



# China Post E-Commerce (Holdings) Limited

中郵電貿(控股)有限公司\*

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code : 8041)

Website : <http://www.cpech.com>

## First Quarterly Report 2011



\* For identification purpose only

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

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

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*This report, for which the directors collectively and individually accept full responsibility, includes particulars given in compliance with 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

- The Group has recorded total unaudited turnover of approximately HK\$31,743,000 for the three months ended 31 March 2011 representing approximately 63% increase over the corresponding period of 2010.
- The Group's gross profit amounted to approximately HK\$6,234,000 for the three months ended 31 March 2011 whereas the gross profit of approximately HK\$5,699,000 in the corresponding period of 2010.
- The Group has recorded unaudited loss attributable to owners of the Company for the three months ended 31 March 2011 of approximately HK\$286,159,000 representing a basic loss per share of HK14 cents.
- The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2011.
- The Group has a sound financial position with cash balances of approximately HK\$59,071,000 and no bank borrowings as at 31 March 2011.

## CONDENSED CONSOLIDATED INCOME STATEMENT

The Board of Directors (the “**Board**”) of the Company announces the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the three months ended 31 March 2011, together with the comparative unaudited figures for the same period in 2010 as follows:

	Notes	For the three months ended 31 March	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
<b>Turnover</b>		<b>31,743</b>	19,456
Cost of sales		<b>(25,509)</b>	(13,757)
<b>Gross profit</b>		<b>6,234</b>	5,699
Other revenue		<b>92</b>	66
Administrative expenses		<b>(10,274)</b>	(2,829)
Depreciation for property, plant and equipment		<b>(1,142)</b>	(1,872)
Other operating expenses		<b>(2,813)</b>	(1,826)
Impairment of goodwill		<b>(278,231)</b>	–
<b>Loss from operations</b>	3	<b>(286,134)</b>	(762)
Finance costs		<b>(62)</b>	(257)
<b>Loss before tax</b>		<b>(286,196)</b>	(1,019)
Income tax expense	4	<b>(520)</b>	(887)
<b>Loss for the period</b>		<b>(286,716)</b>	(1,906)
<b>Dividend</b>	6	<b>–</b>	–
<b>Attributable to:</b>			
Owners of the Company		<b>(286,159)</b>	(1,337)
Non-controlling interests		<b>(557)</b>	(569)
		<b>(286,716)</b>	(1,906)
		<b>HK cents</b>	<b>HK cent</b>
<b>Loss per share</b>	5		
Basic		<b>(14)</b>	(0.08)
Diluted		<b>(14)</b>	(0.08)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Loss for the period</b>	<b>(286,716)</b>	(1,906)
<b>Other comprehensive income</b>		
Exchange differences on translating foreign operations	<u>587</u>	<u>(122)</u>
<b>Other comprehensive income for the period, net of tax</b>	<u>587</u>	<u>(122)</u>
<b>Total comprehensive income for the period</b>	<u>(286,129)</u>	<u>(2,028)</u>
<b>Attributable to:</b>		
Owners of the Company	<b>(285,572)</b>	(1,459)
Non-controlling interests	<u>(557)</u>	<u>(569)</u>
	<u><b>(286,129)</b></u>	<u>(2,028)</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2011

	Unaudited										
	Attributable to owners of the Company										
	Share capital	Share premium	Convertible Preference Shares	Translation reserve	Plant and machinery revaluation reserve	Share Option reserve	Capital redemption reserve	Accumulated losses	Total	Non-controlling interests	Total equity
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010 (audited)	92,903	166,678	-	1,690	43,245	12,809	150	(71,910)	245,565	(3,867)	241,698
Total comprehensive income for the period	-	-	-	(122)	-	-	-	(1,337)	(1,459)	(569)	(2,028)
Changes in equity for the period	-	-	-	(122)	-	-	-	(1,337)	(1,459)	(569)	(2,028)
At 31 March 2010 (unaudited)	92,903	166,678	-	1,568	43,245	12,809	150	(73,247)	244,106	(4,436)	239,670
At 1 January 2011 (audited)	101,903	193,678	-	3,025	19,169	4,270	150	(118,567)	203,628	(5,295)	198,333
Issue of consideration shares	-	-	485,333	-	-	-	-	-	485,333	-	485,333
Total comprehensive income for the period	-	-	-	587	-	-	-	(286,159)	(285,572)	(557)	(286,129)
Changes in equity for the period	-	-	485,333	587	-	-	-	(286,159)	199,761	(557)	199,204
<b>At 31 March 2011 (unaudited)</b>	<b>101,903</b>	<b>193,678</b>	<b>485,333</b>	<b>3,612</b>	<b>19,169</b>	<b>4,270</b>	<b>150</b>	<b>(404,726)</b>	<b>403,389</b>	<b>(5,852)</b>	<b>397,537</b>

In the opinion of the Directors, the plant and machinery revaluation reserve, capital redemption reserve and share option reserve are not available for distribution to the Company's shareholders.

## NOTES

### 1. General Information

China Post E-Commerce (Holdings) Limited (the "Company") and its subsidiaries (together, "the Group") manufacture and sell ceramic ferrule, fiber optic connector, fiber optic adapter and patch code respectively. The Group has operations mainly in Hong Kong and the People's Republic of China ("PRC").

The Company is a limited liability company incorporated in Cayman Islands and domiciled in Hong Kong. The address of its principal place of business is Room 702, Goodluck Industrial Centre, 808 Lai Chi Kok Road, Lai Chi Kok, Kowloon, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

This condensed consolidated financial information was approved for issue on 12 May 2011.

This condensed consolidated financial information has not been audited.

### 2. Basis of presentation

The unaudited consolidated financial statements are presented in Hong Kong dollars. The functional currency of the Group is mainly Renminbi. As the Company's shares are listed on the Stock Exchange, the Directors consider that it is appropriate to present the unaudited consolidated financial statements in Hong Kong dollars.

The accounting policies adopted in preparing the unaudited consolidated results for the three months ended 31 March 2011 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

### 3. Loss from operations

The following item of unusual nature, size or incidence has been charged to the operating loss during the period:

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Impairment of goodwill raising from acquisition of Easy Time Trading Limited		
– difference between business value from valuation report and fair value of consideration	<b>278,231</b>	–

#### 4. Income tax expense

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits arising in or derived from Hong Kong during the three months ended 31 March 2011 (three months ended 31 March 2010: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The taxation on the Group's loss for the period differs from the theoretical amount that would arise using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax charge at the effective tax rates are as follows:

	<b>Three month ended 31 March</b>	
	<b>2011 HK\$'000 (Unaudited)</b>	2010 HK\$'000 (Unaudited)
Loss before tax	<b>286,196</b>	1,019
Taxation at the notional rate	<b>(47,176)</b>	(152)
Tax effect of income not taxable	<b>11</b>	11
Tax effect of expenses not deductible for taxation purpose	<b>45,918</b>	318
Tax effect of estimated tax losses not recognised for the period	<b>1,767</b>	710
	<b>520</b>	887

#### 5. Loss per share

Loss per share attributable to owners of the Company arises from operations as follows:

	<b>Three month ended 31 March</b>	
	<b>2011 (Unaudited)</b>	2010 (Unaudited)
Weighted average number of issued ordinary shares	<b>2,038,055,819</b>	1,658,368,332
Loss per share for loss attributable to the equity holders of the Company	<b>(HK cents per share)</b>	
– basic	<b>(14)</b>	(0.08)
– diluted	<b>(14)</b>	(0.08)

#### 6. Dividend

The directors do not recommend the payment of an interim dividend for the three months ended 31 March 2011 (three months ended 31 March 2010: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Performance

For the three months ended 31 March 2011, the Group's unaudited total revenue amounted to approximately HK\$31,743,000 (three months ended 31 March 2010: HK\$19,456,000) representing an increase of approximately 63% increase over the corresponding period in last period. Gross profit was approximately HK\$6,234,000 when compared with that of approximately HK\$5,699,000 for same period in 2010. The loss attributable to owners of the Company was approximately HK\$286,159,000 when compared with that of approximately HK\$1,337,000 for the same period in 2010.

The loss attributable to owners was mainly attributable to the impairment of goodwill raising from acquisition of Easy Time Trading Limited, difference between business value from valuation report and fair values of consideration of approximately HK\$278,231,000.

### Operations

During the period under review, the Group has taken effective measures to control its operating costs. This is the objective of the Group to adopt stringent cost control and maintain a thin but effective overhead structure. The Group is optimistic in enjoying a fruitful harvest and satisfying an anticipated growth of production capacity in the foreseeable future.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2011, the Group had net current liabilities of approximately HK\$18,132,000 (At 31 March 2010: net current assets of HK\$42,328,000). The current assets comprised bank balances and cash of approximately HK\$59,071,000, trade and other receivables of approximately HK\$125,600,000. The current liabilities comprised trade and note payables, accrued charges and other payables of approximately HK\$228,573,000.

As at 31 March 2011, the Group had no significant exposure to fluctuations in exchange rates and any related hedges.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2011 (three months ended 31 March 2010: Nil).

## PROSPECTS

The Company will continue to spend resources both financial and manpower on the development of its e-commerce business and platforms including the www.babybamboo.net and www.monsters.net.cn together with its internet sales center in Shenzhen. Meanwhile, the Company also puts its efforts on other potential merger and acquisition and investment opportunities that can further strengthen and create synergies with the existing e-commerce business. Given the fast economic growth in the PRC especially in the customer retail market, the Company will give top priority to consider operating businesses with PRC retail concept.

In the meantime, with the lead of our management team, the Company is actively searching for business opportunities in asset and fund management and e-commerce. Whenever, there are attractive investment opportunities existed, the Company will expand its arm through strategic acquisition and cooperation. We strongly believe both our manufacturing, asset and fund management business and e-commerce will bring fruitful returns and create additional values to our shareholders in the coming years.

On 6 January 2011, the Group entered into an agreement to acquire the entire issued share capital of Easy Time Trading Limited ("Easy Time") at a consideration of HK\$390,000,000, satisfied by (i) the allotment and issuance of 533,333,333 new shares of the Company, credited as fully paid, in the sum of HK\$80,000,000; (ii) the issuance of 1,733,333,333 convertible preference shares at a conversion price of HK\$0.15 for each new share of the Company, in the principal amount of HK\$260,000,000; and (iii) the issuance of promissory notes, carrying no interest for a term of 5 years, in the principal amount of HK\$50,000,000. Easy Time is principally engaged in investment holding, with its subsidiaries engaged in the manufacturing for and trading of high-end swimwear and related garment products to certain international brands on OEM basis.

The acquisition was approved by the shareholders at an extraordinary general meeting held on 28 March 2011 and completed on 31 March 2011.

## THE SALE AND PURCHASE AGREEMENT

On 1 April 2011, the Company, Synergy Chain Limited (“the Purchaser”), Datamax Limited and Capital Master Holdings Limited (“the Vendors”) entered into the Sale and Purchase Agreement, pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to dispose of the Sale Share, representing 51% of the entire issued share capital of Charmston (Holdings) Limited at the total consideration of HK\$42,500,000.

## DISCLOSURE OF INTERESTS

### Interest in Securities of Directors and Chief Executive

As at 31 March 2011, the interests and short positions of the Directors in the shares (“Shares”), underlying Shares or debentures of the Company and its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance, the Laws of Hong Kong (the “SFO”) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Growth Enterprise Market Listing Rules of the Stock Exchange (the “GEM Listing Rules”) relating to securities transaction by Directors, were as follows:

#### (i) Long positions in Shares

Name of Director	Number of Shares	Capacity	Nature of interest	Approximate percentage of issued share capital (Note 1)
Mr. Lau Chi Yuen, Joseph (“Mr. Lau”)	606,400,000 (Note 2)	Interest of a controlled corporation	Corporate	29.75%

*Notes:*

1. The percentage of issued share capital had been arrived at on the basis of a total of 2,038,055,819 Shares in issue as at 31 March 2011.
2. These shares are held by JL Investments Capital Limited, which is wholly owned by Mr. Lau. Mr. Lau is therefore deemed to be interested in the shares held by JL Investments Capital Limited.

Save as disclosed above, as at 31 March 2011, none of the Directors had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules relating to securities transaction by Directors.

**(ii) *Short positions in the Shares and underlying Shares of equity derivatives of the Company***

As at 31 March 2010, none of the Directors had short positions in Shares or underlying Shares of equity derivatives of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## **SHARE OPTION**

On 18 March 2008, the Company terminated share option scheme adopted by the Company on 29 April 2002 and the rules of the new share option scheme (the "New Share Option Scheme") be approved and adopted as the new share option scheme. For further details of these, please refer to the circular dated 29 February 2008.

The New Share Option Scheme is valid and effective for the period of ten years commencing on the date on which it was adopted. The purpose of the New Share Option Scheme is to provide incentives or rewards for contribution to eligible participants who have made or may make to the Group or any Invested Entity. Under the terms of the New Share Option Scheme, the Board may, at its discretion, grant options to any of the Participant. Participant means any Employees and any Directors (including executive, non-executive and independent non-executive Directors) of any member of the Group or any Invested Entity. The total number of shares which may fall to be issued upon exercise of all of the outstanding options granted and yet to be exercised under the New Share Option Scheme of the Company must not be exceed 30% of the shares in issue from time to time. The New Share Option Scheme will remain in force for a period of ten years commencing the date on which the scheme becomes unconditional.

As a result of the Share Consolidation on 29 May 2009, the exercise price of the outstanding options was adjusted from HK\$0.092 to HK\$0.46 per share and the number shares falling to be issued upon exercise of the options was adjusted from 402,360,000 Shares to 80,472,000 shares. It was certified that the above adjustments are in compliance with Rule 23.03(13) of the GEM Listing Rules.

At 31 March 2011, the number of shares in respect of which options had been granted under the New Share Option Scheme was 26.824 million (three months ended 31 March 2010: 80.472 million), representing 1.32% (three months ended 31 March 2010: 4.33%) of the shares of the Company in issue. The total number of shares in respect of which options may be granted under the New Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of approval of the New Share Option Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. Options granted to a connected person (as such term defined in the GEM Listing Rules) of the Company in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

The subscription price will be determined by the Board and will be the highest of (i) the quoted closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date; (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets on the five business days immediately preceding the Offer Date. Any options granted under the New Share Option Scheme shall end in any event not later than ten years from the Grant Date. A nominal value of HK\$10.00 is payable on acceptance of each grant of options.

Details of the share options granted by the Company pursuant to the New Share Option Scheme and the options outstanding as at 31 March 2011 were as follows:

Grantees	Date granted	Balance as at 1 January 2011 '000	Granted during the period '000	Exercised during the period '000	Lapsed during the period '000	Balance as at 31 March 2011 '000	Period during which the options are exercisable	Exercise price per share
Employee	30 May 2008	13,412	-	-	-	13,412	30 May 2008 to 17 March 2017	HK\$0.46
Consultants	30 May 2008	13,412	-	-	-	13,412	30 May 2008 to 17 March 2017	HK\$0.46
		<u>26,824</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,824</u>		

### Interests in Securities of Substantial Shareholders

As far as was known to any Director or chief executive of the Company, as at 31 March 2011, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the

SFO or who were directly or indirectly deemed to be interested in 5% 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 were as follows:

**(i) Long positions in Shares**

Name of Shareholder	Number of Shares	Capacity	Approximate percentage of issued share capital (%) (Note 1)
JL Investments Capital Limited	606,400,000 (Note 2)	Corporate	29.75%
Lau Chi Yuen, Joseph	606,400,000	Individual	29.75%
Senrigan Capital Group Limited on behalf of Senrigan Master Fund	300,000,000 (Note 3)	Corporate	14.72%
Joint Fortune Group Limited	189,380,000	Corporate	9.29%
Info-Source International Development Limited	107,820,895 (Note 4)	Corporate	5.29%
廣東省郵政公司	107,820,895	Corporate	5.29%

*Notes:*

1. See Note 1 on page 11.
2. See Note 2 on page 11.
3. These shares are held by Senrigan Capital Group Limited on behalf of Senrigan Master Fund.
4. These share are held by Info-Source International Development Limited, which is wholly owned by 廣東省郵政公司.

Save as disclosed above, as at 31 March 2011, the Directors were not aware of any other person who had an interest or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

**(ii) Long positions in the shares and underlying shares of equity derivatives of the Company**

Name of Shareholder	Number of Shares	Nature of interest	Approximate percentage of issued share capital (%) (Note 1)
Mr. Ma Hoi Cheuk ("Mr. Ma")	1,733,333,333 (Note 2)	Interest of controlled corporation	85.05%

*Notes:*

1. See Note 1 on page 11.
2. Big Good Management Limited was the holder of 1,733,333,333 Convertible Preference Shares which has no voting rights and are convertible into ordinary Shares. Big Good Management Limited is wholly owned by Mr. Ma who is deemed to be interested in the underlying shares held by Big Good Management Limited.

As far as the Directors are aware, saved as disclosed herein, as at 31 March 2011, no persons have short positions in shares or underlying shares of equity derivatives of the Company.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

The Company had not redeemed any of its Shares during the period. Neither the Company nor any of its subsidiaries had purchased or sold any Shares during the period.

## **COMPETING INTERESTS**

The Directors are not aware of, as at 31 March 2011, any business or interest of each Director, substantial shareholder and management shareholder (as defined in the GEM Listing Rules) and their respective associates that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules.

The primary duties of the audit committee are (i) to review the annual reports and accounts, half-year reports and quarterly reports and give advice and comments thereon to the Directors; and (ii) to review and supervise the financial reporting process and internal controls. The audit committee comprises the three independent non-executive Directors of the Company.

The audit committee has reviewed the Group's unaudited results for the three months ended 31 March 2011.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintain high standards of corporate governance for the Company. During the period, the Company is in compliance with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules except provision A.4.1 of the CG Code as detailed below:

### Code Provision A.4.1

Under the code provision A.4.1 of the CG Code, non-executive Directors should be appointed for a specific term, subject to re-election. The current independent non-executive Directors are not appointed for specific terms, but are subject to retirement and re-election.

The current practices of the corporate governance of the Company will be reviewed and updated in a timely manner in order to comply with the requirements of the CG Code.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has complied with the requirements for directors' securities transactions stated in the GEM Listing Rules. All the Directors have confirmed that they have complied with the requirements as set out in the GEM Listing Rules for the three months ended 31 March 2011.

By Order of the Board  
**China Post E-Commerce (Holdings) Limited**  
**Lau Chi Yuen, Joseph**  
*Chairman*

Hong Kong, 12 May 2011