



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)

2013/14

FIRST QUARTERLY REPORT





Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

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

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

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



Highlights

- Turnover of the Group for the three months ended 30 June 2013 was approximately HK\$9,404,000.
- Net loss attributable to the owners of the Company was approximately HK\$2,593,000 for the three months ended 30 June 2013.
- Loss per share for the three months ended 30 June 2013 was approximately HK0.20 cents.
- The board of the Directors (the “Board”) does not recommend the payment of a dividend for the three months ended 30 June 2013.

The Directors hereby present the unaudited consolidated results of the Company together with its subsidiaries (collectively the “Group”) for the three months ended 30 June 2013.

Financial Performance

The Group recorded consolidated turnover of approximately HK\$9,404,000 for the three months ended 30 June 2013, representing an increase of approximately 15.7% as compared to approximately HK\$8,125,000 for the three months ended 30 June 2012. The turnover for the three months ended 30 June 2013 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 loss attributable to the owners of the Company of approximately HK\$2,593,000 for the three months ended 30 June 2013 as compared to approximately HK\$3,673,000 for the three months ended 30 June 2012. The improvement in results was mainly attributable to the increase in turnover from promotion and management services for Shentong Card.



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. In March 2010, the Group completed the acquisition of 100% of the equity interest in 北京神通益家科技服務有限公司 (Beijing Shentong Yijia Technology Services Company Limited*) (“Yijia”). Since December 2011, the Group has been concentrating on the business in promotion and management services for Shentong Card in the PRC.

This business has developed favorably for the current period. The consolidated turnover from promotion and management services for Shentong Card has reached an increase of approximately 15.7% as compared with the three months ended 30 June 2012.

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 three months ended 30 June 2013, the revenue derived from the provision of promotion and management services was approximately HK\$9,404,000 as compared to approximately HK\$8,125,000 for the three months ended 30 June 2012.

English translation of the name for identification only



Condensed Consolidated Statement of Profit or Loss

FOR THE THREE MONTHS ENDED 30 JUNE 2013

	Note	For the three months ended	
		2013	2012
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	3	9,404	8,125
Cost of sales		(3,256)	(3,420)
Gross profit		6,148	4,705
Other income	4	98	8
Selling and distribution expenses		(3,503)	(3,758)
Administrative expenses		(4,432)	(4,543)
Loss from operations		(1,689)	(3,588)
Finance costs	5	(464)	(489)
Loss before tax		(2,153)	(4,077)
Income tax (expense)/credit	6	(440)	404
Loss for the period attributable to owners of the Company	7	(2,593)	(3,673)
		HK cents	HK cents
		(Unaudited)	(Unaudited)
Loss per share	9		
Basic		(0.20)	(0.31)
Diluted		N/A	N/A



Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE THREE MONTHS ENDED 30 JUNE 2013

	For the three months ended	
	30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	(2,593)	(3,673)
Other comprehensive income, net of tax:		
<i>Items that may be reclassified to profit or loss</i>		
— Exchange differences on translating foreign operations	138	20
Total comprehensive income for the period		
attributable to owners of the Company, net of tax	(2,455)	(3,653)



Notes to the Interim Financial Information

FOR THE THREE MONTHS ENDED 30 JUNE 2013

1. GENERAL

China Communication Telecom Services Company Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is P.O. Box 309GT, 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 Group is principally engaged in the provision of promotion and management services for an electronic smart card “Shentong Card” in the People’s Republic of China (the “PRC”).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim financial information has been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange.

The amounts included in this interim financial information have been computed in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) applicable to interim periods. However, it does not contain sufficient information to constitute an interim financial report as defined in HKFRSs.

The interim financial information should be read in conjunction with the Group’s annual financial statements (“Latest Annual Financial Statements”) for the year ended 31 March 2013. The accounting policies and methods of computation used in the preparation of this interim financial information are consistent with those used in the Latest Annual Financial Statements, together with the adoption of new and revised HKFRSs.

In the current period, the Group has adopted all new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 April 2013. HKFRSs comprise Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group’s accounting policies and amounts reported for the current period and prior periods except as stated below.



Amendments to HKAS 1 “Presentation of Financial Statements”

Amendments to HKAS 1 titled Presentation of Items of Other Comprehensive Income introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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.

The Group has incurred a loss attributable to owners of the Company for the current period and the Group’s financial position showing net current liabilities and net liabilities as at 30 June 2013. 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 this interim financial information of the Group based on the following:

- (a) On 31 March 2013, 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 2014.
- (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.

This interim financial information has 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 interim financial information on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the interim financial information 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. TURNOVER

The Group’s turnover which represents sales of goods and services rendered to its sole customer (after business tax), CCC is as follows:

	For the three months ended	
	30 June	
	2013	2012
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Promotion and management services	9,404	8,125

* For identification purpose



4. OTHER INCOME

	For the three months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	98	8

5. FINANCE COSTS

	For the three months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on promissory note	464	489

6. INCOME TAX (EXPENSE)/CREDIT

	For the three months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax	(722)	(107)
Deferred tax	282	511
	(440)	404

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the three months ended 30 June 2013 and 2012.

Tax charge on estimated assessable profits in the PRC has been calculated at prevailing tax rate of 25% (2012: 25%).



7. LOSS FOR THE PERIOD

The Group's loss for the period is stated after charging the following:

	For the three months ended	
	30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Amortisation of intangible assets		
– included in cost of sales	479	1,408
– included in selling and distribution expenses	650	637
	1,129	2,045
Depreciation	190	334
Directors' emoluments	1,021	1,140
Operating lease charges for land and buildings	751	699
Equity-settled share-based payments	–	329
Staff costs including directors' emoluments		
– Salaries, bonus and allowances	2,424	2,376
– Retirement benefits scheme contributions	119	90
	2,543	2,466

8. DIVIDENDS

No dividends have been paid or proposed during the three months ended 30 June 2013, nor has any dividend been proposed since the end of the reporting period (three months ended 30 June 2012: HK\$Nil).



9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the period attributable to owners of the Company of approximately HK\$2,593,000 (2012: HK\$3,673,000) and the weighted average number of ordinary shares of 1,294,697,017 (2012: 1,194,697,017) in issue during both periods.

(b) Diluted loss per share

No diluted loss per share are presented as the Company did not have any dilutive potential ordinary shares during the three months ended 30 June 2013 and 2012.

10. MOVEMENT OF RESERVES

	Share premium HK\$'000 (Unaudited)	Merger reserve HK\$'000 (Unaudited)	Foreign currency translation reserve HK\$'000 (Unaudited)	Share- based payment reserve HK\$'000 (Unaudited)	Accumulated losses HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 April 2012	1,042,779	8,320	1,512	13,204	(1,130,876)	(65,061)
Total comprehensive income for the period	-	-	20	-	(3,673)	(3,653)
Share option scheme						
– equity-settled share-based payment expenses	-	-	-	329	-	329
– lapsed of share options granted	-	-	-	(12,220)	12,220	-
Changes in equity for the period	-	-	20	(11,891)	8,547	(3,324)
At 30 June 2012	1,042,779	8,320	1,532	1,313	(1,122,329)	(68,385)
At 1 April 2013	1,072,549	8,320	1,903	1,522	(1,132,580)	(48,286)
Total comprehensive income for the period	-	-	138	-	(2,593)	(2,455)
Changes in equity for the period	-	-	138	-	(2,593)	(2,455)
At 30 June 2013	1,072,549	8,320	2,041	1,522	(1,135,173)	(50,741)



Other Information

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

As at 30 June 2013, the interests and short positions of the Directors and the chief executives of the Company in the shares and underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”) (Chapter 571 of the Laws of Hong Kong)) which (a) were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Name of Director	Number of shares held				Total interests in shares	Share Option Scheme	Aggregate interests	Number of underlying shares	Approximate percentage of the issued share capital of the Company
	Personal interests	Corporate interests	Family interests	Other interests					
Lam Lee G.	200,000	-	-	-	200,000	-	200,000		0.02%
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 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 as at 30 June 2013.



INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at 30 June 2013, 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 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of shareholder	Number of shares held					Total interests in shares	Number of underlying shares		Approximate percentage of the issued share capital of the Company
	Personal interests	Corporate interests	Family interests	Other Interests	Share Option Scheme		Aggregate interests	Share	
CCC (Note 1)	-	356,542,000	-	-	356,542,000	-	356,542,000	27.54%	
CCI	356,542,000	-	-	-	356,542,000	-	356,542,000	27.54%	
Jin Xian Gen (Note 2)	-	128,205,128	-	-	128,205,128	-	128,205,128	9.90%	
Full Ocean Development Limited	128,205,128	-	-	-	128,205,128	-	128,205,128	9.90%	
Jin Lin Jun (Note 3)	-	128,205,128	-	-	128,205,128	-	128,205,128	9.90%	
Amazing International Holdings Limited	128,205,128	-	-	-	128,205,128	-	128,205,128	9.90%	
Yang Shaoxiao (Note 4)	-	-	-	128,205,128	128,205,128	-	128,205,128	9.90%	
Jin Yan (Note 5)	-	-	-	119,398,128	119,398,128	-	119,398,128	9.22%	
Friendly Capital Limited	109,900,000	-	-	-	109,900,000	-	109,900,000	8.49%	

Notes:

- (1) 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 Xian 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 119,398,128 shares held by Full Ocean Development Limited by virtue of the SFO.

Save as disclosed above, as at 30 June 2013, 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 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

SHARE OPTION SCHEME

Share options were granted to certain directors, employees and consultants of the Company under the share option scheme (the “Expired Share Option Scheme”) conditionally adopted on 28 October 2002. The Expired Share Option Scheme became unconditional upon the listing of the Company’s shares on GEM on 15 November 2002. The Expired Share Option Scheme was amended by an ordinary resolution duly passed at an annual general meeting by the Company’s shareholders on 28 July 2006 and expired on 15 November 2012. Details of the Expired Share Option Scheme have been set out in the Company’s annual report of year 2012/13.

Particulars of the outstanding options which have been granted under the Expired Share Option Scheme as at 30 June 2013 were as follows:

Name or category of participant	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options					As at 30 June 2013
				As at 1 April 2013	Options granted during the period	Options exercised during the period ⁽¹⁾	Options lapsed during the period ⁽²⁾	Options cancelled during the period	
Other Eligible Participants									
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
				7,000,000	-	-	-	-	7,000,000



Notes:

- (1) No share options were exercised during the period.
- (2) In accordance with the Expired 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. No share options were lapsed during the period.

DIRECTORS' RIGHT TO ACQUIRE SHARES

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

PRE-EMPTIVE RIGHTS

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

COMPETING INTERESTS

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

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiary companies had purchased, sold or redeemed any of the Company's shares on the GEM during the three months ended 30 June 2013.

AUDIT COMMITTEE

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



The audit committee has reviewed the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters including a review of the unaudited first quarterly report for the three months ended 30 June 2013.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the CG Code contained in Appendix 15 to the GEM Listing Rules during the three months ended 30 June 2013.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a Code of Conduct regarding Securities Transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “Code of Conduct”). Having made specific enquiry of the Directors, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Code of Conduct during the three months ended 30 June 2013.

By order of the Board
China Communication Telecom Services Company Limited
He Chenguang
Chairman

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

Mr. He Chenguang (*Executive Director and Chairman*)
Mr. Zhang Peng (*Executive Director and Chief Executive Officer*)
Dr. Lam Lee G. (*Non-Executive Director*)
Mr. Xiao Haiping (*Non-Executive Director*)
Mr. Yip Tai Him (*Independent Non-Executive Director*)
Ms. Cao Huifang (*Independent Non-Executive Director*)
Ms. Liu Hong (*Independent Non-Executive Director*)

Hong Kong, 5 August 2013