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)

VOLUNTARY ANNOUNCEMENT

This is a voluntary announcement made by the Company.

Reference is made to the annual report of the Company for the year ended 31 March 2012. In order to further facilitate the shareholders and potential investors of the Company to appraise the financial position of the Company, in particular, the impairment loss of the intangible assets of the Group as at 31 March 2012, the Board wishes to make this voluntary announcement to set out the updated operational details of the Group and the reasons (including details of the valuation and change in assumptions) leading to such impairment loss in this announcement for your reference.

This is a voluntary announcement made by China Communication Telecom Services Company Limited (the "**Company**").

Reference is made to the annual report (the "**Annual Report**") of the Company for the year ended 31 March 2012. Capitalised terms used in this announcement shall have the same meanings as defined in the Annual Report unless the context otherwise requires.

In order to further facilitate the shareholders and potential investors of the Company to appraise the financial position of the Company, in particular, the impairment loss of the intangible assets of the Group as at 31 March 2012, the Board wishes to make this voluntary announcement to set out the updated operational details of the Group and the reasons (including details of the valuation and change in assumptions) leading to such impairment loss for your reference.

UPDATED OPERATIONAL DETAILS OF THE GROUP

Designated Shentong Card is an electronic wallet launched by China Communication Group Co., Ltd. ("**CCC**"), whereby money can be transferred between an individual's bank account and the Designated Shentong Card. As an electronic wallet, Designated Shentong Card can be used to pay mobile and fixed line phone recharge fees, online trading fees and other telecommunication value-added services including but not limited to payment for transportation fees and utilities fees etc.

The Company wishes to announce that the numbers of Designated Shentong Card issued by the Company for each of the year ended 31 March 2011 and 2012 and for the four months period from 1 April 2012 to 31 July 2012 are approximately 1,246,000, 1,009,000 and 244,000 respectively and the monetary amount of Designated Shentong Card issued by the Company for the same period are approximately RMB31,151,000, RMB25,220,000 and RMB6,103,000 respectively. Further, the relevant transaction amounts on the abovementioned services executed under the Designated Shentong Cards for the same period are approximately RMB88,337,000, RMB132,236,000 and RMB57,326,000 respectively.

The Company adopts different sales promotion strategy for different ultimate users group. For instance, the Group will usually promote the Designated Shentong Card by random telephone to negotiate for the charge up value for the sold Designated Shentong Cards for group users (purchasing a card with a total value for more than RMB100,000) and for other individual users, the Group will sell Designated Shentong Cards through its well-developed distributors.

Furthermore, according to the recent review by the Board on the new regulation on the Third Party Payment License in the People's Republic of China ("**PRC**"), considering the fact that the income generated from the sales commission of Designated Shentong Cards is only one-tenth of the Group's total revenue, the Directors opined that it will not have any impact for the income generated from the technical service commission from purchases made by users through Designated Shentong Cards.

DETAILS OF THE VALUATION

Grant Sherman Appraisal Limited (the "**Valuer**"), an independent professional valuer had reassessed the identifiable intangible assets of Beijing Shentong Yijia Technology Services Company Limited ("**Yijia**"), namely the service contract, distribution network, and assembled workforce as of 31 March 2012 based on historical performance figures of Yijia, latest development of the related industries, and other latest information provided by and available to the management of the Company (the "**Management**").

The detailed nature of service contract, the distribution network and the assembled workforce are set out below:

Service Contract

On 30 November 2009, Yijia and CCC entered into a service contract (the "**Service Contract**") pursuant to which, Yijia is responsible for (i) management and distribution of the Designated Shentong Cards; (ii) assisting CCC in the after-sale services for the Designated Shentong Cards; (iii) following up the enquiries and/or complaints of the users of the Designated Shentong Cards; and (iv) providing customer management service, and promoting and marketing of the Designated Shentong Cards. The Designated Shentong Card has been preloaded with insurance policies, and also entitled to pay for insurances from PICC Property and Casualty Company Limited ("**PICC Property**"), PICC Life Insurance Company Limited ("**PICC Life**") and PICC Health Insurance Company Limited ("**PICC Health**") (together, the "**Insurance Companies**") according to the agreements between CCC and the Insurance Companies.

Distribution Network

Distribution network (the "**Distribution Network**") is another significant intangible asset of Yijia. A well established distribution network could enhance building up of client relationships which arise from regular contacts between individual customers and the business enterprise. According to the Management, there were 1023 distributors working with Yijia for the distribution of Designated Shentong Cards as of 31 March 2012.

Assembled workforce

Assembled workforce represents the human resources of Yijia. It can be very costly to locate, hire, and train a workforce, as evidenced by the expenditures made to retain employees. The more specialised the workforce, the greater the cost of its assemblage and the larger its potential value to the enterprise.

MAJOR CHANGE OF ASSUMPTION

During valuation as of 31 March 2012, in light of the latest information, the Valuer has made the following changes in the major assumptions when comparing to those adopted in valuation as of 31 March 2011:

1. According to the Management, the existing agreement with PICC Property is valid until April 2013;

2. The remaining economic life of the Distribution Network is assumed to be 3.8 years based on the recovery rate estimated by the Management; and

3. A long term growth rate of 2% starting from 2016.

Reason for the change of the life of agreements with the Insurance Companies:

The life of agreements with the Insurance Companies was assumed to be renewed upon expiry according to the terms indicated in the agreements during the acquisition and the impairment test for the year ended 31 March 2011. However this assumption has been changed during the valuation of 31 March 2012 in light of the public released document named "Management of Payment Service of Non-Financial Institution". In June 2010, the "Management of Payment Service of Non-Financial Institution" was issued by People's Bank of China which requires all non-financial institutions to apply the "Third-Party Payment License" for operating a payment business and become payment institutions to be managed and supervised under People's Bank of China from September 2011. Since the Company's business is bounded by this new regulation, the Valuer has considered the above as a negative factor in determining the economic life of the Service Contract. According to the latest information from the Company, the existing agreement with PICC Property is valid until April 2013 in accordance to the supplemental agreement, and both PICC Life and PICC Health have orally agreed to extend the existing agreements to April 2013, therefore the Valuer has adjusted the economic life of the Service Contract to match with the life of agreements with the Insurance Companies.

Reason for the change in long term growth rate:

The long term growth rate was assumed to be 3% during the acquisition, in light of the more intense competition from the industry since last year and more actual operational figures becomes available now, the long term growth rate has been adjusted to 2% which is consistent with the 2% growth rate assumption adopted in last year impairment test.

Reason for the change in economic life of the Distribution Network:

Remaining economic life of the Distribution Network was assumed to be of 5.8 years in the impairment for the year ended 31 March 2011, and presumably the remaining economic life of the Distribution Network should be 4.8 years as of 31 March 2012. However, as a result of the change in assumption of economic life, the remaining tenure has been revised to 3.8 years for the valuation as of 31 March 2012. The reason for such change in assumption of economic life of Distribution Network was made after consideration of both historical figures and operating cycle as further elaborated below.

The economic life of Distribution Network may be best estimated through attrition analysis. First, the Valuer has analyzed the historical figures, upon completion of the acquisition of Yijia, Yijia had accessed to a Distribution Network of over 3000 distributors as of 31 March 2010, assuming a 10% to 20% annual attrition rate based on the management judgment and with reference to the industry norm, the economic life was thus assumed to be 7 years during the valuation as of 31 March 2010. Following these assumptions, there should be around 1800 to 2400 distributors remained by 31 March 2012. However, the actual figures shows that there were only 1023 distributors remained as of 31 March 2012, which implies an actual annual attrition of 33%. Consequently, there is evidence to show that the actual annual attrition rate is higher than the management's previous judgment, and hence economic life should be shorter than those assumed during valuation as of 31 March 2010. According to valuation theory, if the annual attribution rate is higher than the previous estimated attrition rate, this may lead to future impairment, and a change in assumption of economic life would therefore be justified.

Secondly, the economic life of Distribution Network may vary based on the company's operating cycle or situation. The Valuer has considered many operating factors while analyzing the company's historical figures, including, but not limited to, China Communication Group Co., Ltd., the inventor of Designated Shentong Card, has already established its own brand-name in PRC after several years of operations, some of the distributors have developed their own distribution networks and Yijia will selectively retain those effective distributors who meet with turnover requirements. Consequently, the remaining distributors are more stable than those lost in previous years, and the attrition rate for the remaining distributors would stay in range of 20% to 30% per annum.

In light of the above, in order to reflect the impact of a higher than initially assumed attrition rate, after considering both factors of the actual attrition rate and the latest operating information, the assumption of economic life of the Distribution Network as of 31 March 2012 was revised to a shorter life of 3.8 years based on an estimated future attrition rate for the remaining distributors of 26% per annum.

Valuation Method:

In accordance to HKFRS3, the intangible assets of Service Contract, Distribution Network, and Assembled Workforce were identified as of the Completion Date of the acquisition of Yijia, i.e. 31 March 2010 upon completion of the transaction. Consequently, the intangible assets were appraised again at the years end of 31 March 2011 and 2012.

The Valuer has adopted the multiperiod excess earnings method ("**MPEEM**") in appraising the Service Contract. The MPEEM measures the present value of the future earnings to be generated during the remaining lives of the service contract. Using the cashflow forecast as a starting point, pretax cash flows attributable to the service contract as of the Appraisal Date are calculated. Deductions are then made for cost of goods sold and operating expenses. Contributory charges on the other identified assets are then taken. Finally, value of Service Contract is derived via summation of the present value of the cashflow to be generated during the remaining lives of the Service Contract.

On the other hand, the Valuer has adopted another commonly used approach "With and Without Approach" to appraise the value of the Distribution Network. The value of the intangible asset appraised under this method is determined by comparing the difference between the scenario of owning the intangible asset and the scenario of not owning the intangible asset. The valuation of Distribution Network under the "With and Without Approach" was performed by preparing two discounted cash flow models — one is based on the scenario WITH the Distribution Network, and the other is based on the scenario WITHOUT the Distribution Network, i.e. the Distribution Network is not in place and Yijia has to re-build a similar distribution network, perhaps cause Yjia's sale decrease, slower growth, and to spend more, thus reducing its margins. The value of having the Distribution Network, then, is the difference in the present value of two cash flow projections.

Under this approach, the value of the Distribution Network was estimated by considering the net impact on Yijia's cash flow by generating two different scenarios, namely: (1) net present value ("**NPV**") of the business enterprise value under a scenario WITH the Distribution Network; and (2) NPV of the business enterprise value under a scenario WITHOUT the Distribution Network. Therefore, value of the Distribution Network is the difference between the 2 scenarios.

Based on the above valuation method and the change in assumption of economic life of the Distribution Network, the cash flow for calculation of the Distribution Network was included up to 2015 instead of 2016. However, there was no impairment required for the Distribution Network for the year ended 31 March 2012. This conclusion is in accordance with the result under the unchanged assumption of economic life of Distribution Network.

Finally, value of Assembled Workforce was derived by the Cost Approach. Application of the cost approach for valuing an assembled workforce aggregates all of the costs that would be required to hire and train a duplicate workforce, including both the recruitment costs and training costs.

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

Hong Kong, 29 October 2012

As at the date of this announcement, the executive Directors are Mr. He Chenguang and Mr. Zhang Peng, the non-executive Director is Mr. Xiao Haiping and the independent non-executive Directors are Mr. Yip Tai Him, Ms. Cao Huifang and Ms. Liu Hong.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited 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 announcement 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 announcement misleading.

This announcement will remain at www.hkgem.com on the "Latest Company Announcements" page of the GEM website for at least 7 days from the date of its posting and on the website of the Group at www.ccpi.com.hk.