

2014/15
FIRST QUARTERLY
REPORT



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)

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 GEM of the Stock Exchange (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 2014 was approximately HK\$9,837,000.
- Net loss attributable to the owners of the Company was approximately HK\$2,053,000 for the three months ended 30 June 2014.
- Loss per share for the three months ended 30 June 2014 was approximately HK0.16 cents.
- The board of the Directors (the “Board”) does not recommend the payment of a dividend for the three months ended 30 June 2014.

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 2014.

FINANCIAL PERFORMANCE

The Group recorded consolidated turnover of approximately HK\$9,837,000 for the three months ended 30 June 2014, representing an increase of approximately 4.6% as compared to approximately HK\$9,404,000 for the three months ended 30 June 2013. The turnover for the three months ended 30 June 2014 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\$2,053,000 for the three months ended 30 June 2014 as compared to approximately HK\$2,593,000 for the three months ended 30 June 2013. 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 concentrates on the business in promotion and management services for Shentong Card in the PRC.

The business has developed favourably for the current period. The consolidated turnover from promotion and management services for Shentong Card has reached an increase of approximately 4.6% as compared with the three months ended 30 June 2013.

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 2014, the revenue derived from the provision of promotion and management services was approximately HK\$9,837,000 as compared to approximately HK\$9,404,000 for the three months ended 30 June 2013.

English name is for identification purpose only

Condensed Consolidated Statement of Profit or Loss

FOR THE THREE MONTHS ENDED 30 JUNE 2014

	<i>Note</i>	For the three months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Turnover	3	9,837	9,404
Cost of sales		(2,869)	(3,256)
Gross profit		6,968	6,148
Other income	4	18	98
Selling and distribution expenses		(4,112)	(3,503)
Administrative expenses		(3,892)	(4,432)
Loss from operation		(1,018)	(1,689)
Finance costs	5	(472)	(464)
Loss before tax		(1,490)	(2,153)
Income tax expense	6	(563)	(440)
Loss for the period attributable to owners of the Company	7	(2,053)	(2,593)
		HK cent (Unaudited)	HK cent (Unaudited)
Loss per share	9		
Basic		(0.16)	(0.20)
Diluted		N/A	N/A

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE THREE MONTHS ENDED 30 JUNE 2014

	For the three months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	(2,053)	(2,593)
Other comprehensive income, net of tax:		
<i>Items that may be reclassified to profit or loss:</i>		
— Exchange differences on translating foreign operation	(335)	138
Total comprehensive income for the period attributable to owners of the Company	(2,388)	(2,455)

Notes to the Interim Financial Information

FOR THE THREE MONTHS ENDED 30 JUNE 2014

1. GENERAL INFORMATION

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 PO Box 309, Ugland House, Grand Cayman, KY1-1104, 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.

The Group is principally engaged in the provision of promotion and management services for an electronic smart card "Shentong Card" in the PRC.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim financial information has been prepared by the Directors 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 2014. 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.

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 2014. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS"); and interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's interim financial information and amounts reported for the current period 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.

The Group incurred a loss attributable to owners of the Company for the current period and the Group had a capital deficiency as at 30 June 2014. 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 followings:

- (a) On 31 March 2014, 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 2015.
- (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 obligations 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.

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3. TURNOVER

The Group's turnover which represents services rendered to its sole customer, CCC, is as follows:

	For the three months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Promotion and management services	9,837	9,404

4. OTHER INCOME

	For the three months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Gain on disposal of financial assets at fair value through profit or loss	–	91
Interest income	18	7
	18	98

5. FINANCE COSTS

	For the three months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on promissory note payable to CCI	472	464

6. INCOME TAX EXPENSE

	For the three months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
— Provision for the period	714	716
— Under-provision in prior year	10	6
Deferred tax	(161)	(282)
	563	440

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit in Hong Kong for the three months ended 30 June 2014 and 2013.

Tax charge on estimated assessable profits in the PRC has been calculated at prevailing tax rate of 25% (2013: 25%).

7. LOSS FOR THE PERIOD

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

	For the three months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Amortisation of intangible assets		
— included in cost of sales	—	479
— included in selling and distribution expenses	646	650
	646	1,129
Depreciation	203	190
Directors' emoluments	836	1,021
Operating lease charges for land and buildings	974	751
Staff costs including Directors' emoluments		
— salaries, bonus and allowances	2,047	2,424
— retirement benefits scheme contributions	147	119
	2,194	2,543

8. DIVIDENDS

No dividends have been paid or proposed during the three months ended 30 June 2014, nor has any dividend been proposed since the end of the reporting period (three months ended 30 June 2013: 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\$2,053,000 (2013: HK\$2,593,000) and the weighted average number of ordinary shares of 1,294,697,017 (2013: 1,294,697,017) in issue during both periods.

(b) Diluted loss per share

The effect of all potential ordinary shares are anti-dilutive for the three months ended 30 June 2014. No diluted loss per share is presented as the Company did not have any dilutive potential ordinary shares during the three months ended 30 June 2013.

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 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)
At 1 April 2014	1,072,549	8,320	2,172	121	(1,140,171)	(57,009)
Total comprehensive income for the period	-	-	(335)	-	(2,053)	(2,388)
Changes in equity for the period	-	-	(335)	-	(2,053)	(2,388)
At 30 June 2014	1,072,549	8,320	1,837	121	(1,142,224)	(59,397)

Other Information

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

As at 30 June 2014, 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					
Bao Yueqing	2,844,000	-	-	-	2,844,000	-	2,844,000		0.22%

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 2014.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at 30 June 2014, 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	Share Option Scheme	Aggregate interests	Approximate percentage of the issued share capital of the Company
	Personal interests	Corporate interests	Family interests	Other Interests				
CCC (Note 1)	-	356,542,000	-	-	356,542,000	-	356,542,000	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)	-	-	-	107,169,128	107,169,128	-	107,169,128	8.28%
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 107,169,128 shares held by Full Ocean Development Limited by virtue of the SFO.

Save as disclosed above, as at 30 June 2014, 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

The Company adopted a share option scheme (the "2013 Share Option Scheme") pursuant to an ordinary resolution passed on 7 August 2013. Details of the 2013 Share Option Scheme have been set out in the Company's annual report of year 2013/14.

Particulars of the outstanding options which have been granted under the 2013 Share Option Scheme as at 30 June 2014 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 2014
				As at 1 April 2014	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options cancelled during the period	
Other Eligible Participants									
In aggregate	28 March 2014	29 March 2014 to 28 March 2015	0.492	2,000,000	-	-	-	-	2,000,000

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, or 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 nor their respective associates (as defined in the GEM Listing Rules) 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 2014.

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 the three months ended 30 June 2014, it comprises four Independent Non-Executive Directors, namely Mr. Yip Tai Him, Ms. Cao Huifang, Ms. Han Liqun and Ms. Zhang Li, in which Ms. Cao Huifang was resigned as an independent non-executive Director on 31 May 2014. 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 unaudited first quarterly results of the Group for the three months ended 30 June 2014. The audit committee is of the opinion that the preparation of such financial information complied with the applicable accounting standards, the requirements under the GEM Listing Rules and any other applicable legal requirements and that adequate disclosures have been made.

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 2014.

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 2014.

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. Bao Yueqing (*Executive Director and Chief Executive Officer*)

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

Ms. Han Liqun (*Independent Non-Executive Director*)

Ms. Zhang Li (*Independent Non-Executive Director*)

Hong Kong, 11 August 2014