</u>	<u>1,038</u>

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cash flows from financing activities		
Capital contribution by a non-controlling interest of a subsidiary	—	2,000
Repayment of convertible bonds	(36,084)	(15,000)
Proceeds from issue of ordinary shares under share placing	—	65,564
Payment for transaction costs attributable to issue of new ordinary shares	—	(2,201)
	<u>—</u>	<u>(2,201)</u>
Net cash (used in)/from financing activities	<u>(36,084)</u>	<u>50,363</u>
Net (decrease)/increase in cash and cash equivalents	(54,560)	16,228
Cash and cash equivalents at the beginning of year	78,077	61,790
Effect of foreign exchange rate changes, net	<u>300</u>	<u>59</u>
Cash and cash equivalents at the end of year	<u><u>23,817</u></u>	<u><u>78,077</u></u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<u><u>23,817</u></u>	<u><u>78,077</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION

China Netcom Technology Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands and its shares are listed on the Growth Enterprise Market (“**GEM**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The addresses of the registered office and principal place of business in Hong Kong of the Company are disclosed in the corporate information section of the annual report.

During the year ended 31 December 2016, the Company and its subsidiaries (collectively referred to as the “**Group**”) were involved in the provision of lottery system management service and operation of lottery sales halls services in the People’s Republic of China (excluding Hong Kong) (the “**PRC**”).

The consolidated financial statements are presented in Hong Kong dollars (HK\$), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) for the first time in the current year:

HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

The application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and Amendments to HKFRSs in Issue but Not Yet Effective

The Group has not early applied the following new and revised standards and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ²
Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹

¹ Effective for annual periods beginning on or after 1 January 2017.

² Effective for annual periods beginning on or after 1 January 2018.

³ Effective for annual periods beginning on or after 1 January 2019.

⁴ Effective for annual periods beginning on or after a date to be determined.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected and the amounts of revenue recognised are subject to variable consideration constraints, and more disclosures relating to revenue

is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 *Property, Plant and Equipment*, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of HKFRS 16. The directors of the Company are in the process of assessing their impact on the consolidated financial statements of these requirements. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

The directors of the Company do not anticipate that the application of other new and amendments to HKFRSs will have a material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“**GEM Listing Rules**”) and by the Hong Kong Companies Ordinance (“**CO**”).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's Ownership Interests in Existing Subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) ("CGU(s)") that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

Investments in Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity

method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from provision of management, marketing and operating services for lottery system and lottery halls is recognised when the services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement Benefit Costs

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Pursuant to the relevant regulations of the government of the PRC, subsidiaries of the Company operating in the PRC participate in a local municipal government retirement benefits scheme (the “**PRC Scheme**”), whereby the subsidiaries are required to make contributions, as calculated under the rules specified by the relevant PRC local government authorities, to the PRC Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries. The only obligation of the Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme mentioned above. Contributions under the PRC Scheme are charged to the consolidated statement of profit or loss and other comprehensive income as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

Share-Based Payment Arrangements

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Share options granted to suppliers/consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “loss before tax” as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, Plant and Equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method as follows:

Furniture, fixtures and fittings	3–5 years
Computer and office equipment	3–5 years
Leasehold improvements	Over the shorter of term of lease or 3 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible Assets***Intangible assets acquired separately***

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment On Tangible And Intangible Assets Other Than Goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Financial Instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" ("FVTPL"), "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses of the financial assets.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading, or (ii) it is designated as at FVTPL, or (iii) contingent consideration that may be received by an acquirer as part of a business combination to which HKFRS 3 applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be received by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables; (b) held-to-maturity investments; or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method are recognised in profit or loss. Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including financial assets included in prepayments, deposits and other receivables, amounts due from non-controlling interests of subsidiaries, pledged bank deposit and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

*Financial liabilities and equity instruments**Classification as debt or equity*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses of the financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL, or (iii) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Financial liabilities at amortised cost

Financial liabilities (including financial liabilities included in trade and other payables, amount due to a director, amount due to a non-controlling interest of a subsidiary and convertible bonds) are subsequently measured at amortised cost using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related Parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control of the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of concession rights

The carrying amount of concession rights is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of these assets, or, where appropriate, the CGU(s) to which they belong, is calculated as the higher of its fair value less costs of disposal and value in use. Estimating the value in use requires the Group to estimate the expected future cash flows from the CGU(s) and to choose a suitable discount rate in order to calculate the present value of those cash flows (Note 15).

As at 31 December 2016, the carrying amount of concession rights related to lottery business is approximately HK\$60,580,000 (2015: HK\$81,526,000), after deducting the accumulated amortisation and impairment of approximately HK\$2,193,518,000 (2015: HK\$2,330,455,000) as detailed in note 15.

Significant estimation is required in determining the future cash flows expected to arise from the lottery business. The directors are of the view that there is great potential for its lottery business as there are not many companies providing such similar service. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Sale of lottery equipment	72	44
Provision of management, marketing, and operating services for lottery system and lottery halls	<u>264</u>	<u>920</u>
	<u><u>336</u></u>	<u><u>964</u></u>

6. SEGMENT INFORMATION

The Group's operating segments are determined based on information reported to the board of directors of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and performance assessment.

The CODM reviews the Group's internal reporting, assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of lottery business — development of computer software, hardware and application system, sale of self-developed technology or results, provision of relevant technical consultancy services in the PRC and development and provision of operation system sector of the PRC lottery market. Therefore, the CODM considers there is only one operating segment under the requirements of HKFRS 8 *Operating Segments*. In this regard, no segment information is presented.

Additional disclosure in relation to segment information is not presented as the CODM assesses the performance of the sole operating segment identified based on the consistent information as disclosed in the consolidated financial statements.

The total segment result is equivalent to total comprehensive expense for the year as shown in the consolidated statement of profit or loss and other comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statement of financial position.

Geographical Information

The Group operates in two principal geographical areas — the PRC and Hong Kong.

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

	Revenue from external customers		Non-current assets	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
PRC	336	964	62,999	82,731
Hong Kong	—	—	132	125
	<u>336</u>	<u>964</u>	<u>63,131</u>	<u>82,856</u>

Information About Major Customers

For the year ended 31 December 2016, there were two customers with revenue of approximately HK\$72,000 and HK\$251,000 respectively which accounted for more than 10% of the total revenue of the Group.

For the year ended 31 December 2015, there were two customers with revenue of approximately HK\$125,000 and HK\$795,000 respectively which accounted for more than 10% of the total revenue of the Group.

7. OTHER INCOME

	2016 HK\$'000	2015 HK\$'000
Bank interest income	31	990
Sundry income	<u>1,768</u>	<u>130</u>
	<u>1,799</u>	<u>1,120</u>

8. FINANCE COSTS

	2016 HK\$'000	2015 HK\$'000
Effective interest on convertible bonds	<u>5,650</u>	<u>16,394</u>

9. INCOME TAX CREDIT

Income Tax Recognised in Profit or Loss

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax		
PRC Enterprise Income Tax	—	—
Overprovision in prior years		
PRC Enterprise Income Tax	(1)	—
Deferred tax (<i>Note 23</i>)	<u>(6,169)</u>	<u>(7,155)</u>
Total income tax credit recognised in profit or loss	<u><u>(6,170)</u></u>	<u><u>(7,155)</u></u>

Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax had been made as the Group had no assessable profits arising in or derived from Hong Kong for both years.

Under the prevailing tax law in the PRC, the Enterprise Income Tax rate of the PRC subsidiaries is 25% for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax credit for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss before tax	<u>(49,314)</u>	<u>(67,481)</u>
Tax at the Hong Kong Profits Tax rate of 16.5% (2015: 16.5%)	(8,137)	(11,134)
Tax effect of expenses not deductible for tax purpose	2,135	4,601
Tax effect of income not taxable for tax purpose	(127)	(158)
Overprovision in prior years	(1)	—
Tax effect of tax losses not recognised	2,601	1,596
Tax effect on different tax rate of group entities operating in other jurisdictions	<u>(2,641)</u>	<u>(2,060)</u>
Income tax credit for the year	<u><u>(6,170)</u></u>	<u><u>(7,155)</u></u>

10. LOSS FOR THE YEAR

	2016 HK\$'000	2015 HK\$'000
Loss for the year has been arrived at after (crediting)/charging:		
Cost of inventories recognised as an expense (included in cost of sales)	29	36
Auditors' remuneration	960	930
Employee benefits expense (excluding directors' emoluments)		
— Salaries and other benefits in kind	5,262	4,002
— Contributions to retirement benefits schemes	286	218
— Equity-settled share-based payments	406	—
Directors' emoluments	<u>7,352</u>	<u>7,522</u>
Total staff costs	<u>13,306</u>	<u>11,742</u>
Minimum lease payments paid under operating leases in respect of land and buildings	2,086	1,382
Net foreign exchange loss	143	2,270
Depreciation of property, plant and equipment	1,100	613
Expense in relation to share options granted to consultants	3,655	11,004
(Gain)/loss on early redemption of convertible bonds	(656)	1,655
Amortisation of concession rights (<i>Note</i>)	7,470	8,357
Provision for impairment loss on deposits and other receivables (<i>Note</i>)	—	2,000
Loss on disposal of property, plant and equipment (<i>Note</i>)	<u>65</u>	<u>—</u>

Note:

Amortisation of concession rights, provision for impairment loss on deposits and other receivables and loss on disposal of property, plant and equipment are included in other operating expenses.

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the five (2015: six) directors were as follows:

	Fees HK\$'000	Salaries and other benefits in kind HK\$'000	Contributions to retirement benefits schemes HK\$'000	Equity-settled share-based payments HK\$'000	Discretionary bonuses HK\$'000	Total HK\$'000
2016						
Executive directors						
Leung Ngai Man	—	6,500	18	—	—	6,518
Wu Wei Hua	—	746	18	—	—	764
Independent non-executive directors						
Xuan Hong	—	—	—	—	—	—
Qi Ji	—	—	—	—	—	—
Cai Wei Lun	70	—	—	—	—	70
	<u>70</u>	<u>7,246</u>	<u>36</u>	<u>—</u>	<u>—</u>	<u>7,352</u>
2015						
Executive directors						
Leung Ngai Man	—	6,500	18	—	—	6,518
Wu Wei Hua	—	866	18	—	—	884
Sung Kin Man (<i>Note</i>)	—	—	—	—	—	—
Independent non-executive directors						
Xuan Hong	50	—	—	—	—	50
Qi Ji	—	—	—	—	—	—
Cai Wei Lun	70	—	—	—	—	70
	<u>120</u>	<u>7,366</u>	<u>36</u>	<u>—</u>	<u>—</u>	<u>7,522</u>

Note:

Appointed on 26 May 2014 and resigned on 2 March 2015

During the years ended 31 December 2016 and 2015, since the appointment of chief executive officer of the Company remains outstanding, no emoluments were paid to the chief executive officer of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2015: Nil).

12. EMPLOYEES' EMOLUMENTS**Employee Benefits Expense (Excluding Directors' Emoluments)**

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Salaries and other benefits in kind	5,262	4,002
Contributions to retirement benefits schemes	286	218
Equity-settled share-based payments	<u>406</u>	<u>—</u>
	<u><u>5,954</u></u>	<u><u>4,220</u></u>

Five Highest Paid Individuals

Of the five individuals with the highest emoluments in the Group, two (2015: two) were directors of the Company whose emoluments are included in the disclosure in note 11 above. The emoluments of the remaining three (2015: three) individuals were as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Salaries and other benefits in kind	1,587	1,385
Contributions to retirement benefits schemes	32	36
Equity-settled share-based payments	<u>406</u>	<u>—</u>
	<u><u>2,025</u></u>	<u><u>1,421</u></u>

Their emoluments fell within the following bands:

	Number of individuals	
	2016	2015
Emolument bands		
Nil–HK\$1,000,000	2	3
HK\$1,000,001–HK\$1,500,000	<u>1</u>	<u>—</u>

During the years ended 31 December 2016 and 2015, no emoluments were paid by the Group to any of the five highest paid individuals including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

13. LOSS PER SHARE

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	<u><u>(37,043)</u></u>	<u><u>(54,679)</u></u>

	2016 '000	2015 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>3,120,035</u>	<u>2,741,424</u>

The computation of diluted loss per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option scheme, non-redeemable convertible preferred shares and convertible bonds since their exercise and conversion would have an anti-dilutive effect.

14. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and fittings <i>HK\$'000</i>	Computer and office equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
Balance at 1 January 2015	747	4,400	231	5,378
Additions	5	4	—	9
Disposals	(5)	—	—	(5)
Effect of foreign currency exchange differences	(32)	(207)	(11)	(250)
Balance at 31 December 2015	715	4,197	220	5,132
Additions	253	711	1,560	2,524
Disposals	(26)	(181)	(214)	(421)
Effect of foreign currency exchange differences	(47)	(260)	(72)	(379)
Balance at 31 December 2016	895	4,467	1,494	6,856
Accumulated depreciation and impairment				
Balance at 1 January 2015	(704)	(2,602)	(175)	(3,481)
Eliminated on disposals of assets	5	—	—	5
Depreciation expense	(20)	(536)	(57)	(613)
Effect of foreign currency exchange differences	31	129	12	172
Balance at 31 December 2015	(688)	(3,009)	(220)	(3,917)
Eliminated on disposals of assets	24	117	214	355
Depreciation expense	(36)	(544)	(520)	(1,100)
Effect of foreign currency exchange differences	37	178	27	242
Balance at 31 December 2016	(663)	(3,258)	(499)	(4,420)
Carrying amounts				
Balance at 31 December 2016	<u>232</u>	<u>1,209</u>	<u>995</u>	<u>2,436</u>
Balance at 31 December 2015	<u>27</u>	<u>1,188</u>	<u>—</u>	<u>1,215</u>

15. CONCESSION RIGHTS

	<i>HK\$'000</i>
Cost	
Balance at 1 January 2015	2,546,533
Effect of foreign currency exchange differences	<u>(134,552)</u>
Balance at 31 December 2015	2,411,981
Effect of foreign currency exchange differences	<u>(157,883)</u>
Balance at 31 December 2016	<u><u>2,254,098</u></u>
Accumulated amortisation and impairment	
Balance at 1 January 2015	(2,447,209)
Amortisation expense	(8,357)
Impairment loss recognised in profit or loss	(4,500)
Effect of foreign currency exchange differences	<u>129,611</u>
Balance at 31 December 2015	(2,330,455)
Amortisation expense	(7,470)
Impairment loss recognised in profit or loss	(8,460)
Effect of foreign currency exchange differences	<u>152,867</u>
Balance at 31 December 2016	<u><u>(2,193,518)</u></u>
Carrying amounts	
Balance at 31 December 2016	<u><u>60,580</u></u>
Balance at 31 December 2015	<u><u>81,526</u></u>

Note:

The amount of concession rights represents the value in use of contractual rights stated in the cooperation agreements that 深圳環彩普達科技有限公司 (transliterated as Shenzhen Huancai Puda Technology Company Limited[#]) (“**Huancai Puda**”) and its subsidiary entered into with several lottery issuing centres for providing software system and technical service. The fair value of the concession rights on initial recognition was arrived at on the basis of a valuation carried out by an independent professionally qualified valuer not connected with the Group. The valuation was determined by reference to discounted cash flow projections. At the end of each reporting period, the concession rights is measured using the cost model subject to impairment.

The amount of concession rights is amortised on a straight-line method over the period over three to eight years in accordance with the terms of the cooperation agreements.

During the year ended 31 December 2016, the management of the Group has performed an impairment assessment on the lottery business’s CGU which has reflected the latest business environment and market conditions of the PRC lottery industry. As at 31 December 2016, the recoverable amount of the concession rights was assessed by the directors of the Company with reference to the professional valuation as at 31 December 2016 performed by an independent professionally qualified valuer. The recoverable amount of the lottery business’s CGU has been determined based on value in use calculation. That calculation uses cash flow projections based on most recent financial budgets after taking into account the operation environment and market conditions at that point of time approved by the management covering a five year period with growth rate of 10% (2015: 20%) per annum, and pre-tax discount rate of 33.15% (2015: 31.13%). The cash flows beyond the five year period are extrapolated using zero growth rate. The key assumptions for the value in use calculation are those regarding the discount rate, growth in revenue and direct costs during the periods. The management estimates discount rate that reflects current market assessments of the time value of money and

the risk specific to the CGU. In performing the impairment testing, the directors of the Company have made reference to a valuation performed by an independent professionally qualified valuer. During the year ended 31 December 2016, the Group recognised impairment loss of approximately HK\$8,460,000 (2015: HK\$4,500,000) in relation to concession rights allocated to the CGU associated with the lottery business.

16. INVENTORIES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Raw materials	853	—
Work in progress	<u>58</u>	<u>—</u>
	<u><u>911</u></u>	<u><u>—</u></u>

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Prepayments	1,113	1,392
Deposits and other receivables	<u>3,403</u>	<u>10,378</u>
	4,516	11,770
Less: allowance for doubtful debts	<u>(2,000)</u>	<u>(2,000)</u>
Total prepayments, deposits and other receivables	<u><u>2,516</u></u>	<u><u>9,770</u></u>

Movement In the Allowance for Doubtful Debts

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
1 January	2,000	—
Impairment loss recognised on deposits and other receivables	<u>—</u>	<u>2,000</u>
31 December	<u><u>2,000</u></u>	<u><u>2,000</u></u>

During the year ended 31 December 2015, an impairment loss was made on receivables based on a review of outstanding amounts on regular basis when collection of the amount is in doubt. Deposit of HK\$2,000,000 was fully impaired as the balance was past due and the collection of the amount was in doubt. The deposit was in relation to a possible acquisition by a wholly-owned subsidiary of the Company of which a framework agreement was signed and the framework agreement was terminated in March 2014. The management of the Company has been negotiating for the refund of this advance deposit since March 2014 but considered the refund of the deposit was in doubt. Therefore, the management of the Company has made an impairment loss on the deposit during the year ended 31 December 2015. The Group does not hold any collateral or other credit enhancements over this balance.

18. AMOUNTS DUE FROM NON-CONTROLLING INTERESTS OF SUBSIDIARIES

The amounts due are unsecured, interest-free and repayable on demand.

19. CASH AND BANK BALANCES/PLEDGED BANK DEPOSIT

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cash at banks and in hand	24,033	78,292
Less: Pledged bank deposit	<u>(216)</u>	<u>(215)</u>
Cash and cash equivalents	<u>23,817</u>	<u>78,077</u>

Pledged bank deposit represents deposit pledged to bank for obtaining the corporate card services.

Bank balances carry interest at floating rates based on daily bank deposit rates. The pledged bank deposit carries fixed interest rate of 0.40% (2015: 0.50%) per annum.

Included in cash at banks and in hand of the Group is approximately HK\$612,000 (2015: HK\$651,000) of bank balances denominated in Renminbi (“RMB”) and placed with banks in the PRC. RMB is not freely convertible into other currencies, however, under the PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

20. TRADE AND OTHER PAYABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade payables	3	4
Other payables and accruals	7,489	7,688
Accrued salaries and other benefits in kind	<u>284</u>	<u>192</u>
Total trade and other payables	<u>7,776</u>	<u>7,884</u>

The following is an ageing analysis of trade payables based on invoice date at the end of the reporting period:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Over 90 days	<u>3</u>	<u>4</u>

21. AMOUNTS DUE TO A DIRECTOR/A NON-CONTROLLING INTEREST OF A SUBSIDIARY

The amounts due are unsecured, interest-free and repayable on demand.

22. CONVERTIBLE BONDS

In August 2010, the Company issued approximately 664,580,000 (after adjusted for the share consolidation as effected on 27 February 2012) zero-coupon HK dollar denominated convertible bonds to Mr. Leung Ngai Man (“Mr. Leung”), a substantial shareholder, the chairman and executive director of the Company. The convertible bonds have a maturity period of 5 years from the issue date and can be convertible into one ordinary share of the Company at HK\$0.005 each for every HK\$1.20 convertible bonds at the holder’s option (after adjusted for the share consolidation as effected on 27 February 2012). Conversion may occur at any time between 27 August 2010 and 26 August 2015.

The convertible bonds contain two components: liability and equity elements. The equity element on initial recognition was presented in equity as part of the “convertible bonds equity reserve”. The effective interest rate of the liability component for the convertible bonds on initial recognition was 17.35% per annum.

In August 2015, the Company early redeemed 12,500,000 convertible bonds (after adjusted for the share consolidation as effected on 27 February 2012) at a total consideration of HK\$15,000,000 from Mr. Leung, pursuant to the terms and conditions of the convertible bonds. The difference between the redemption amount and the total carrying amounts of liability component and equity component amounting to approximately HK\$1,655,000 has been charged to the consolidated statement of profit or loss and other comprehensive income and amounting to approximately HK\$8,231,000 has been credited to the accumulated losses, respectively.

The Company entered into a supplemental deed (the “**Supplemental Deed**”) dated 24 August 2015 executed between the Company and Mr. Leung, pursuant to which the Company and Mr. Leung agreed to extend the maturity date of the convertible bonds for 5 years from the date falling on the fifth year to the date falling on the tenth year from the date of issue of the convertible bond. The Supplemental Deed was approved by independent shareholders at the extraordinary general meeting of the Company held on 3 November 2015.

The convertible bonds contain two components upon the extension: liability and equity elements. The equity element on recognition was presented in equity as part of the “convertible bonds equity reserve”. The effective interest rate of the liability component for the convertible bonds on recognition is 12.73% per annum.

In January 2016, the Company early redeemed 8,400,000 convertible bonds (after adjusted for the share consolidation as effected on 27 February 2012) at a total consideration of HK\$10,080,000 from Mr. Leung, pursuant to the terms and conditions of the convertible bonds. The difference between the redemption amount and the total carrying amounts of liability component and equity component amounting to approximately HK\$389,000 has been credited to the consolidated statement of profit or loss and other comprehensive income and amounting to approximately HK\$258,000 has been charged to the accumulated losses, respectively.

In April 2016, the Company early redeemed 12,500,000 convertible bonds (after adjusted for the share consolidation as effected on 27 February 2012) at a total consideration of HK\$15,000,000 from Mr. Leung, pursuant to the terms and conditions of the convertible bonds. The difference between the redemption amount and the total carrying amounts of liability component and equity component amounting to approximately HK\$257,000 has been credited to the consolidated statement of profit or loss and other comprehensive income and amounting to approximately HK\$192,000 has been credited to the accumulated losses, respectively.

In June 2016, the Company early redeemed 9,170,000 convertible bonds (after adjusted for the share consolidation as effected on 27 February 2012) at a total consideration of HK\$11,004,000 from Mr. Leung, pursuant to the terms and conditions of the convertible bonds. The difference between the redemption amount and the total carrying amounts of liability component and equity component amounting to approximately HK\$10,000 has been credited to the consolidated statement of profit or loss and other comprehensive income and amounting to approximately HK\$510,000 has been credited to the accumulated losses, respectively.

Imputed interest expenses of approximately HK\$5,650,000 (2015: HK\$16,394,000) has been recognised in the consolidated statement of profit or loss and other comprehensive income in respect of the convertible bonds during the year ended 31 December 2016. No convertible bonds were converted during the years ended 31 December 2016 and 2015.

23. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities balances recognised and movements thereon during the current and prior years:

	Concession rights HK\$'000	Convertible bonds HK\$'000	Total HK\$'000
At 1 January 2015	24,831	2,887	27,718
Recognised directly to equity	—	7,156	7,156
Credit to profit or loss	<u>(4,450)</u>	<u>(2,705)</u>	<u>(7,155)</u>
At 31 December 2015 and 1 January 2016	20,381	7,338	27,719
Recognised directly to equity	—	(2,430)	(2,430)
Credit to profit or loss	<u>(5,236)</u>	<u>(933)</u>	<u>(6,169)</u>
At 31 December 2016	<u>15,145</u>	<u>3,975</u>	<u>19,120</u>

Under the PRC Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. At 31 December 2016 and 2015, no deferred tax liabilities for withholding tax have been recognised as the Group's PRC subsidiaries incurred accumulated losses for the period since 1 January 2008.

At the end of the reporting period, the Group had estimated unused tax losses of approximately HK\$15,261,000 (2015: HK\$16,212,000) arising from subsidiaries operating outside Hong Kong which is available for setting off against future taxable profit of that subsidiary is due to expire within one to five years and estimated unused tax losses of approximately HK\$51,053,000 (2015: HK\$51,046,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the estimated unused tax losses due to the unpredictability of future profit streams.

24. SHARE CAPITAL — ORDINARY SHARES

	Number of shares '000	Share capital HK\$'000
Authorised:		
At 1 January 2015, 31 December 2015 and 2016, ordinary shares of HK\$0.005 each	<u>20,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 January 2015, ordinary shares of HK\$0.005 each	2,217,035	11,085
Issue of new ordinary shares (<i>Note (i)</i>)	443,000	2,215
Conversion of non-redeemable convertible preferred shares (<i>Note (ii)</i>)	<u>460,000</u>	<u>2,300</u>
At 31 December 2015 and 2016, ordinary shares of HK\$0.005 each	<u>3,120,035</u>	<u>15,600</u>

Notes:

- (i) On 19 May 2015, Mr. Leung, the Company and the placing agent entered into the placing and subscription agreement pursuant to which (i) the placing agent has agreed to act as agent for Mr. Leung to place, on a best effort basis, and Mr. Leung has agreed to sell, a total of up to 443,000,000 placing shares to not less than six places who and whose ultimate beneficial owners will be third parties independent of and not acting in concert with Mr. Leung,

the Company and their respective associates and connected persons, at the placing price of HK\$0.148 per placing share; and (ii) Mr. Leung has conditionally agreed to subscribe for up to 443,000,000 new subscription shares at the subscription price of HK\$0.148 per subscription share.

Completion of the placing took place on 21 May 2015 in accordance with the placing agreement and an aggregate of 443,000,000 placing shares were placed to not less than six placees who are independent third parties, at the placing price of HK\$0.148 per placing share.

On 1 June 2015, an aggregate of 443,000,000 ordinary shares of HK\$0.005 each in the capital of the Company were allotted and issued to Mr. Leung at HK\$0.148 per subscription share. The exercise gave rise to an aggregate net proceed of approximately HK\$63,363,000.

- (ii) On 5 June 2015, 460,000,000 ordinary shares of HK\$0.005 each in the capital of the Company were issued to Mr. Leung upon conversion of non-redeemable convertible preferred shares issued by the Company to Mr. Leung on 17 December 2012. (Note 25)

25. SHARE CAPITAL — NON-REDEEMABLE CONVERTIBLE PREFERRED SHARES

	Number of shares '000	Share capital HK\$'000
Authorised:		
At 1 January 2015, 31 December 2015 and 2016, preferred shares of HK\$0.005 each	<u>2,000,000</u>	<u>10,000</u>
Issued and fully paid:		
At 1 January 2015, preferred shares of HK\$0.005 each	1,463,333	7,317
Conversion of non-redeemable convertible preferred shares (<i>Note 24</i>)	<u>(460,000)</u>	<u>(2,300)</u>
At 31 December 2015 and 2016, preferred shares of HK\$0.005 each	<u>1,003,333</u>	<u>5,017</u>

26. WARRANTS

On 13 July 2012, an aggregate of 362,000,000 unlisted warrants were successfully placed by the Company to not less than six placees, who are third parties independent of and not connected to the Company and its connected persons at the placing price of HK\$0.005 per warrant and the subscription price of HK\$0.30 per warrant share. The subscription period for the warrants is 30 months from the date of issue of the warrants.

All the warrants expired in January 2015 and no warrant holders exercised their subscription rights attaching to the warrants to convert into ordinary shares of the Company. The balance of warrants reserve in the equity was credited to the accumulated losses upon the expiry of the warrants.

27. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "**Scheme**") was adopted on 29 June 2007 for employee compensation.

The directors may at their absolute discretion, invite any person belonging to any of the following classes of participants ("**Eligible Participants**") to take up options to subscribe for shares:

- any employee (whether full time or part time, including any director) of the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which any member of the Group holds an equity interest;
- any directors (including non-executive directors and independent non-executive directors) of the Company, any subsidiary or any Invested Entity;
- any supplier of goods or services to any member of the Group or any Invested Entity;
- any customer of any member of the Group or any Invested Entity;
- any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- any adviser (professional or otherwise), consultant, individual or entity who in the opinion of the directors of the Company has contributed or will contribute to the growth and development of the Group;
- any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and
- for the purposes of the Scheme, the offer may be made to any company wholly owned by one or more Eligible Participants.

The share option scheme became effective on 2 July 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 29 June 2007.

Under the Scheme, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed 30% of the share capital of the Company in issue from time to time. No options may be granted under the Scheme or any other share option scheme adopted by the Group if the grant of such option will result in the limit being exceeded. Subject to the approval of the Company's shareholders, the aggregate number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% of the Company's shares in issue from time to time.

The total number of shares which may be allotted and issued upon exercise of all options excluding, options which have lapsed in accordance with the terms of this Scheme and any other option schemes of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme without prior approval from the Company's shareholders.

The total number of shares issued and which may fall to be issued upon exercise of the options and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Where any further grant of options to a grantee under the Scheme would result in the shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised,

cancelled and outstanding options) under the Scheme and any other share option schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such grantee and his associates abstaining from voting.

The maximum number of shares issued and to be issued upon exercise of the options granted under the share option scheme and any other share option schemes of the Company to each of any eligible persons (including those cancelled, exercised and outstanding options), in any twelve months period up to the date of the latest grant shall not exceed 1% of the Company's shares in issue provided that the number of shares issued and to be issued upon exercise of all options granted and to be granted to each of the independent non-executive directors or substantial shareholders of the Company or any of their respective associates in the twelve months period up to the date of such grant in excess of 0.1% of the Company's shares in issue and with a value in excess of HK\$5 million must be approved in advance by the Company's independent shareholders. Any further grant of options in excess of such limit must be separately approved by shareholders in general meeting in accordance with the requirements of the GEM Listing Rules.

The offer of a grant of share options might be accepted in writing within 21 days from the date of the offer. The exercise period of the share options granted is determinable by the directors, and should not be later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The subscription price is equal to the higher of (i) the nominal value of the shares of the Company; (ii) the closing price per share of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

The fair value of share options granted is recognised in the statement of profit or loss and other comprehensive income taking into account the probability that the options will vest over the vesting period. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses. Options which lapsed, if any, prior to their exercise date are deleted from the outstanding options.

All equity-settled share-based payments will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

Details of specific categories of share options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$	Weighted average fair value at grant date HK\$
2007 (a)	9 July 2007	9 July 2007 to 29 June 2017	1.4250*	0.4540*
2007 (b)	22 August 2007	22 August 2007 to 29 June 2017	2.0300*	0.6375*
2008	10 July 2008	10 July 2008 to 29 June 2017	1.3280*	0.3555*
2013	10 October 2013	10 October 2013 to 29 June 2017	0.0870	0.0261
2014 (a)	25 March 2014	25 March 2014 to 29 June 2017	0.3640	0.2171
2014 (b)	26 March 2014	26 March 2014 to 29 June 2017	0.3650	0.2048
2014 (c)	10 July 2014	10 July 2014 to 29 June 2017	0.2800	0.0726
2015 (a)	27 May 2015	27 May 2015 to 29 June 2017	0.2900	0.1484
2015 (b)	4 June 2015	4 June 2015 to 29 June 2017	0.2700	0.1210
2016	6 May 2016	6 May 2016 to 29 June 2017	0.1050	0.0406

The Company measures the fair value of share options granted to consultant by reference to the fair values of services received.

The fair value of the share options granted to employee during the year ended 31 December 2016 were determined using the Black-Scholes Option Pricing Model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical volatility of the Company's share price and comparable companies' share price, adjusted for any expected changes to future volatility based on publicly available information.

100,000,000 (2015: 76,000,000) share options were granted under the Scheme during the year ended 31 December 2016.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Inputs Into the Model

	Option type 2016
Grant date share price	HK\$0.1040
Exercise price	HK\$0.1050
Expected volatility	98.696%
Exercise multiple	2.719
Risk-free interest rate	0.314%
Expected dividend yield	Nil

The following table discloses movements of the Company's share options during the year:

Option type	Outstanding at 1/1/2016	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2016
2007 (a)	9,600,000*	—	—	—	9,600,000*
2007 (b)	8,200,000*	—	—	—	8,200,000*
2008	9,200,000*	—	—	—	9,200,000*
2013	16,000,000	—	—	—	16,000,000
2014 (a)	32,000,000	—	—	—	32,000,000
2014 (b)	2,700,000	—	—	—	2,700,000
2014 (c)	20,000,000	—	—	—	20,000,000
2015 (a)	66,000,000	—	—	—	66,000,000
2015 (b)	10,000,000	—	—	—	10,000,000
2016	—	100,000,000	—	—	100,000,000
	<u>173,700,000</u>	<u>100,000,000</u>	<u>—</u>	<u>—</u>	<u>273,700,000</u>
Exercisable at the end of the year					<u>273,700,000</u>
Weighted average exercise price	<u>HK\$0.4836</u>	<u>HK\$0.1050</u>	<u>—</u>	<u>—</u>	<u>HK\$0.3453</u>

The following table discloses movements of the Company's share options during prior year:

Option type	Outstanding at 1/1/2015	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2015
2007 (a)	9,600,000*	—	—	—	9,600,000*
2007 (b)	8,200,000*	—	—	—	8,200,000*
2008	9,200,000*	—	—	—	9,200,000*
2013	16,000,000	—	—	—	16,000,000
2014 (a)	32,000,000	—	—	—	32,000,000
2014 (b)	2,700,000	—	—	—	2,700,000
2014 (c)	20,000,000	—	—	—	20,000,000
2015 (a)	—	66,000,000	—	—	66,000,000
2015 (b)	—	10,000,000	—	—	10,000,000
	<u>97,700,000</u>	<u>76,000,000</u>	<u>—</u>	<u>—</u>	<u>173,700,000</u>
Exercisable at the end of the year					<u>173,700,000</u>
Weighted average exercise price	<u>HK\$0.6363</u>	<u>HK\$0.2874</u>	<u>—</u>	<u>—</u>	<u>HK\$0.4836</u>

No option has been exercised under the Scheme during the year ended 31 December 2016 and 2015.

Options granted are fully vested at the date of grant. During the year ended 31 December 2016, approximately HK\$406,000 (2015: Nil) of equity-settled share-based payments to employee has been included in the consolidated statement of profit or loss and other comprehensive income, the corresponding amount of which has been credited to share options reserve. No liabilities were recognised on the equity-settled share-based payment transactions.

The fair value of the share options granted to suppliers of service amounted to approximately HK\$3,655,000 (2015: HK\$11,004,000) has been included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016, the corresponding amount of which has been credited to share options reserve.

The total consideration received during the year from grant of share options amounted to HK\$4 (2015: HK\$6).

All share options have been accounted for under HKFRS 2. The share options outstanding at the end of the year had a weighted average remaining contractual life of 0.5 years (2015: 1.5 years).

* The above information has been adjusted to reflect the effect of the share consolidation on 27 February 2012 pursuant to which every 5 of the existing issued and unissued shares of HK\$0.001 each in the share capital of the Company were consolidated into 1 consolidated share of HK\$0.005 each. Every 5 of the options were consolidated into 1 consolidated option and the exercise prices were adjusted accordingly.

28. CAPITAL MANAGEMENT

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern;
- to provide an adequate return to shareholders; and
- to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders and issue new shares to reduce its debt level.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings are calculated as current and non-current borrowings as shown in the consolidated statement of financial position and total capital is calculated as "total equity", as shown in the consolidated statement of financial position.

Gearing Ratio

The gearing ratio at the end of the reporting period was as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Total borrowings	43,923	59,633
Total equity	20,671	77,557
Gearing ratio	<u>212%</u>	<u>77%</u>

29. FINANCIAL INSTRUMENTS**29.1 Categories of Financial Instruments***Financial assets*

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loans and receivables:		
Financial assets included in prepayments, deposits and other receivables	1,403	8,378
Amounts due from non-controlling interests of subsidiaries	1,497	2,227
Cash and bank balances (including pledged bank deposit)	<u>24,033</u>	<u>78,292</u>

Financial liabilities

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Financial liabilities at amortised cost:		
Financial liabilities included in trade and other payables	7,776	7,884
Amount due to a director	—	136
Amount due to a non-controlling interest of a subsidiary	472	215
Convertible bonds	<u>43,923</u>	<u>59,633</u>

29.2 Financial Risk Management Objectives and Policies

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the board of directors. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Group's policy to actively engage in the trading of financial instruments for speculative purposes. The treasury department works under the policies approved by the board of directors. It identifies ways to access financial markets and monitors the Group's financial risk exposures. Regular reports are provided to the board of directors.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

29.2.1 Market risk

Foreign currency risk management

Transactional currency exposures arise from revenue or cost of sales by operating units in currencies other than the unit's functional currency. Substantially all the Group's revenue and cost of sales are denominated in the functional currency of the operating units making the revenue, and substantially all the cost of sales are denominated in the operating unit's functional currency. Accordingly, the directors consider the Group is not exposed to significant foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

At the end of the reporting period, the carrying amounts of the Group's major monetary assets denominated in currencies other than the functional currencies of the relevant group entities are as follows:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets		
RMB	<u>55</u>	<u>13,744</u>

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in the RMB against HK\$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A positive number below indicates a decrease in loss where RMB strengthens against HK\$. For a 5% weakening of RMB against HK\$, there would be an equal and opposite impact on the loss.

	2016 HK\$'000	2015 HK\$'000
RMB against HK\$	<u>3</u>	<u>687</u>

In management's opinion, the sensitivity analysis is unrepresentative of the inherent exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk management

The Group does not have material exposure to interest rate risk. A reasonably possible change in interest rate in the twelve months is assessed; which could have immaterial change in the Group's loss after tax and accumulated losses. Changes in interest rates have no material impact on the Group's other components of equity. The Group adopts centralised treasury policies in cash and financial management and focuses on reducing the Group's overall interest expenses.

The directors are of the opinion that the Group's sensitivity to the change in interest rate is relatively low.

Other price risk

As the Group has no significant investments in financial assets at FVTPL, the Group is not exposed to significant other price risk.

29.2.2 Credit risk management

At 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and debt investment at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

29.2.3 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	On demand or less than 1 year HK\$'000	1–5 years HK\$'000	Total contractual undiscounted cash flows HK\$'000	Total carrying amounts HK\$'000
At 31 December 2016				
Non-derivative financial liabilities				
Trade and other payables	7,776	—	7,776	7,776
Amount due to a non-controlling interest of a subsidiary	472	—	472	472
Convertible bonds	—	68,016	68,016	43,923
	<u>8,248</u>	<u>68,016</u>	<u>76,264</u>	<u>52,171</u>
			Total contractual undiscounted cash flows	Total carrying amounts
	On demand or less than 1 year HK\$'000	1–5 years HK\$'000	HK\$'000	HK\$'000
At 31 December 2015				
Non-derivative financial liabilities				
Trade and other payables	7,884	—	7,884	7,884
Amount due to a director	136	—	136	136
Amount due to a non-controlling interest of a subsidiary	215	—	215	215
Convertible bonds	—	104,100	104,100	59,633
	<u>8,235</u>	<u>104,100</u>	<u>112,335</u>	<u>67,868</u>

29.3 Fair Value Measurements

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values.

	2016		2015	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
Financial liabilities				
Convertible bonds (<i>Note</i>)	43,923	45,261	59,633	56,600

Note:

The fair value of the liability component of convertible bonds has been calculated by using effective interest rate of 11.79% (2015: 13.98%) per annum with reference to the Hong Kong Sovereign Curve and credit risk margin.

Liabilities for which fair values are disclosed:

Fair value hierarchy as at 31 December 2016

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Convertible bonds	—	—	45,261	45,261

Fair value hierarchy as at 31 December 2015

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Convertible bonds	—	—	56,600	56,600

The fair value of the financial liability included in the Level 3 category above has been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

30. OPERATING LEASES COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within one year	1,530	1,294
In the second to fifth years inclusive	<u>1,669</u>	<u>287</u>
	<u><u>3,199</u></u>	<u><u>1,581</u></u>

Operating leases relate to rented premises and equipment with lease terms of between 1 to 5 years (2015: 1 to 5 years), with no option to renew the lease terms at the expiry date. The lease does not include contingent rental.

31. CAPITAL COMMITMENTS

At 31 December 2016, the Group had the following commitments which were not provided for in the consolidated financial statements:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Authorised and contracted for:		
Purchase of property, plant and equipment	<u>144</u>	<u>154</u>

32. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions with related parties during the year:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Early redemption of convertible bonds (<i>Note 22</i>)	<u>36,084</u>	<u>15,000</u>

Compensation of Key Management Personnel

The remuneration of directors and other members of key management during the year was as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Short-term benefits	7,316	7,486
Post-employment benefits	<u>36</u>	<u>36</u>
	<u><u>7,352</u></u>	<u><u>7,522</u></u>

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries at 31 December 2016 are as follows:

Name of subsidiary	Place of incorporation/ registration/operations	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest held by the Company		Principal activities
			Directly	Indirectly	
E-silkroad.net Corporation	British Virgin Islands ("BVI")	1 ordinary share of 1 United States dollar ("US\$")	100%	—	Investment holding
Easywin International Holdings Limited	BVI	1 ordinary share of US\$1	100%	—	Investment holding
Pearl Sharp Limited	BVI	1 ordinary share of US\$1	—	100%	Investment holding
E-silkroad.net Online Exhibition Limited	Hong Kong	Ordinary shares HK\$10,000	—	100%	Development of e-commerce business, provision of web page design and website maintenance services and provision of administrative services
Greatest Profit Investment Limited	Hong Kong	Ordinary share HK\$1	—	100%	Investment holding
Huancai Puda*	PRC	RMB41,819,548 (2015: RMB41,819,548)	—	51%	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services
深圳宏脈信息科技有限公司**	PRC	HK\$1,500,000	—	100%	Development of computer software, hardware, data terminal technology, mobile digital data communication device and mobile internet technology, development and provision of gaming and animation creation technology and services, wholesale, import and export of office automated system devices and communication devices and provision of relevant supporting services
深圳脈康穿戴設備科技有限公司**	PRC	HK\$5,500,000	—	100%	Research, development, wholesale, import and export of wearable devices, communications devices and electronic components and provision of relevant supporting services

* Huancai Puda is a Sino-foreign equity joint venture established in the PRC.

** 深圳宏脈信息科技有限公司 and 深圳脈康穿戴設備科技有限公司 are wholly-foreign-owned enterprises established in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Details of Non-wholly Owned Subsidiaries that have Material Non-controlling Interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation/ establishment and principal place of business	Proportion of ownership interests held by the non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	2016	2015	2016	2015
				HK\$'000	HK\$'000	HK\$'000	HK\$'000
Huancai Puda	PRC	49%	49%	(6,098)	(5,643)	18,930	27,317
Individually immaterial subsidiaries with non-controlling interests						1,993	1,996
						<u>20,923</u>	<u>29,313</u>

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Huancai Puda

	2016 HK\$'000	2015 HK\$'000
Current assets	<u>948</u>	<u>1,929</u>
Non-current assets	<u>61,231</u>	<u>82,661</u>
Current liabilities	<u>(7,437)</u>	<u>(7,768)</u>
Non-current liabilities	<u>(15,145)</u>	<u>(20,381)</u>

	Year ended 31 December 2016 <i>HK\$'000</i>	Year ended 31 December 2015 <i>HK\$'000</i>
Revenue	<u>336</u>	<u>964</u>
Other income	<u>352</u>	<u>134</u>
Expenses	<u>(12,859)</u>	<u>(12,609)</u>
Loss for the year	<u>(12,171)</u>	<u>(11,511)</u>
Loss attributable to owners of the Company	(6,073)	(5,868)
Loss attributable to the non-controlling interests	<u>(6,098)</u>	<u>(5,643)</u>
Loss for the year	<u>(12,171)</u>	<u>(11,511)</u>
Other comprehensive expense for the year	<u>(4,674)</u>	<u>(4,749)</u>
Total comprehensive expense attributable to owners of the Company	(8,458)	(8,283)
Total comprehensive expense attributable to the non-controlling interests	<u>(8,387)</u>	<u>(7,977)</u>
Total comprehensive expense for the year	<u>(16,845)</u>	<u>(16,260)</u>
Dividends paid to non-controlling interests	<u>—</u>	<u>—</u>
Net cash outflow from operating activities	<u>(556)</u>	<u>(2,590)</u>
Net cash inflow from investing activities	<u>1</u>	<u>1</u>
Net cash inflow from financing activities	<u>—</u>	<u>—</u>
Net decrease in cash and cash equivalents	<u>(555)</u>	<u>(2,589)</u>

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current assets		
Investments in subsidiaries	—	—
Current assets		
Prepayments, deposits and other receivables	—	7,474
Amounts due from subsidiaries	104,540	144,980
Bank balances	19,666	14,590
	<u>124,206</u>	<u>167,044</u>
Current liabilities		
Other payables and accruals	825	915
Amounts due to subsidiaries	55,727	21,932
	<u>56,552</u>	<u>22,847</u>
Net current assets	<u>67,654</u>	<u>144,197</u>
Total assets less current liabilities	<u>67,654</u>	<u>144,197</u>
Non-current liabilities		
Convertible bonds	43,923	59,633
Deferred tax liabilities	3,975	7,338
	<u>47,898</u>	<u>66,971</u>
Net assets	<u><u>19,756</u></u>	<u><u>77,226</u></u>
Capital and reserves		
Share capital — ordinary shares	15,600	15,600
Share capital — non-redeemable convertible preferred shares	5,017	5,017
Reserves	(861)	56,609
Total equity	<u><u>19,756</u></u>	<u><u>77,226</u></u>

Movement in the Company's Reserves

	Share premium account HK\$'000 (Note (i))	Warrants reserve HK\$'000	Capital redemption reserve HK\$'000 (Note (ii))	Convertible bonds equity reserve HK\$'000	Share options reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2015	3,286,855	1,740	1	54,771	21,718	(3,347,562)	17,523
Loss for the year	—	—	—	—	—	(63,146)	(63,146)
Total comprehensive expense for the year	—	—	—	—	—	(63,146)	(63,146)
Recognition of equity- settled share-based payments	—	—	—	—	11,004	—	11,004
Issue of new ordinary shares	63,349	—	—	—	—	—	63,349
Transaction costs attributable to issue of new ordinary shares	(2,201)	—	—	—	—	—	(2,201)
Redemption of convertible bonds	—	—	—	(8,261)	—	8,231	(30)
Extension of convertible bonds upon maturity	—	—	—	(9,619)	—	46,885	37,266
Deferred tax relating to convertible bonds	—	—	—	(7,156)	—	—	(7,156)
Release of reserve upon lapse of warrants	—	(1,740)	—	—	—	1,740	—
Balance at 31 December 2015	<u>3,348,003</u>	<u>—</u>	<u>1</u>	<u>29,735</u>	<u>32,722</u>	<u>(3,353,852)</u>	<u>56,609</u>
Loss for the year	—	—	—	—	—	(48,581)	(48,581)
Total comprehensive expense for the year	—	—	—	—	—	(48,581)	(48,581)
Recognition of equity-settled share- based payments	—	—	—	—	4,061	—	4,061
Redemption of convertible bonds	—	—	—	(15,824)	—	444	(15,380)
Deferred tax relating to convertible bonds	—	—	—	2,430	—	—	2,430
Balance at 31 December 2016	<u>3,348,003</u>	<u>—</u>	<u>1</u>	<u>16,341</u>	<u>36,783</u>	<u>(3,401,989)</u>	<u>(861)</u>

Notes:

- (i) The share premium account of the Company arises on shares issued at a premium. In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.
- (ii) The capital redemption reserve of the Company represents the nominal value of the share capital of the Company repurchased and cancelled.

3. UNAUDITED RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2017

Set out below is the full text of the unaudited consolidated financial statements of the Company for the three months ended 31 March 2017 as extracted from the first quarterly report of the Company for the three months ended 31 March 2017.

**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the three months ended 31 March 2017

		(Unaudited)	
		Three months ended	
		31 March	
		2017	2016
	Notes	HK\$'000	HK\$'000
Revenue	3	740	100
Cost of sales		<u>(490)</u>	<u>(139)</u>
Gross profit/(loss)		250	(39)
Other income and gains		3,029	128
Gain on early redemption of convertible bonds		—	386
Administrative expenses		(6,106)	(4,827)
Finance costs	4	(1,379)	(1,725)
Other operating expenses		<u>(1,559)</u>	<u>(1,893)</u>
Loss before tax		(5,765)	(7,970)
Income tax credit	5	<u>459</u>	<u>626</u>
Loss for the period	6	<u>(5,306)</u>	<u>(7,344)</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		<u>603</u>	<u>522</u>
Other comprehensive income for the period		<u>603</u>	<u>522</u>
Total comprehensive expense for the period		<u><u>(4,703)</u></u>	<u><u>(6,822)</u></u>

	(Unaudited)	
	Three months ended	
	31 March	
	2017	2016
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss attributable to:		
Owners of the Company	(6,128)	(6,421)
Non-controlling interests	<u>822</u>	<u>(923)</u>
	<u>(5,306)</u>	<u>(7,344)</u>
Total comprehensive expense/(income) attributable to:		
Owners of the Company	(5,806)	(6,142)
Non-controlling interests	<u>1,103</u>	<u>(680)</u>
	<u>(4,703)</u>	<u>(6,822)</u>
Loss per share	7	
Basic and diluted (HK cents per share)	<u>(0.20)</u>	<u>(0.21)</u>

Notes:

1. BASIS OF PREPARATION

The unaudited consolidated statement of profit or loss and other comprehensive income of the Group for the three months ended 31 March 2017 has been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) which collective term include all applicable individual HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations (“**Ints**”), issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and accounting principles generally accepted in Hong Kong. The unaudited consolidated statement of profit or loss and other comprehensive income also comply with the applicable disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited consolidated statement of profit or loss and other comprehensive income for the three months ended 31 March 2017 has been prepared in accordance with the same accounting policies adopted in the Group’s annual financial statements for the year ended 31 December 2016, except for the adoption of the new and revised HKFRSs (which include individual HKFRSs, HKASs and Ints) issued by the HKICPA that are relevant to the Group’s operations and effective for its accounting beginning on 1 January 2017. The effect of the adoption of these new and revised HKFRSs in the current period has had no material impact on the Group’s financial performance and position of the current and prior periods.

The Group has not early applied the new and revised HKFRSs that have been issued but are not yet effective. The Group is in the process of making an assessment of the impact of the new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group’s results of operation and financial position.

3. REVENUE

An analysis of the Group’s revenue for the period is as follows:

	(Unaudited) Three months ended 31 March	
	2017	2016
	HK\$’000	HK\$’000
Provision of management, marketing, and operating services for lottery system and lottery halls	36	100
Provision of sports training services	628	—
Sale of information technology products	76	—
	740	100
	740	100

4. FINANCE COSTS

	(Unaudited) Three months ended 31 March	
	2017	2016
	HK\$’000	HK\$’000
Effective interest on convertible bonds	1,379	1,725
	1,379	1,725

5. INCOME TAX CREDIT**Income tax recognised in profit or loss**

	(Unaudited)	
	Three months ended	
	31 March	
	2017	2016
	HK\$'000	HK\$'000
Current tax		
PRC Enterprise Income Tax	—	—
Deferred tax	(459)	(626)
	<u> </u>	<u> </u>
Total income tax credit recognised in profit or loss	<u>(459)</u>	<u>(626)</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong Profits Tax had been made as the Group had no assessable profits arising in or derived from Hong Kong for both periods.

Under the prevailing tax law in the People's Republic of China (the "PRC"), the Enterprise Income Tax rate of the PRC subsidiaries is 25% for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The Group did not have significant unprovided deferred tax liabilities as at 31 March 2016 and 2017.

6. LOSS FOR THE PERIOD

	(Unaudited)	
	Three months ended	
	31 March	
	2017	2016
	HK\$'000	HK\$'000
Loss for the period has been arrived at after (crediting)/charging:		
Bank interest income	(1)	(10)
Net foreign exchange gain	(37)	(118)
	<u> </u>	<u> </u>
Auditors' remuneration	240	233
Employee benefits expense (excluding directors' and chief executive's emoluments)		
— Salaries and other benefits in kind	1,236	721
— Contributions to retirement benefits schemes	66	27
Directors' emoluments	1,669	1,723
Minimum lease payments paid under operating leases in respect of land and buildings	623	370
Depreciation of property, plant and equipment	253	53
Amortisation of other intangible assets (included in other operating expenses)	1,559	1,893
	<u> </u>	<u> </u>

7. LOSS PER SHARE

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

	(Unaudited) Three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Loss		
Loss for the period attributable to owners of the Company for the purposes of basic and diluted loss per share	<u>(6,128)</u>	<u>(6,421)</u>
	(Unaudited) Three months ended 31 March	
	2017	2016
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>3,120,035</u>	<u>3,120,035</u>

The computation of diluted loss per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option scheme, non-redeemable convertible preferred shares and convertible bonds since their exercise and conversion would have an anti-dilutive effect.

8. RESERVES

For the three months ended 31 March 2017

	Attributable to owners of the Company								Attributable to non-controlling interests	Total
	Share premium account	Capital redemption reserve	Convertible bonds equity reserve	Share options reserve	Foreign currency translation reserve	Other reserve	Accumulated losses	Subtotal		
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Balance at 1 January 2017	3,348,003	1	16,341	36,783	115,692	(49)	(3,537,640)	(20,869)	20,923	54
Loss for the period	—	—	—	—	—	—	(6,128)	(6,128)	822	(5,306)
Other comprehensive income for the period	—	—	—	—	322	—	—	322	281	603
Total comprehensive income/ (expense) for the period	—	—	—	—	322	—	(6,128)	(5,806)	1,103	(4,703)
Balance at 31 March 2017	<u>3,348,003</u>	<u>1</u>	<u>16,341</u>	<u>36,783</u>	<u>116,014</u>	<u>(49)</u>	<u>(3,543,768)</u>	<u>(26,675)</u>	<u>22,026</u>	<u>(4,649)</u>

For the three months ended 31 March 2016

	Attributable to owners of the Company							Subtotal (Unaudited) HK\$'000	Attributable to non- controlling interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
	Share premium account (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Convertible bonds equity reserve (Unaudited) HK\$'000	Share options reserve (Unaudited) HK\$'000	Foreign currency translation reserve (Unaudited) HK\$'000	Other reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000			
Balance at 1 January 2016	3,348,003	1	29,735	32,722	118,256	(49)	(3,501,041)	27,627	29,313	56,940
Loss for the period	—	—	—	—	—	—	(6,421)	(6,421)	(923)	(7,344)
Other comprehensive income for the period	—	—	—	—	279	—	—	279	243	522
Total comprehensive income/ (expense) for the period	—	—	—	—	279	—	(6,421)	(6,142)	(680)	(6,822)
Redemption of convertible bonds	—	—	(4,420)	—	—	—	(238)	(4,658)	—	(4,658)
Deferred tax relating to convertible bonds	—	—	704	—	—	—	—	704	—	704
Balance at 31 March 2016	<u>3,348,003</u>	<u>1</u>	<u>26,019</u>	<u>32,722</u>	<u>118,535</u>	<u>(49)</u>	<u>(3,507,700)</u>	<u>17,531</u>	<u>28,633</u>	<u>46,164</u>

9. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the three months ended 31 March 2017 (three months ended 31 March 2016: Nil).

4. INDEBTEDNESS

Indebtedness and contingent liabilities of the Group as at 31 March 2017 are as follows:

Indebtedness

Apart from the Convertible Bonds, as at 31 March 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group did not have any bank overdrafts or loans or other similar indebtedness.

Charges on assets and contingent liabilities

At the close of business on 31 March 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group did not have any mortgage, charges or guarantees or other material contingent liabilities.

5. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirmed that, save as and except for disclosed below, there has been no material change in the financial or trading position or outlook of the Group subsequent to 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up and up to the Latest Practicable Date:

- (i) according to the first quarterly report of the Company for the three months ended 31 March 2017, the Group recorded net loss of approximately HK\$5.3 million, as compared to that of approximately HK\$7.3 million for the same period in 2016; and
- (ii) the entering into of the Subscription Agreement which is expected to improve the financial position and liquidity of the Group.

1. RESPONSIBILITY STATEMENTS

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than those relating to the Offeror and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Offeror and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

<i>Authorised capital</i>	<i>HK\$</i>
<u>20,000,000,000</u> Shares	<u>100,000,000</u>
<i>Issued and fully paid or credited as fully paid</i>	
<u>4,239,368,382</u> Shares	<u>21,196,841.91</u>

As at the Latest Practicable Date, there are a total of 157,700,000 outstanding Share Options (corresponding to 157,700,000 new Shares).

Save for the Converted Shares, 10,000,000 new Shares being allotted and issued pursuant to the exercise of 10,000,000 Share Options granted under the Share Option Scheme at the exercise price of HK\$0.105 per Share on 5 May 2017, 60,000,000 new Shares being allotted and issued pursuant to the exercise of 60,000,000 Share Options granted under the Share Option Scheme at the exercise price of HK\$0.105 per Share on 8 May 2017, 16,000,000 new Shares being allotted and issued pursuant to the exercise of 16,000,000 Share Options granted under the Share Option Scheme at the exercise price of HK\$0.087 per Share on 8 May 2017 and 30,000,000 new Shares being allotted and issued pursuant to the exercise of 30,000,000 Share Options granted under the Share Option Scheme at the exercise price of HK\$0.105 per Share on 10 May 2017, no new Shares have been allotted and issued since 31 December 2016 (being the date on which the latest published audited consolidated financial statements of the Company were made up) and up to the Latest Practicable Date.

All Shares in issue rank pari passu in all respects with each other including as regards to capital, dividends and voting rights.

As at the Latest Practicable Date, apart from the Convertible Bonds and the Share Options, the Company has no outstanding warrants, options, derivatives, convertibles or other securities in issue which may confer any rights to the holder(s) thereof to subscribe for,

convert or exchange into the Shares and had not entered into any agreement for issue of such warrants, options, derivatives, convertibles or other securities in issue of the Company as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

(a) Interests of the Company and the Directors in the Offeror

As at the Latest Practicable Date, neither any member of the Group nor any of the Directors was interested in or owned or controlled any shares, convertible securities, warrants, options or derivatives of the Offeror.

(b) Interests of the 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	—	—	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 56,680,500 Shares upon its full conversion.

4. On 10 July 2008, Ms. Wu Wei Hua 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\$0.1328 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 Wei Hua 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 Latest Practicable Date.

Save as disclosed above, as at 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.

(c) Interests and short positions of the 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	2,889,963,213 Shares (Long position)	68.17%

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.

4. DISCLOSURE OF OTHER INTERESTS AND DEALINGS IN SECURITIES OF THE COMPANY

Other interests

As at the Latest Practicable Date,

- (a) save as disclosed in the section headed “Disclosure of interests” above, none of the Offeror, or any parties acting in concert with it had any interests in or owned or controlled any Shares or had direction over any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code);
- (b) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code in relation to the shareholdings in the Company;
- (c) there were no Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives in respect of Shares or other securities of the Company carrying voting rights which the Company or any Directors had borrowed or lent;
- (d) the Company had no interest in the equity share capital or any convertible securities, warrants, options and derivatives of the Offeror;
- (e) no Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options and derivatives in respect of the Shares or other securities of the Company carrying voting rights was owned or controlled by a subsidiary of the Company or by a pension fund (if any) of any member of the Group or by an adviser of the Company as specified in class (2) of the definition of associate under the Takeovers Code (including the Independent Financial Adviser); and
- (f) no Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options or derivatives in respect of the Shares or other securities of the Company carrying voting rights were managed on a discretionary basis by non-exempt discretionary fund managers or principal traders connected with the Company.

Dealing in securities

During the Relevant Period,

- (a) none of the Directors nor the Company had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Offeror;
- (b) none of the subsidiaries of the Company or a pension fund (if any) of any member of the Group or an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code (including the Independent Financial Adviser) had dealt for value in any Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options or derivatives in respect of the Shares or other securities of the Company carrying voting rights;
- (c) save as disclosed in the section headed “Disclosure of interests” above, a class (3) associate of the Company who has exercised 10,000,000 Share Options on 5 May 2017, the Convertible Preferred Share Purchase Agreement, the Share Purchase Agreement and the Letter of Undertaking, no person, with whom the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code, had dealt for value in any Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options or derivatives in respect of the Shares or other securities of the Company carrying voting rights; and
- (d) no fund managers connected with the Company had dealt for value in any Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options or derivatives in respect of the Shares or other securities of the Company carrying voting rights.

5. DIRECTORS’ SERVICE CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the Company or any subsidiaries and associated companies of the Company which: (i) (including both continuous and fixed term contracts) had been entered into or amended within six months before the commencement of the Offer Period; (ii) was a continuous contract with a notice period of 12 months or more; or (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period.

As at the Latest Practicable Date,

- (a) save for the arrangement set out under the section “Proposed change to the Board composition of the Company” in the “Letter from BOCOM” of this Composite Document, where all members of the existing Board will resign as Directors with effect on the earliest date on which such resignations may take effect under the Takeovers Code (being after the close of the Offers), there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it and any Directors, recent Directors, Shareholders or recent Shareholders of the Company having any connection with or dependence upon the Offers; and
- (b) save for the Convertible Preferred Share Purchase Agreement and the Letter of Undertaking and the Share Purchase Agreement, there was no material contracts entered into by the Offeror in which any Director had a material personal interest.

6. MATERIAL CONTRACTS

Save for the Subscription Agreement, no material contract (being contracts that were not entered into in the ordinary course of business carried on or intended to be carried on by the Group) had been entered into by member(s) of the Group within the two years immediately preceding the commencement of the Offer Period and up to the Latest Practicable Date.

7. 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.

8. EXPERTS AND CONSENTS

The following is the qualifications of the expert who is engaged by the Company and has given opinion or advice contained in this Composite Document.

Name	Qualification
VMS Securities	a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising in securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the Independent Financial Adviser

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 for this Composite Document with the inclusion of its letter and references to its name in the form and context in which it appears respectively.

9. GENERAL

As at the Latest Practicable Date:

- (a) the registered office of Messis Capital is at Room 1606, 16/F, Tower 2, Admiralty Centre, 18 Harcourt Road, Hong Kong;
- (b) the registered office of VMS Securities is at 49/F, One Exchange Square, 8 Connaught Place, Central, Hong Kong; and
- (c) the English text of this Composite Document and the accompanying Forms of Acceptance shall prevail over their respective Chinese texts, in case of any inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) at the principal place of business of the Company in Hong Kong from 9:00 a.m. to 5:00 p.m. on any Business Day; and (ii) on the websites of the SFC (www.sfc.hk) and the Company (www.chinanetcomtech.com) from the date of this Composite Document up to and including the Offer Closing Date:

- (a) this Composite Document;
- (b) the memorandum and articles of association of the Company;
- (c) the annual reports of the Company for each of the two years ended 31 December 2016;
- (d) the first quarterly report of the Company for the three months ended 31 March 2017;
- (e) the letter from BOCOM, the text of which is set out on pages 8 to 23 of this Composite Document;
- (f) the letter from the Board, the text of which is set out on pages 24 to 32 of this Composite Document;
- (g) the letter from the Independent Board Committee to the Independent Shareholders and the Optionholders, the text of which is set out on pages 33 to 34 of this Composite Document;
- (h) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and the Optionholders, the text of which is set out on pages 35 to 61 of this Composite Document;

- (i) the Convertible Preferred Share Purchase Agreement;
- (j) the Subscription Agreement;
- (k) the Letter of Undertaking; and
- (l) the written consents of the expert referred to in the paragraph headed “**EXPERT AND CONSENT**” in this Appendix III.

1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information to the Independent Shareholders and the Optionholders with regard to the Offeror, the Group and the Offers.

The Offeror accepts full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Group, its associates and parties acting in concert with any of them) and confirms, having made all reasonable enquiries, that to the best of its knowledge, opinions expressed in this Composite Document (other than those expressed by the Group, its associates and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statements in this Composite Document misleading.

2. MARKET PRICES

The table below shows the closing price of the Shares as quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	Closing price per Share <i>HK\$</i>
31 October 2016	0.092
30 November 2016	0.092
30 December 2016	0.087
27 January 2017	0.080
28 February 2017	0.080
31 March 2017	0.120
10 April 2017 (the Last Trading Day)	0.138
28 April 2017	0.213
31 May 2017	0.570
6 June 2017 (the Latest Practicable Date)	0.570

During the Relevant Period, the highest closing price of the Shares quoted on the Stock Exchange was HK\$0.67 on 24 May 2017 and the lowest closing price of the Shares quoted on the Stock Exchange was HK\$0.078 on 9 March 2017.

3. DISCLOSURE OF INTERESTS IN SHARES

As at the Latest Practicable Date, details of interests in the Shares, underlying Shares, debentures or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company held or controlled by the Offeror and parties acting in concert with it were as follows:

Name of Shareholder	Capacity	Shares held	Approximate percentage of interest in the Company's share capital
The Offeror and parties acting in concert with it (but excluding Tiantu)	Beneficial owner	2,889,963,213 <i>(note)</i>	68.17%
Tiantu	Beneficial owner	365,000,000	8.61%
Mr. Wang	Security interest	2,889,963,213 <i>(note)</i>	68.17%

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

Save as disclosed above and as at the Latest Practicable Date, none of the Offeror, or any persons acting in concert with any of it and none of the sole director of the Offeror and Shanghai Wuniu and the directors of Hangzhou Enniu was interested in or owned or had control or direction over any voting rights or rights over any Shares, options, derivatives, warrants or convertible or exchangeable securities carrying rights to subscribe for, convert or exchange, into Shares.

4. SHAREHOLDINGS AND DEALINGS IN SECURITIES OF THE COMPANY

As at the Latest Practicable Date,

- (a) save for the Convertible Preferred Shares that are the subject of the Convertible Preferred Share Purchase Agreement, the Shares that are the subject of the Share Purchase Agreement, the Subscription Agreement and the Share Charge, none of the Offeror or parties acting in concert with it has dealt for value in any Shares, options, derivatives, warrants or other securities convertible into Shares during the Relevant Period.
- (b) save for the Letter of Undertaking, the Offeror and parties acting in concert with it had not received any irrevocable commitment to accept or reject the Offers.

- (c) save for the Convertible Preferred Share Purchase Agreement, the Share Purchase Agreement, the Subscription Agreement, the Share Charge and the Letter of Undertaking, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Offeror or any persons acting in concert with it and any other person.
- (d) none of the Offeror and any persons acting in concert with it had borrowed or lent any Shares or any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.
- (e) no Shares, options, derivatives, warrants or other securities convertible into Shares was managed on a discretionary basis by any fund managers connected with the Offeror or any persons acting in concert with it, and no such person had dealt in any Shares, options, derivatives, warrants or other securities convertible into Shares during the Relevant Period.
- (f) there was no arrangement whereby benefit (other than statutory compensation) was or will be given to any Directors as compensation for loss of office or otherwise in connection with the Offers;
- (g) there was no agreement, arrangement, or understanding (including any compensation arrangement) exist between the Offeror or any persons acting in concert with it and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or was dependent upon the Offers; and
- (h) there was no agreement or arrangement to which the Offeror is a party which relates to circumstances in which she may or may not seek to invoke a condition to the Offers.

5. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who are engaged by the Offeror and have given opinions or advices which are contained or referred to in this Composite Document:

Name	Qualification
BOCOM International Securities Limited	a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO
Amasse Capital Limited	a licensed corporation under the SFO, registered to conduct Type 6 (advising on corporate finance) regulated activity under the SFO

6. MISCELLANEOUS

- (a) The Offeror 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 ecommerce. Shanghai Wuniu is in turn wholly owned by Hangzhou Enniu). The business scope of Hangzhou Enniu includes, amongst others, the development of internet technologies and network engineering. 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.
- (b) The registered address of the Offeror is at Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands and the correspondence address of the Offeror is 15/F, Tower G, Xixi Valley Business Centre, No. 80 Zi Xia Road, Xihu District, Hangzhou City, Zhejiang Province, the PRC.
- (c) The address of Shanghai Wuniu is at 15/F, Tower G, Xixi Valley Business Centre, No. 80 Zi Xia Road, Xihu District, Hangzhou City, Zhejiang Province, the PRC.
- (d) The address of Hangzhou Enniu is at 15/F, Tower G, Xixi Valley Business Centre, Xihu District, Hangzhou City, Zhejiang Province, the PRC.
- (e) The address of Mr. Sun is at 15/F, Tower G, Xixi Valley Business Centre, No. 80 Zi Xia Road, Xihu District, Hangzhou City, Zhejiang Province, the PRC.
- (f) The director of the Offeror is Mr. Sun.
- (g) The director of Shanghai Wuniu is Mr. Sun.
- (h) The directors of Hangzhou Enniu are Mr. Sun, Mr. Yang Yuzhi and Mr. Zhao Ke.
- (i) The registered office of BOCOM is at 15/F Man Yee Building, 68 Des Voeux Road Central, Hong Kong.
- (j) The registered office of Amasse Capital is at Room 1201, 12th Floor, Prosperous Building, 48–52 Des Voeux Road Central, Hong Kong.
- (k) Shanghai Wuniu, Hangzhou Enniu and Mr. Sun constitute the principal members of the Offeror's concert group.

- (l) The English text of this Composite Document and the accompanying Forms of Acceptance shall prevail over their respective Chinese texts, in case of any inconsistency.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection on the website of the Securities and Futures Commission at <http://www.sfc.hk>; and the Company's website at www.chinanetcomtech.com during the period from the date of the Composite Document up to and including the Offer Closing Date or the date on which the Offers are withdrawn or lapse, whichever is earlier:

- (a) this Composite Document;
- (b) the memorandum and articles of association of the Offeror;
- (c) the Convertible Preferred Share Purchase Agreement, the Share Purchase Agreement and the Subscription Agreement (as amended by a side letter dated 23 April 2017);
- (d) the letter from BOCOM as set out on pages 8 to 23 of this Composite Document;
- (e) the Loan Agreement, the Share Charge and the Personal Guarantee;
- (f) the Letter of Undertaking; and
- (g) the letters of consents referred to under the paragraph headed "5. Experts and Consents" in this Appendix IV.