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)

# Annual Report 2011/12

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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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 (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: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

# Contents

# Corporate Information

## BOARD OF DIRECTORS

Executive Directors
Mr. He Chenguang *(Chairman)*
Mr. Xiao Haiping
Mr. Zhang Peng *(Chief Executive Officer)*
Mr. Bao Yueqing *(Resigned on 30 June 2011)*

Independent Non-Executive Directors
Mr. Yip Tai Him
Ms. Cao Huifang
Ms. Liu Hong

## COMPANY SECRETARY

Ms. Hung Yee Ling, *CPA, FCCA*

## COMPLIANCE OFFICER

Mr. Zhang Peng

## AUDIT COMMITTEE

Mr. Yip Tai Him *(Chairman)*
Ms. Cao Huifang
Ms. Liu Hong

## REMUNERATION COMMITTEE

Mr. Yip Tai Him *(Chairman)*
Ms. Cao Huifang
Ms. Liu Hong

## NOMINATION COMMITTEE

Mr. Yip Tai Him *(Chairman)*
Ms. Cao Huifang
Mr. He Chenguang
Ms. Liu Hong

## AUTHORISED REPRESENTATIVES

Mr. Zhang Peng
Ms. Hung Yee Ling, *CPA, FCCA*

## AUDITORS

RSM Nelson Wheeler
29th Floor Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Hong Kong

## REGISTERED OFFICE

P.O. Box 309GT
Ugland House
South Church Street
Grand Cayman
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 2115–2116 21/F
China Merchants Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712–1716
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

## PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

## WEBSITE ADDRESS

www.ccpi.com.hk

## GEM STOCK CODE

8206

# Financial Highlights

The following is a summary of the consolidated results and of the consolidated assets and liabilities of the Group for the last five financial years.

## CONSOLIDATED RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | 2009 | 2008 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Turnover | | | | | |
| Continuing operations | **33,102** | 30,373 | — | — | — |
| Discontinued operation | **—** | 299 | 14,276 | 389,463 | 23,644 |
| | **33,102** | 30,672 | 14,276 | 389,463 | 23,644 |
| Profit/(loss) before taxation | **162,332** | (245,400) | (237,512) | (1,095,958) | (31,875) |
| Taxation | **1,454** | 50,483 | 6,025 | 134,494 | — |
| Profit/(loss) attributable to owners | **163,794** | (194,505) | (218,977) | (820,455) | (31,875) |
| Basic earnings/(loss) per share (HK cents) | **13.71** | (16.28) | (27.26) | (102.26) | (4.19) |

## CONSOLIDATED ASSETS AND LIABILITIES

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | 2009 | 2008 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **60,831** | 91,942 | 309,335 | 129,566 | 991,707 |
| Total liabilities | **(113,945)** | (300,635) | (341,204) | (297,837) | (362,324) |
| Net (liabilities)/assets | **(53,114)** | (208,693) | (31,869) | (168,271) | 629,383 |
| Net (liabilities)/assets per share (HK cents) | **(4.45)** | (17.47) | (2.67) | (20.97) | 78.45 |

# Chairman's Statement

On behalf of the board of the Directors (the "Board"), I am pleased to present the audited consolidated results of China Communication Telecom Services Company Limited (the "Company", together with its subsidiary companies, collectively the "Group") for the year ended 31 March 2012.

## FINANCIAL PERFORMANCE

The Group recorded consolidated turnover of approximately HK$33,102,000 for the year ended 31 March 2012, representing an increase of approximately 8% as compared to approximately HK$30,672,000 for the year ended 31 March 2011. The turnover for the year ended 31 March 2012 was attributable to the provision of promotion and management services for an electronic smart card "Shentong Card" in the People's Republic of China (the "PRC").

The Group made a net profit attributable to owners of the Company of approximately HK$163,794,000 for the year ended 31 March 2012 as compared to a loss of approximately HK$194,505,000 for the year ended 31 March 2011. The improvements in results was mainly attributable to the decrease in cost of sales and selling and distribution expenses and the gain on disposal of a subsidiary.

## BUSINESS REVIEW

Starting from 2010, the Group made continuous efforts to restructure and streamline the business operations so as to improve the overall financial status of the Group, such as the acquisition of 100% of the equity interest in 北京神通益家科技有限公司 (Beijing Shentong Yijia Technology Services Company Limited#) ("Yijia") and the disposal of 75% of the equity interest in 神州奧美網絡有限公司 (China Cyber Port Co., Ltd.#) ("CCP"). Since then, the Group concentrates on the business in promoting and management services for Shentong Card in the PRC.

The total online payment market in the PRC has been maintaining at a rapid growth in recent years. Besides, according to China Internet Network Information Center, online payment customers in the PRC have reached approximately 167 million in 2011, with an increase of over 20% compared with 2010. The Group considered that Shentong Card enabled the Group to expose to the fast growing online payment gateway services business in the PRC.

This business has developed favorably for the year ended 31 March 2012. The consolidated turnover from promotion and management services for Shentong Card has reached an increase of approximately 9% as compared with the year ended 31 March 2011.

Apart from concentrating on the business in promotion and management services for Shentong Card, the Directors will continue to do their best to deploy their strengths and capabilities to expand the revenue base of the Group and capture the new opportunities offered by the prosperity of PRC market.

### Provision of promotion and management services

For the year ended 31 March 2012, the revenue derived from the promotion and management services was approximately HK$33,102,000 as compared to approximately HK$30,373,000 for the year ended 31 March 2011.

### Operation of the e-Sports platform

For the year ended 31 March 2012, no revenue was derived from the operation of the e-Sports platform as compared to approximately HK$285,000 for the year ended 31 March 2011. The decrease was attributable to the cessation of business.

### Distribution and selling of computer games in the PRC

For the year ended 31 March 2012, no revenue was derived from the distribution and selling of computer games in the PRC as compared to approximately HK$14,000 for the year ended 31 March 2011. The decrease was attributable to the cessation of business.

# *English translation of the name for identification purpose only*

# Chairman's Statement

## MATERIAL DISPOSAL

On 1 December 2010, Oriental Glory (H.K.) Limited ("Oriental Glory"), an indirect wholly-owned subsidiary of the Company, as vendor and China Communication Investment Limited ("CCI"), a substantial shareholder of the Company, as purchaser entered into a disposal agreement, pursuant to which Oriental Glory has conditionally agreed to sell, and CCI has conditionally agreed to purchase, the 75% equity interest in CCP for a consideration of HK$140,000,000 which shall be paid by CCI by setting off against the face value of the promissory note, which is in the principal sum of HK$238,690,000 issued by the Group in favour of CCI, in the sum equivalent to the consideration of HK$140,000,000. CCP is principally engaged in the operation of the e-Sports platform and online game and distribution of computer games in the PRC. The disposal has been approved by the independent shareholders of the Company in an extraordinary general meeting of the Company held on 20 January 2011. Details of the disposal have been set out in the circular dated 22 December 2010. The disposal had been completed on 7 December 2011.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our gratitude to our shareholders of their tremendous support and to my fellow Directors, our management and staff of their dedication and contribution in the past year.

**He Chenguang**
*Chairman*

Hong Kong, 21 June 2012

# Management Discussion and Analysis

## REVENUE AND PROFITABILITY

The Group recorded a turnover of approximately HK$33,102,000 (2011: HK$30,672,000) for the year ended 31 March 2012, representing an increase of approximately 8% as compared with 2010/11. Approximately 100%, 0% and 0% of turnover for the year ended 31 March 2012 (2011: 99.02%, 0.93% and 0.05%) 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 distribution of computer games in the PRC.

The Group's gross profit for the year ended 31 March 2012 amounted to approximately HK$20,393,000 as compared to a loss of approximately HK$17,512,000 for the year ended 31 March 2011.

Selling and distribution, administrative and other operating expenses for the year ended 31 March 2012 was approximately HK$39,419,000 as compared to approximately HK$217,885,000 for the year ended 31 March 2011. The decrease of the expenses was mainly attributable to the continuous efforts to restructure and streamline the business operations and decrease of impairment charged for the year.

## NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group made a net profit attributable to owners of the Company of approximately HK$163,794,000 for the year ended 31 March 2012 as compared to a loss of approximately HK$194,505,000 for the year ended 31 March 2011. The improvement in results was mainly attributable to the decrease in cost of sales and selling and distribution expenses and the gain on disposal of a subsidiary.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2012, the Group had outstanding promissory notes at a nominal value of approximately HK$98.7 million (as at 31 March 2011: HK$238.7 million) with carrying value of approximately HK$99.3 million (as at 31 March 2011: HK$254.8 million). The promissory notes were originally unsecured, interest bearing 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, before 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$50 million. Such Maturity Postponement Right can be exercised on 30 June of every year subsequent to the Extended Maturity Date until the ultimate maturity date of 30 June 2025. Other than the promissory notes, the Group did not have any other committed borrowing facilities as at 31 March 2012 (as at 31 March 2011: HK$Nil).

As at 31 March 2012, the Group had net current assets of approximately HK$32,057,000 (as at 31 March 2011: approximately HK$17,244,000). The Group's current assets consisted of cash and cash equivalents of approximately HK$38,425,000 (as at 31 March 2011: approximately HK$41,088,000), trade and other receivables of approximately HK$4,307,000 (as at 31 March 2011: approximately HK$1,130,000) and assets of disposal group classified as held for sale of approximately HK$Nil (as at 31 March 2011: HK$12,119,000). The Group's current liabilities included accruals and other payables of approximately HK$997,000 (as at 31 March 2011: HK$941,000), amount due to a substantial shareholder of approximately HK$Nil (as at 31 March 2011: HK$2,274,000), current tax liabilities of approximately HK$9,678,000 (as at 31 March 2011: HK$102,000) and liabilities directly associated with assets of disposal group classified as held for sale of approximately HK$Nil (as at 31 March 2011: HK$33,776,000).

The gearing ratio, defined as the ratio of total liabilities to total assets, was 1.87 as at 31 March 2012 as compared to 3.27 as at 31 March 2011.

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

# Management Discussion and Analysis

## CAPITAL STRUCTURE

There was no change in the capital structure during the year ended 31 March 2012.

## CHARGE ON ASSETS

The Group did not have any charge on its assets as at 31 March 2012 and 31 March 2011.

## STAFF COSTS

As at 31 March 2012, the Group had 66 employees (2011: 95). The staff costs for the year ended 31 March 2012 was approximately HK$10,791,000 (2011: HK$12,347,000). 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 31 March 2012, 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 31 March 2012 and 31 March 2011.

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. He Chenguang**, aged 51, joined the Group and was elected as the Chairman of the Group in April 2006. He is responsible for formulating the Group's strategy of overall business development. Mr. He holds a professional qualification in business administration and has extensive experience in management of major enterprises, in particular, management, operation and strategic development of telecommunication industry in the PRC. Currently, he is the chairman of the board of directors of the Company's substantial shareholder, 神州通信集團有限公司 (China Communication Group Co., Ltd.#) ("CCC"), a nationwide telecom operator in the PRC.

**Mr. Xiao Haiping**, aged 60, joined the Group in January 2006. He is responsible for the Group's overall business development in China. Mr. Xiao holds a professional tertiary qualification from Hunan Normal University, China, majoring in Chinese language. Prior to joining the Group in January 2006, he had over 20 years' of experience in the banking sector of China and extensive experience in various aspects such as strategic investment, project assessment, corporate governance, risk assessment and risk controls, and has in-depth knowledge in merchant banking and capital management.

**Mr. Zhang Peng**, aged 48, joined the Group in June 2006 and was elected as the Chief Executive Officer of the Group in March 2008. He is responsible for formulating the Group's strategy of overall business development. Mr. Zhang holds a Master degree of Business Administration from the Graduate School of Management of Rutgers, the State University of New Jersey, U.S.A.. Prior to joining the Group in June 2006, he had worked in many Chinese state-owned commercial banks, international banks and securities companies.

Executive Director, Mr. Bao Yueqing resigned on 30 June 2011.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Yip Tai Him**, aged 41, was appointed as an Independent Non-Executive Director since October 2002. Mr. Yip is a member of the Hong Kong Institute of Certified Public Accountants. He is currently an independent non-executive director of GCL-Poly Energy Holdings Limited, iOne Holdings Limited, KH Investment Holdings Limited, Vinco Financial Group Limited and Wing Lee Holdings Limited.

**Ms. Cao Huifang**, aged 62, was appointed as an Independent Non-Executive Director since May 2008. Ms. Cao has over 30 years' of experience in engineering technology and corporate management. She was the vice-president of Shanghai International Airport Co., Ltd. and president of Shanghai Pudong International Airport Aviation Fuels Limited. She is currently an independent director of Shanghai Liuhe Investment Co., Ltd#.

**Ms. Liu Hong**, aged 50, was appointed as an Independent Non-Executive Director since October 2008. Ms. Liu has over 20 years' of management experience in telecommunication industry in China. Currently, Ms. Liu works in China Telecom.

## SENIOR MANAGEMENT

**Ms. Hung Yee Ling**, aged 33, joined the Group in August 2011, is the financial controller and company secretary of the Group. She is responsible for financial planning and reporting and general administration of the Group. Ms. Hung holds a Bachelor Degree of Accountancy from the Hong Kong Polytechnic University. Ms. Hung is a member of the Hong Kong Institute of Certified Public Accountants and also a fellow member of the Association of Chartered Certified Public Accountants. Prior to joining to the Group, she worked in a multinational accounting firm and has over 9 years' experience in auditing.

# *English translation of the name for identification purpose only*

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices (the "CCGP") contained in Appendix 15 of the GEM Listing Rules was introduced on 1 January 2005, which set out the principles of good corporate governance and the Company is expected to comply with the code provisions of the CCGP. The Company believes that good and effective corporate governance could make an important contribution to corporate success and enhance values to the Group and our shareholders. Therefore, the Board is committed to maintain and ensure the standards of corporate governance within the Group and to ensure that the business activities and decision making processes are regulated in a proper and responsible manner. Save as disclosed below, the Group has adopted practices which met and complied with the code provisions of the CCGP throughout the year ended 31 March 2012.

The Group has deviated from Rule 17.102 of the GEM Listing Rules and the code provisions A.3.2, A.5.3, B.1.3 and C.3.4 which provides that an issuer must publish on its own website and on the GEM website, (i) an updated consolidated version of its memorandum and articles of association or equivalent constitutional document; (ii) an updated list of directors and their role and function; and (iii) its nomination, remuneration and audit committees' terms of reference by 1 April 2012. After the amended and restated memorandum of association and articles of association of the Company, list of directors, terms of reference of nomination, remuneration and audit committees were published on its own website and on the GEM website in late April and early May 2012, the Company has been in compliance with Rule 17.102 of the GEM Listing Rules and the code provisions A.3.2, A.5.3, B.1.3 and C.3.4.

Save as disclosed above, in the opinion of the Directors, the Company has met the code provisions set out in the CCGP.

## DIRECTORS' SECURITIES TRANSACTIONS

The Board has adopted a code of conduct regarding directors' securities transactions on terms no less exactly than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 March 2012. The Company also had made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.

## BOARD OF DIRECTORS

As at the date of this report, the Board comprises six Directors in which three are Executive Directors; three are Independent Non-Executive Directors. During the year ended 31 Mar 2012 and up to the date of this report, the Board comprises the following Directors:

Executive Directors:
Mr. He Chenguang, *Chairman of the Board*
Mr. Xiao Haiping
Mr. Zhang Peng, *Chief Executive Officer*
Mr. Bao Yueqing — Resigned on 30 June 2011

Independent Non-Executive Directors:
Mr. Yip Tai Him
Ms. Cao Huifang
Ms. Liu Hong

The biographical details of the Directors are set out in the "Biographical Details of Directors and Senior Management" on page 8 of this report.

The number of the Board meetings and the other committees' meetings held for the year ended 31 March 2012 and the attendance of each Director are as follows:

| | Numbers of the meetings attended/held | | | |
|---|---|---|---|---|
| | Board | Nomination Committee Note 1 | Audit Committee | Remuneration Committee |
| **Executive Directors** | | | | |
| Mr. He Chenguang | 10/10 | 0/0 | N/A | N/A |
| Mr. Xiao Haiping | 10/10 | 0/0 | N/A | N/A |
| Mr. Zhang Peng | 10/10 | 0/0 | N/A | N/A |
| Ms. Bao Yueqing | 2/3 | 0/0 | N/A | N/A |
| **Independent Non-Executive Directors** | | | | |
| Mr. Yip Tai Him | 10/10 | 0/0 | 6/6 | 1/1 |
| Ms. Cao Huifang | 10/10 | 0/0 | 6/6 | 1/1 |
| Ms. Liu Hong | 8/10 | 0/0 | 5/6 | 0/1 |

Note 1: Among the Board meetings held during the year, no meeting was held in relation to the nomination of Directors.

The Board is accountable to the shareholders and lead the Group in an ethical, responsible and effective manner. The Board sets the overall strategic directions of the Group, establishes effective management and monitors its performance. The Board is required to meet at least four times a year in addition to the meetings to approve the financial results. Apart from these regular meeting, Board meetings are also held to approve major issues and notice of each regular meeting is given to all Directors. All relevant materials were sent to all Directors relating to the matters brought before the meeting to ensure that the Directors are given sufficient time to review the same. All the Directors have been provided with sufficient resources to discharge their duties, and, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Directors will have the opportunity to include matters in the agenda for Board meetings. Matters requiring the Board's unanimous decision include material acquisitions or disposals of assets, significant investments, capital projects, annual budgets, and key issues relating to human resources and administration matters. Daily operations and administration are delegated to the senior management team. All the said minutes are kept by the company secretary of the Company and are open for inspection at any reasonable time on reasonable notice by any Director.

According to the articles of association of the Company (the "Articles"), at each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or multiple of three, then the number nearest to, but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. All Directors appointed to fill a causal vacancy shall be subject to election by the Shareholders at the first general meeting after their appointment.

Directors' training is an ongoing process. During the year, Directors regular updates on changes and developments of the Group's business and to the regulatory environments in which the Company operates. All Directors are also encouraged to attend relevant training courses at the Company's expense.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman and the Chief Executive Officer are held by separate individuals. The role and responsibilities of the Chairman is separate from that of the Chief Executive Officer. The position of the Chairman and Chief Executive Officer is held by Mr. He Chenguang and Mr. Zhang Peng respectively. The Chairman was responsible in leading the Board in forming the Group's strategies and policies and for organising the business of the Board. The Chief Executive Officer was responsible for the daily operations of the Group and was accountable to the Board for the Group's financial and operational performance.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rules 5.05(1) and 5.05A of the GEM Listing Rules, the Board currently comprises three independent non-executive Directors representing one-third of the Board. The Independent Non-Executive Directors are appointed for a specific term. Mr. Yip Tai Him and Ms. Liu Hong have been appointed for a term of three years while Ms. Cao Huifang has been appointed for a term of one year and they are subject to retirement by rotation in accordance with the Articles.

The Company has received the annual independence confirmation from each of Mr. Yip Tai Him, Ms. Cao Huifang and Ms. Liu Hong (all being Independent Non-Executive Directors) pursuant to Rule 5.09 of the GEM Listing Rules. The Board has assessed their independence and concluded that all of them satisfied the independence criteria. Amongst three independent non-executive Directors, Mr. Yip Tai Him has the appropriate professional qualifications and accounting and related financial management expertise required under Rule 5.05(2) of the GEM Listing Rules.

To assist the execution of its responsibilities, three Board committees, namely Audit Committee, Remuneration Committee and Nomination Committee, have been established by the Board. These committees well function within the clearly defined terms of reference. All Independent Non-Executive Directors play a significant role in these committees to ensure the independence and objectivity.

## REMUNERATION COMMITTEE

At the Board meeting held on 1 April 2005, the Board established a Remuneration Committee comprising three Independent Non-Executive Directors. The Remuneration Committee meets at least once a year.

The functions of the Remuneration Committee are to review and recommend the remuneration packages of the Directors and the senior management of the Group, oversee and review the administration of the Share Option Scheme and to review the appropriateness of compensation for Directors and the senior management of the Group. No Directors is involved in determining his own remuneration.

The Remuneration Committee takes into consideration the market condition, comparable companies, past performance and the experience and knowledge possessed when determining remuneration packages of the Directors.

This committee comprises of three members, all of whom are Independent Non-Executive Directors. The Remuneration Committee is chaired by Mr. Yip Tai Him.

## NOMINATION OF DIRECTORS

During the year ended 31 March 2012, the Board has not yet established a Nomination Committee. The appointment of any new director is therefore unanimously considered and approved by the Board. The Board considers that the new directors are expected to equip with expertise in making positive contributions to the Group and to provide timely and sufficient attention to the affairs of the Group.

All Directors are subject to election by shareholders of the Company at the annual general meeting. The new directors are notified on the role of the Board and Board Committee, their duties and obligation as a director of a listed company.

In order to comply with the amendments of the Code, the Nomination Committee has been established on 30 April 2012. The Nomination Committee consists of four members, of which the present Nomination Committee consists of a majority of Independent Non-Executive Directors. The Nomination Committee is chaired by Mr. Yip Tai Him. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on a regular basis and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors.

Mr. He Chenguang, Mr. Xiao Haiping and Ms. Liu Hong will retire at the forthcoming annual general meeting and the re-election of Mr. He Chenguang and Mr. Xiao Haiping as Executive Directors and Ms. Liu Hong as Independent Non-Executive Director are to be proposed at the forthcoming annual general meeting.

## AUDITORS' REMUNERATION

The Company has appointed RSM Nelson Wheeler as the auditors of the Group (the "Auditors") since April 2011. The Audit Committee is responsible for considering the appointment of the external auditors, including whether such non-audit engagements could affect their independence. The Board is authorised in the annual general meeting to determine the remuneration of the Auditors. For the year ended 31 March 2012, the Auditors' remuneration in connection with the provision of audit and non-audit services to the Group is as follows:

| | **For the year ended 31 March** | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$** | HK$ |
| Statutory audit | **500,000** | 606,000 |
| Non-audit services | **580,000** | 480,000 |
| | **1,080,000** | 1,086,000 |

## AUDIT COMMITTEE

The written terms of reference, which describe the authorities and duties of the Audit Committee, were implemented in accordance with the GEM Listing Rules. The Audit Committee comprises three members, all of whom are Independent Non-Executive Directors and is chaired by Mr. Yip Tai Him.

The Audit Committee meets at least four times each year. The main duties of the Audit Committee are summarised as follows:

— Discuss the work with the external auditors of the Company;
— Meet with external auditors of the Company, when they consider necessary;
— Review the quarterly, interim and annual financial statements and the report of the independent auditors on the Company's annual consolidated financial statements before these are presented to the Board;
— Ensure the quarterly, interim and annual consolidated financial statements are properly prepared;
— Review the independence of the external auditors annually;
— Ensures that cooperation is provided by management to the external auditors; and
— Review the adequacy and effectiveness of the Group's internal control system.

The Audit Committee is empowered to conduct investigations on any matters within the scope of responsibilities of the Audit Committee. The Audit Committee is authorised to obtain independent professional advices if it deems necessary to discharge its responsibilities.

For the year ended 31 March 2012, the Audit Committee held four meetings in which the members of the Audit Committee reviewed and concluded with satisfaction in relation to the internal control system of the Group and the following reports:

— Annual report for the year ended 31 March 2011;
— Quarterly reports for the first quarter and third quarter of 2011/12;
— Interim report for the first six months of 2011/12; and
— Review of continuing connected transactions with the Group.

## ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the accounts of the Company. The Group has net operating cash outflow of approximately HK$7,824,000 for the year ended 31 March 2012, and as at 31 March 2012 the Group had net liabilities of approximately HK$53,114,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Nevertheless, the directors had adopted the going concern basis in the preparation of the financial statements of the Group based on the following:

(a) On 31 March 2012, the Group agreed with CCI, a substantial shareholder of the Company, to postpone the maturity date of the promissory note to 30 June 2013.

(b) The directors have obtained the confirmation from CCC, the holding company of CCI and regarded as the substantial shareholder of the Company, that CCC will continue to provide adequate funds for the Group to meet its financial obligation as they fall due, both present and future.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of CCC and CCI, at a level sufficient to finance the working capital requirements of the Group. The directors are therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

The responsibilities of the external auditors with respect to their financial reporting are set out in the Independent Auditor's Report on pages 25 to 26 of this report.

## INTERNAL CONTROL

The Board is responsible for the maintenance of a sound and effective internal control system of the Group and has formulated the Group's internal control policies and procedures for monitoring the internal control system. The internal control system of the Group is designed to achieve business objectives, safeguard assets against unauthorized use or disposition, ensure maintenance of proper books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislations and regulations. The management and various departments conduct periodic self-assessment of the effectiveness of the internal control policies and procedures. Besides, the Board reviews at least annually the overall effectiveness of the Group's internal control system.

The Board is of the view that the Group's internal control system is effective to achieve the Group's internal control objectives and will continue to assess the effectiveness of internal controls by considering reviews performed by the audit committee and executive management.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

# Directors' Report

The Directors have pleasure in presenting their annual report together with the audited financial statements of the Company and its subsidiary companies for the year ended 31 March 2012.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

Details of the principal activities of the subsidiary companies are set out in note 29 to the financial statements.

## SEGMENT INFORMATION

An analysis of the Group's turnover and contributions to results by principal activities for the year is set out in note 10 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2012 are set out in the consolidated income statement on page 27 of this report.

The state of affairs of the Group and the Company at 31 March 2012 are set out in the consolidated statement of financial position and statement of financial position on page 29 of this report and note 35 to the financial statements respectively.

The Directors do not recommend the payment of any dividends in respect of the year ended 31 March 2012 (2011: HK$Nil).

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statements of changes in equity on page 31 and note 28(b) to the financial statements respectively.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company during the year are set out in note 20 to the financial statements.

## SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 27 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 March 2012, the Company's had no distributable reserves (2011: HK$Nil).

## PRE-EMPTIVE RIGHTS

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

## TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's shares.

## FINANCIAL INFORMATION SUMMARY

A summary of the consolidated results and of the consolidated assets and liabilities of the Group for the last five financial years is set out on page 3.

## 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 year ended 31 March 2012.

## SHARE OPTION SCHEMES

Prior to the listing of the Company's shares on the GEM, the Board was authorized to grant options to certain directors, an ex-consultant, an ex-management shareholder and certain employees of the Group to subscribe for an aggregate of 20,000,000 ordinary shares in the Company, representing 1.67% of the shares of the Company in issue as at 31 March 2012, under the terms of the pre-IPO share option scheme on 28 October 2002 (the "Pre-IPO Share Options Scheme").

On 14 November 2005, all share options granted under the Pre-IPO Share Option Scheme have been lapsed.

On 28 October 2002, the Company conditionally adopted a further share option scheme (the "Share Option Scheme") by a resolution of the sole shareholder of the Company. The Share Option Scheme became unconditional upon the listing of the Company's shares on the GEM on 15 November 2002. The Share Option Scheme was further amended by a resolution of the shareholders at the annual general meeting of the Company held on 28 July 2006 and summary of the Share Option Scheme is as follows:

(a) Purpose and Participants of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the Company to grant options to substantial shareholders, full-time or part-time employees, executive or officers, directors, non-executive directors (including independent non-executive directors) of the Group and any suppliers, independent contractors, consultants, agents and/or advisers, any entity in which any member of the Group holds any equity interest who, in the absolute determination of the Directors, will contribute or have contributed to the Group (the "Eligible Participant").

(b) Maximum number of shares

The maximum number of shares which may be allotted and issued upon the exercise of all options which initially shall not in aggregate exceed 10% of the shares in issue as at the date of adoption of the Share Option Scheme. Thereafter, if refreshed, the maximum number shall not exceed 10% of the shares in issue as at the date of approval of the refreshed limit by the shareholders.

The limit of the Share Option Scheme was refreshed by a resolution of the shareholders at the annual general meeting of the Company held on 29 July 2010 pursuant to which the directors were allowed to grant further options under the Share Option Scheme carrying the right to subscribe for a maximum of 119,469,701 shares, being 10% of the shares in issue as at the date of the aforesaid resolution.

Subject to the issue of a circular by the Company and the approval of the shareholders of the Company (the "Shareholders") in general meeting and/or such other requirements prescribed under the GEM Listing Rules from time to time, the Board may:

(i) refresh this limit at any time to 10% of the shares of the Company in issue as at the date of the approval by the Shareholders in general meeting (options previously granted under any share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with such schemes or exercised options) will not be counted for the purpose of calculating the limit as refreshed).

(ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board whereupon the Company shall send a circular to the Shareholders containing a generic description of the specified participants who may be granted such options, the number and terms of the options to be granted and the purpose of granting options to the specified participants with an explanation as to how the options serve such purpose.

(iii) notwithstanding the foregoing, the shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares of the Company in issue from time to time. No options shall be granted under any schemes of the Company or any of its subsidiary companies if this will result in the 30% limit being exceeded.

As at the latest practicable date prior to the issue of the annual report, options to subscribe for a total of 8,000,000 option shares were still outstanding under the Share Option Scheme which represents approximately 0.67% of the issued ordinary shares of the Company.

## SHARE OPTION SCHEMES (CONTINUED)

(c) Maximum number of options to any one individual

The total number of shares of the Company issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue as at the date of grant.

Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting with such Eligible Participant and his associates, as defined in the GEM Listing Rules, abstaining from voting and/or other requirements prescribed under the GEM Listing Rules from time to time.

(d) Price of shares

The subscription price for a share of the Company in respect of any particular option granted under the Share Option Scheme (which shall be payable upon exercise of the option) shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (a) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day (and for this purpose shall be taken to be the date of the Board meeting at which the Board proposes to grant the options); (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of a share.

(e) Granting options to connected persons

Any grant of options to a director, chief executive or management shareholder or substantial shareholder of the Company or any of their respective associates (as defined in the GEM Listing Rules) is required to be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee of the options).

If the Company proposes to grant options to a substantial shareholder (as defined in the GEM Listing Rules) of the Company or any independent non-executive director or their respective associates (as defined in the GEM Listing Rules) which will result in the number of shares of the Company issued and to be issued upon exercise of options granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant:

(i) representing in aggregate over 0.1% of the shares of the Company in issue on the date of the offer; and

(ii) having an aggregate value in excess of HK$5 million, based on the closing price of the shares of the Company at the date of each offer,

such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the GEM Listing Rules) of the Company shall abstain from voting, and/or such other requirements prescribed under the GEM Listing Rules from time to time. A connected person (as defined in the GEM Listing Rules) of the Company will be permitted to vote against the grant only if his intention to do so has been stated in the circular.

## SHARE OPTION SCHEMES (CONTINUED)

(f) Time of exercise of option

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The date of grant of any particular option is the date when the duplicate offer document constituting acceptance of the option duly signed by the grantee, together with a remittance in favour of the Company of HK$1.00 by way of consideration is received by the Company, such date must be on or before the 30th day after the option is offered to the relevant grantee. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years after the date of adoption of the Share Option Scheme by Shareholders by resolution at a general meeting.

Particulars of the outstanding options which have been granted under the Share Option Scheme as at 31 March 2012 were as follows:

| | | | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Name or category of participant** | **Date of grant** | **Exercisable period** | **Exercise price per share** HK$ | **As at 1 April 2011** | **Options granted during the year** | **Options exercised during the year (2)** | **Options lapsed during the year (1)** | **Options cancelled during the year** | **As at 31 March 2012** |
| *Other Eligible Participants* | | | | | | | | | |
| 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 |
| In aggregate | 14 April 2011 | 14 October 2011 to 13 October 2012 | 1.75 | — | 1,000,000 | — | — | — | 1,000,000 |
| In aggregate | 14 September 2011 | 14 November 2011 to 13 November 2013 | 1.50 | — | 1,000,000 | — | — | — | 1,000,000 |
| In aggregate | 2 December 2011 | 2 December 2012 to 1 December 2013 | 1.24 | — | 6,000,000 | — | — | — | 6,000,000 |
| | | | | 42,170,000 | 8,000,000 | — | (11,000,000) | — | 39,170,000 |

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 year.

# Directors' Report

## DIRECTORS

The Directors who held office during the year and up to the date of this report were as follows:

Executive Directors
He Chenguang
Xiao Haiping
Zhang Peng
Bao Yueqing (Resigned on 30 June 2011)

Independent Non-Executive Directors
Yip Tai Him
Cao Huifang
Liu Hong

In accordance with Article 112 of the Articles, one-third of the Directors shall retire from office by rotation at the annual general meeting of the Company but shall then be eligible for re-election. In accordance with Article 95 of the Articles, any Director appointed as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Mr. He Chenguang, Mr. Xiao Haiping and Ms. Liu Hong shall retire at the AGM and, being eligible, offer themselves for re-election at the AGM.

The terms of office of Independent Non-Executive Directors should be subject to retirement by rotation in accordance with the Articles.

The Company has received written confirmations from each of the Independent Non-Executive Directors for their independence. The Company has assessed their independence and concluded that all Independent Non-Executive Directors are independent within the definition of the Listing Rules.

## DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company. The employment of each Executive Director under his service contract shall be continuous subject to termination by either party to the contract serving written notice to the other to terminate such employment to take effect three months from the date of service of such notice.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiary companies which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Apart from the Directors' interests in contracts as disclosed in the section headed "Details of the continuing connected transactions" below, no Directors had a significant beneficial interest, whether directly or indirectly, in any contracts of significance to the business of the Group to which the Company or any of its subsidiary companies were a party at the end of the year ended 31 March 2012 or any time during the year ended 31 March 2012.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on page 8.

## INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 March 2012, 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:

| | Number of shares held | | | | | Number of underlying shares | | |
|---|---|---|---|---|---|---|---|---|
| **Name of Director** | **Personal interests** | **Corporate interests** | **Family interests** | **Other interests** | **Total interests in shares** | **Share Option Scheme** | **Aggregate interests** | **Approximate percentage of the issued share capital of the Company** |
| 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 31 March 2012.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at 31 March 2012, 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:

| | Number of shares held | | | | | Number of underlying shares | | |
|---|---|---|---|---|---|---|---|---|
| Name of shareholder | Personal interests | Corporate interests | Family interests | Other Interests | Total interests in shares | Share Option Scheme | Aggregate interests | Approximate percentage of the issued share capital of the Company |
| 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% |
| Yang Shaoxiao (Note 4) | — | — | — | 128,205,128 | 128,205,128 | — | 128,205,128 | 10.73% |
| Jin Yan (Note 5) | — | — | — | 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.[#]) ("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.

(4) Mr. Jin Lin Jun has pledged his equity interest in Amazing International Holdings Limited to Mr. Yang Shaoxiao, and Mr. Yang Shaoxiao is therefore considered to have a security interest in 128,205,128 shares held by Amazing International Holdings Limited by virtue of the SFO.

(5) Mr. Jin Xiao Gen has pledged his equity interest in Full Ocean Development Limited to Ms. Jin Yan, and Ms. Jin Yan is therefore considered to have security interest in 128,205,128 shares held by Full Ocean Development Limited by virtue of the SFO.

Save as disclosed above, as at 31 March 2012, 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.

[#] *English translation of the name for identification purpose only*

## MANAGEMENT CONTRACTS

No substantial contracts concerning the management and administration of the Company were entered into or existed during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

| | |
|---|---|
| Purchases | |
| — the largest supplier | 64% |
| — five largest suppliers | 100% |
| Sales | |
| — the largest customer | 100% |
| — five largest customers | 100% |

Save for CCC, being a shareholder of the Company interested in more than 5% of the Company's issued share capital through its shareholding in CCI, none of the Directors, their associates or any shareholder of the Company (which to the best knowledge of the Directors owns more than 5% of the Company's issued share capital) had any beneficial interest in the major suppliers or customers noted above.

## CONTINUING CONNECTED TRANSACTIONS

### Relationship between the Group and each of the relevant connected persons

CCC, a company established under the laws of the PRC. By virtue of its interests as to approximately 29.84% of the entire issued share capital of China Communication Investment Limited, its wholly-owned subsidiary, which is holding 356,542,000 shares of the Company, CCC is considered to be a connected person to the Company.

### Details of the continuing connected transactions of the Group

Pursuant to Rule 20.46 of the GEM Listing Rules, details of the continuing connected transactions during the year ended 31 March 2012 which the Company undertakes the transactions under the written agreements are set out as follows:

1. On 11 January 2010, 北京神通益家科技服務有限公司 (Beijing Shentong Yijia Technology Service Company Limited#) ("Shentong Yijia"), a company established under the laws of the PRC and a wholly owned subsidiary of the Company, and CCC entered into the customers service hotline rental agreement (as supplemented by a supplemental agreement dated 17 March 2010), pursuant to which CCC shall provide a designated national customer service hotline number 95130*** to Shentong Yijia, in consideration of which CCC would charge Shentong 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 "VoIP" (Voice-Over Internet Protocol) telephone system. The calling charge rate was subject to adjustment in accordance with any new charging standard to be announced by the PRC government from time to time;

2. On 11 January 2010, CCC and Shentong Yijia entered into the server hosting agreement (as supplemented by a supplemental agreement dated 17 March 2010), pursuant to which (i) Shentong Yijia would place its servers in CCC's server rooms and CCC would provide monitoring, management and technical support services to Shentong Yijia and (ii) CCC would provide designated 300M-bandwidth share of the broadband leased line to Shentong Yijia for the operation of its website and CCC will also provide 90 IP addresses and five (5) racks of servers for the use of Shentong Yijia and supply 2200W (10A) electricity for each rack of servers rented to Shentong Yijia, in consideration of which CCC would charge Shentong Yijia an annual rental fee of RMB2.7 million;

# *English translation of the name for identification purpose only*

## CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Details of the continuing connected transactions of the Group (Continued)

3. On 30 November 2009, CCC and Shentong Yijia entered into the service agreement (as supplemented by a supplemental agreement dated 17 March 2010), pursuant to which Shentong Yijia would provide to CCC services regarding (i) the management and sale of the designated "Shentong Cards" preloaded with certain telecommunication and insurance products of CCC; (ii) assistance in the after-sale-services for the designated "Shentong Cards"; and (iii) following-up with the enquiries and/or complaints raised by the users of the designated "Shentong Cards"; and (iv) customer management service, and promotion and marketing of the designated "Shentong Cards", in consideration of which Shentong Yijia would charge CCC (i) issuance handling fees of RMB5 for each designated Shentong Card issued by Shentong Yijia; (ii) technical service commission of 20% of the total value of purchases made by the users through the designated "Shentong Cards" issued by Shentong Yijia; (iii) sale commission of RMB3 for the insurance products preloaded in the designated "Shentong Cards" issued by Shentong Yijia; and (iv) sale commission of 20% of the total value of purchases made by the users through the designated "Shentong Cards" issued by Shentong Yijia for the property and life insurance products and 10% for the purchases of health insurance products;

4. On 11 January 2010, CCC and Shentong Yijia entered into the web advertising agreement (as supplemented by a supplemental agreement dated 17 March 2010), pursuant to which Shentong Yijia agreed to place and CCC agreed to arrange for the web advertisements of Shentong Yijia to be published on the website of CCC "Shentong Net", and 24-hour technical support services should also be provided by CCC to Shentong Yijia to handle all technical issues arising out of the publication of the advertisements. The amount of advertising fees to be incurred by Shentong Yijia during the term of such web advertising agreement should not be made than RMB5 million for each of three years ended 31 March 2013 and details of the advertising arrangement and the payment methods should be determined based on mutual agreement of Shentong Yijia and CCC to be reached at least three days prior to the publication of the relevant advertisements.

The aforesaid the above agreements have been reviewed by Independent Non-Executive Directors of the Company. The Independent Non-Executive Directors confirmed that the above agreements were entered into (a) in the ordinary and usual course of business of the Group; (b) on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Based on the work performed, the auditors of the Company have confirmed that the above connected transactions (a) has been approved by the Board, (b) the transactions were carried out based on the pricing policy of the group, (c) has been entered into in accordance with the terms of the relevant agreements governing the transactions, and (d) the amounts of the transactions were not more than the annual cap amounts as approved by the Hong Kong Stock Exchange.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Directors and within the knowledge of the Directors, it is confirmed that there is sufficient public float, representing more than 25% of the Company's issued shares at the latest practicable date prior to the issue of this report.

# Directors' Report

## 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.

## OTHER MATTERS

(a) The company secretary and the qualified accountant of the Company is Ms. Hung Yee Ling, CPA.

(b) The compliance officer of the Company is Mr. Zhang Peng appointed pursuant to Rule 5.19 of the GEM Listing Rules.

## AUDITORS

The financial statements have been audited by RSM Nelson Wheeler who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board
**He Chenguang**
*Chairman*

Hong Kong, 21 June 2012

# Independent Auditor's Report

RSM! Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

**TO THE SHAREHOLDERS OF**
**CHINA COMMUNICATION TELECOM SERVICES COMPANY LIMITED**
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Communication Telecom Services Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 72, which comprise the consolidated statement of financial position as at 31 March 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditor's Report

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2012, and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

Without qualifying our opinion, we draw attention to note 2 to the financial statements which mentions that the Group has net operating cash outflow of approximately HK$7,824,000 for the year ended 31 March 2012 and as at 31 March 2012 the Group had net liabilities of approximately HK$53,114,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

**RSM Nelson Wheeler**
*Certified Public Accountants*
Hong Kong

21 June 2012

# Consolidated Income Statement

FOR THE YEAR ENDED 31 MARCH 2012

| | Note | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Continuing operation** | | | |
| **Turnover** | 7 | **33,102** | 30,373 |
| Cost of sales | | **(12,709)** | (47,556) |
| **Gross profit/(loss)** | | **20,393** | (17,183) |
| Other income | 8 | **23** | 93 |
| Selling and distribution expenses | | **(11,845)** | (38,900) |
| Administrative expenses | | **(15,969)** | (19,311) |
| Waive of coupon interest | 9 | **19,861** | — |
| Other operating expenses | | **(11,467)** | (158,265) |
| **Profit/(loss) from operations** | | **996** | (233,566) |
| Finance costs | 11 | **(4,297)** | (10,186) |
| **Loss before tax** | | **(3,301)** | (243,752) |
| Income tax credit | 12 | **1,454** | 50,483 |
| **Loss for the year from continuing operation** | | **(1,847)** | (193,269) |
| **Discontinued operations** | | | |
| Profit/(loss) for the year from discontinued operations | 17 | **165,633** | (1,648) |
| **Profit/(loss) for the year** | 13 | **163,786** | (194,917) |
| **Attributable to:** | | | |
| Owners of the Company | | | |
| Loss from continuing operation | | **(1,847)** | (193,269) |
| Profit/(loss) from discontinued operations | | **165,641** | (1,236) |
| Profit/(loss) for the year attributable to owners of the Company | 15 | **163,794** | (194,505) |
| Non-controlling interests | | | |
| Loss from continuing operation | | **—** | — |
| Loss from discontinued operations | | **(8)** | (412) |
| Loss for the year attributable to non-controlling interests | | **(8)** | (412) |
| | | **163,786** | (194,917) |
| | | **HK cents** | HK cents |
| **Earnings/(loss) per share** | | | |
| From continuing and discontinued operations | | | |
| — basic | 18(a) | **13.71** | (16.28) |
| — diluted | 18(b) | **N/A** | N/A |
| From continuing operation | | | |
| — basic | 18(a) | **(0.15)** | (16.18) |
| — diluted | 18(b) | **N/A** | N/A |

# Consolidated Statement Of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2012

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Profit/(loss) for the year** | **163,786** | (194,917) |
| **Other comprehensive income:** | | |
| Exchange differences on translating foreign operations | **275** | 2,854 |
| Exchange differences reclassified to profit or loss on disposal of a subsidiary | **(11,199)** | — |
| **Other comprehensive income for the year, net of tax** | **(10,924)** | 2,854 |
| **Total comprehensive income for the year** | **152,862** | (192,063) |
| **Attributable to:** | | |
| Owners of the Company | **153,026** | (191,443) |
| Non-controlling interests | **(164)** | (620) |
| | **152,862** | (192,063) |

# Consolidated Statement of Financial Position

AT 31 MARCH 2012

| | Note | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 20 | **2,231** | 2,667 |
| Intangible assets | 21 | **15,868** | 34,938 |
| | | **18,099** | 37,605 |
| **Current assets** | | | |
| Trade and other receivables | 22 | **4,307** | 1,130 |
| Bank and cash balances | 23 | **38,425** | 41,088 |
| | | **42,732** | 42,218 |
| Assets of disposal group classified as held for sale | 19 | **—** | 12,119 |
| | | **42,732** | 54,337 |
| **Current liabilities** | | | |
| Accruals and other payables | | **997** | 941 |
| Amount due to a substantial shareholder | 24 | **—** | 2,274 |
| Current tax liabilities | | **9,678** | 102 |
| | | **10,675** | 3,317 |
| Liabilities directly associated with assets of disposal group classified as held for sale | 19 | **—** | 33,776 |
| | | **10,675** | 37,093 |
| **Net current assets** | | **32,057** | 17,244 |
| **Total assets less current liabilities** | | **50,156** | 54,849 |
| **Non-current liabilities** | | | |
| Promissory note | 25 | **99,303** | 254,807 |
| Deferred tax liabilities | 26 | **3,967** | 8,735 |
| | | **103,270** | 263,542 |
| **NET LIABILITIES** | | **(53,114)** | (208,693) |

# Consolidated Statement of Financial Position

AT 31 MARCH 2012

| | Note | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 27 | **11,947** | 11,947 |
| Reserves | 28 | **(65,061)** | (220,020) |
| Equity attributable to owners of the Company | | **(53,114)** | (208,073) |
| Non-controlling interests | | **—** | (620) |
| **TOTAL EQUITY** | | **(53,114)** | (208,693) |

Approved by the Board of Directors on 21 June 2012

| | |
|---|---|
| **He Chenguang** | **Zhang Peng** |
| *Director* | *Director* |

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2012

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Merger reserve HK$'000 | Foreign currency translation reserve HK$'000 | Share-based payment reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 April 2010 | 11,947 | 1,042,779 | 8,320 | 9,218 | 1,830 | (1,105,963) | (31,869) | — | (31,869) |
| Total comprehensive income for the year | — | — | — | 3,062 | — | (194,505) | (191,443) | (620) | (192,063) |
| Share option scheme | | | | | | | | | |
| — share-based payments | — | — | — | — | 15,239 | — | 15,239 | — | 15,239 |
| — forfeiture of share options granted | — | — | — | — | (1,781) | 1,781 | — | — | — |
| Changes in equity for the year | — | — | — | 3,062 | 13,458 | (192,724) | (176,204) | (620) | (176,824) |
| At 31 March 2011 | 11,947 | 1,042,779 | 8,320 | 12,280 | 15,288 | (1,298,687) | (208,073) | (620) | (208,693) |
| At 1 April 2011 | 11,947 | 1,042,779 | 8,320 | 12,280 | 15,288 | (1,298,687) | (208,073) | (620) | (208,693) |
| Total comprehensive income for the year | — | — | — | (10,768) | — | 163,794 | 153,026 | (164) | 152,862 |
| Share option scheme | | | | | | | | | |
| — share-based payments | — | — | — | — | 1,933 | — | 1,933 | — | 1,933 |
| — forfeiture of share options granted | — | — | — | — | (4,017) | 4,017 | — | — | — |
| Disposal of a subsidiary | — | — | — | — | — | — | — | 784 | 784 |
| Changes in equity for the year | — | — | — | (10,768) | (2,084) | 167,811 | 154,959 | 620 | 155,579 |
| At 31 March 2012 | 11,947 | 1,042,779 | 8,320 | 1,512 | 13,204 | (1,130,876) | (53,114) | — | (53,114) |

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2012

| | Note | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit/(loss) before tax | | | |
| Continuing operation | | **(3,301)** | (243,752) |
| Discontinued operations | 17 | **165,633** | (1,648) |
| Adjustments for: | | | |
| Amortisation of intangible assets | | **8,499** | 46,242 |
| Depreciation | | **1,170** | 1,193 |
| Equity-settled share-based payments | | **1,933** | 15,239 |
| Finance costs | | **4,297** | 10,186 |
| Impairment of intangible assets | | **11,467** | 158,265 |
| Interest income | | **(127)** | (108) |
| Gain on disposals of property, plant and equipment | | **—** | (68) |
| Gain on disposal of a subsidiary | | **(165,667)** | — |
| Waive of coupon interest | | **(19,861)** | — |
| Operating profit/(loss) before working capital changes | | **4,043** | (14,451) |
| (Increase)/decrease in trade and other receivables | | **(9,630)** | 2,025 |
| (Decrease)/increase in trade and other payables | | **(1,248)** | 162 |
| Cash used in operations | | **(6,835)** | (12,264) |
| Income tax paid | | **(989)** | (1,005) |
| Net cash used in operating activities | | **(7,824)** | (13,269) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Cash outflow from disposal of a subsidiary | 31(a) | **(4,151)** | — |
| Purchase of property, plant and equipment | | **(660)** | (2,162) |
| Proceeds from disposal of property, plant and equipment | | **—** | 843 |
| Interest received | | **127** | 108 |
| Net cash used in investing activities | | **(4,684)** | (1,211) |

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2012

| | Note | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Decrease in amount due to a substantial shareholder | | **—** | (615) |
| Net cash used in financing activities | | **—** | (615) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(12,508)** | (15,095) |
| Effect of foreign exchange rate changes | | **(448)** | (766) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | | **51,381** | 67,242 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | | **38,425** | 51,381 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | | |
| Bank and cash balances | | | |
| Continuing operation | | **38,425** | 41,088 |
| Discontinued operations | 19 | **—** | 10,293 |
| | | **38,425** | 51,381 |

## 1. GENERAL

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, Ugland 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 is an investment holding company. The principal activities of its subsidiaries are set out in note 29 to the financial statements.

## 2. GOING CONCERN BASIS

The Group has net operating cash outflow of approximately HK$7,824,000 for the year ended 31 March 2012, and as at 31 March 2012 the Group had net liabilities of approximately HK$53,114,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Nevertheless, the directors had adopted the going concern basis in the preparation of the financial statements of the Group based on the following:

(a) On 31 March 2012, the Group agreed with China Communication Investment Limited ("CCI"), a substantial shareholder of the Company, to postpone the maturity date of the promissory note to 30 June 2013.

(b) The directors have obtained the confirmation from 神州通信集團有限公司 (China Communication Group Co., Ltd.*) ("CCC"), the holding company of CCI and regarded as the substantial shareholder of the Company, that CCC will continue to provide adequate funds for the Group to meet its financial obligation as they fall due, both present and future.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of CCC and CCI, at a level sufficient to finance the working capital requirements of the Group. The directors are therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their 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. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 April 2011. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements 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.

* *For identification purpose*

## 4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and by the disclosure requirements of Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy 4(u) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

(c) Foreign currency translation

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollar, which is the Company's functional and presentation currency.

*(ii) Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Foreign currency translation (Continued)

*(iii) Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### (d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

| | |
|---|---|
| Computer equipment | 18%–50% |
| Leasehold improvements | Shorter of unexpired lease period and useful live |
| Equipment, furniture and fixtures | 18%–33% |
| Motor vehicles | 18% |

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Intangible assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Amortisation of intangible assets is charged to profit or loss on a straight line basis over their estimated useful lives as follows:

| | |
|---|---|
| Online game software platform | 10 years |
| Online game license rights | Over the license period |
| e-Sports platform portal | 5 years |
| Computer games distribution rights | 5 years |
| Trademarks | Shorter of license period and 5 years |
| Research and development | 5 years |

The useful lives and amortisation methods are reviewed and adjusted, if appropriate, at the end of reporting period. At 31 March 2012, the Group carried out review of estimated remaining useful lives of the following intangible assets.

| | **Estimated remaining useful lives at 31 March 2012** |
|---|---|
| Distribution network | 3.8 years |
| Service contract | 1.1 years |

### (f) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

### (g) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

### (i) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

### (j) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below in notes 4(k) to 4(m).

### (k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### (l) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (m) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### (n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue recognised in respect of operating the online games is net of discounts, business tax, internet payment and settlement service fee, and other related taxes and charges.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Revenue recognition (Continued)

The Group sells prepaid game cards to distributors and online game players. With the prepaid game cards, online game players can credit their online game accounts with game points which can be used for purchasing of online time, virtual products and premium features of certain online games hosted by the Group. The online game players can also credit their online user accounts directly. Such income received is deferred and recorded as deferred income under current liabilities and would be recognised as revenue upon the actual consumption of the game points.

Income from trading of peripheral products and distribution of computer games are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Promotion and management services income includes issuance handling fees and sales commission which is based on the number of electronic smart card "Shentong Card" activated, technical services commission which is based on the total value of expenditures of Shentong Card users. Revenue recognised in respect of promotion and management services income is net of business tax.

Interest income is recognised on a time-proportion basis using the effective interest method.

(o) Employee benefits

*(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

*(ii) Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

*(iii) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees and others providing similar services.

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

### (r) Non-current assets and disposal group classified as held for sale and discontinued operations

Non-current assets or disposal group are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group are available for immediate sale in their present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets or disposal group classified as held for sale are measured at the lower of the assets' or disposal group's previous carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale in accordance with HKFRS 5, if earlier. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented in the consolidated income statement, which comprises:

— The post-tax profit or loss of the discontinued operation; and

— The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (s) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### (t) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Related parties (Continued)

(B) (Continued)

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(u) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(v) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Going concern basis

The Group adopted the going concern basis in the preparation of the financial statements. Details of the assumptions adopted by the directors for adopting the going concern basis in preparing the financial statements are set out in note 2 to the financial statements.

Key sources of estimation uncertainty

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

*(a) Property, plant and equipment and depreciation*

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

*(b) Amortisation of intangible assets*

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involves management's estimation. The Group reassesses the useful life of the intangible assets annually and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

*(c) Impairment of intangible assets*

Determining whether intangible assets impaired requires an estimation of the value in use of the cash-generating unit to which they have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Details of the impairment losses are stated in note 21 to financial statements.

*(d) Impairment loss for bad and doubtful debts*

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (Continued)

*(e) Income taxes*

The Group is subject to various taxes in the People's Republic of China ("PRC"). Significant estimates are required in determining the provision for those taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

## 6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the principal operation entities of the Group. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The carrying amount of the bank and cash balances and trade and other receivables included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has no significant concentrations of credit risk.

Amount due from a substantial shareholder is closely monitored by the directors.

The credit risk on bank and cash balances is limited because the counterparties are banks well recognised by the market.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

| | **Less than 1 year** | **Between 1 and 2 years** | **Between 2 and 5 years** | **Over 5 years** |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 March 2012** | | | | |
| Accruals and other payables | 997 | — | — | — |
| Promissory note | — | 101,778 | — | |
| **At 31 March 2011** | | | | |
| Accruals and other payables | 941 | — | — | — |
| Amount due to a substantial shareholder | 2,274 | — | — | |
| Promissory note | — | 261,464 | — | — |

As described in notes 2 and 25 to the financial statements, the Group has reached an agreement with CCI to postpone the maturity date of promissory note to 30 June 2013. The directors are of the view that this agreement would be adequate to maintain the liquidity risk to an acceptable level.

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Interest rate risk

The Group has minimal exposure to interest rate risk as the changes in market interest rates have insignificant effect on the Group's operating cash flow.

The Group's interest-rate risk arises from promissory note, which are at fixed rate and will expose the Group to fair value interest-rate risk.

(e) Categories of financial instruments at 31 March:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| **Financial assets:** | | |
| Loans and receivables (including cash and cash equivalents) | | |
| — Other receivables (excluding prepayments) | **3,519** | 719 |
| — Bank and cash balances | **38,425** | 41,088 |
| **Financial liabilities:** | | |
| Financial liabilities at amortised cost | | |
| — Amount due to a substantial shareholder | **—** | 2,274 |
| — Promissory note | **99,303** | 254,807 |

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

## 7. TURNOVER

The Group's turnover which represents sales of goods and services rendered to customers (after business tax) are as follows:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Continuing operation | | |
| — Promotion and management services | **33,102** | 30,373 |
| Discontinued operations (note 17) | | |
| — e-Sports platform | — | 285 |
| — Computer games distribution and licensing | — | 14 |
| | — | 299 |
| | **33,102** | 30,672 |

## 8. OTHER INCOME

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Gain on disposals of property, plant and equipment | **—** | 68 |
| Interest income | **127** | 108 |
| Sundry income | **—** | 7 |
| | **127** | 183 |
| Representing: | | |
| Continuing operation | **23** | 93 |
| Discontinued operations (note 17) | **104** | 90 |
| | **127** | 183 |

## 9. WAIVE OF COUPON INTEREST

On 7 December 2011, the Group and CCI entered into a Deed of Waiver, pursuant to which CCI agreed to waive the coupon interest payable due by the Group up to 7 December 2011. Future coupon interests are to be calculated in accordance with the original terms of the promissory note.

## 10. SEGMENT INFORMATION

The Group has the following reportable segments:

**Continuing operation (for the years ended 31 March 2012 and 2011)**

Promotion and management services — Provision of promotion and management services for an electronic smart card "Shentong Card"

**Discontinued operations (for the year ended 31 March 2011)**

Online game operation — Operation of a licensed online game "Sudden Attack"

e-Sports platform — Operation of an electronic platform ("e-Sports platform") for online computer game tournaments

Computer games distribution and licensing — Selling and distribution of computer games

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 4 to the financial statements. Segment profits or losses do not include finance costs, income tax expense/credit and unallocated corporate income/expenses. 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 with the exception of current tax liabilities, deferred tax liabilities and corporate liabilities.

## 10. SEGMENT INFORMATION (CONTINUED)

Information about reportable segment profit or loss, assets and liabilities:

| | Continuing operation |
|---|---|
| | Promotion and management services |
| | HK$'000 |
| Year ended 31 March 2012 | |
| Turnover from external customers | 33,102 |
| Segment loss | (5,828) |
| Interest income | 20 |
| Depreciation and amortisation | 9,669 |
| Impairment of intangible assets | 11,467 |
| Additions to segment non-current assets | 656 |
| As at 31 March 2012 | |
| Segment assets | 33,350 |
| Segment liabilities | 373 |

## 10. SEGMENT INFORMATION (CONTINUED)

Information about reportable segment profit or loss, assets and liabilities: (Continued)

| | Continuing operation | Discontinued operations | | | |
|---|---|---|---|---|---|
| | Promotion and management services HK$'000 | Online game operation HK$'000 | e-Sports platform HK$'000 | Computer games distribution and licensing HK$'000 | Total HK$'000 |
| Year ended 31 March 2011 | | | | | |
| Turnover from external customers | 30,373 | — | 285 | 14 | 30,672 |
| Segment (loss)/profit | (204,778) | — | (1,662) | 14 | (206,426) |
| Interest income | 15 | — | 90 | — | 105 |
| Gain on disposals of property, plant and equipment | 68 | — | — | — | 68 |
| Depreciation and amortisation | 47,315 | — | — | — | 47,315 |
| Impairment of intangible assets | 158,265 | — | — | — | 158,265 |
| As at 31 March 2011 | | | | | |
| Segment assets | 41,099 | — | — | — | 41,099 |
| Segment liabilities | 2,452 | 21,863 | 11,153 | 97 | 35,565 |

## 10. SEGMENT INFORMATION (CONTINUED)

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Turnover** | | |
| Total turnover of reportable segments | 33,102 | 30,672 |
| Elimination of discontinued operations | — | (299) |
| Consolidated turnover from continuing operation | 33,102 | 30,373 |
| **Profit or loss** | | |
| Total loss of reportable segments | (5,828) | (206,426) |
| Finance costs | (4,297) | (10,186) |
| Income tax credit | 1,454 | 50,483 |
| Unallocated head office and corporate income/(expenses) | 6,824 | (28,788) |
| Elimination of discontinued operations | — | 1,648 |
| Consolidated loss for the year from continuing operation | (1,847) | (193,269) |
| **Assets** | | |
| Total assets of reportable segments | 33,350 | 41,099 |
| Unallocated head office and corporate assets | 27,481 | 50,843 |
| Consolidated total assets | 60,831 | 91,942 |
| **Liabilities** | | |
| Total liabilities of reportable segments | 373 | 35,565 |
| Current tax liabilities | 9,678 | 102 |
| Deferred tax liabilities | 3,967 | 8,735 |
| Unallocated head office and corporate liabilities | 99,927 | 256,233 |
| Consolidated total liabilities | 113,945 | 300,635 |

## 10. SEGMENT INFORMATION (CONTINUED)

### Geographical information

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

### Major customer

For the years ended 31 March 2012 and 31 March 2011, the Group has only one customer which contributed more than 10% of the sales of the Group. The customer is under promotion and management services segment and the sale amount is approximately HK$35,038,000 (2011: HK$32,075,000).

## 11. FINANCE COSTS

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on promissory note payable to CCI | **4,297** | 10,186 |
| Representing: | | |
| Continuing operation | **4,297** | 10,186 |
| Discontinued operations | **—** | — |
| | **4,297** | 10,186 |

## 12. INCOME TAX (CREDIT)/EXPENSE

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current tax | **3,537** | 643 |
| Deferred tax (note 26) | **(4,991)** | (51,126) |
| | **(1,454)** | (50,483) |
| Representing: | | |
| Continuing operation | **(1,454)** | (50,483) |
| Discontinued operations | **—** | — |
| | **(1,454)** | (50,483) |

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the years ended 31 March 2012 and 2011.

Tax charge on estimated assessable profits in the PRC has been calculated at prevailing tax rate of 25% (2011: 25%).

## 12. INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

The reconciliation between the income tax (credit)/expense and the product of (loss)/profit before tax multiplied by the PRC enterprise income tax rate is as follows:

(i) Continuing operation

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Loss before tax | **(3,301)** | (243,752) |
| Tax at PRC Enterprise Income Tax rate of 25% (2011: 25%) | **(825)** | (60,938) |
| Tax effect of income that is not taxable | **(4,965)** | (456) |
| Tax effect of expenses that are not deductible | **4,336** | 10,911 |
| Income tax credit | **(1,454)** | (50,483) |

(ii) Discontinued operations

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Profit/(loss) before tax | **165,633** | (1,648) |
| Tax at PRC Enterprise Income Tax rate of 25% (2011: 25%) | **41,408** | (412) |
| Tax effect of income that is not taxable | **(43,193)** | — |
| Tax effect of expenses that are not deductible | **1,785** | — |
| Tax effect of temporary differences not recognised | **—** | (3,282) |
| Tax effect of unused tax losses not recognised | **—** | 3,694 |
| Income tax expense | **—** | — |

## 13. PROFIT/(LOSS) FOR THE YEAR

The Group's profit/(loss) for the year is stated after charging/(crediting) the following:

| | Continuing operation | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amortisation of intangible assets | | | | | | |
| — included in cost of sales | **6,566** | 36,464 | **—** | — | **6,566** | 36,464 |
| — included in selling and distribution expenses | **1,933** | 9,778 | **—** | — | **1,933** | 9,778 |
| | **8,499** | 46,242 | **—** | — | **8,499** | 46,242 |
| Depreciation | **1,170** | 1,193 | **—** | — | **1,170** | 1,193 |
| Gain on disposals of property, plant and equipments | **—** | (68) | **—** | — | **—** | (68) |
| Operating lease charges for land and buildings | **2,763** | 2,438 | **—** | 248 | **2,763** | 2,686 |
| Auditor's remuneration | | | | | | |
| — audit services | **500** | 606 | **—** | — | **500** | 606 |
| — other services | **619** | 480 | **—** | — | **619** | 480 |
| | **1,119** | 1,086 | **—** | — | **1,119** | 1,086 |
| Equity-settled share-based payments | **1,933** | 15,239 | **—** | — | **1,933** | 15,239 |
| Other operating expenses | | | | | | |
| — Impairment of intangible assets | **11,467** | 158,265 | **—** | — | **11,467** | 158,265 |
| Staff costs including directors' emoluments | | | | | | |
| — Salaries, bonus and allowances | **10,243** | 11,102 | **99** | 625 | **10,342** | 11,727 |
| — Retirement benefits scheme contributions | **429** | 504 | **20** | 116 | **449** | 620 |
| | **10,672** | 11,606 | **119** | 741 | **10,791** | 12,347 |

## 14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

| | Note | Fees | Salary and allowances | Retirement benefits scheme contributions | Total |
|---|---|---|---|---|---|
| | | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Executive directors** | | | | | |
| He Chenguang | | **—** | **1,950** | **12** | **1,962** |
| Zhang Peng | | **—** | **1,820** | **12** | **1,832** |
| Xiao Haiping | | **—** | **720** | **12** | **732** |
| Bao Yueqing | (a) | **—** | **150** | **3** | **153** |
| **Independent non-executive directors** | | | | | |
| Yip Tai Him | | **100** | **—** | **—** | **100** |
| Cao Huifang | | **100** | **—** | **—** | **100** |
| Liu Hong | | **100** | **—** | **—** | **100** |
| Total for 2012 | | **300** | **4,640** | **39** | **4,979** |
| **Executive directors** | | | | | |
| He Chenguang | | — | 1,950 | 12 | 1,962 |
| Zhang Peng | | — | 1,820 | 12 | 1,832 |
| Xiao Haiping | | — | 720 | 12 | 732 |
| Bao Yueqing | (a) | — | 600 | 11 | 611 |
| Weng Pinger | (b) | — | 60 | — | 60 |
| **Independent non-executive directors** | | | | | |
| Yip Tai Him | | 100 | — | — | 100 |
| Cao Huifang | | 100 | — | — | 100 |
| Liu Hong | | 100 | — | — | 100 |
| Total for 2011 | | 300 | 5,150 | 47 | 5,497 |

Notes: (a) Appointed on 30 April 2010 and resigned on 30 June 2011
(b) Resigned on 30 April 2010

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

## 14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

The five highest paid individuals in the Group during the year included three (2011: four) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2011: one) employees are set out below:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salary and allowances | **812** | 765 |
| Retirement benefits scheme contributions | **24** | 12 |
| | **836** | 777 |

The emoluments fell within the following band:

| | **Number of individuals** | |
|---|---|---|
| | **2012** | 2011 |
| HK$Nil to HK$1,000,000 | **2** | 1 |

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 15. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit/(loss) for the year attributable to owners of the Company included a loss of approximately HK$19,445,000 (2011: HK$180,163,000) which has been dealt with in the financial statements of the Company.

## 16. DIVIDENDS

No dividends have been paid or proposed during the year, nor has any dividend been proposed since the end of reporting period (2011: HK$Nil).

## 17. DISCONTINUED OPERATIONS

Pursuant to an agreement (the "Disposal Agreement") dated 1 December 2010 entered into between a subsidiary of the Company, Oriental Glory (H.K.) Limited ("Oriental Glory") and CCI, Oriental Glory disposed of 75% equity interest in a subsidiary, 神州奧美網絡有限公司 (China Cyber Port Co., Ltd.*) ("CCP") at a consideration of HK$140 million. At the extraordinary general meeting ("EGM") on 20 January 2011, the resolution approving, inter alia, the Disposal Agreement and the transactions contemplated thereunder were duly passed by independent shareholders by way of poll at the EGM. The Group discontinued its online game, e-Sports platform and computer games distribution and licensing operations during the year ended 31 March 2011.

The disposal was completed on 7 December 2011.

* *For identification purpose*

## 17. DISCONTINUED OPERATIONS (CONTINUED)

The results of the discontinued operations which have been included in consolidated profit or loss, are as follows:

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Turnover | **—** | 299 |
| Cost of sales | **—** | (628) |
| Gross loss | **—** | (329) |
| Other income | **104** | 90 |
| Selling and distribution expenses | **(35)** | (396) |
| Administrative expenses | **(103)** | (1,013) |
| Gain on disposal of CCP (note 31(a)) | **165,667** | — |
| Profit/(loss) for the year from discontinued operations | **165,633** | (1,648) |

The net cash flows attributable to the discontinued operations for the year are as follows:

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Net cash used in operating activities | **(6,242)** | (1,803) |
| Net cash generated from investing activities | **100** | 90 |
| Net cash used in financing activities | **—** | (615) |
| | **(6,142)** | (2,328) |

## 18. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

(i) *From continuing and discontinued operations*

The calculation of basic earnings/(loss) per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK$163,794,000 (2011: loss of HK$194,505,000) and the weighted average number of ordinary shares of 1,194,697,017 (2011: 1,194,697,017) in issue during the year.

(ii) *From continuing operation*

The calculation of basic loss per share from continuing operation attributable to owners of the Company is based on the loss for the year from continuing operation attributable to owners of the Company of approximately HK$1,847,000 (2011: HK$193,269,000) and the denominator used is the same as that detailed above.

(iii) *From discontinued operations*

Basic earnings per share from the discontinued operations attributable to owners of the Company is HK cents 13.86 per share (2011: basic loss per share of HK cents 0.10), based on the profit for the year from discontinued operations attributable to the owners of the Company of approximately HK$165,641,000 (2011: loss of HK$1,236,000) and the denominator used is the same as that detailed above.

## 18. EARNINGS/(LOSS) PER SHARE (CONTINUED)

(b) Diluted earnings/(loss) per share

No diluted earnings per share are presented for the year ended 31 March 2012 as the Company did not have any potential ordinary shares during the reporting period. No diluted loss per share are presented for the year ended 31 March 2011 as the effect of all potential ordinary shares were anti-dilutive.

## 19. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As described in note 17 to the financial statements, the assets and liabilities of CCP, which were disposed on 7 December 2011, were classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position for the year ended 31 March 2011. The disposal group includes three reportable segments of the Group — online game operation, e-Sports platform and computer games distribution and licensing.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss was recognised on the classification of these operations as held for sale in the year ended 31 March 2011.

The major classes of assets and liabilities comprising the disposal group classified as held for sale at 31 March 2011 were as follows:

| | HK$'000 |
|---|---|
| Other receivables | 86 |
| Amount due from a substantial shareholder, CCC (note 22(b)) | 1,525 |
| Amount due from a director (note i) | 215 |
| Bank and cash balances | 10,293 |
| Total assets of disposal group classified as held for sale | 12,119 |
| Trade and other payables (note ii) | (22,398) |
| Receipts in advance from a related party | |
| — 北京龍騰興達導航定位技術有限公司 (Beijing Longteng Xingda Guiding and Positioning Technology Limited*) ("Longteng") (note iii) | (11,378) |
| Total liabilities directly associated with assets of disposal group classified as held for sale | (33,776) |
| Net liabilities of disposal group classified as held for sales | (21,657) |

At 31 March 2011, cumulative income or expense recognised in other comprehensive income relating to the disposal group classified as held for sale amounted to approximately HK$11,456,000.

* *For identification purpose*

## 19. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (CONTINUED)

Notes:

(i) The amount due from a director disclosed pursuant to section 161B of the Hong Kong Companies Ordinance was as follows:

| Name | Terms of loan | Balance at 31 March 2011 | Balance at 1 April 2010 | Maximum amount outstanding during the year |
|---|---|---|---|---|
| | | HK$'000 | HK$'000 | HK$'000 |
| Mr. Bao Yueqing | Denominated in RMB, unsecured, interest-free and repayable on demand | 215 | 251 | 307 |

Mr. Bao Yueqing was resigned as director on 30 June 2011.

(ii) Trade and other payables

| | | HK$'000 |
|---|---|---|
| Trade payables | (a) | 13,536 |
| Other payables and accruals | | 8,862 |
| | | 22,398 |

(a) Trade payables

The trade payables are aged over 1 year based on the date of receipt of goods or rendering of services.

The trade payables are denominated in Renminbi ("RMB").

(iii) Mr. He Chenguang, a director of the Company, has beneficial interest in this related company.

## 20. PROPERTY, PLANT AND EQUIPMENT

| | Computer equipment HK$'000 | Leasehold improvements HK$'000 | Equipment, furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2010 | 54,083 | 944 | 1,541 | 1,081 | 57,649 |
| Additions | 358 | — | 118 | 1,686 | 2,162 |
| Disposals | — | — | — | (843) | (843) |
| Transfer to disposal group classified as held for sale | (54,045) | — | (1,258) | (1,126) | (56,429) |
| Exchange differences | 2,244 | — | 58 | 65 | 2,367 |
| At 31 March 2011 and 1 April 2011 | 2,640 | 944 | 459 | 863 | 4,906 |
| Additions | 621 | — | 39 | — | 660 |
| Transfer to disposal group classified as held for sale | (4) | — | — | — | (4) |
| Exchange differences | 85 | — | 11 | 27 | 123 |
| **At 31 March 2012** | **3,342** | **944** | **509** | **890** | **5,685** |
| **Accumulated depreciation and impairment losses** | | | | | |
| At 1 April 2010 | 52,022 | 843 | 1,331 | 1,081 | 55,277 |
| Charge for the year | 779 | 101 | 95 | 218 | 1,193 |
| Disposals | — | — | — | (68) | (68) |
| Transfer to disposal group classified as held for sale | (54,045) | — | (1,258) | (1,126) | (56,429) |
| Exchange differences | 2,166 | — | 52 | 48 | 2,266 |
| At 31 March 2011 and 1 April 2011 | 922 | 944 | 220 | 153 | 2,239 |
| Charge for the year | 882 | — | 117 | 171 | 1,170 |
| Exchange differences | 34 | — | 4 | 7 | 45 |
| **At 31 March 2012** | **1,838** | **944** | **341** | **331** | **3,454** |
| **Carrying amount** | | | | | |
| **At 31 March 2012** | **1,504** | **—** | **168** | **559** | **2,231** |
| At 31 March 2011 | 1,718 | — | 239 | 710 | 2,667 |

## 21. INTANGIBLE ASSETS

| | Online game software platform HK$'000 | Online game license rights HK$'000 | e-Sports platform portal HK$'000 | Computer games distribution rights HK$'000 | Distribution network HK$'000 | Trademarks HK$'000 | Research and development HK$'000 | Service contract HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| At 1 April 2010 | 3,152 | 219,385 | 50,351 | 89,911 | 441,374 | 34,108 | 31,424 | 167,405 | 1,037,110 |
| Transfer to disposal group classified as held for sale | (3,282) | (228,463) | (52,434) | (93,632) | (389,518) | (35,519) | (32,724) | — | (835,572) |
| Exchange differences | 130 | 9,078 | 2,083 | 3,721 | 18,266 | 1,411 | 1,300 | 6,927 | 42,916 |
| At 31 March 2011 and 1 April 2011 | — | — | — | — | 70,122 | — | — | 174,332 | 244,454 |
| Exchange differences | — | — | — | — | 2,210 | — | — | 5,495 | 7,705 |
| **At 31 March 2012** | **—** | **—** | **—** | **—** | **72,332** | **—** | **—** | **179,827** | **252,159** |
| **Accumulated amortisation and impairment losses** | | | | | | | | | |
| At 1 April 2010 | 3,152 | 219,385 | 50,351 | 89,911 | 374,039 | 34,108 | 31,424 | — | 802,370 |
| Amortisation for the year | — | — | — | — | 9,778 | — | — | 36,464 | 46,242 |
| Impairment losses | — | — | — | — | 47,580 | — | — | 110,685 | 158,265 |
| Transfer to disposal group classified as held for sale | (3,282) | (228,463) | (52,434) | (93,632) | (389,518) | (35,519) | (32,724) | — | (835,572) |
| Exchange differences | 130 | 9,078 | 2,083 | 3,721 | 16,884 | 1,411 | 1,300 | 3,604 | 38,211 |
| At 31 March 2011 and 1 April 2011 | — | — | — | — | 58,763 | — | — | 150,753 | 209,516 |
| Amortisation for the year | — | — | — | — | 1,933 | — | — | 6,566 | 8,499 |
| Impairment losses | — | — | — | — | — | — | — | 11,467 | 11,467 |
| Exchange differences | — | — | — | — | 1,872 | — | — | 4,937 | 6,809 |
| **At 31 March 2012** | **—** | **—** | **—** | **—** | **62,568** | **—** | **—** | **173,723** | **236,291** |
| **Carrying amount** | | | | | | | | | |
| **At 31 March 2012** | **—** | **—** | **—** | **—** | **9,764** | **—** | **—** | **6,104** | **15,868** |
| At 31 March 2011 | — | — | — | — | 11,359 | — | — | 23,579 | 34,938 |

The Group carried out review of the recoverable amount of its intangible assets at 31 March 2012 having regard to the changes in market conditions. These intangible assets are used in the Group's promotion and management services segment. The review led to the recognition of an impairment loss of HK$11,467,000 (2011: HK$158,265,000) for these intangible assets that have been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The average discount rate used in measuring value in use at the end of reporting period was 20.1% (2011: 24.1%).

The review at 31 March 2012 also led to revision of estimated remaining useful lives of these intangible assets, namely, distribution network and service contract, to 3.8 years and 1.1 years, respectively.

## 22. TRADE AND OTHER RECEIVABLES

| | | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| Trade receivables, net | (a) | **—** | — |
| Amount due from a substantial shareholder | (b) | **3,007** | — |
| Other receivables | | **89** | 295 |
| Prepayments and deposits | | **1,211** | 835 |
| | | **4,307** | 1,130 |

(a) Trade receivables, net

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 180 days. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management.

As at 31 March 2012, the Group did not have any allowance made for estimated irrecoverable trade receivables (2011: HK$Nil).

Reconciliation of allowance for trade receivables:

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| At 1 April | **—** | 20,686 |
| Exchange differences | **—** | 856 |
| Transfer to disposal group classified as held for sale | **—** | (21,542) |
| At 31 March | **—** | — |

The carrying amounts of the Group's trade receivables are denominated in RMB.

(b) Amount due from a substantial shareholder

The amount due from a substantial shareholder disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

| **Name** | **Balance at 31 March 2012 HK$'000** | **Balance at 1 April 2011** HK$'000 (note 19) | **Maximum amount outstanding during the year** HK$'000 |
|---|---|---|---|
| CCC | **3,007** | 1,525 | 13,209 |

The amount due from a substantial shareholder is denominated in RMB, unsecured, interest-free and repayable on demand. Mr. He Chenguang, a director of the Company has beneficial interest in CCC.

## 23. BANK AND CASH BALANCES

As at 31 March 2012, the bank and cash balances of the Group denominated in RMB amounted to HK$11,366,000 (2011: HK$2,786,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 24. AMOUNT DUE TO A SUBSTANTIAL SHAREHOLDER

The amount due to CCC a substantial shareholder, was denominated in RMB, unsecured, interest-free and repayable on demand.

## 25. PROMISSORY NOTE

On 7 December 2011, promissory note with principal amount of HK$140,000,000 was cancelled in connection with the disposal of a subsidiary.

As at 31 March 2012, the promissory note is held by CCI with principal amount of HK$98,690,000 (2011: HK$238,690,000).

On 31 March 2011, the Group and CCI agreed to extend the maturity date from 30 June 2011 to 30 June 2012. On 31 March 2012, the Group and CCI agreed to extend the maturity date from 30 June 2012 to 30 June 2013.

The principal amount of the promissory note is denominated in Hong Kong dollars. The promissory note is unsecured. As at 31 March 2012, the coupon rate is 2% per annum (2011: 2% per annum) and the effective interest rate is 1.99% (2011: 2.09%).

## 26. DEFERRED TAX

The following are the major deferred tax liabilities recognised by the Group.

| | Revaluation of acquired intangible assets HK$'000 |
|---|---|
| At 1 April 2010 | (58,685) |
| Credit to consolidated profit or loss for the year (note 12) | 51,126 |
| Exchange differences | (1,176) |
| At 31 March 2011 and 1 April 2011 | (8,735) |
| Credit to consolidated profit or loss for the year (note 12) | 4,991 |
| Exchange differences | (223) |
| **At 31 March 2012** | **(3,967)** |

At 31 March 2012 the Group has unused tax losses of approximately HK$19,566,000 (2011: HK$19,566,000) available for offset against future profits and may be carried forward indefinitely.

No deferred tax asset has been recognised in respect of the tax losses due to unpredictability of future profit streams.

## 27. SHARE CAPITAL

| | Number of shares | Amount HK$'000 |
|---|---|---|
| **Authorised:** | | |
| Ordinary shares of HK$0.01 each | | |
| At 31 March 2012 and 2011 | 10,000,000,000 | 100,000 |
| **Issued and fully paid:** | | |
| Ordinary shares of HK$0.01 each | | |
| At 31 March 2012 and 2011 | 1,194,697,017 | 11,947 |

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes judgements to the capital structure in light of changes in economic conditions.

There was no change in the Group's approach to capital management during the year.

The Group monitors its capital structure on the basis of gearing ratio. This ratio is calculated as total liabilities divided by total assets.

## 27. SHARE CAPITAL (CONTINUED)

During 2012, the Group's strategy, which was unchanged from 2011, was to maintain the gearing ratio below 300%. The Group's gearing ratios as at 31 March 2012 and 2011 were as follows:

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Total liabilities | **113,945** | 300,635 |
| Total assets | **60,831** | 91,942 |
| Gearing ratio | **187%** | 327% |

As at 31 March 2011, the Group's gearing ratio exceeded 300%. The gearing ratio, fell below 300% as at 31 March 2012 after the completion of disposal of CCP due to derecognition of the promissory note with principal amount of HK$140 million.

In order to adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 28. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

(b) Company

| | **Share premium** HK$'000 | **Share-based payment reserve** HK$'000 | **Accumulated losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| At 1 April 2010 | 1,042,779 | 1,830 | (828,131) | 216,478 |
| Loss for the year | — | — | (180,163) | (180,163) |
| Share option scheme | | | | |
| — share-based payments | — | 15,239 | — | 15,239 |
| — forfeiture of share options granted | — | (1,781) | 1,781 | — |
| At 31 March 2011 | 1,042,779 | 15,288 | (1,006,513) | 51,554 |
| At 1 April 2011 | **1,042,779** | **15,288** | **(1,006,513)** | **51,554** |
| Loss for the year | **—** | **—** | **(19,445)** | **(19,445)** |
| Share option scheme | | | | |
| — share-based payments | **—** | **1,933** | **—** | **1,933** |
| — forfeiture of share options granted | **—** | **(4,017)** | **4,017** | **—** |
| At 31 March 2012 | **1,042,779** | **13,204** | **(1,021,941)** | **34,042** |

## 28. RESERVES (CONTINUED)

(c) Nature and purpose of reserves

*(i) Share premium*

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

*(ii) Merger reserve*

The merger reserve of the group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 2002.

*(iii) Foreign currency translation reserve*

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(c) to the financial statements.

*(iv) Share-based payment reserve*

The share-based payment reserve represents equity-settled share-based payments to certain eligible participants of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 4(p) to the financial statements.

## 29. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES

Investments in subsidiaries

| | **The Company** | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Unlisted investments, at cost | **3,293** | 3,293 |
| Less: impairment losses (note iii) | **(3,273)** | (3,273) |
| | **20** | 20 |

## 29. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries as at 31 March 2012 are as follows:

| Name | Place of incorporation/ establishment | Issued and paid up capital | Percentage of ownership interest Direct | Percentage of ownership interest Indirect | Principal activities |
|---|---|---|---|---|---|
| Hong Kong Financial Institute Limited | Hong Kong | HK$1,307 ordinary shares | — | 100% | Inactive |
| hk6.com Limited | Hong Kong | HK$1,000 ordinary shares | — | 100% | Inactive |
| HK6 Media Limited | Hong Kong | HK$2 ordinary shares | — | 100% | Inactive |
| Oriental Glory (H.K.) Limited | Hong Kong | HK$1 ordinary share | — | 100% | Investment holding |
| 神州奧美網絡(國際)有限公司 | Hong Kong | HK$1 ordinary share | 100% | — | Not yet commence business |
| HK6 Investment Limited | British Virgin Islands | US$2,614 ordinary shares | 100% | — | Investment holding |
| HK6 Investment China (BVI) Limited | British Virgin Islands | US$1 ordinary share | 100% | — | Investment holding |
| Sino Key International Limited | British Virgin Islands | US$1 ordinary share | — | 100% | Inactive |
| Pro-Concept Development Limited | British Virgin Islands | US$1 ordinary share | — | 100% | Inactive |
| Success Advantage Investments Limited | British Virgin Islands | US$1 ordinary share | — | 100% | Inactive |
| Favor Grow Holdings Limited | British Virgin Islands | US$10 ordinary shares | 100% | — | Investment holding |
| Grandsun International Creation Limited | Hong Kong | HK$1 ordinary share | — | 100% | Investment holding |
| 北京神通益家科技服務有限公司 (note) (Beijing Shentong Yijia Technology Services Company Limited*) | PRC | RMB1,000,000 registered capital | — | 100% | Provision of promotion and management services for an electronic smart card "Shentong Card" in the PRC |

Note: Established in the PRC as a wholly foreign-owned enterprise.

* *For identification purpose*

## 29. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES (CONTINUED)

Amounts due from/(to) subsidiaries

| | The Company | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Amounts due from subsidiaries (note i) | **953,059** | 951,131 |
| Less: Allowance for doubtful debts (note ii) | **(929,597)** | (921,284) |
| | **23,462** | 29,847 |
| Amount due to a subsidiary (note i) | **(2,142)** | (2,177) |

Notes:

(i) The amounts are unsecured, interest free and repayable/payable on demand.

(ii) Movements in the allowance for doubtful debts:

| | The Company | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| At 1 April | **921,284** | 767,166 |
| Impairment losses recognised | **8,313** | 154,118 |
| At 31 March (note iii) | **929,597** | 921,284 |

(iii) In view of the recurring operating loss of certain subsidiaries and the net liability positions of these subsidiaries, the directors decided that cumulative impairment loss as at 31 March 2012 of approximately HK$3,273,000 (2011: HK$3,273,000) and HK$929,597,000 (2011: HK$921,284,000) in respect of the Company's investments in subsidiaries and the amounts due from subsidiaries are to be recognised respectively.

## 30. SHARE-BASED PAYMENTS

Equity-settled share option scheme

On 28 October 2002, the Company conditionally adopted a share option scheme (the "Share Option Scheme"). The Share Option Scheme became unconditional upon the listing of the Company's shares on the GEM on 15 November 2002. The Share Option Scheme was further amended by a resolution of the shareholders at the annual general meeting of the Company held on 28 July 2006.

The maximum number of shares which may be allotted and issued upon the exercise of all options which initially shall not in aggregate exceed 10% of the shares in issue as at the date of adoption of the Share Option Scheme. Thereafter, if refreshed, the maximum number shall not exceed 10% of the shares in issue as at the date of approval of the refreshed limit by the shareholders.

The total number of shares of the Company issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue as at the date of grant.

## 30. SHARE-BASED PAYMENTS (CONTINUED)

Equity-settled share option scheme (Continued)

The subscription price for a share of the Company in respect of any particular option granted under the Share Option Scheme (which shall be payable upon exercise of the option) shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (a) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day (and for this purpose shall be taken to be the date of the Board meeting at which the Board proposes to grant the options); (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of a share.

Details of the outstanding options granted under the Share Option Scheme as at 31 March 2012 are as follows:

*Employees and others providing similar services*

| Date of grant | Vesting period | Exercisable period | Exercise price | Number of shares issuable under options granted | |
|---|---|---|---|---|---|
| | | | HK$ | **2012** | 2011 |
| | | | | **'000** | '000 |
| 19 March 2010 | 20 March 2010 to 18 March 2011 | 19 March 2011 to 18 March 2012 | 1.12 | **—** | 1,000 |
| 22 March 2010 | 23 March 2010 to 21 March 2011 | 22 March 2011 to 21 March 2012 | 1.15 | **—** | 2,000 |
| 24 March 2010 | 25 March 2010 to 23 March 2011 | 24 March 2011 to 23 March 2012 | 1.17 | **—** | 7,000 |
| 29 March 2010 | 30 March 2010 to 28 March 2011 | 29 March 2011 to 28 March 2012 | 1.23 | **—** | 1,000 |
| 7 April 2010 | 8 April 2010 to 6 April 2011 | 7 April 2011 to 6 April 2012 | 1.25 | **31,170** | 31,170 |
| 14 April 2011 | 15 April 2011 to 3 October 2011 | 14 October 2011 to 13 October 2012 | 1.75 | **1,000** | — |
| 14 September 2011 | 15 September 2011 to 13 November 2011 | 14 November 2011 to 13 November 2013 | 1.50 | **1,000** | — |
| 2 December 2011 | 3 December 2011 to 1 December 2012 | 2 December 2012 to 1 December 2013 | 1.24 | **6,000** | — |
| | | | | **39,170** | 42,170 |

Options not exercised will expire after the exercisable period.

## 30. SHARE-BASED PAYMENTS (CONTINUED)

Details of the share options outstanding during the year are as follows:

| | 2012 Number of share options '000 | 2012 Weighted average exercise price HK$ | 2011 Number of share options '000 | 2011 Weighted average exercise price HK$ |
|---|---|---|---|---|
| Outstanding at the beginning of the year | **42,170** | **1.23** | 15,500 | 1.22 |
| Granted during the year | **8,000** | **1.34** | 31,170 | 1.25 |
| Forfeited during the year | **(11,000)** | **1.17** | (4,500) | 1.37 |
| Outstanding at the end of the year | **39,170** | **1.27** | 42,170 | 1.23 |
| Exercisable at the end of the year | **33,170** | **1.27** | 11,000 | 1.17 |

The options outstanding at the end of the year have a weighted average remaining contractual life of 0.32 year (2011: 1.09 year) and the exercise prices range from HK$1.24 to HK$1.75 (2011: HK$1.12 to HK$1.25). For the year ended 31 March 2012, options were granted on 14 April, 14 September and 2 December 2011. For the year ended 31 March 2011, options were granted on 7 April 2010.

The fair values of options granted were determined using the Black-Scholes pricing model with assumptions set out as follows:

| Grant date | 7 April 2010 | 14 April 2011 | 14 September 2011 | 2 December 2011 |
|---|---|---|---|---|
| Share price on grant date | HK$1.25 | HK$1.73 | HK$1.42 | HK$1.20 |
| Exercise price | HK$1.25 | HK$1.75 | HK$1.50 | HK$1.24 |
| Expected volatility | 65.37% | 51.67% | 37.99% | 40.37% |
| Expected life | 1.5 years | 1 year | 1.2 years | 1.5 years |
| Risk-free rate | 0.498% | 0.270% | 0.141% | 0.222% |
| Fair values of options granted | HK$12,219,579 | HK$346,870 | HK$200,381 | HK$1,321,860 |

Expected volatility was determined by using historical volatility of the Company's share price over a historic period equal to respective expected life. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

## 31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Disposal of a subsidiary

On 7 December 2011 the Group completed its disposal of 75% equity interest in CCP.

Net liabilities of CCP at the date of completion of disposal were as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 4 |
| Other receivables | 604 |
| Amount due from CCC | 7,675 |
| Bank and cash balances | 4,151 |
| Trade payables | (13,923) |
| Accruals and other payables | (20,823) |
| Net liabilities disposed of | (22,312) |
| Release of foreign currency translation reserve | (11,199) |
| Non-controlling interests | 784 |
| Direct costs related to disposal of a subsidiary | 7,000 |
| Gain on disposal of a subsidiary | 165,667 |
| Total consideration — satisfied by cancellation of promissory note | 139,940 |
| Cash outflow arising on disposal: | |
| Bank and cash balances disposed of | (4,151) |

(b) Significant non-cash transactions

During the year ended 31 March 2012, the Group had the following major non-cash transactions:

(i) As detailed in note 31(a), the Group's consideration received for disposal of 75% interest in CCP was satisfied by the cancellation of promissory note with principal amount of HK$140 million. The direct costs related to the disposal of a subsidiary have not been paid as at 31 March 2012.

(ii) As detailed in note 9 to the financial statements, CCI waived the coupon interest payable by the Group amounted to HK$19,861,000 as at 7 December 2011.

## 32. CONTINGENT LIABILITIES

As at 31 March 2012, the Group did not have any significant contingent liabilities (2011: HK$Nil).

## 33. LEASE COMMITMENTS

At end of each of the reporting period the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Within one year | **2,305** | 2,276 |
| In the second to fifth years inclusive | **459** | 1,837 |
| | **2,764** | 4,113 |

Operating lease payments represent rentals payable by the Group for a number of properties held under operating leases. Leases are negotiated for an average term of two years and rentals are fixed over the lease terms and do not include contingent rentals.

## 34. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Promotion and management service income receivable from CCC | **35,038** | 32,075 |
| Online game income received on behalf by CCC | **—** | 400 |
| Internet payment and settlement service fee payable to CCC | **—** | (100) |
| Net online game income receivable through CCC recognised by the Group | **—** | 300 |
| Service fee payable to CCC | | |
| — Customer service hotline rental | **(775)** | (679) |
| — Dedicated leased lines | **—** | (528) |
| — Server hosting service | **(3,278)** | (3,134) |
| — Advertising expenses | **(1,457)** | — |

## 35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Note | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 29 | **20** | 20 |
| **Current assets** | | | |
| Amounts due from subsidiaries | 29 | **23,462** | 29,847 |
| Bank and cash balances | | **25,135** | 36,395 |
| | | **48,597** | 66,242 |
| **Current liabilities** | | | |
| Other payables and accruals | | **486** | 584 |
| Amount due to a subsidiary | 29 | **2,142** | 2,177 |
| | | **2,628** | 2,761 |
| **Net current assets** | | **45,969** | 63,481 |
| **NET ASSETS** | | **45,989** | 63,501 |
| **Capital and reserves** | | | |
| Share capital | | **11,947** | 11,947 |
| Reserves | 28(b) | **34,042** | 51,554 |
| **TOTAL EQUITY** | | **45,989** | 63,501 |

## 36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 21 June 2012.