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)

2016/17
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.

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Highlights

- Revenue of the Group for the three months ended 30 June 2016 was approximately HK$17,055,000.
- Loss attributable to the owners of the Company was approximately HK$1,737,000 for the three months ended 30 June 2016.
- Loss per share for the three months ended 30 June 2016 was approximately HK0.12 cent.
- The board of the Directors (the "Board") does not recommend the payment of a dividend for the three months ended 30 June 2016.

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 2016.

FINANCIAL PERFORMANCE

The Group recorded consolidated revenue of approximately HK$17,055,000 for the three months ended 30 June 2016, representing an increase of approximately 108.4% as compared to approximately HK$8,183,000 for the three months ended 30 June 2015. The revenue for the three months ended 30 June 2016 was attributable to the provision of promotion and management services for an electronic smart card "Shentong Card" and provision of robotic training course and others in the People's Republic of China (the "PRC").

The Group made a loss attributable to owners of the Company of approximately HK$1,737,000 for the three months ended 30 June 2016 as compared to approximately HK$3,096,000 for the three months ended 30 June 2015. The loss was mainly attributable to the professional fees (the "Professional Fees") incurred for the share subscription (the "Subscription") of the Company during the period. The Professional Fees incurred during the period was approximately HK$2.4 million. Excluding the Professional Fees, the adjusted profit attributable to owners of the Company was approximately HK$0.7 million for the three months ended 30 June 2016. Improvement in result was mainly attributable to the completion of the acquisition (the "Acquisition") of the entire equity interest in the Copious Link Ventures Limited (the "Target Company") and its subsidiaries (collectively the "Target Group") on 16 May 2016 (the "Completion Date"). The revenue and profit after tax of the Target Group were approximately HK$7.8 million and HK$2.6 million respectively for the period from the Completion Date to the end of the reporting period.

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"). In May 2016, the Group has completed the Acquisition. The principal subsidiaries of the Target Company are principally engaged in the promotion, sales and management of an electronic smart card "CRC Shentong Card" for use in payment for education and training courses in relation to China Robot Competition (the "CRC") facilitated by the provision of education and training courses relating to robotics standardized by CRC in Heilongjiang Province of the PRC as well as the organisation and hosting of CRC competition events in Heilongjiang Province of the PRC which is the key marketing tool for the provision of the above services. Both of Designated Shentong Card and CRC Shentong Card are electronic smart cards for use in electronic payment service businesses in the PRC. Since early 2010, the Board has strategically positioned the Group to focus on gaining exposure to the rapidly growing businesses of electronic smart card services and online gateway payment service in the PRC.

For the three months ended 30 June 2016, the revenue generated from the provision of promotion and management services for Designated Shentong Card was approximately HK$9,238,000, representing an increase of approximately 12.9% as compared to approximately HK$8,183,000 for the three months ended 30 June 2015.

For the three months ended 30 June 2016, the revenue generated from the robotic training course and others was approximately HK$7,817,000.

Apart from concentrating on the business in promotion and management services for Designated Shentong Card and CRC 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 the PRC market.

English name is for identification purpose only

Condensed Consolidated Statement of Profit or Loss

FOR THE THREE MONTHS ENDED 30 JUNE 2016

	Note	For the three months ended 30 June	
		2016	2015
		HK$'000	HK$'000
		(Unaudited)	(Unaudited)
Revenue	*4*	**17,055**	8,183
Cost of sales		**(6,287)**	(2,657)
Gross profit		**10,768**	5,526
Other income	*5*	**16**	18
Selling and distribution expenses		**(2,741)**	(3,873)
Administrative expenses		**(7,560)**	(4,058)
Profit/(loss) from operations		**483**	(2,387)
Finance costs	*6*	**(469)**	(471)
Profit/(loss) before tax		**14**	(2,858)
Income tax expense	*7*	**(1,751)**	(238)
Loss for the period attributable to owners of the Company	*8*	**(1,737)**	(3,096)
		HK cent	HK cent
		(Unaudited)	(Unaudited)
Loss per share	*10*		
Basic (cents per share)		**(0.12)**	(0.24)
Diluted (cents per share)		**N/A**	N/A

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE THREE MONTHS ENDED 30 JUNE 2016

	For the three months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss for the period	**(1,737)**	(3,096)
Other comprehensive income, net of tax:		
Item that may be reclassified to profit or loss:		
— Exchange differences on translating foreign operations	**(8,702)**	(22)
Total comprehensive income for the period attributable to owners of the Company	**(10,439)**	(3,118)

Notes to the Interim Financial Information

FOR THE THREE MONTHS ENDED 30 JUNE 2016

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 of Hong Kong Limited (the "Stock Exchange").

2. BASIS OF PREPARATION

This unaudited interim financial information has been prepared by the directors of the Company (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 Group incurred a loss of approximately HK$1,737,000 attributable to owners of the Company for the current period and the Group had net current liability of approximately HK$133,699,000 as at 30 June 2016. 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 unaudited interim financial information of the Group based on the following:

(a) On 30 September 2015, 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 2017.

(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 present and future financial obligations as they fall due, and to cause CCI to postpone the repayment dates of any present and future liabilities due to CCI by the Group when necessary.

* *English name is for identification purpose only*

(c) At 30 June 2016, the Group has service fee payable to CCI amounted to HK$214,100,000 ("Service Fee"). On 17 June 2016, CCC agreed to cause CCI to postpone the repayment date of any portion of the Service Fee due to CCI by the Group should the Company be unable to raise adequate fund for repayment before 15 November 2016.

Having regarding to 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 this unaudited 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 unaudited 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. ACCOUNTING POLICIES

The amounts included in this unaudited 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 the interim periods. However, it does not contain sufficient information to constitute an interim financial report as defined in Hong Kong Financial Reporting Standard 34 "Interim Financial Reporting".

The unaudited interim financial information should be read in conjunction with the 2016 annual consolidated financial statements. The accounting policies used in the preparation of this unaudited financial information are consistent with those used in the annual consolidated financial statements for the year ended 31 March 2016 and with the following additions due to acquisition of certain subsidiaries:

(a) Business combination (other than under common control) and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any 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 sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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	33% – 50%
Leasehold improvement	Shorter of unexpired lease period and useful lives
Equipments, furniture and fixtures	20% – 33$^1/_3$%
Motor vehicles	18% – 25%
Training equipments	33$^1/_3$%

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.

(c) Intangible assets acquired in a business combination

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.

Exclusive rights to use the CRC Shengtong Card payment system, to organise and develop China Robot Competition (全國素質體育機器人運動會) ("CRC") competition events and to provide CRC education and training courses in the Heilongjiang Province of the PRC (the "Exclusive Rights") are measured initially at fair value and are assessed to have indefinite useful lives. No amortisation is charged to profit or loss. Useful lives are reviewed during each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for the Exclusive Rights. The change in the useful life assessment from indefinite to finite is accounted for as a change in accounting estimate.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(e) 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.

Competition admission fee income is recognised when the service is rendered.

Training course income is recognised when the service is rendered, which coincides with the time when the electronic smart card "CRC Designated Shentong Card" being debited.

Promotion and management services income includes issuance handling fees and sales commission which is recognised when each electronic smart card "Designated Shentong Card" is activated and technical services commission which is recognised when expenditures of Designated Shentong Card are made by users.

Rental income of training equipments is recognised upon provision of rental service.

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

All revenue except interest income are net of value-added tax and other sales levy.

4. REVENUE

	For the three months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Promotion and management services income from CCC	**9,238**	8,183
Robotic training course and others	**7,817**	–
	17,055	8,183

5. OTHER INCOME

	For the three months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest income	**16**	18

6. FINANCE COSTS

	For the three months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest on promissory note payable to CCI	**469**	471

7. INCOME TAX EXPENSE

	For the three months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current tax		
— Provision for the period	**1,751**	400
Deferred tax	**–**	(162)
	1,751	238

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 2016 and 2015.

Tax charged on estimated assessable profits in the PRC has been calculated at prevailing tax rate of 25% (2015: 25%).

8. LOSS FOR THE PERIOD

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

	For the three months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Amortisation of intangible assets	**–**	649
Depreciation	**582**	217
Directors' emoluments	**863**	812
Legal and professional fee	**2,595**	50
Operating lease charges for land and buildings	**1,323**	1,182
Staff costs including Directors' emoluments		
— salaries, bonus and allowances	**2,578**	2,253
— retirement benefits scheme contributions	**183**	152
	2,761	2,405

9. DIVIDENDS

No dividends have been paid or proposed during the three months ended 30 June 2016, nor has any dividend been proposed since the end of the reporting period (three months ended 30 June 2015: HK$Nil).

10. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following:

	For the three months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company, used in the basic and diluted loss per share calculation	**(1,737)**	(3,096)

(a) Basic loss per share

	As at 30 June 2016 (Unaudited)	As at 30 June 2015 (Unaudited)
Number of shares — Basic		
Issued ordinary share at 1 April	**1,294,697,017**	1,294,697,017
Effect of subscription and placing shares (note 11(a))	**180,500,000**	–
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**1,475,197,017**	1,294,697,017

(b) Diluted loss per share

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 2016 and 30 June 2015.

11. MOVEMENT OF RESERVES

	Share premium HK$'000 (Unaudited)	Merger reserve HK$'000 (Unaudited)	Foreign currency translation reserve HK$'000 (Unaudited)	Statutory reverse HK$'000 (Unaudited)	Accumulated losses HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
At 1 April 2015	1,072,549	8,320	1,880	–	(1,149,921)	(67,172)
Total comprehensive income for the period	–	–	(22)	–	(3,096)	(3,118)
Transfer	–	–	–	625	(625)	–
Changes in equity for the period	–	–	(22)	625	(3,721)	(3,118)
At 30 June 2015	1,072,549	8,320	1,858	625	(1,153,642)	(70,290)
At 1 April 2016	1,072,549	8,320	643	625	(1,170,916)	(88,779)
Shares issued upon subscription and placing (note (a))	176,840	–	–	–	–	176,840
Total comprehensive income for the period	–	–	(8,702)	–	(1,737)	(10,439)
Changes in equity for the period	176,840	–	(8,702)	–	(1,737)	166,401
At 30 June 2016	1,249,389	8,320	(8,059)	625	(1,172,653)	77,622

(a) On 3 May 2016, the Company entered into CCI Subscription Agreement with CCI in respect of 100,000,000 new shares of the Company to be allotted and issued to CCI at HK$0.5 per new share. The CCI Subscription Agreement was completed on 16 May 2016. On 3 May 2016, the Company entered into Investor Subscription Agreements with 6 independent investors in respect a total of 261,000,000 new shares of the Company to be allotted and issued to them at HK$0.5 per new share. The Investor Subscription Agreements were completed on 16 May 2016.

12. ACQUISITION OF SUBSIDIARIES

On 16 May 2016, the Group acquired 100% equity interest of Copious Link Ventures Limited and its subsidiaries ("Copious Link Group") by cash consideration of HK$30,000,000. The fair value of the identifiable assets and liabilities of it as at the date of acquisition, is as follows:

	HK$'000 (unaudited)
Net assets acquired:	
Property, plant and equipment	7,137
Exclusive Rights (note 3(c))	390,514
Inventories	44
Prepayment, deposits and other receivables	26,566
Amount due from a substantial shareholder — CCC	43,696
Amounts due from related companies	6,422
Bank and cash balances	1,237
Receipt in advance	(12)
Training course obligation	(19,032)
Accruals and other payables	(11,035)
Amount due to a substantial shareholder — CCI	(350,100)
Amount due to a related company	(564)
Current tax liabilities	(3,227)
Deferred tax liabilities	(99,762)
	(8,116)
Goodwill on acquisition	38,116
	30,000
Satisfied by:	
Cash	30,000
Net cash outflow arising on acquisition:	
Cash consideration paid	(30,000)
Cash and cash equivalents acquired	1,237
	(28,763)

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

As at 30 June 2016, 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			
Name of Director	**Personal interests**	**Corporate interests**	**Total**	**Approximate percentage of issued share capital**
Bao Yueqing	2,844,000	–	2,844,000	0.17%

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 2016.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at 30 June 2016, 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:

	Number of shares held				
Name of shareholder	**Personal interests**	**Corporate interests**	**Other interests**	**Total**	**Approximate percentage of issued share capital**
CCC *(Note 1)*	–	456,542,000	–	456,542,000	27.57%
CCI	456,542,000	–	–	456,542,000	27.57%
Yang Shao Hui	209,032,256	–	–	209,032,256	12.62%
Friendly Capital Limited	109,900,000	–	–	109,900,000	6.63%
Wong Tseng Hon	100,000,000	–	–	100,000,000	6.03%

Notes:

(1) CCC is deemed to be substantial shareholder as defined in the GEM Listing Rules. CCI is a wholly-owned subsidiary of CCC.

Save as disclosed above, as at 30 June 2016, 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.

CAPITAL STRUCTURE

On 16 May 2016, 361,000,000 new ordinary shares were issued and allotted by way of subscription. The net proceeds of the Subscription (after deducting related professional fees and related expenses) were approximately HK$179.9 million, and will be/have been used in the following manner: (i) as to HK$30 million for settlement of the entire amount of the consideration of the Acquisition; and (ii) as to approximately HK$149.9 million for payment of a portion of the service fee (the "Service Fee") under a service agreement (the "Service Agreement") by the Target Company (being a subsidiary of the Company after the completion of the Acquisition). Given that the Service Fee under the Service Agreement is payable by the Target Company (being a subsidiary of the Company after the completion of the Acquisition) to CCI on or before 15 November 2016 (i.e. within 360 days after the date of the Service Agreement), the Company is considering other means of fundraising including, without limitation, by way of equity and/or debt to fund the payment of the remaining balance of the Service Fee of approximately HK$200.1 million. The Company will make further announcement(s) as and when appropriate in compliance with the GEM Listing Rules in the event that any possible fundraising activity materialises. Further details of the Subscription were set out in the announcements of the Company dated 3 May 2016 and 16 May 2016.

Save as disclosed above, there was no change in the capital structure during the year.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 9 December 2015, the Company, as purchaser, and Profuse Year Limited (the "Vendor"), as vendor, entered into a sale and purchase agreement in relation the acquisition of the entire issued share capital of the Target Company for a consideration of HK$30 million. The Target Company and its subsidiaries are principally engaged in the promotion, sales and management of an electronic smart card "CRC Shentong Card" in the PRC facilitated by the provision of education and training courses relating to robotics standardized by CRC in Heilongjiang Province of the PRC as well as the organisation and hosting of CRC competition events in Heilongjiang Province of the PRC which is the key marketing tool for the provision of the above services. The Vendor is a connected person of the Company under the GEM Listing Rules by virtue of being an associate of CCI, a substantial shareholder of the Company under the GEM Listing Rules. The Acquisition constitutes a very substantial acquisition and connected transaction of the Company under the GEM Listing Rules. The relevant resolutions in relation to the Acquisition were duly passed by the independent shareholders by way of poll at the extraordinary general meeting of the Company held on 16 February 2016. The Acquisition was completed on 16 May 2016. Details of the Acquisition were set out in the announcement of the Company dated 9 December 2015, the circular of the Company dated 31 December 2015 and the announcement of the Company dated 16 May 2016.

Save as disclosed above, there were no other material acquisitions or disposals of subsidiaries during the year.

SHARE OPTION SCHEMES

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 2015/16.

There is no outstanding options which have been granted under the 2013 Share Option Scheme as at 30 June 2016.

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 2016.

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 2016, it comprises three Independent Non-Executive Directors, namely Mr. Yip Tai Him, Ms. Han Liqun and Ms. Zhang Li. 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 2016. 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

Having made specific enquiry of all Directors, the Board has confirmed that all Directors have complied with the principles and code provisions (the "Code Provisions") set out in the CG Code during the three months ended 30 June 2016, save for the deviation from Code Provisions A.6.7 and E.1.2 which are explained below:

Under Code Provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders, Ms. Han Liqun and Ms. Zhang Li, the independent non-executive Directors, were unable to attend the annual general meeting of the Company held on 5 August 2016 (the "2016 AGM") due to their other business activities and unexpected engagement.

In addition, under the Code Provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting of the Company and he should also invite the chairman of the audit committee, remuneration committee, nomination committee and any other committees (as appropriate) of the Company to attend. Mr. He Chenguang (chairman of the Board and chairman of the nomination committee of the Company) was unable to attend the 2016 AGM due to his other business activities and unexpected engagement. Mr. Bao Yueqing (executive Director and chief executive officer of the Company) was appointed as the chairman of the 2016 AGM to answer and address questions raised by shareholders at the 2016 AGM.

The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavours to take all necessary actions to ensure the compliance with the Code Provisions set out in the CG Code.

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 2016.

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, 5 August 2016