

China Communication

TELECOM SERVICES

Interim Report 2010



China Communication Telecom Services Company Limited

神通電信服務有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 8206)

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This report, for which the directors (the “Directors”) of China Communication Telecom Services Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS

- Turnover of the Group for the six months ended 30 September 2010 was approximately HK\$19,286,000.
- Net loss attributable to owners of the Company was approximately HK\$29,342,000 for the six months ended 30 September 2010.
- Loss per share for the six months ended 30 September 2010 was approximately HK2.46 cents.
- The board of the Directors (the “Board”) does not recommend the payment of a dividend for the six months ended 30 September 2010.

The Directors hereby present the unaudited consolidated results of the Company together with its subsidiaries (collectively the “Group”) for the six months ended 30 September 2010.

FINANCIAL PERFORMANCE

The Group recorded consolidated turnover of approximately HK\$19,286,000 for the six months ended 30 September 2010, representing an increase of approximately 58.6% as compared to approximately HK\$12,160,000 for the six months ended 30 September 2009. The turnover for the six months ended 30 September 2010 was attributable to (i) the provision of promotion and management services for an electronic smart card “Shentong Card”, (ii) the operation of the e-Sports platform and online game and (iii) distribution of computer games in the PRC.

The Group made a net loss attributable to owners of the Company of approximately HK\$29,342,000 for the six months ended 30 September 2010 as compared to approximately HK\$28,331,000 for the six months ended 30 September 2009.

BUSINESS REVIEW

Apart from the continuous efforts to monitor the market development, restructure and streamline the business operations as and when necessary so as to improve the current financial status of the Group and enhance the business performance, the Board has been actively seeking other opportunities to broaden the revenue base of the Group.

In March 2010, the Group completed acquisition of 100% of the equity interest in 北京神通益家科技服務有限公司 (Beijing Shentong Yijia Technology Services Company Limited#) (“Yijia”). The Board considers that this acquisition will enable the Group to expose to the fast growing electronic smart card services business in the PRC.

To better reflect the core business of the Group and the well-developed partnership with 神州通信集團有限公司 (China Communication Group Co., Ltd.#) (“CCC”) and its group, as well as refresh the corporate identity and image of the Company, the Company has adopted the current name China Communication Telecom Services Company Limited since May 2010.

Provision of promotion and management services

For the six months ended 30 September 2010, the revenue derived from the provision of promotion and management services was approximately HK\$19,077,000. No revenue was derived from the provision of promotion and management services for the same period last year.

Operation of the e-Sports Platform

For the six months ended 30 September 2010, the revenue derived from the operation of the e-Sports Platform was approximately HK\$196,000 as compared to approximately HK\$5,347,000 for the six months ended 30 September 2009. The decrease was attributable to the downturn for the animation and game industry in the PRC during the period.

Distribution and selling of computer games in the PRC

For the six months ended 30 September 2010, the revenue derived from the distribution and selling of computer games in the PRC was approximately HK\$13,000 as compared to approximately HK\$8,000 for the six months ended 30 September 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue and profitability

The Group recorded a turnover of approximately HK\$19,286,000 (2009: HK\$12,160,000) for the six months ended 30 September 2010, representing an increase of approximately 58.6% as compared with 2009/10. Approximately 98.9%, 1.0% and 0.1% of turnover for the six months ended 30 September 2010 (2009: 0%, 44.0% and 0%) were attributable to the provision of promotion and management services for an electronic smart card “Shentong Card”, the operation of the e-Sports platform and online game and distribution of computer games in the PRC.

The Group's gross loss for the six months ended 30 September 2010 amounted to approximately HK\$9,796,000 as compared to a profit of approximately HK\$506,000 for the six months ended 30 September 2009.

Selling and distribution, administrative and other operating expenses for the six months ended 30 September 2010 was approximately HK\$23,329,000 as compared to approximately HK\$24,999,000 for the six months ended 30 September 2009. The decrease of the expenses was mainly attributable to the continuous efforts to restructure and streamline the business operations.

Net loss attributable to the owners of the Company

The Group made a net loss attributable to the owners of the Company of approximately HK\$29,342,000 for the six months ended 30 September 2010 as compared to approximately HK\$28,331,000 for the six months ended 30 September 2009.

Liquidity and financial resources

As at 30 September 2010, the Group had outstanding promissory note at a nominal value of approximately HK\$238.7 million (as at 31 March 2010: HK\$238.7 million) with a discounted value of approximately HK\$246.1 million (as at 31 March 2010: HK\$244.6 million). The promissory note was originally unsecured, bearing interest at 2% per annum, and with maturity date on 10 February 2010. On 30 March 2009, CCI agreed to vary the terms of promissory note, such that the maturity date was changed to 10 August 2010 ("New Maturity Date"). In addition, upon New Maturity Date, the Group has the right to postpone ("Maturity Postponement Right") the maturity date to 30 June 2011 ("Extended Maturity Date") if the latest published financial information of the Group indicating that the repayment of principal and accrued interest would cause the net current assets of the Group fall below HK\$50 million. Such Maturity Postponement Right can be exercised on 30 June of every year subsequent to the Extended Maturity Date until the ultimate maturity date of 30 June 2025. Other than the promissory note, the Group did not have any other committed borrowing facilities as at 30 September 2010 (as at 31 March 2010: HK\$Nil).

As at 30 September 2010, the Group had net current liabilities of approximately HK\$219,212,000 (as at 31 March 2010: net current assets of HK\$34,940,000). The Group's current assets consisted of cash and cash equivalents of approximately HK\$62,516,000 (as at 31 March 2010: HK\$67,242,000) and trade and other receivables of approximately HK\$2,310,000 (as at 31 March 2010: HK\$4,981,000). The Group's current liabilities included trade and other payables of approximately HK\$34,209,000 (as at 31 March 2010: HK\$36,829,000), amounts due to substantial shareholders of approximately HK\$3,628,000 (as at 31 March 2010: HK\$Nil), promissory note of approximately HK\$246,110,000 (as at 31 March 2010: HK\$Nil) and current taxation of approximately HK\$91,000 (as at 31 March 2010: HK\$454,000).

The gearing ratio, defined as the ratio of total liabilities to total assets, was 1.19 as at 30 September 2010 as compared to 1.10 as at 31 March 2010.

At present, the Group generally finances its operations and investment activities with internally generated cash flows.

Capital structure

There was no change in the capital structure during the six months ended 30 September 2010.

Charge on assets

The Group did not have any charge on its assets as at 30 September 2010 and 31 March 2010.

Staff costs (including directors' emoluments)

As at 30 September 2010, the Group had 104 employees (2009: 68 employees). The staff costs for the six months ended 30 September 2010 was approximately HK\$5,627,000 (2009: HK\$4,671,000). The Group's remuneration, bonus and share option scheme policies are granted based on the performance and experience of individual employees.

Material investment or capital assets

As at 30 September 2010, the Group did not have any plan for material investments or acquisition of capital assets. Nevertheless, the Group is constantly looking for such opportunities to enhance the shareholders' value.

Foreign currency risk

The income and expenditure of the Group are mainly carried in Hong Kong dollars and Renminbi and the assets and liabilities of the Group were mainly denominated in Hong Kong dollars and Renminbi. The Group does not expect significant exposure to foreign exchange fluctuations.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 September 2010 and 31 March 2010.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2010

	Note	For the three months ended 30 September		For the six months ended 30 September	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
Continuing operations					
Turnover	3	9,715	1,254	19,286	5,355
Cost of sales		(14,014)	(2,167)	(29,082)	(4,372)
Gross (loss)/profit		(4,299)	(913)	(9,796)	983
Other revenue	4	6	12	40	27
Selling and distribution expenses		(3,733)	(2,510)	(7,817)	(4,914)
Administrative expenses		(8,464)	(3,312)	(15,512)	(6,922)
Loss from operations		(16,490)	(6,723)	(33,085)	(10,826)
Finance costs	5(a)	(749)	(5,005)	(1,489)	(10,007)
Loss before taxation		(17,239)	(11,728)	(34,574)	(20,833)
Income tax	6	2,800	(42)	5,232	387
Loss for the period from continuing operations		(14,439)	(11,770)	(29,342)	(20,446)
Discontinued operation					
Loss for the period from discontinued operation	7	-	(1,933)	-	(12,060)
Loss for the period	5	(14,439)	(13,703)	(29,342)	(32,506)

	For the three months ended 30 September		For the six months ended 30 September	
	2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited) (Restated)	2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited) (Restated)
Attributable to:				
Owners of the Company	(14,439)	(12,203)	(29,342)	(28,331)
Non-controlling interest	<u>–</u>	<u>(1,500)</u>	<u>–</u>	<u>(4,175)</u>
Loss for the period	<u>(14,439)</u>	<u>(13,703)</u>	<u>(29,342)</u>	<u>(32,506)</u>
Loss per share	9			
From continuing and discontinued operations				
– Basic	<u>(1.21 cents)</u>	<u>(1.52 cents)</u>	<u>(2.46 cents)</u>	<u>(3.53 cents)</u>
– Diluted	<u>(1.21 cents)</u>	<u>(1.52 cents)</u>	<u>(2.46 cents)</u>	<u>(3.53 cents)</u>
From continuing operations				
– Basic	<u>(1.21 cents)</u>	<u>(1.34 cents)</u>	<u>(2.46 cents)</u>	<u>(2.40 cents)</u>
– Diluted	<u>(1.21 cents)</u>	<u>(1.34 cents)</u>	<u>(2.46 cents)</u>	<u>(2.40 cents)</u>
From discontinued operation				
– Basic	<u>N/A</u>	<u>(0.18 cents)</u>	<u>N/A</u>	<u>(1.13 cents)</u>
– Diluted	<u>N/A</u>	<u>(0.18 cents)</u>	<u>N/A</u>	<u>(1.13 cents)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2010

	For the three months ended 30 September		For the six months ended 30 September	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Loss for the period	(14,439)	(13,703)	(29,342)	(32,506)
Other comprehensive income for the period				
Exchange differences on translation of financial statements of overseas subsidiaries	2,726	16	2,662	24
Total comprehensive loss for the period (net of tax)	(11,713)	(13,687)	(26,680)	(32,482)
Attributable to:				
Owners of the Company	(11,713)	(12,191)	(26,680)	(28,313)
Non-controlling interest	–	(1,496)	–	(4,169)
	(11,713)	(13,687)	(26,680)	(32,482)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2010

	Note	At 30 September 2010 HK\$'000 (Unaudited)	At 31 March 2010 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	3,636	2,372
Intangible assets	12	215,693	234,740
		219,329	237,112
Current assets			
Trade and other receivables	13	2,310	4,981
Cash and cash equivalents		62,516	67,242
		64,826	72,223
Current liabilities			
Trade and other payables	14	34,209	36,829
Amounts due to substantial shareholders		3,628	–
Promissory note	15	246,110	–
Current taxation	16(a)	91	454
		(284,038)	(37,283)
Net current (liabilities)/assets		(219,212)	34,940
Total assets less current liabilities		117	272,052
Non-current liabilities			
Amount due to a substantial shareholder		–	615
Promissory note	15	–	244,621
Deferred tax liabilities	16(b)	53,923	58,685
		(53,923)	(303,921)
NET LIABILITIES		(53,806)	(31,869)
EQUITY			
Equity attributable to owners of the Company			
Share capital	17	11,947	11,947
Reserves		(65,753)	(43,816)
		(53,806)	(31,869)
Non-controlling interest		–	–
TOTAL EQUITY		(53,806)	(31,869)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2010

	Attributable to owners of the Company						Total	Non-controlling interest	Total equity
	Share capital	Share premium	Merger reserve	Exchange reserve	Share-based payment reserve	Accumulated losses			
	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)
At 1 April 2009	8,023	679,423	8,320	9,135	3,246	(888,900)	(180,753)	12,482	(168,271)
Total comprehensive loss for the period	-	-	-	18	-	(28,331)	(28,313)	(4,169)	(32,482)
Share option scheme									
- equity-settled share-based payment expenses	-	-	-	-	449	-	449	-	449
- forfeiture of share options granted	-	-	-	-	(1,914)	1,914	-	-	-
At 30 September 2009	<u>8,023</u>	<u>679,423</u>	<u>8,320</u>	<u>9,153</u>	<u>1,781</u>	<u>(915,317)</u>	<u>(208,617)</u>	<u>8,313</u>	<u>(200,304)</u>
At 1 April 2010	11,947	1,042,779	8,320	9,218	1,830	(1,105,963)	(31,869)	-	(31,869)
Total comprehensive loss for the period	-	-	-	2,662	-	(29,342)	(26,680)	-	(26,680)
Share option scheme									
- equity-settled share-based payment expenses	-	-	-	-	4,743	-	4,743	-	4,743
- forfeiture of share options granted	-	-	-	-	(1,781)	1,781	-	-	-
At 30 September 2010	<u>11,947</u>	<u>1,042,779</u>	<u>8,320</u>	<u>11,880</u>	<u>4,792</u>	<u>(1,133,524)</u>	<u>(53,806)</u>	<u>-</u>	<u>(53,806)</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2010

	For the six months ended 30 September	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Net cash (used in)/generated from operating activities	(5,786)	10,544
Net cash used in investing activities	(1,647)	(10)
Net cash generated from financing activities	3,013	–
Net (decrease)/increase in cash and cash equivalents	(4,420)	10,534
Cash and cash equivalents at beginning of the period	67,242	18,184
Effect of foreign exchange rates changes	(306)	(6)
Cash and cash equivalents at end of the period	62,516	28,712
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	62,516	28,712

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2010

1. GENERAL INFORMATION

China Communication Telecom Services Company Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is P.O. Box 309GT, Uglund House, South Church Street, Grand Cayman, Cayman Islands. The address of its principal place of business is Units 2115-2116, 21/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. The Company’s shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company and its subsidiaries (the “Group”) are principally engaged in the provision of promotion and management services for an electronic smart card “Shentong Card”, operation of the e-Sports platform and online game and distribution of computer games in the PRC.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated financial statements for the six months ended 30 September 2010 have been prepared in accordance with the applicable disclosure provision of the GEM Listing Rules on the Stock Exchange, including compliance with Hong Kong Accounting Standard 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2010. The accounting policies adopted are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2010, except for the adoption of the new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards as disclosed in interim report.

The condensed consolidated financial statements are presented in Hong Kong Dollars (“HK\$”), rounded to the nearest thousand except for per share data. Hong Kong dollar is the Company’s functional and presentation currency.

This condensed consolidated interim financial information has not been audited.

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 April 2010. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”), Hong Kong Accounting Standards (“HKAS”) and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group’s accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new 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.

This condensed consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the ability of the Group to operate within budget as set out in its cash flow forecast for the upcoming twelve months. Should there be any unexpected major adverse incidents, such as non-recovery of trade debts, substantial decline of planned operating cash flow, failure to obtain additional funding as planned or any incidents that would adversely affect the Group's financial position such that the Group is unable to continue as a going concern, adjustments would have to be made to the condensed consolidated financial statements to restate the values of the Group's assets to their immediate recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. TURNOVER

	For the three months ended 30 September		For the six months ended 30 September	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
Continuing operations				
Promotion and management service income	9,558	–	19,077	–
Operation of e-Sports platform	157	1,250	196	5,347
Selling of computer games	–	4	13	8
	9,715	1,254	19,286	5,355
Discontinued operation (note 7)				
Operation of online game	–	1,177	–	6,805
	9,715	2,431	19,286	12,160

4. OTHER REVENUE

For the three months ended 30 September

	Continuing operations		Discontinued operation		Consolidated	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
Recovery of bad debts	-	-	-	1,089	-	1,089
Interest income	6	12	-	-	6	12
Sundry income	-	-	-	-	-	-
	6	12	-	1,089	6	1,101

For the six months ended 30 September

	Continuing operations		Discontinued operation		Consolidated	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
Recovery of bad debts	-	-	-	1,089	-	1,089
Interest income	29	27	-	-	29	27
Sundry income	11	-	-	-	11	-
	40	27	-	1,089	40	1,116

5. LOSS FOR THE PERIOD

Loss for the period is arrived at after charging/(crediting) the following:

		For the three months ended 30 September					
		Continuing operations		Discontinued operation		Consolidated	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
(a)	Finance costs						
	Interest on promissory note	749	5,005	-	-	749	5,005
	Total interest expense on financial liabilities not at fair value through profit or loss	749	5,005	-	-	749	5,005
(b)	Staff costs (including directors' emoluments)						
	Salaries, allowances and benefits in kind	2,488	1,847	-	302	2,488	2,149
	Retirement scheme contributions	222	75	-	108	222	183
		2,710	1,922	-	410	2,710	2,332
(c)	Other items						
	Amortisation on intangible assets						
	– included in cost of sales	11,569	589	-	1,304	11,569	1,893
	– included in selling and distribution expenses	-	2,185	-	620	-	2,805
		11,569	2,774	-	1,924	11,569	4,698
	Depreciation for property, plant and equipment	216	1,136	-	99	216	1,235
	Operating lease charges for land and buildings:						
	– minimum lease payments	788	231	-	828	788	1,059
	Cost of inventories *	5	4	-	-	5	4
	Equity-settled share-based payment expenses	2,455	41	-	-	2,455	41
	Reversal of write down of inventories	(1)	-	-	-	(1)	-
	Other operating expenses						
	– Impairment loss on property, plant and equipment	-	-	-	-	-	-
	– Impairment loss on intangible assets	-	-	-	-	-	-
	– Impairment loss on trade receivables	-	-	-	-	-	-
		-	-	-	-	-	-

For the six months ended 30 September

	Continuing operations		Discontinued operation		Consolidated	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
(a) Finance costs						
Interest on promissory note	1,489	10,007	-	-	1,489	10,007
Total interest expense on financial liabilities not at fair value through profit or loss	1,489	10,007	-	-	1,489	10,007
(b) Staff costs (including directors' emoluments)						
Salaries, allowances and benefits in kind	5,096	3,668	-	603	5,096	4,271
Retirement scheme contributions	531	195	-	205	531	400
	5,627	3,863	-	808	5,627	4,671
(c) Other items						
Amortisation on intangible assets						
– included in cost of sales	22,942	1,169	-	2,611	22,942	3,780
– included in selling and distribution expenses	-	4,365	-	1,237	-	5,602
	22,942	5,534	-	3,848	22,942	9,382
Depreciation for property, plant and equipment	463	2,294	-	176	463	2,470
Operating lease charges for land and buildings:						
– minimum lease payments	1,388	1,250	-	1,059	1,388	2,309
Cost of inventories*	5	8	-	-	5	8
Equity-settled share-based payment expenses	4,743	449	-	-	4,743	449
Reversal of write down of inventories	(14)	-	-	-	(14)	-
Other operating expenses						
– Impairment loss on property, plant and equipment	-	-	-	413	-	413
– Impairment loss on intangible assets	-	-	-	4,590	-	4,590
– Impairment loss on trade receivables	-	-	-	4,651	-	4,651
	-	-	-	9,654	-	9,654

* Cost of inventories include reversal of write down of inventories for the period which amount are also included in the respective total amount disclosed separately above.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

For the three months ended 30 September

	Continuing operations		Discontinued operation		Consolidated	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
Current tax						
– PRC Enterprise Income Tax	(93)	–	–	–	(93)	–
Deferred tax						
– Origination and reversal of temporary differences	2,893	(42)	–	(97)	2,893	(139)
	2,800	(42)	–	(97)	2,800	(139)

For the six months ended 30 September

	Continuing operations		Discontinued operation		Consolidated	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
Current tax						
– PRC Enterprise Income Tax	(504)	–	–	–	(504)	–
Deferred tax						
– Origination and reversal of temporary differences	5,736	387	–	491	5,736	878
	5,232	387	–	491	5,232	878

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2009: 25%).

No Hong Kong Profits Tax has been provided for in the condensed consolidated financial statements as the Group has no assessable profits for the three months and six months ended 30 September 2010 (three months and six months ended 30 September 2009: HK\$Nil).

7. DISCONTINUED OPERATION

During the year ended 31 March 2010, the Group ceased its online game operation upon the expiration of the license rights of the online computer game "Sudden Attack" in the PRC on 10 February 2010.

The results of the online game operation for the period from 1 April 2009 to 30 September 2009, which have been included in the condensed consolidated income statement, are as follows:

	For the three months ended 30 September		For the six months ended 30 September	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
Turnover (note 3)	-	1,177	-	6,805
Cost of sales	-	(2,256)	-	(7,282)
Gross loss	-	(1,079)	-	(477)
Other revenue (note 4)	-	1,089	-	1,089
Selling and distribution expenses	-	(1,007)	-	(1,900)
Administrative expenses	-	(839)	-	(1,609)
Other operating expenses (note 5(c))	-	-	-	(9,654)
Loss from operations	-	(1,836)	-	(12,551)
Finance costs (note 5(a))	-	-	-	-
Loss before taxation	-	(1,836)	-	(12,551)
Income tax (note 6)	-	(97)	-	491
Loss for the period from discontinued operation	-	(1,933)	-	(12,060)

8. DIVIDENDS

No dividends was paid or proposed during the three months and six months ended 30 September 2010, nor has any dividend been proposed since the end of the reporting period (three months and six months ended 30 September 2009: HK\$Nil).

9. LOSS PER SHARE

(a) Basic loss per share

(i) From continuing and discontinued operations

The calculation of the basic loss per share for the three months and six months ended 30 September 2010 is based on the unaudited consolidated loss attributable to the owners of the Company of approximately HK\$14,439,000 (three months ended 30 September 2009: HK\$12,203,000) and HK\$29,342,000 (six months ended 30 September 2009: HK\$28,331,000) respectively and the weighted average number of 1,194,697,017 ordinary shares (three months ended 30 September 2009: 802,286,761 ordinary shares) and 1,194,697,017 ordinary shares (six months ended 30 September 2009: 802,286,761 ordinary shares) in issue during the period.

(ii) *From continuing operations*

The calculation of the basic loss per share from continuing operations for the three months and six months ended 30 September 2010 is based on the unaudited consolidated loss attributable to the owners of the Company of approximately HK\$14,439,000 (three months ended 30 September 2009: HK\$10,753,000 (restated)) and HK\$29,342,000 (six months ended 30 September 2009: HK\$19,286,000 (restated)) respectively and the weighted average number of 1,194,697,017 ordinary shares (three months ended 30 September 2009: 802,286,761 ordinary shares) and 1,194,697,017 ordinary shares (six months ended 30 September 2009: 802,286,761 ordinary shares) in issue during the period. The unaudited consolidated loss attributable to the owners of the Company are calculated as follows:

	For the three months ended 30 September		For the six months ended 30 September	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
Loss for the period attributable to the owners of the Company for the purpose of basic loss per share	(14,439)	(12,203)	(29,342)	(28,331)
Loss for the period from discontinued operation	-	(1,933)	-	(12,060)
Add: Loss for the period attributable to non- controlling interest from discontinued operation	-	483	-	3,015
Loss for the period attributable to the owners of the Company from discontinued operation	-	(1,450)	-	(9,045)
Loss for the period attributable to the owners of the Company for the purpose of basic loss per share from continuing operations	(14,439)	(10,753)	(29,342)	(19,286)

(iii) *From discontinued operation*

The calculation of the basic loss per share from discontinued operation for the three months and six months ended 30 September 2010 is based on the loss attributable to the owners of the Company of approximately HK\$Nil (three months ended 30 September 2009: HK\$1,450,000 (restated)) and HK\$Nil (six months ended 30 September 2009: HK\$9,045,000 (restated)) respectively and the weighted average number of 1,194,697,017 ordinary shares (three months ended 30 September 2009: 802,286,761 ordinary shares) and 1,194,697,017 ordinary shares (six months ended 30 September 2009: 802,286,761 ordinary shares) in issue during the period.

(b) Diluted loss per share

Diluted loss per share equals to basic loss per share as the potential ordinary shares outstanding during the periods ended 30 September 2010 and 2009 have an anti-dilutive effect on the basic loss per share for both periods.

10. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. On adoption of HKFRS 8, Operating Segments and in a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form any of the following reportable segments.

Continuing operations:

- (i) Promotion and management services: Provision of promotion and management services for an electronic smart card "Shentong Card".
- (ii) Computer games distribution and licensing: Selling and distribution of computer games.
- (iii) e-Sports Platform: Operation of an electronic platform ("e-Sports Platform") for online computer game tournaments.

(a) Segment results, assets and liabilities

The Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all non-current assets and current assets with the exception of corporate assets. Segment liabilities include all non-current liabilities and current liabilities managed directly by the segments with the exception of corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit/(loss) is “adjusted EBITDA”, that is “adjusted earnings before interest, taxes, depreciation and amortisation and impairment loss”.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue, depreciation and amortisation, impairment losses, write down or reversal of write down of inventories, income tax and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group’s reportable segments as provided to the Group’s chief operating decision maker for the purposes of resource allocation and assessment of segment performance for both periods is set out below:

	For the six months ended 30 September 2010 (Unaudited)				For the six months ended 30 September 2009 (Unaudited) (Restated)			
	Promotion and management services HK\$'000	Computer games distribution and licensing HK\$'000	e-Sports Platform HK\$'000	Total HK\$'000	Promotion and management services HK\$'000	Computer games distribution and licensing HK\$'000	e-Sports Platform HK\$'000	Total HK\$'000
Revenue from external customers	19,077	13	196	19,286	-	8	5,347	5,355
Reportable segment revenue	<u>19,077</u>	<u>13</u>	<u>196</u>	<u>19,286</u>	<u>-</u>	<u>8</u>	<u>5,347</u>	<u>5,355</u>
Reportable segment profit/(loss) (adjusted EBITDA)	<u>1,927</u>	<u>(75)</u>	<u>(1,219)</u>	<u>633</u>	<u>-</u>	<u>(565)</u>	<u>2,916</u>	<u>2,351</u>
Depreciation and amortisation	23,284	-	-	23,284	-	-	7,176	7,176
Income tax	5,232	-	-	5,232	-	-	387	387
Reversal of write down of inventories	-	14	-	14	-	-	-	-

	At 30 September 2010 (Unaudited)				At 31 March 2010 (Audited)			
	Promotion and management services HK\$'000	Computer games and distribution licensing HK\$'000	e-Sports Platform HK\$'000	Total HK\$'000	Promotion and management services HK\$'000	Computer games and distribution licensing HK\$'000	e-Sports Platform HK\$'000	Total HK\$'000
Reportable segment assets	222,401	-	-	222,401	239,951	-	-	239,951
Additions to non-current segment assets during the period/year	1,676	-	-	1,676	373,853	-	-	373,853
Reportable segment liabilities	1,084	90	10,897	12,071	393	-	12,994	13,387

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	Six months ended 30 September	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
Revenue		
Reportable segment revenue	19,286	5,355
Consolidated turnover	19,286	5,355
Profit or loss		
Reportable segment profit	633	2,351
Reportable segment profit derived from Group's external customers	633	2,351
Other revenue	40	27
Depreciation and amortisation	(23,405)	(7,828)
Finance costs	(1,489)	(10,007)
Unallocated head office and corporate expenses	(10,353)	(5,376)
Consolidated loss before taxation and discontinued operation	(34,574)	(20,833)

	At 30 September 2010 HK\$'000 (Unaudited)	At 31 March 2010 HK\$'000 (Audited)
Assets		
Reportable segment assets	222,401	239,951
Unallocated head office and corporate assets	61,754	69,384
	<hr/>	<hr/>
Consolidated total assets	284,155	309,335
	<hr/>	<hr/>
Liabilities		
Reportable segment liabilities	12,071	13,387
Current taxation	91	454
Deferred tax liabilities	53,923	58,685
Liabilities relating to discontinued operation	–	20,943
Unallocated head office and corporate liabilities	271,876	247,735
	<hr/>	<hr/>
Consolidated total liabilities	337,961	341,204
	<hr/>	<hr/>

(c) Geographic information

No separate analysis of segment information by geographical segment is presented as the Group's revenue and non-current assets are principally attributable to a single geographical region, which is Mainland China.

(d) Information about major customers

Revenue from promotion and management services represents more than 10% of the Group's total revenue is approximately HK\$19,077,000 (six months ended 30 September 2009: HK\$Nil) derived from 神州通信集團有限公司 (China Communication Group Co., Ltd.) ("CCC"), the substantial shareholder of the Group as China Communication Investment Limited ("CCI"), a wholly-owned subsidiary of CCC, held 29.84% of the issued ordinary shares of the Company.

11. PROPERTY, PLANT AND EQUIPMENT

	For the six months ended 30 September 2010 HK\$'000 (Unaudited)	For the year ended 31 March 2010 HK\$'000 (Audited)
Net carrying amount, beginning of the period/year	2,372	15,700
Acquisition of a subsidiary	–	2,251
Additions	1,676	47
Disposals	–	(6)
Depreciation	(463)	(5,330)
Impairment losses	–	(10,351)
Exchange adjustments	51	61
	<hr/> 3,636 <hr/>	<hr/> 2,372 <hr/>
Net carrying amount, end of the period/year		

The total impairment losses of approximately HK\$Nil (year ended 31 March 2010: HK\$10,351,000) of property, plant and equipment have been charged to profit or loss and have affected the following cash generating units (“CGUs”)/operating segments of the Group:

For the year ended 31 March 2010

	e-Sports Platform HK\$'000	Online game operation HK\$'000	Unallocated HK\$'000	Total HK\$'000
Computer equipment	7,964	599	651	9,214
Equipment, furniture and fixtures	–	–	639	639
Motor vehicle	–	–	498	498
	<hr/> 7,964 <hr/>	<hr/> 599 <hr/>	<hr/> 1,788 <hr/>	<hr/> 10,351 <hr/>

In view of the operating loss incurred for the e-Sports Platform segment during the year, the Group conducted a review of the carrying amount of the relevant assets. Based on the valuation report prepared by Grant Sherman Appraisal Limited, an independent professional valuer, the Group has recognised an impairment loss of HK\$7,964,000 for the property, plant and equipment in relation to this segment. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rate in measuring the amount of value in use is 19.86%.

In addition, during the year, impairment losses of HK\$599,000 was recognised in respect of property, plant and equipment of the online game operation upon the expiration of the license rights of the online computer game “Sudden Attack” in the PRC on 10 February 2010.

12. INTANGIBLE ASSETS

	For the six months ended 30 September 2010 HK\$'000 (Unaudited)	For the year ended 31 March 2010 HK\$'000 (Audited)
Net carrying amount, beginning of the period/year	234,740	50,508
Acquisition of a subsidiary	–	234,740
Amortisation	(22,942)	(12,678)
Impairment losses	–	(38,031)
Exchange adjustments	3,895	201
	<hr/>	<hr/>
Net carrying amount, end of the period/year	215,693	234,740

The total impairment losses of approximately HK\$Nil (year ended 31 March 2010: HK\$38,031,000) of these intangible assets have been charged to profit or loss and have affected the following CGUs/operating segments of the Group:

For the year ended 31 March 2010

	e-Sports Platform HK\$'000	Online game operation HK\$'000	Total HK\$'000
Online game software platform	521	114	635
Online game license rights	–	1,676	1,676
e-Sports Platform portal	7,370	–	7,370
Distribution network	20,779	6,939	27,718
Trademarks	469	163	632
	<hr/>	<hr/>	<hr/>
Total	29,139	8,892	38,031

In view of the operating loss incurred for the e-Sports Platform segment during the year, the Group conducted a review of the carrying amount of the relevant intangible assets. Based on the valuation report prepared by Grant Sherman Appraisal Limited, an independent professional valuer, the Group has recognised an impairment loss of HK\$29,139,000 for the intangible assets in relation to this segment. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rate in measuring the amount of value in use is 19.86%.

In addition, during the year, impairment losses of HK\$8,892,000 was recognised in respect of intangible assets of the online game operation upon the expiration of the license rights of the online computer game "Sudden Attack" in the PRC on 10 February 2010.

13. TRADE AND OTHER RECEIVABLES

	At 30 September 2010 HK\$'000 (Unaudited)	At 31 March 2010 HK\$'000 (Audited)
Trade receivables	21,047	20,686
Less: Allowance for doubtful debts	(21,047)	(20,686)
	—	—
Amount due from a substantial shareholder	—	1,420
Amount due from a director	307	—
Other receivables	189	2,544
Loans and receivables	496	3,964
Prepayment and deposits	1,814	1,017
	2,310	4,981

Trade receivables are net of allowance for doubtful debts of HK\$21,047,000 (At 31 March 2010: HK\$20,686,000) with the following age analysis at the end of the reporting period:

	At 30 September 2010 HK\$'000 (Unaudited)	At 31 March 2010 HK\$'000 (Audited)
0 to 90 days	—	—
91 to 180 days	—	—
181 to 365 days	—	—
Over 365 days	—	—
	—	—
	—	—

Trade receivables are due within 60 to 180 days from the date of billing.

14. TRADE AND OTHER PAYABLES

	At 30 September 2010 HK\$'000 (Unaudited)	At 31 March 2010 HK\$'000 (Audited)
Trade payables	13,225	12,998
Receipts in advance	90	13,066
Other payables and accruals	9,997	10,765
Amount due to a related company	10,897	–
	<hr/>	<hr/>
Financial liabilities measured at amortised cost	34,209	36,829
	<hr/> 34,209 <hr/>	<hr/> 36,829 <hr/>

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

	At 30 September 2010 HK\$'000 (Unaudited)	At 31 March 2010 HK\$'000 (Audited)
0 to 90 days	–	–
91 to 180 days	–	129
181 to 365 days	131	3,394
Over 1 year	13,094	9,475
	<hr/>	<hr/>
	13,225	12,998
	<hr/> 13,225 <hr/>	<hr/> 12,998 <hr/>

15. PROMISSORY NOTE

	At 30 September 2010 HK\$'000 (Unaudited)	At 31 March 2010 HK\$'000 (Audited)
At beginning of the period/year	244,621	232,881
Interest charged	1,489	11,740
	<hr/>	<hr/>
At end of the period/year	246,110	244,621
	<hr/> 246,110 <hr/>	<hr/> 244,621 <hr/>

At 30 September 2010, the promissory note is held by CCI with principal amount of HK\$238,690,000 (At 31 March 2010: HK\$238,690,000).

The promissory note was originally unsecured, bearing interest at 2% per annum, and with maturity date on 10 February 2010. On 30 March 2009, CCI agreed to vary the terms of promissory note such that the maturity date was changed to 10 August 2010 (“New Maturity Date”). In addition, upon the New Maturity Date, the Group has the right to postpone (“Maturity Postponement Right”) the maturity date to 30 June 2011 (“Extended Maturity Date”) if the latest published financial information of the Group indicates that the repayment of principal and accrued interest would cause the net current assets of the Group to fall below HK\$50 million. Such Maturity Postponement Right can be exercised on 30 June of every year subsequent to the Extended Maturity Date until the ultimate maturity date of 30 June 2025.

On 31 March 2010, the Group and CCI agreed to extend the maturity date from 10 August 2010 to 30 June 2011.

The carrying amount of the promissory note is denominated in Hong Kong dollars and the effective interest rate at 30 September 2010 is 1.23% (At 31 March 2010: 1.23%).

16. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	At 30 September 2010 HK\$'000 (Unaudited)	At 31 March 2010 HK\$'000 (Audited)
Provision for the period/year – PRC Enterprise Income tax	91	454

(b) Deferred tax liabilities recognised

The component of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year/period are as follows:

	Deferred income <i>HK\$'000</i>	Revaluation of acquired intangible assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2009	3,221	(9,222)	(6,001)
Acquisition of a subsidiary	–	(58,685)	(58,685)
Credit/(charge) to profit or loss for the year	(3,234)	9,259	6,025
Exchange adjustments	13	(37)	(24)
	<hr/>	<hr/>	<hr/>
At 31 March 2010 and 1 April 2010	–	(58,685)	(58,685)
Credit to profit or loss for the period	–	5,736	5,736
Exchange adjustments	–	(974)	(974)
	<hr/>	<hr/>	<hr/>
At 30 September 2010	<hr/> –	<hr/> (53,923)	<hr/> (53,923)

17. SHARE CAPITAL

	At 30 September 2010 (Unaudited)		At 31 March 2010 (Audited)	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each				
At beginning of the period/year	10,000,000	100,000	1,000,000	10,000
Increase in authorised share capital	–	–	9,000,000	90,000
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the period/year	10,000,000	100,000	10,000,000	100,000
	<hr/>	<hr/>	<hr/>	<hr/>
Ordinary shares, issued and fully paid:				
At beginning of the period/year	1,194,697	11,947	802,287	8,023
Issue of new shares				
– consideration shares	–	–	136,000	1,360
– subscription shares	–	–	256,410	2,564
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the period/year	1,194,697	11,947	1,194,697	11,947

18. MATERIAL RELATED PARTY TRANSACTIONS

The Group has entered into the following material transactions:

- (a) During the period ended 30 September 2010, the Group entered into certain continuing connected transactions.
- (i) On 29 September 2007, 黑龍江天地數碼科技有限公司 (Heilongjiang Tiandi Digital Technology Company Limited[#]) (“HTD”), a wholly-owned subsidiary of CCC and 神州奧美網絡有限公司 (China Cyber Port Co., Ltd.[#]) (“CCP”), a non-wholly-owned subsidiary of the Company, entered into the web advertising agreement (as supplemented by the supplemental agreement dated 24 November 2008) (the “HTD Web Advertising Agreement”), pursuant to which HTD agreed to place and CCP agreed to arrange the web advertisements of HTD be published on the “Sudden Attack” online game platform operated by CCP for two years commencing from 1 October 2007 to 30 September 2009. 24-hour technical support services should also be provided by CCP to HTD to handle technical issues arising out of the publication of the advertisements. It was agreed that the agreed amount of advertising fees to be incurred by CCP during the term of the HTD Web Advertising Agreement shall be not more than RMB138,000,000 (equivalent to approximately HK\$155,584,000) of which the advertising fee should not be more than RMB40,000,000 (equivalent to approximately HK\$44,316,000), RMB65,000,000 (equivalent to approximately HK\$73,588,000) and RMB33,000,000 (equivalent to approximately HK\$37,680,000) for the three years ended 31 March 2010 respectively. The amounts of transactions during the period are disclosed in note (b) below.
- (ii) On 1 March 2008, HTD and CCP entered into the naming-right sponsorship agreement (as supplemented by the supplemental agreement dated 24 November 2008) (the “HTD Naming-Right Sponsorship Agreement”), pursuant to which HTD agreed to acquire and CCP agreed to grant the naming rights of certain computer and online game tournaments to be organised by CCP during the period commencing from 1 March 2008 to 1 March 2010. It was also agreed that HTD should be allowed to participate in not less than ten promotion events to be organised by CCP for each year during the term of the HTD Naming-Right Sponsorship Agreement. Premier advertising space should also be reserved for HTD during the promotion events. In addition, pursuant to the HTD Naming-Right Sponsorship Agreement, an amount of RMB18,000,000 (equivalent to approximately HK\$20,455,000) should be paid by HTD to the Group, however, pursuant to subsequent agreement by the parties, an amount of RMB6,000,000 (equivalent to approximately HK\$6,818,000) has been paid by HTD to the Group on 25 March 2008. Pursuant to the supplemental agreement, during the term of the HTD Naming-Right Sponsorship Agreement, the naming right fees should be satisfied in the manner of not more than RMB1,000,000 (equivalent to approximately HK\$1,108,000), RMB12,000,000 (equivalent to approximately HK\$13,585,000) and RMB10,000,000 (equivalent to approximately HK\$11,418,000) respectively for the three years ended 31 March 2010 respectively in accordance with number and size of the promotion events held during the term of the HTD Naming-Right Sponsorship Agreement. The exact deduction amount for each promotion event should be agreed between HTD and CCP. The amounts of transactions during the period are disclosed in note (b) below.

- (iii) On 19 March 2008, CCC and CCP entered into the web advertising agreement (as supplemented by the supplemental agreement dated 24 November 2008) (the “CCC Web Advertising Agreement”), pursuant to which CCC agreed to place and CCP agreed to arrange the web advertisements of CCC be published on the “e-Sports” online game platform operated by CCP for approximately three years commencing from 20 March 2008 to 31 March 2011. 24-hour technical support services should also be provided by CCP to CCC to handle all technical issues arising out of the publication of the advertisements. It was agreed that the amount of advertising fees to be incurred by CCP during the term of the CCC Web Advertising Agreement has been revised to not more than RMB95,000,000 (equivalent to approximately HK\$108,230,000) of which the advertising fee should not be more than RMB25,000,000 (equivalent to approximately HK\$28,303,000), RMB30,000,000 (equivalent to approximately HK\$34,254,000) and RMB40,000,000 (equivalent to approximately HK\$45,673,000) for the three years ended 31 March 2011 respectively. The amounts of transactions during the period are disclosed in note (b) below.
- (iv) On 1 June 2008, CCC and CCP entered into the tenancy agreement (the “CCC Tenancy Agreement”). No.172, Dexingmennei Road, Xicheng District Beijing, PRC with a total gross floor area of approximately 120 sq. metres, where should be used by CCP as the venue for members’ gatherings and the computer and online game tournaments to be organised by CCP from time to time. The annual rental payable by CCP should be RMB2,460,000 (equivalent to approximately HK\$2,789,000), inclusive of all the utilities charges. A deposit of RMB615,000 (equivalent to approximately HK\$699,000), being three months rental payment, should be payable by CCP as deposit upon signing of the CCC Tenancy Agreement. The rents were payable quarterly in advance which should be satisfied in cash by the internal resources of the Group. The annual rental was determined on an arm’s length basis in the ordinary course of business and on normal commercial terms with reference to similar transactions carried out in the market and were no less favourable than terms available from independent third parties. The annual cap under the agreement is RMB2,050,000 (equivalent to approximately HK\$2,321,000) and RMB410,000 (equivalent to approximately HK\$468,000) for the two years ended 31 March 2010 respectively. The amounts of transactions during the period are disclosed in note (b) below.

- (v) On 1 December 2006, CCC and CCP entered into the server hosting agreement (as supplemented by the Supplemental Service Agreements) (the "CCP Server Hosting Agreement"), pursuant to which CCP would (i) place its servers in CCC's server rooms and CCC would provide monitoring, management and technical support services to CCP ("Server Hosting Service") and (ii) provide dedicated 100M-bandwidth broadband leased line to CCP for CCP's website running and CCC will also allow CCP to run its operations and provide its paid services via the online platform operated by CCC ("Dedicated Leased Lines Service"), in consideration of which CCC would charge CCP a one-off payment of RMB1,000 per rack and a monthly hosting fee of RMB8,800 per rack for the Server Hosting Service and a one-off payment of RMB2,000 per leased line and a monthly rental fee of RMB215,600 per leased line for the Dedicated Leased Lines Service. The CCP Server Hosting Agreement has been expired on 31 March 2010. On 24 February 2010, a dedicated leased line rental agreement ("Second Dedicated Leased Lines Rental Agreement") was entered into between CCC and CCP and CCC would provide CCP the Dedicated Leased Lines Service for the period commencing from 1 April 2010 to 31 March 2013 (as supplemented by the supplemental agreement dated 24 February 2010). The annual cap for Server Hosting Service under the CCP Server Hosting Agreement is HK\$15,000,000, HK\$19,000,000 and HK\$19,000,000 for the three years ended 31 March 2010 respectively. The annual cap for Dedicated Leased Lines Service under the Server Hosting Agreement is HK\$130,000,000, HK\$200,000,000 and HK\$210,000,000 for the three years ended 31 March 2010 respectively. The annual cap under Second Dedicated Leased Lines Rental Agreement is HK\$3,500,000, HK\$3,500,000 and HK\$3,500,000 for the three years ended 31 March 2013 respectively. The amounts of transactions during the period are disclosed in note (b) below.
- (vi) On 15 December 2006, CCC and CCP entered into the customers service hotline rental agreement (as supplemented by the Supplemental Service Agreements) (the "CCP Customers Service Hotline Rental Agreement"), pursuant to which CCC shall provide a designated national customer service hotline number 95130001 to CCP, in consideration of which CCC would charge CCP (i) an annual fee of RMB100,000; (ii) RMB7,000 per month for each sub-line under the national hotline; (iii) a calling charge of RMB0.06 per 6 seconds for long distance incoming calls (subject to bulk use discounted rates); and (iv) a calling charge of RMB0.30 per minute for all outgoing calls. The calling charge rate was subject to any new charging standard announced by the government. The CCP Customers Service Hotline Rental Agreement has been renewed for the period commencing from 1 April 2010 to 31 March 2013 by a second customer service hotline rental agreement ("Second Customer Service Hotline Rental Agreement") entered into between CCP and CCC on 24 February 2010 (as supplemented by the supplemental agreement dated 24 February 2010). The annual cap under the Customers Service Hotline Rental Agreement is HK\$15,000,000, HK\$17,000,000 and HK\$17,000,000 for the three years ended 31 March 2010 respectively. After the renewal under Second Customer Service Hotline Rental Agreement dated 24 February 2010, the annual cap is HK\$700,000, HK\$700,000 and HK\$700,000 for the three years ended 31 March 2013 respectively. The amounts of transactions during the period are disclosed in note (b) below.

- (vii) On 1 December 2006, CCC and CCP entered into the office internet connection agreement (as supplemented by the Supplemental Service Agreements) (the "Office Internet Connection Agreement"), pursuant to which CCC would provide a dedicated 100M-bandwidth broadband leased line to CCP for CCP's own office use, in consideration of which CCC would charge CCP a monthly fee of RMB45,000 based on CCP's actual usage of 20M-bandwidth (subject to any new charging standard announced by the government). The annual cap under the Office Internet Connection Agreement is HK\$600,000, HK\$600,000 and HK\$600,000 for the three years ended 31 March 2010 respectively. The amounts of transactions during the period are disclosed in note (b) below.
- (viii) On 12 December 2006, CCC and CCP entered into the internet payment and settlement service agreement (as supplemented by the Supplemental Service Agreements) (the "Internet Payment and Settlement Service Agreement"). CCC was currently operating an electronic wallet service named "Shentong Card". CCP would charge its customers via "Shentong Card". CCC would generate monthly reports and pay the sales revenue through "Shentong Card" to CCP (net of CCC's service charge). CCC would charge CCP a service charge at the rate of 25% of the payments made by CCP's customers through "Shentong Card" to compensate CCC for the sales tax and the handling charge. The Internet Payment and Settlement Service Agreement has been renewed for the period commencing from 1 April 2010 to 31 March 2011, by a second internet payment and settlement service agreement ("Second Internet Payment and Settlement Service Agreement") entered into between CCC and CCP on 24 February 2010 (as supplemented by the supplemental agreement dated 24 February 2010). The annual cap under the Internet Payment and Settlement Service Agreement is HK\$54,000,000, HK\$85,000,000 and HK\$110,000,000 for the three years ended 31 March 2010 respectively. After the renewal under Second Internet Payment and Settlement Service Agreement dated 24 February 2010, the annual cap is HK\$19,000,000, HK\$19,000,000 and HK\$19,000,000 for the three years ended 31 March 2013 respectively. The amounts of transactions during the period are disclosed in note (b) below.

- (ix) On 11 January 2010, CCC and 北京神通益家科技服務有限公司 (Beijing Shentong Yijia Technology Services Company Limited) ("Yijia") entered into the customers service hotline rental agreement (as supplemented by the Supplemental Customers Service Hotline Rental Agreement) (the "Yijia Customers Service Hotline Rental Agreement") for the period commencing from 1 January 2010 to 31 March 2013, pursuant to which CCC shall provide a designated national customers service hotline number 95130*** to Yijia, in consideration of which CCC would charge Yijia (i) an annual fee of RMB20,000; (ii) a calling charge of RMB0.06 per 6 seconds for long distance incoming calls (subject to scaled-discount rates); and (iii) a calling charge of RMB0.30 per minute for outgoing calls via internet through the "Voice-Over Internet Protocol" telephone system. The calling charge rate was subject to any new charging standard announced by the government. The annual cap under the Yijia Customers Service Hotline Rental Agreement is RMB120,000 (equivalent to approximately HK\$137,000), RMB500,000 (equivalent to approximately HK\$571,000), RMB700,000 (equivalent to approximately HK\$799,000) and RMB900,000 (equivalent to approximately HK\$1,028,000) for the four years ended 31 March 2013 respectively. The amounts of transactions during the period are disclosed in note (b) below.
- (x) On 11 January 2010, CCC and Yijia entered into the server hosting agreement (as supplemented by the Supplemental Server Hosting Agreement) (the "Yijia Server Hosting Agreement") for the period commencing from 1 January 2010 to 31 March 2013, pursuant to which Yijia would (i) place its servers in CCC's server rooms and CCC would provide monitoring, management and technical support services to Yijia and (ii) CCC would provide designated 300M-bandwidth share of the broadband leased lines to Yijia for its operation of website, in consideration of which CCC would charge Yijia an annual rental fee of RMB2,700,000. The annual cap under the Yijia Server Hosting Agreement is RMB700,000 (equivalent to approximately HK\$799,000), RMB2,700,000 (equivalent to approximately HK\$3,083,000), RMB2,700,000 (equivalent to approximately HK\$3,083,000) and RMB2,700,000 (equivalent to approximately HK\$3,083,000) for the four years ended 31 March 2013 respectively. The amounts of transactions during the period are disclosed in note (b) below.

- (xi) On 30 November 2009, CCC and Yijia entered into the service contract (as supplemented by the Supplemental Service Contract) (the “Service Contract”) for a five-year period commencing from 30 November 2009 to 29 November 2014, which shall be automatically renewed. The services to be provided by Yijia to CCC under the Service Contract include (i) management and sale of the designated “Shentong Cards” preloaded with certain insurance products of CCC; (ii) assisting CCC in the after-sale services for the designated Shentong Card; (iii) following up with the enquiries and/or complaints raised by the users of the designated Shentong Card; and (iv) customer management service, and promotion and marketing of the designated Shentong Card. The consideration receivable under the Service Contract include (i) issuance handling fees of RMB5 for each designated Shentong Card issued by Yijia; (ii) technical service commission of 20% of the total value of purchases made by the users through the designated Shentong Card issued by Yijia; (iii) sale commission of RMB3 for the insurance products preloaded in the designated Shentong Card issued by Yijia; and (iv) sale commission of 20% of the total value of purchases made by the users through the designated Shentong Card for the property and life insurance products and 10% for the purchases of health insurance products. The annual cap under the Service Contract is RMB10,000,000 (equivalent to approximately HK\$11,418,000), RMB130,000,000 (equivalent to approximately HK\$148,436,000), RMB230,000,000 (equivalent to approximately HK\$262,617,000) and RMB340,000,000 (equivalent to approximately HK\$388,216,000) for the four years ended 31 March 2013 respectively. The amounts of transactions during the period are disclosed in note (b) below.
- (xii) On 11 January 2010, CCC and Yijia entered into the web advertising agreement (as supplemented by the Supplemental Web Advertising Agreement) (the “Yijia Web Advertising Agreement”) for the period from 1 January 2010 to 31 March 2013, pursuant to which Yijia agreed to place and CCC agreed to arrange for the web advertisements of Yijia be published on the website of CCC “Shentong Net”. 24-hour technical support services should also be provided by CCC to Yijia to handle all technical issues arising out of the publication of the advertisements. It was agreed that the amount of advertising fees to be incurred by Yijia during the term of the Yijia Web Advertising Agreement shall not be more than RMB5,000,000 for each of three years ended 31 March 2013. The annual cap under the Yijia Web Advertising Agreement is RMB500,000 (equivalent to approximately HK\$571,000), RMB5,000,000 (equivalent to approximately HK\$5,709,000), RMB5,000,000 (equivalent to approximately HK\$5,709,000) and RMB5,000,000 (equivalent to approximately HK\$5,709,000) for the four years ended 31 March 2013 respectively. The amounts of transactions during the period are disclosed in note (b) below.

(b) Transactions with related parties

Name of related parties	Relationship	Nature of transactions	Note	Amount paid to/(received from) the related parties			
				For the three months ended 30 September		For the six months ended 30 September	
				2010	2009	2010	2009
				HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
CCC	Substantial shareholder (note (i))	Customer service hotline rental expense	(iii) and 18(a)(vi)	45	163	85	396
		Dedicated leased lines expense	(iii) and 18(a)(v)	225	885	374	1,770
		Server hosting service expense	(iii) and 18(a)(v)	-	-	-	-
		Office internet connection expense	(iii) and 18(a)(vii)	-	-	-	-
		Rental expense	(iii) and 18(a)(iv)	-	-	-	-
		Advertising income	(iii) and 18(a)(iii)	-	-	-	-
		Online game income	(iii)	-	-	-	-
		Internet payment and settlement service fee	(iii) and 18(a)(viii)	-	729	-	1,248
		Net online game income		-	729	-	1,248
		Promotion and management service income	(iii) and 18(a)(xi)	(9,558)	-	(19,077)	-
		Customer service hotline rental expenses	(iii) and 18(a)(ix)	96	-	221	-
		Server hosting service expenses	(iii) and 18(a)(x)	783	-	1,555	-
		Web advertising expenses	(iii) and 18(a)(xii)	-	-	-	-
CCI	Substantial shareholder (note (i))	Interest charged on promissory note	(ii)	749	5,005	1,489	10,007
HTD	Related company	Advertising and Sponsorship income	(iii), 18(a)(i) and 18(a)(ii)	-	-	-	-

Notes:

- (i) CCI is the substantial shareholder of the Company as it held 29.84% of the issued ordinary shares of the Company. CCC is deemed to be a substantial shareholder as CCI is a wholly-owned subsidiary of CCC and Mr. He Chenguang, a director of the Company, has a beneficial interest in CCC.
- (ii) Interest was charged on the promissory note at 2% per annum.
- (iii) Mutually-agreed by the parties concerned.

(c) Outstanding balances with related parties

	Note	At 30 September 2010 HK\$'000 (Unaudited)	At 31 March 2010 HK\$'000 (Audited)
Amount due from a director	13	307	–
Amount due from/(to) a substantial shareholder:			
CCC	13	(3,002)	1,420
CCI		(626)	(615)
Promissory note	15	(246,110)	(244,621)
Amount due to a related company:			
HTD	14	(10,897)	–
		(260,328)	(243,816)

(d) Key management personnel emoluments

Emoluments for key management personnel, including amounts paid to the Company's directors and certain of the highest paid employees is as follows:

	For the three months ended 30 September		For the six months ended 30 September	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Salaries, allowances and benefits in kind	1,707	1,423	2,932	2,847
Retirement scheme contributions	18	12	33	24
	1,725	1,435	2,965	2,871

Total emoluments is included in "staff costs" (see note 5(b)).

19. OPERATING LEASE COMMITMENTS

At 30 September 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 September 2010 HK\$'000 (Unaudited)	At 31 March 2010 HK\$'000 (Audited)
Within one year	2,518	3,230
After one year but within five years	3,957	4,970
	6,475	8,200

The Group leases a number of properties under operating leases. The leases typically run for an initial period of two years and none of the leases includes contingent rentals.

20. COMPARATIVE FIGURES

Certain comparative figures have been restated or reclassified as a result of the presentation of discontinued operation and conformation with the current period's presentation.

OTHER INFORMATION

Interests and Short Positions of Directors and Chief Executives in Shares and Underlying Shares and Debentures

As at 30 September 2010, the interests and short positions of the Directors and the chief executives of the Company in the shares and 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 ("SFO") (Chapter 571 of the Laws of Hong Kong)) which (a) were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred therein; or (c) were required to be notified to the Company and the Stock Exchange, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Name of Director	Number of shares held					Total interests in shares	Number of underlying shares Share Option Scheme	Aggregate interests	Approximate percentage of the issued share capital of the Company
	Personal interests	Corporate interests	Family interests	Other interests					
Xiao Haiping	1,000,000	-	-	-	1,000,000	-	1,000,000	0.08%	

Save as disclosed above, none of the Directors or the chief executives has any interests or short positions in the shares and underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the director is taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred therein; or (c) were required to be notified to the Company and the Stock Exchange, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules as at 30 September 2010.

Interests and Short Positions of Shareholders in Shares and Underlying Shares

As at 30 September 2010, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, the following persons (other than the Directors or chief executives of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO and Section 336 of the SFO or, who were or were expected, 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 meetings of any member of the Group:

Name of shareholder	Number of shares held					Total interests in shares	Number of underlying shares	Share Option Scheme	Aggregate interests	Approximate percentage of the issued share capital of the Company
	Personal interests	Corporate interests	Family interests	Other interests						
CCC (Note 1)	-	356,542,000	-	-	356,542,000	-	-	356,542,000	29.84%	
CCI	356,542,000	-	-	-	356,542,000	-	-	356,542,000	29.84%	
Jin Xian Gen (Note 2)	-	128,205,128	-	-	128,205,128	-	-	128,205,128	10.73%	
Full Ocean Development Limited	128,205,128	-	-	-	128,205,128	-	-	128,205,128	10.73%	
Jin Lin Jun (Note 3)	-	128,205,128	-	-	128,205,128	-	-	128,205,128	10.73%	
Amazing International Holdings Limited	128,205,128	-	-	-	128,205,128	-	-	128,205,128	10.73%	

Notes:

- (1) 神州通信集團有限公司 (China Communication Group Co., Ltd.^(#)) (formerly known as 神州通信有限公司 (China Communication Co., Ltd.^(#))) ("CCC") is deemed to be substantial shareholder as defined in the GEM Listing Rules. CCI is a wholly-owned subsidiary of CCC.
- (2) Mr. Jin Xian Gen is interested in 90% of the entire issued share capital of Full Ocean Development Limited and is therefore deemed to be interested in 128,205,128 shares held by Full Ocean Development Limited by virtue of the SFO.

- (3) Mr. Jin Lin Jun is interested in 97% of the entire issued share capital of Amazing International Holdings Limited and is therefore deemed to be interested in 128,205,128 shares held by Amazing International Holdings Limited by virtue of the SFO.

Save as disclosed above, as at 30 September 2010, so far as is known to, or can be ascertained after reasonable enquiry by the Directors, no other person (other than the Directors or chief executives of the Company) had an interest or short position in the shares or underlying shares of the Company which requires to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and Section 336 of the SFO or, who were or were expected, 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 meetings of any member of the Group.

Share Option Schemes

Share options were granted to certain directors, employees and consultants of the Company under the share option scheme (the "Share Option Scheme") conditionally adopted on 28 October 2002. The Share Option Scheme became unconditional upon the listing of the Company's shares on GEM on 15 November 2002. The Share Option Scheme was amended by an ordinary resolution duly passed at an annual general meeting by the Company's shareholders on 28 July 2006. Details of the Share Option Scheme have been set out in the Company's annual report of year 2010.

Particulars of the outstanding options which have been granted under the Share Option Scheme as at 30 September 2010 were as follows:

Name or category of participant	Date of grant	Exercisable period	Exercise price per share HK\$	As at 1 April 2010	Number of share options				As at 30 September 2010
					Options granted during the period	Options exercised during the period ⁽²⁾	Options lapsed during the period ⁽¹⁾	Options cancelled during the period	
Other Eligible Participants									
In aggregate	30 July 2007	30 January 2008 to 29 July 2010	2.80	800,000	-	-	(800,000)	-	-
In aggregate	14 August 2008	14 August 2009 to 13 August 2010	0.97	1,000,000	-	-	(1,000,000)	-	-
In aggregate	15 August 2008	15 August 2009 to 14 August 2010	1.30	1,500,000	-	-	(1,500,000)	-	-
In aggregate	14 January 2009	14 July 2009 to 13 July 2010	0.82	1,200,000	-	-	(1,200,000)	-	-
In aggregate	19 March 2010	19 March 2011 to 18 March 2012	1.12	1,000,000	-	-	-	-	1,000,000
In aggregate	22 March 2010	22 March 2011 to 21 March 2012	1.15	2,000,000	-	-	-	-	2,000,000
In aggregate	24 March 2010	24 March 2011 to 23 March 2012	1.17	7,000,000	-	-	-	-	7,000,000
In aggregate	29 March 2010	29 March 2011 to 28 March 2012	1.23	1,000,000	-	-	-	-	1,000,000
In aggregate	7 April 2010	7 April 2011 to 6 April 2012	1.25	-	31,170,000	-	-	-	31,170,000
				15,500,000	31,170,000	-	(4,500,000)	-	42,170,000

Notes:

- (1) In accordance with the Share Option Scheme, the grantee of an option ceases to be an Eligible Participant due to termination of relationship with the Company or its subsidiary companies, the grantee may exercise the option up to his entitlement at the date of cessation of his relationship within the period of three months following the date of such cessation.
- (2) No share options were exercised during the period.

Directors' Right to Acquire Shares

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or other body corporate granted to any Directors or their respective associates, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the Directors, their respective associates to acquire such rights in any other body corporate.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Competing Interests

None of the Directors of the Company had any interest in a business which competes or may compete with the businesses of the Group.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiary companies had purchased, sold or redeemed any of the Company's shares on the GEM during the six months ended 30 September 2010.

Audit Committee

The Company has established an audit committee on 28 October 2002 with written terms of reference based on the guidelines set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules. During this quarter, it comprises three Independent Non-Executive Directors, namely Mr. Yip Tai Him, Ms. Cao Huifang and Ms. Liu Hong. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board. In addition, the audit committee considers any significant and unusual items that are, or may need to be, reflected in such reports and accounts and gives due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer and auditor. The audit committee is also responsible for reviewing and supervising the financial reporting process and the Group's internal control system.

The audit committee has reviewed the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters including a review of the unaudited interim report for the six months ended 30 September 2010.

Code on Corporate Governance Practices

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules during the six months ended 30 September 2010.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted a Code of Conduct regarding Securities Transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “Code of Conduct”). Having made specific enquiry of the Directors, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Code of Conduct during the six months ended 30 September 2010.

By order of the Board

China Communication Telecom Services Company Limited

He Chenguang

Chairman

As at the date of this report, the Board comprises:

Mr. He Chenguang (*Executive Director and Chairman*)

Mr. Xiao Haiping (*Executive Director*)

Mr. Zhang Peng (*Executive Director and Chief Executive Officer*)

Mr. Bao Yueqing (*Executive Director*)

Mr. Yip Tai Him (*Independent Non-Executive Director*)

Ms. Cao Huifang (*Independent Non-Executive Director*)

Ms. Liu Hong (*Independent Non-Executive Director*)

Hong Kong, 8 November 2010

English translation of the name for identification purpose only