



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)

2016

INTERIM REPORT



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HIGHLIGHTS

- The unaudited revenue of the Group for the six months ended 30 June 2016 was approximately HK\$222,000 with a decrease of approximately HK\$267,000 as compared with that for the corresponding period in 2015.
- The Group recorded an unaudited loss attributable to owners of the Company of approximately HK\$17,258,000 for the six months ended 30 June 2016, with a decrease of approximately HK\$6,148,000 as compared with that for the corresponding period in 2015.
- The unaudited loss per share of the Company was approximately HK0.55 cent for the six months ended 30 June 2016.

RESULTS

The board (the “**Board**”) of Directors hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the three months and six months ended 30 June 2016 together with the comparative figures for the corresponding period in 2015 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2016

	Notes	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
		2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	2	122	245	222	489
Cost of sales		(177)	(283)	(316)	(593)
Gross loss		(55)	(38)	(94)	(104)
Other income and gains		1,072	610	1,200	960
Gain on early redemption of convertible bonds		265	–	651	–
Administrative expenses		(10,423)	(11,739)	(15,250)	(16,694)
Finance costs	4	(1,464)	(5,784)	(3,189)	(8,074)
Other operating expenses		(1,826)	(2,128)	(3,719)	(4,222)
Loss before tax		(12,431)	(19,079)	(20,401)	(28,134)
Income tax credit	5	984	1,479	1,610	2,306
Loss for the period	6	(11,447)	(17,600)	(18,791)	(25,828)
Other comprehensive income/(expense)					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translating foreign operations		(1,184)	29	(662)	332
Other comprehensive income/(expense) for the period		(1,184)	29	(662)	332
Total comprehensive expense for the period		(12,631)	(17,571)	(19,453)	(25,496)

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2016	2015	2016	2015
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss attributable to:				
Owners of the Company	(10,837)	(16,396)	(17,258)	(23,406)
Non-controlling interests	(610)	(1,204)	(1,533)	(2,422)
	<u>(11,447)</u>	<u>(17,600)</u>	<u>(18,791)</u>	<u>(25,828)</u>
Total comprehensive expense attributable to:				
Owners of the Company	(11,529)	(16,381)	(17,671)	(23,230)
Non-controlling interests	(1,102)	(1,190)	(1,782)	(2,266)
	<u>(12,631)</u>	<u>(17,571)</u>	<u>(19,453)</u>	<u>(25,496)</u>
Loss per share				
– Basic and diluted				
(HK cents per share)	<u>(0.35)</u>	<u>(0.66)</u>	<u>(0.55)</u>	<u>(0.99)</u>

7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

		(Unaudited) 30 June 2016 <i>HK\$'000</i>	(Audited) 31 December 2015 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	8	3,067	1,215
Club debenture		115	115
Concession rights		77,192	81,526
		<u>80,374</u>	<u>82,856</u>
Current assets			
Inventories		851	–
Prepayments, deposits and other receivables	9	3,710	9,770
Amounts due from non-controlling interests of subsidiaries		1,822	2,227
Pledged bank deposit		215	215
Cash and bank balances		34,932	78,077
		<u>41,530</u>	<u>90,289</u>
Current liabilities			
Trade and other payables	10	7,333	7,884
Amount due to a director		–	136
Amount due to a non-controlling interest of a subsidiary		210	215
Current tax liabilities		–	1
		<u>7,543</u>	<u>8,236</u>
Net current assets		<u>33,987</u>	<u>82,053</u>
Total assets less current liabilities		<u>114,361</u>	<u>164,909</u>
Non-current liabilities			
Convertible bonds	11	41,447	59,633
Deferred tax liabilities		23,682	27,719
		<u>65,129</u>	<u>87,352</u>
Net assets		<u>49,232</u>	<u>77,557</u>

	(Unaudited)	(Audited)
	30 June	31 December
	2016	2015
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital and reserves		
Share capital – ordinary shares	15,600	15,600
Share capital – non-redeemable convertible preferred shares	5,017	5,017
Reserves	1,084	27,627
	<hr/>	<hr/>
Equity attributable to owners of the Company	21,701	48,244
Non-controlling interests	27,531	29,313
	<hr/>	<hr/>
Total equity	49,232	77,557
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

Attributable to owners of the Company

	Share capital - non- redeemable convertible preferred shares (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Warrants reserve (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Convertible bonds equity reserve (Unaudited) HK\$'000	Share options reserve (Unaudited) HK\$'000	Foreign currency translation reserve (Unaudited) HK\$'000	Other reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Subtotal (Unaudited) HK\$'000	Attributable to non- controlling interests (Unaudited) HK\$'000	Total (Unaudited) 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 period	-	-	-	-	-	-	-	-	-	(23,406)	(23,406)	(2,422)	(25,828)
Other comprehensive income for the period	-	-	-	-	-	-	176	-	-	176	156	332	
Total comprehensive income/(expense) for the period	-	-	-	-	-	-	176	-	(23,406)	(23,230)	(2,266)	(25,496)	
Recognition of equity-settled share-based payments	-	-	-	-	-	7,463	-	-	-	7,463	-	7,463	
Exercise 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)	
Release of reserve upon lapse of warrants	-	-	-	(1,740)	-	-	-	-	1,740	-	-	-	
Balance at 30 June 2015	15,600	5,017	3,348,003	-	1	54,771	29,181	121,059	(49)	(3,524,884)	48,699	33,028	81,727

Attributable to owners of the Company

	Share capital - non-	Share redeemable capital - ordinary shares	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
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
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 period	-	-	-	-	-	-	-	-	(17,258)	(17,258)	(1,533)	(18,791)
Other comprehensive income for the period	-	-	-	-	-	-	(413)	-	-	(413)	(249)	(662)
Total comprehensive expense for the period	-	-	-	-	-	-	(413)	-	(17,258)	(17,671)	(1,782)	(19,453)
Recognition of equity-settled share-based payments	-	-	-	-	-	4,061	-	-	-	4,061	-	4,061
Redemption of convertible bonds	-	-	-	-	(15,824)	-	-	-	464	(15,360)	-	(15,360)
Deferred tax relating to convertible bonds	-	-	-	-	2,427	-	-	-	-	2,427	-	2,427
Balance at 30 June 2016	15,600	5,017	3,348,003	1	16,338	36,783	117,843	(49)	(3,517,835)	21,701	27,531	49,232

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	(Unaudited)	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Net cash used in operating activities	(4,859)	(10,711)
Net cash used in investing activities	(2,288)	(1,576)
Net cash (used in)/generated by financing activities	(36,084)	63,363
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(43,231)	51,076
Cash and cash equivalents at the beginning of period	78,077	61,790
Effect of foreign exchange rate changes, net	86	6
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	34,932	112,872
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	34,932	112,872

Notes:

1. BASIS OF PREPARATION AND IMPACT OF NEW HKFRSs AND HKASs

The unaudited condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standards (“**HKAS**”) 34 “Interim Financial Reporting”, other relevant HKASs and Interpretations (“**Ints**”) and Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure required by the GEM Listing Rules. It has been prepared under historical cost convention.

The unaudited condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2015, except for the adoption of the new and revised HKFRSs (which include individual HKFRSs, HKASs and Ints).

In the current interim period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2016. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies and amounts reported for the current and prior periods.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

The unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2015.

Certain comparative amounts have been reclassified to conform with current period’s presentation as the Group has changed the composition of its reportable segments. There is only one operating segment being presented during the six months ended 30 June 2016 as the Group was focusing on its lottery business and there were no results attributable to the segment of trading of computer hardware and software. Accordingly, segment information of trading of computer hardware and software for the six months ended 30 June 2015 for comparative purposes has not been presented.

2. REVENUE

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

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Sale of lottery equipment	39	–	39	–
Provision of management, marketing, and operating services for lottery system and lottery halls	83	245	183	489
	<u>122</u>	<u>245</u>	<u>222</u>	<u>489</u>

3. 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 People's Republic of China (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 unaudited condensed 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.

4. FINANCE COSTS

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Effective interest on convertible bonds	<u>1,464</u>	<u>5,784</u>	<u>3,189</u>	<u>8,074</u>

5. INCOME TAX CREDIT

Income tax recognised in profit or loss

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred tax	<u>(984)</u>	<u>(1,479)</u>	<u>(1,610)</u>	<u>(2,306)</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 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 at 30 June 2016 and 31 December 2015.

6. LOSS FOR THE PERIOD

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period has been arrived at after (crediting)/charging:				
Crediting:				
Bank interest income	(5)	(362)	(15)	(712)
Net foreign exchange gain	—	(499)	—	(184)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Charging:				
Auditors' remuneration	271	225	504	450
Employee benefits expense (excluding directors' emoluments):				
— Salaries and other benefits in kind	956	881	1,677	1,732
— Equity-settled share-based payments	406	—	406	—
— Contributions to retirement benefits schemes	69	40	96	111
Directors' emoluments	1,722	1,726	3,445	3,452
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total staff costs	3,153	2,647	5,624	5,295
Minimum lease payments paid under operating leases in respect of land and buildings	737	347	1,107	735
Net foreign exchange loss	184	—	66	—
Depreciation of property, plant and equipment	265	173	318	246
Expense in relation to share options granted to consultants (included in administrative expenses)	3,655	7,463	3,655	7,463
Amortisation of concession rights (included in other operating expenses)	1,826	2,128	3,719	4,222
	<u> </u>	<u> </u>	<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 30 June		(Unaudited) Six months ended 30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	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	(10,837)	(16,396)	(17,258)	(23,406)

Number of shares

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2016	2015	2016	2015
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	3,120,035	2,494,508	3,120,035	2,356,538

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. PROPERTY, PLANT AND EQUIPMENT

	At 30 June 2016 (Unaudited) HK\$'000	At 31 December 2015 (Audited) HK\$'000
Net book value, beginning of the period/year	1,215	1,897
Additions	2,303	9
Disposals	-	-
Depreciation	(318)	(613)
Effect of foreign currency exchange differences	(133)	(78)
	<u>3,067</u>	<u>1,215</u>
Net book value, end of the period/year	<u>3,067</u>	<u>1,215</u>
Cost	7,443	5,132
Accumulated depreciation	(4,376)	(3,917)
	<u>3,067</u>	<u>1,215</u>
Net book value, end of the period/year	<u>3,067</u>	<u>1,215</u>

9. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2016 (Unaudited) HK\$'000	At 31 December 2015 (Audited) HK\$'000
Prepayments	1,073	1,392
Deposits and other receivables	4,637	10,378
	<u>5,710</u>	<u>11,770</u>
Less: allowance for doubtful debts	(2,000)	(2,000)
	<u>3,710</u>	<u>9,770</u>
Total prepayments, deposits and other receivables	<u>3,710</u>	<u>9,770</u>

10. TRADE AND OTHER PAYABLES

	At 30 June 2016 (Unaudited) HK\$'000	At 31 December 2015 (Audited) HK\$'000
Trade payables	4	4
Other payables and accruals	7,042	7,688
Accrued salaries and other benefits in kind	287	192
	7,333	7,884

The following is an ageing analysis of trade payables at the end of the reporting period:

	At 30 June 2016 (Unaudited) HK\$'000	At 31 December 2015 (Audited) HK\$'000
Over 180 days	4	4

11. CONVERTIBLE BONDS

During the six months ended 30 June 2016, the Company early redeemed an aggregate of 30,070,000 convertible bonds at a total consideration of HK\$36,084,000 from Mr. Leung Ngai Man (a substantial shareholder, the chairman and executive director of the Company), pursuant to the terms and conditions of the convertible bonds. The difference between the redemption amounts and the total carrying amounts of liability component and equity component amounting to approximately HK\$651,000 has been credited to the consolidated statement of profit or loss and other comprehensive income and amounting to approximately HK\$464,000 has been credited to accumulated losses, respectively.

12. FAIR VALUE MEASUREMENT

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate to their fair values:

	At 30 June 2016	
	(Unaudited)	(Unaudited)
	Carrying amount	Fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial liabilities		
Convertible bonds	41,447	40,334

13. RELATED PARTY TRANSACTIONS

Save as disclosed in this report, the Group had the following significant transactions with related parties during the period:

Compensation of key management personnel

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

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term benefits	1,713	1,717	3,427	3,434
Post-employment benefits	9	9	18	18
	1,722	1,726	3,445	3,452

14. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

According to the Outline of the 13th Five-Year Development Plan and the 13th Five-Year Plan for the Development of Sports Industry, the technical team of the Group has been proactively carrying out the research and development related to 4G smartwatches on back of consolidating and optimising the Group's existing lottery business in the PRC.

Termination of Dr. Wang's appointment

Doctor Wang Xin ("**Dr. Wang**") was appointed as the chief technology officer of the Group (the "**Chief Technology Officer**") with effect from 26 April 2016 (the "**Appointment**"), being responsible for the development of and research on wearable intelligent medical devices of the Group. Details of the Appointment were set out in the Company's announcement dated 29 April 2016. On 3 August 2016, pursuant to the employment contract (the "**Contract**") entered into between the Group and Dr. Wang, the Appointment of Dr. Wang as the Chief Technology Officer and the Contract were terminated by the Group.

Cooperation with Hainan Xinsheng

On 17 June 2016, 深圳高榮財智科技有限公司 (transliterated as Shenzhen Gaorong Caizhi Technology Company Limited), a wholly-owned subsidiary of the Company ("**Shenzhen Gaorong**"), entered into a memorandum of understanding (the "**Memorandum of Understanding**") with 海南新生中彩科技有限公司 (transliterated as Hainan Xinsheng Zhongcai Technology Co., Ltd.) ("**Hainan Xinsheng**"), an independent third party.

The parties agreed to cooperate on the business development of the sales and related value-added services of KTV lottery in the Hainan Province. Hainan Xinsheng shall be responsible for the arrangement of entering into the agreement with Hainan Sports Lottery Administrative Centre (海南省體育彩票管理中心) in relation to sale of sports lottery through KTV channels in Hainan Province. Shenzhen Gaorong shall be responsible for providing the technology platforms, other relevant technology and documentation support for the KTV lottery sales. In addition, Shenzhen Gaorong shall be responsible for the promotion of KTV channel lottery sales and payment for the relevant expenses incurred by the KTV channel co-operation partners in lottery sales. The way of allocation of income will be confirmed at the time of the entering into the formal co-operation agreement between the parties. The Memorandum of Understanding will be expired upon the entering into the formal co-operation agreement.

Hainan Xinsheng is a professional lottery operating company in Hainan Province, the PRC which has long co-operation history with Hainan Sports Lottery Administrative Centre (海南省體育彩票管理中心). Considering that Shenzhen Gaorong has entered into an agreement with 北京雷石世紀科技有限公司 (transliterated as Beijing Thunderstone Technology Limited), the biggest provider of KTV technologies, platforms and music copyrights in the world, for sale of Chinese lotteries at the KTV bars/clubs it operates in China, the Directors are of the view that the cooperation is consistent with the Group's strategy to develop its lottery business and will benefit the Company and the shareholders of the Company (the "**Shareholders**") as a whole. The Directors consider the terms of the Memorandum of Understanding are fair and reasonable and the cooperation is in the interest of the Company and Shareholders as a whole. Details of the cooperation were set out in the Company's announcement dated 17 June 2016.

Financial Review

For the six months ended 30 June 2016, the Group recorded an unaudited revenue of approximately HK\$222,000 with a decrease of approximately HK\$267,000 as compared with that for the corresponding period in 2015. During the six months ended 30 June 2016, the revenue of the Group was mainly derived from provision of management, marketing and operating services for lottery system and lottery halls. For the six months ended 30 June 2016, the unaudited loss attributable to owners of the Company decrease by approximately HK\$6,148,000 as compared with that for the corresponding period in 2015.

Liquidity and financial resources

As at 30 June 2016, the Group had unaudited cash and bank balances (excluding pledged bank deposit) of approximately HK\$34,932,000 (31 December 2015 (audited): approximately HK\$78,077,000). The majority bank balances are denominated in Hong Kong dollars and was placed in short term deposit.

As at 30 June 2016, the Group recorded unaudited total assets of approximately HK\$121,904,000 (31 December 2015 (audited): approximately HK\$173,145,000), and recorded unaudited total liabilities of approximately HK\$72,672,000 (31 December 2015 (audited): approximately HK\$95,588,000).

Capital structure

As at 30 June 2016, the Company had 3,120,035,049 ordinary shares (the "**Shares**", each, a "**Share**") (31 December 2015: 3,120,035,049 Shares) in issue.

Significant investment

The Group had no significant investment for the six months ended 30 June 2016.

Material acquisition or disposal of subsidiary

The Group had no material acquisition or disposal of subsidiary for the six months ended 30 June 2016.

Segmental information

Information reported to the Board, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group's reportable and operating segment under HKFRS 8 is as follows:

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.

Employee information

As at 30 June 2016, the Group employed a total of 42 (31 December 2015: 31) employees. The staff costs, including Directors' remuneration, were approximately HK\$5,624,000 for the six months ended 30 June 2016 (six months ended 30 June 2015: approximately HK\$5,295,000).

The Company has adopted a share option scheme on 29 June 2007 (the “**Share Option Scheme**”) to motivate and give incentive to the eligible participants as defined in the Share Option Scheme for their contributions to the Group. Details of the Share Option Scheme were set out in the annual report for the year ended 31 December 2015.

Charges on Group assets

As at 30 June 2016, a fixed deposit of approximately HK\$215,000 was pledged for obtaining the corporate card services (31 December 2015: approximately HK\$215,000).

Future plans for material investments or capital assets

Save as disclosed in this report, as at 30 June 2016, there was no specific plan for material investments and acquisition of material capital assets. However, the Group will continue to seek for new business development opportunities especially in developing lottery business in the PRC.

Gearing ratio

As at 30 June 2016, the gearing ratio of the Group was approximately 84% (31 December 2015: approximately 77%), based on the total borrowings of approximately HK\$41,447,000 (31 December 2015: approximately HK\$59,633,000) and the total equity of the approximately HK\$49,232,000 (31 December 2015: approximately HK\$77,557,000).

Exposure to fluctuation in exchange rates

As at 30 June 2016, the Group's exposure to currency exchange rates is minimal as the group companies usually hold most of their financial assets/liabilities in their own functional currencies. Currently, the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Contingent liabilities

As at 30 June 2016, the Group had no significant contingent liabilities (31 December 2015: Nil).

Prospect

In 2016, the Group will seek for new investment opportunity to generate investment returns for the Shareholders according to the national economic development plan.

Other Information

Early redemption of Convertible Bond

On 18 January 2016, the Company early redeemed a portion of the convertible bond in the aggregate principal amount of HK\$797.5 million issued by the Company to Mr. Leung Ngai Man (“**Mr. Leung**”) on 27 August 2010 (the “**Convertible Bond**”) in the aggregate principal amount of approximately HK\$10,080,000.

On 2 April 2016, the Company early redeemed a portion of the Convertible Bond in the aggregate principal amount of approximately HK\$15,000,000.

On 28 June 2016, the Company early redeemed a portion of the Convertible Bond in the aggregate principal amount of approximately HK\$11,004,000.

Grant of share options

On 6 May 2016, the Company granted share options to certain eligible participants to subscribe for a total of 100,000,000 new Shares pursuant to the Share Option Scheme at an exercise price of HK\$0.105 per Share. Details of which were set out in the announcement of the Company dated 6 May 2016.

Change of Company Secretary

Mr. Wong Ka Bong resigned as the company secretary of the Company (the “**Company Secretary**”) with effect from 30 June 2016 and Mr. Wong Chun Kit has been appointed as the Company Secretary in place of Mr. Wong Ka Bong with effect from 30 June 2016 (the “**Change of Company Secretary**”). Details of the Change of Company Secretary were set out in the announcement of the Company dated 30 June 2016.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2016, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings in securities by directors of listed issuer as referred to in rule 5.46 of the GEM Listing Rules (the “Required Standard of Dealings”), were as follows:

Long position in the Shares and underlying Shares

Name of Director	Number of Shares		Equity derivatives	Total	Approximate percentage of issued share capital (Note 8)
	Personal interest	Corporate interest			
Mr. Leung	906,335,000 (Note 1)	294,880 (Notes 1 & 2)	1,060,013,333 (Notes 3, 4 & 5)	1,966,643,213	63.03%
Ms. Wu Wei Hua (“Ms. Wu”)	–	–	22,000,000 (Notes 6 & 7)	22,000,000	0.71%

Notes:

- As a result of the 2012 Share Consolidation (as defined below), these Shares were adjusted.
- These Shares were held by Speedy Well Investments Limited (“Speedy Well”) which was wholly and beneficially owned by Mr. Leung. By virtue of the SFO, Mr. Leung was deemed to be interested in the Shares held by Speedy Well.
- These equity derivatives comprise 56,680,000 Shares to be issued upon exercise of conversion rights attaching to the Convertible Bond which were issued by the Company on 27 August 2010 and 1,003,333,333 Convertible Preferred Shares (as defined below) were allotted and issued by the Company on 17 December 2012.

4. The Convertible Bond in an aggregate principal amount of HK\$797,500,000 at a conversion price of HK\$0.240 per share were issued to Mr. Leung on 27 August 2010. Upon full conversion of the Convertible Bond, a maximum of 3,322,916,666 shares of HK\$0.001 each in the share capital of the Company shall be issued to Mr. Leung. As at 30 June 2016, the Convertible Bond in the amount of HK\$68,016,000 remained outstanding. As a result of the consolidation of every five shares of HK\$0.001 each in both issued and unissued share capital of the Company into one consolidated share of HK\$0.005 each which became effective on 27 February 2012 (the “**2012 Share Consolidation**”), the relevant conversion price was adjusted from HK\$0.240 to HK\$1.200 per Share and the number of Shares falling to be issued under the outstanding Convertible Bond was adjusted from 283,400,000 shares of HK\$0.001 each in the share capital of the Company to 56,680,000 consolidated shares. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.
5. 1,563,333,333 convertible preferred shares at an issue price of HK\$0.600 per convertible preferred share were allotted and issued to Mr. Leung on 17 December 2012 (the “**Convertible Preferred Shares**”) to capitalise the outstanding amount of approximately HK\$938,000,000 due by the Company to Mr. Leung pursuant to the promissory note issued by the Company to Mr. Leung on 27 August 2010 as part of the consideration for the acquisition of the entire equity interest in Pearl Sharp Limited. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO. As at 30 June 2016, 1,003,333,333 allotted and issued Convertible Preferred Shares were not converted yet.
6. On 10 July 2008, Ms. Wu was granted share options pursuant to the Share Option Scheme to subscribe for a total of 20,000,000 shares of HK\$0.0005 each in the share capital of the Company at an exercise price of HK\$0.1328 per share. Such share options would be exercisable during the period from 10 July 2008 to 29 June 2017. As a result of the consolidation of every two shares in both issued and unissued share capital of the Company into one consolidated share of HK\$0.001 each which became effective on 21 October 2008, the relevant subscription price was adjusted from HK\$0.1328 to HK\$0.2656 per consolidated share and the number of consolidated shares falling to be issued under the outstanding share options was adjusted from 20,000,000 shares to 10,000,000 consolidated shares. As a result of the 2012 Share Consolidation, the relevant subscription price was further adjusted from HK\$0.2656 to HK\$1.3280 per Share and the number of Shares falling to be issued under the outstanding share options was adjusted from 10,000,000 consolidated shares to 2,000,000 Shares. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.
7. On 10 July 2014, Ms. Wu was further granted share options pursuant to the Share Option Scheme to subscribe for a total of 20,000,000 Shares at an exercise price of HK\$0.280 per share. Such share options would be exercisable during the period from 10 July 2014 to 29 June 2017. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.
8. The percentage is calculated on the basis of 3,120,035,049 Shares in issue as at 30 June 2016.

Save as disclosed above, as at 30 June 2016, none of the Directors and the chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Required Standard of Dealings.

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

Save as disclosed above, as at 30 June 2016, the Company had not been notified by any person or company, other than the Directors or the chief executive of the Company, whose interest are set out in the section headed “INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION” in this report, who had interest or short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

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

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 29 June 2007 to replace its previous share option scheme adopted on 19 February 2001 and refreshed its 10% general limit on the grant of share options on 9 April 2009, 20 April 2010 and 5 May 2014 respectively. The principal purpose of the Share Option Scheme is to motivate and give incentive to the eligible participants as defined in the Share Option Scheme for their contributions to the Group.

For the six months ended 30 June 2016, detailed movements relating to options granted under the Share Option Scheme were as follows:

Name or category of participant	Date of grant	Exercise price	Exercise period	Movements of share options during the period				
				As at 1 January 2016	Granted	Exercised	Lapsed/Cancelled/Forfeited	As at 30 June 2016
Other Participants	9 July 2007	1.425*	9 July 2007 – 29 June 2017	9,600,000*	-	-	-	9,600,000*
	22 August 2007	2.030*	22 August 2007 – 29 June 2017	8,200,000*	-	-	-	8,200,000*
	10 July 2008	1.328*	10 July 2008 – 29 June 2017	7,200,000*	-	-	-	7,200,000*
	10 October 2013	0.087	10 October 2013 – 29 June 2017	16,000,000	-	-	-	16,000,000
	25 March 2014	0.364	25 March 2014 – 29 June 2017	32,000,000	-	-	-	32,000,000
	26 March 2014	0.365	26 March 2014 – 29 June 2017	2,700,000	-	-	-	2,700,000
	27 May 2015	0.290	27 May 2015 – 29 June 2017	66,000,000	-	-	-	66,000,000
	4 June 2015	0.270	4 June 2015 – 29 June 2017	10,000,000	-	-	-	10,000,000
	6 May 2016	0.105	6 May 2016 – 29 June 2017	-	100,000,000	-	-	100,000,000
	Director							
— Ms. Wu	10 July 2008	1.328*	10 July 2008 – 29 June 2017	2,000,000*	-	-	-	2,000,000*
	10 July 2014	0.280	10 July 2014 – 29 June 2017	20,000,000	-	-	-	20,000,000

* The number of share options granted and the exercise price had been adjusted as a result of the 2012 Share Consolidation.

During the six months ended 30 June 2016, 100,000,000 share options at an exercise price of HK\$0.105 per Share were granted by the Company. No share options granted under the Share Option Scheme were exercised during the six months ended 30 June 2016.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections “INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION” and “SHARE OPTION SCHEME” in this report, at no time during the six months ended 30 June 2016 and up to the date of this report, was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporation as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

AUDIT COMMITTEE

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

The Group’s interim results for the six months ended 30 June 2016 have been reviewed by the Audit Committee which is of the opinion that such statements complied with the applicable accounting standards, the GEM Listing Rules and other legal requirements and that adequate disclosures have been made.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to maintaining high standards of corporate governance in order to uphold the transparency of the Group and safeguard interests of the Shareholders.

For the period under review from 1 January 2016 to 30 June 2016, the Company complied with all the code provisions in the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 15 to the GEM Listing Rules except for the following:

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the role of chairman and chief executive should be separate and should not be performed by the same individual.

Currently, the role of the chairman of the Board (the “**Chairman**”) is performed by Mr. Leung who possesses essential leadership skills and has extensive knowledge in the business of the Group. The Board believes that vesting the role of the Chairman in Mr. Leung provides the Company with strong and consistent leadership, facilitates effective and efficient planning, implementation of business decisions and strategies, and ensures the generation of benefits to the Shareholders.

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions by Directors (the “Code”) which is on terms no less exacting than the Required Standard of Dealings. The Company has made specific inquiry with all the Directors, and has not been notified of any non-compliance with the Required Standard of Dealings and the Code by the Directors during the six months ended 30 June 2016.

COMPETING INTERESTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2016.

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

Hong Kong, 10 August 2016

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