



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)

## THIRD QUARTERLY ANNOUNCEMENT FOR THE NINE MONTHS ENDED 31 DECEMBER 2010

### 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.**

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*This announcement, 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 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.*

## **HIGHLIGHTS**

- Turnover of the Group for the nine months ended 31 December 2010 was approximately HK\$25,605,000.
- Net loss attributable to owners of the Company was approximately HK\$44,470,000 for the nine months ended 31 December 2010.
- Loss per share for the nine months ended 31 December 2010 was approximately HK3.73 cents.
- The board of the Directors (the “Board”) does not recommend the payment of a dividend for the nine months ended 31 December 2010.

The Directors hereby present the unaudited consolidated results of the Company together with its subsidiaries (collectively the “Group”) for the nine months ended 31 December 2010.

## **FINANCIAL PERFORMANCE**

The Group recorded consolidated turnover of approximately HK\$25,605,000 for the nine months ended 31 December 2010, representing an increase of approximately 91.2% as compared to approximately HK\$13,394,000 for the nine months ended 31 December 2009. The turnover for the nine months ended 31 December 2010 was attributable to (i) the provision of promotion and management services for an electronic smart card “Shentong Card”, (ii) the operation of the e-Sports platform and online game and (iii) distribution of computer games in the PRC.

The Group made a net loss attributable to owners of the Company of approximately HK\$44,470,000 for the nine months ended 31 December 2010 as compared to approximately HK\$48,698,000 for the nine months ended 31 December 2009.

## **BUSINESS REVIEW**

Apart from the continuous efforts to monitor the market development, restructure and streamline the business operations as and when necessary so as to improve the current financial status of the Group and enhance the business performance, the Board has been actively seeking other opportunities to broaden the revenue base of the Group.

In March 2010, the Group completed 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<sup>#</sup>) (“Yijia”). The Board considers that this acquisition will enable the Group to expose to the fast growing electronic smart card services business in the PRC.

To better reflect the core business of the Group and the well-developed partnership with 神州通信集團有限公司 (China Communication Group Co., Ltd.<sup>#</sup>) (“CCC”) and its group, as well as refresh the corporate identity and image of the Company, the Company has adopted the current name China Communication Telecom Services Company Limited since May 2010.

Furthermore, the Group entered into a disposal agreement in December 2010 in respect of a conditional very substantial disposal transaction involving the disposal of 75% of the equity interest in 神州奧美網絡有限公司 (China Cyber Port Co., Ltd.#) (“CCP”). Details of the disposal have been set out in the circular dated 22 December 2010.

### **Provision of promotion and management services**

For the nine months ended 31 December 2010, the revenue derived from the provision of promotion and management services was approximately HK\$25,306,000. No revenue was derived from the provision of promotion and management services for the same period last year.

### **Operation of the e-Sports platform**

For the nine months ended 31 December 2010, the revenue derived from the operation of the e-Sports platform was approximately HK\$286,000 as compared to approximately HK\$5,950,000 for the nine months ended 31 December 2009. The decrease was attributable to the downturn for the animation and game industry in the PRC during the period.

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

For the nine months ended 31 December 2010, the revenue derived from the distribution and selling of computer games in the PRC was approximately HK\$13,000 as compared to approximately HK\$97,000 for the nine months ended 31 December 2009.

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2010**

|                                                     |      | For the three months<br>ended 31 December |                                               | For the nine months<br>ended 31 December |                                               |
|-----------------------------------------------------|------|-------------------------------------------|-----------------------------------------------|------------------------------------------|-----------------------------------------------|
|                                                     | Note | 2010<br>HK\$'000<br>(Unaudited)           | 2009<br>HK\$'000<br>(Unaudited)<br>(Restated) | 2010<br>HK\$'000<br>(Unaudited)          | 2009<br>HK\$'000<br>(Unaudited)<br>(Restated) |
| <b>Continuing operations</b>                        |      |                                           |                                               |                                          |                                               |
| Turnover                                            | 3    | 6,229                                     | –                                             | 25,306                                   | –                                             |
| Cost of sales                                       |      | <u>(11,669)</u>                           | <u>–</u>                                      | <u>(40,291)</u>                          | <u>–</u>                                      |
| Gross loss                                          |      | (5,440)                                   | –                                             | (14,985)                                 | –                                             |
| Other revenue                                       | 4    | 10                                        | –                                             | 25                                       | 1                                             |
| Other net income                                    | 4    | 68                                        | –                                             | 68                                       | –                                             |
| Selling and distribution<br>expenses                |      | (3,961)                                   | –                                             | (11,415)                                 | –                                             |
| Administrative expenses                             |      | <u>(7,750)</u>                            | <u>(2,926)</u>                                | <u>(22,546)</u>                          | <u>(8,726)</u>                                |
| Loss from operations                                |      | (17,073)                                  | (2,926)                                       | (48,853)                                 | (8,725)                                       |
| Finance costs                                       | 5(a) | <u>(748)</u>                              | <u>(5,004)</u>                                | <u>(2,237)</u>                           | <u>(15,011)</u>                               |
| Loss before taxation                                |      | (17,821)                                  | (7,930)                                       | (51,090)                                 | (23,736)                                      |
| Income tax                                          | 6    | <u>2,896</u>                              | <u>–</u>                                      | <u>8,128</u>                             | <u>–</u>                                      |
| Loss for the period from<br>continuing operations   |      | (14,925)                                  | (7,930)                                       | (42,962)                                 | (23,736)                                      |
| <b>Discontinued operations</b>                      |      |                                           |                                               |                                          |                                               |
| Loss for the period from<br>discontinued operations | 7    | <u>(203)</u>                              | <u>(16,582)</u>                               | <u>(1,508)</u>                           | <u>(33,282)</u>                               |
| Loss for the period                                 | 5    | <u>(15,128)</u>                           | <u>(24,512)</u>                               | <u>(44,470)</u>                          | <u>(57,018)</u>                               |
| <b>Attributable to:</b>                             |      |                                           |                                               |                                          |                                               |
| Owners of the Company                               |      | (15,128)                                  | (20,367)                                      | (44,470)                                 | (48,698)                                      |
| Non-controlling interest                            |      | <u>–</u>                                  | <u>(4,145)</u>                                | <u>–</u>                                 | <u>(8,320)</u>                                |
| Loss for the period                                 |      | <u>(15,128)</u>                           | <u>(24,512)</u>                               | <u>(44,470)</u>                          | <u>(57,018)</u>                               |

|                                                        | <i>Note</i> | For the three months<br>ended 31 December |                                                      | For the nine months<br>ended 31 December |                                                      |
|--------------------------------------------------------|-------------|-------------------------------------------|------------------------------------------------------|------------------------------------------|------------------------------------------------------|
|                                                        |             | 2010<br><i>HK\$'000</i><br>(Unaudited)    | 2009<br><i>HK\$'000</i><br>(Unaudited)<br>(Restated) | 2010<br><i>HK\$'000</i><br>(Unaudited)   | 2009<br><i>HK\$'000</i><br>(Unaudited)<br>(Restated) |
| <b>Loss per share</b>                                  | 9           |                                           |                                                      |                                          |                                                      |
| <b>From continuing and<br/>discontinued operations</b> |             |                                           |                                                      |                                          |                                                      |
| – Basic                                                |             | <u>(1.27 cents)</u>                       | <u>(2.54 cents)</u>                                  | <u>(3.73 cents)</u>                      | <u>(6.07 cents)</u>                                  |
| – Diluted                                              |             | <u>(1.27 cents)</u>                       | <u>(2.54 cents)</u>                                  | <u>(3.73 cents)</u>                      | <u>(6.07 cents)</u>                                  |
| <b>From continuing operations</b>                      |             |                                           |                                                      |                                          |                                                      |
| – Basic                                                |             | <u>(1.25 cents)</u>                       | <u>(0.99 cents)</u>                                  | <u>(3.60 cents)</u>                      | <u>(2.96 cents)</u>                                  |
| – Diluted                                              |             | <u>(1.25 cents)</u>                       | <u>(0.99 cents)</u>                                  | <u>(3.60 cents)</u>                      | <u>(2.96 cents)</u>                                  |
| <b>From discontinued operations</b>                    |             |                                           |                                                      |                                          |                                                      |
| – Basic                                                |             | <u>(0.02 cents)</u>                       | <u>(1.55 cents)</u>                                  | <u>(0.13 cents)</u>                      | <u>(3.11 cents)</u>                                  |
| – Diluted                                              |             | <u>(0.02 cents)</u>                       | <u>(1.55 cents)</u>                                  | <u>(0.13 cents)</u>                      | <u>(3.11 cents)</u>                                  |

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2010**

|                                                                                            | <b>For the three months<br/>ended 31 December</b> |                        | <b>For the nine months<br/>ended 31 December</b> |                        |
|--------------------------------------------------------------------------------------------|---------------------------------------------------|------------------------|--------------------------------------------------|------------------------|
|                                                                                            | <b>2010</b>                                       | 2009                   | <b>2010</b>                                      | 2009                   |
|                                                                                            | <b>HK\$'000</b>                                   | HK\$'000               | <b>HK\$'000</b>                                  | HK\$'000               |
|                                                                                            | <b>(Unaudited)</b>                                | (Unaudited)            | <b>(Unaudited)</b>                               | (Unaudited)            |
| <b>Loss for the period</b>                                                                 | <b>(15,128)</b>                                   | (24,512)               | <b>(44,470)</b>                                  | (57,018)               |
| <b>Other comprehensive income<br/>for the period</b>                                       |                                                   |                        |                                                  |                        |
| Exchange differences on translation<br>of financial statements of<br>overseas subsidiaries | <u>2,406</u>                                      | <u>37</u>              | <u>5,068</u>                                     | <u>61</u>              |
| <b>Total comprehensive loss for the<br/>period (net of tax)</b>                            | <b><u>(12,722)</u></b>                            | <b><u>(24,475)</u></b> | <b><u>(39,402)</u></b>                           | <b><u>(56,957)</u></b> |
| <b>Attributable to:</b>                                                                    |                                                   |                        |                                                  |                        |
| Owners of the Company                                                                      | <b>(12,722)</b>                                   | (20,339)               | <b>(39,402)</b>                                  | (48,652)               |
| Non-controlling interest                                                                   | <u>–</u>                                          | <u>(4,136)</u>         | <u>–</u>                                         | <u>(8,305)</u>         |
|                                                                                            | <b><u>(12,722)</u></b>                            | <b><u>(24,475)</u></b> | <b><u>(39,402)</u></b>                           | <b><u>(56,957)</u></b> |

## **NOTES TO THIRD QUARTERLY ANNOUNCEMENT FOR THE NINE MONTHS ENDED 31 DECEMBER 2010**

### **1. GENERAL INFORMATION**

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 Company and its subsidiaries (the “Group”) are principally engaged in the provision of promotion and management services for an electronic smart card “Shentong Card” in the PRC. The operations of the e-Sports platform and online game and distribution of computer games in the PRC were discontinued during the period.

### **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

The condensed consolidated financial statements for the nine months ended 31 December 2010 have been prepared in accordance with the applicable disclosure provision of the GEM Listing Rules on the Stock Exchange, including compliance with Hong Kong Accounting Standard 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). However, this third quarterly report does not contain sufficient information to constitute an interim financial report as defined in HKAS 34.

The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2010. The accounting policies adopted are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2010, except for the adoption of the new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards as disclosed in third quarterly report.

The condensed consolidated financial statements are presented in Hong Kong Dollars (“HK\$”), rounded to the nearest thousand except for per share data. Hong Kong dollar is the Company’s functional and presentation currency.

This condensed consolidated financial statements have not been audited.

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 April 2010. 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 substantial changes to the Group’s accounting policies and amounts reported for the current period and prior periods.

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.

This condensed consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the ability of the Group to operate within budget as set out in its cash flow forecast for the upcoming twelve months. Should there be any unexpected major adverse incidents, such as non-recovery of trade debts, substantial decline of planned operating cash flow, failure to obtain additional funding as planned or any incidents that would adversely affect the Group’s financial position such that the Group is unable to continue as a going concern, adjustments would have to be made to the condensed consolidated financial statements to restate the values of the Group’s assets to their immediate 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

|                                         | For the three months ended 31 December |              | For the nine months ended 31 December |               |
|-----------------------------------------|----------------------------------------|--------------|---------------------------------------|---------------|
|                                         | 2010                                   | 2009         | 2010                                  | 2009          |
|                                         | HK\$'000                               | HK\$'000     | HK\$'000                              | HK\$'000      |
|                                         | (Unaudited)                            | (Unaudited)  | (Unaudited)                           | (Unaudited)   |
|                                         |                                        | (Restated)   |                                       | (Restated)    |
| <b>Continuing operations</b>            |                                        |              |                                       |               |
| Promotion and management service income | 6,229                                  | –            | 25,306                                | –             |
|                                         | <u>6,229</u>                           | <u>–</u>     | <u>25,306</u>                         | <u>–</u>      |
| <b>Discontinued operations (note 7)</b> |                                        |              |                                       |               |
| Operation of online game                | –                                      | 542          | –                                     | 7,347         |
| Operation of e-Sports platform          | 90                                     | 603          | 286                                   | 5,950         |
| Selling of computer games               | –                                      | 89           | 13                                    | 97            |
|                                         | <u>90</u>                              | <u>1,234</u> | <u>299</u>                            | <u>13,394</u> |
|                                         | <u>6,319</u>                           | <u>1,234</u> | <u>25,605</u>                         | <u>13,394</u> |

### 4. OTHER REVENUE AND OTHER NET INCOME

|                                                   | For the three months ended 31 December |             |                         |              |              |              |
|---------------------------------------------------|----------------------------------------|-------------|-------------------------|--------------|--------------|--------------|
|                                                   | Continuing operations                  |             | Discontinued operations |              | Consolidated |              |
|                                                   | 2010                                   | 2009        | 2010                    | 2009         | 2010         | 2009         |
|                                                   | HK\$'000                               | HK\$'000    | HK\$'000                | HK\$'000     | HK\$'000     | HK\$'000     |
|                                                   | (Unaudited)                            | (Unaudited) | (Unaudited)             | (Unaudited)  | (Unaudited)  | (Unaudited)  |
|                                                   |                                        | (Restated)  |                         | (Restated)   |              | (Restated)   |
| <b>Other revenue</b>                              |                                        |             |                         |              |              |              |
| Recovery of bad debts                             | –                                      | –           | –                       | –            | –            | –            |
| Interest income                                   | 10                                     | –           | 7                       | 17           | 17           | 17           |
| Sundry income                                     | –                                      | –           | –                       | –            | –            | –            |
|                                                   | <u>10</u>                              | <u>–</u>    | <u>7</u>                | <u>17</u>    | <u>17</u>    | <u>17</u>    |
| <b>Other net income</b>                           |                                        |             |                         |              |              |              |
| Gain on disposal of property, plant and equipment | 68                                     | –           | –                       | –            | 68           | –            |
|                                                   | <u>68</u>                              | <u>–</u>    | <u>–</u>                | <u>–</u>     | <u>68</u>    | <u>–</u>     |
|                                                   | For the nine months ended 31 December  |             |                         |              |              |              |
|                                                   | Continuing operations                  |             | Discontinued operations |              | Consolidated |              |
|                                                   | 2010                                   | 2009        | 2010                    | 2009         | 2010         | 2009         |
|                                                   | HK\$'000                               | HK\$'000    | HK\$'000                | HK\$'000     | HK\$'000     | HK\$'000     |
|                                                   | (Unaudited)                            | (Unaudited) | (Unaudited)             | (Unaudited)  | (Unaudited)  | (Unaudited)  |
|                                                   |                                        | (Restated)  |                         | (Restated)   |              | (Restated)   |
| <b>Other revenue</b>                              |                                        |             |                         |              |              |              |
| Recovery of bad debts                             | –                                      | –           | –                       | 1,089        | –            | 1,089        |
| Interest income                                   | 14                                     | 1           | 32                      | 43           | 46           | 44           |
| Sundry income                                     | 11                                     | –           | –                       | –            | 11           | –            |
|                                                   | <u>25</u>                              | <u>1</u>    | <u>32</u>               | <u>1,132</u> | <u>57</u>    | <u>1,133</u> |
| <b>Other net income</b>                           |                                        |             |                         |              |              |              |
| Gain on disposal of property, plant and equipment | 68                                     | –           | –                       | –            | 68           | –            |
|                                                   | <u>68</u>                              | <u>–</u>    | <u>–</u>                | <u>–</u>     | <u>68</u>    | <u>–</u>     |

## 5. LOSS FOR THE PERIOD

Loss for the period is arrived at after charging/(crediting) the following:

|                                                                                          | For the three months ended 31 December |             |                         |             |              |             |
|------------------------------------------------------------------------------------------|----------------------------------------|-------------|-------------------------|-------------|--------------|-------------|
|                                                                                          | Continuing operations                  |             | Discontinued operations |             | Consolidated |             |
|                                                                                          | 2010                                   | 2009        | 2010                    | 2009        | 2010         | 2009        |
|                                                                                          | HK\$'000                               | HK\$'000    | HK\$'000                | HK\$'000    | HK\$'000     | HK\$'000    |
|                                                                                          | (Unaudited)                            | (Unaudited) | (Unaudited)             | (Unaudited) | (Unaudited)  | (Unaudited) |
|                                                                                          |                                        | (Restated)  |                         | (Restated)  |              | (Restated)  |
| <b>(a) Finance costs</b>                                                                 |                                        |             |                         |             |              |             |
| Interest on promissory note                                                              | 748                                    | 5,004       | –                       | –           | 748          | 5,004       |
| Total interest expense on financial liabilities not at fair value through profit or loss | 748                                    | 5,004       | –                       | –           | 748          | 5,004       |
| <b>(b) Staff costs (including directors' emoluments)</b>                                 |                                        |             |                         |             |              |             |
| Salaries, allowances and benefits in kind                                                | 2,472                                  | 1,594       | 45                      | 669         | 2,517        | 2,263       |
| Retirement scheme contributions                                                          | 254                                    | 17          | 12                      | 18          | 266          | 35          |
|                                                                                          | 2,726                                  | 1,611       | 57                      | 687         | 2,783        | 2,298       |
| <b>(c) Other items</b>                                                                   |                                        |             |                         |             |              |             |
| Amortisation on intangible assets                                                        |                                        |             |                         |             |              |             |
| – included in cost of sales                                                              | 11,747                                 | –           | –                       | 1,345       | 11,747       | 1,345       |
| – included in selling and distribution expenses                                          | –                                      | –           | –                       | 2,749       | –            | 2,749       |
|                                                                                          | 11,747                                 | –           | –                       | 4,094       | 11,747       | 4,094       |
| Depreciation for property, plant and equipment                                           | 390                                    | 94          | –                       | 1,139       | 390          | 1,233       |
| Operating lease charges for land and buildings:                                          |                                        |             |                         |             |              |             |
| – minimum lease payments                                                                 | 460                                    | 282         | 1                       | 486         | 461          | 768         |
| Cost of inventories*                                                                     | –                                      | –           | –                       | 214         | –            | 214         |
| Equity-settled share-based payment expenses                                              | 2,456                                  | –           | –                       | –           | 2,456        | –           |
| Reversal of write down of inventories                                                    | –                                      | –           | –                       | –           | –            | –           |
| (Gain)/loss on disposal of property, plant and equipment                                 | (68)                                   | 4           | –                       | –           | (68)         | 4           |
| Other operating expenses                                                                 |                                        |             |                         |             |              |             |
| – Impairment loss on property, plant and equipment                                       | –                                      | –           | –                       | –           | –            | –           |
| – Impairment loss on intangible assets                                                   | –                                      | –           | –                       | 8,333       | –            | 8,333       |
| – Impairment loss on trade receivables                                                   | –                                      | –           | –                       | 3,575       | –            | 3,575       |
|                                                                                          | –                                      | –           | –                       | 11,908      | –            | 11,908      |

|                                                                                          | For the nine months ended 31 December |             |                         |             |              |             |
|------------------------------------------------------------------------------------------|---------------------------------------|-------------|-------------------------|-------------|--------------|-------------|
|                                                                                          | Continuing operations                 |             | Discontinued operations |             | Consolidated |             |
|                                                                                          | 2010                                  | 2009        | 2010                    | 2009        | 2010         | 2009        |
|                                                                                          | HK\$'000                              | HK\$'000    | HK\$'000                | HK\$'000    | HK\$'000     | HK\$'000    |
|                                                                                          | (Unaudited)                           | (Unaudited) | (Unaudited)             | (Unaudited) | (Unaudited)  | (Unaudited) |
|                                                                                          |                                       | (Restated)  |                         | (Restated)  |              | (Restated)  |
| <b>(a) Finance costs</b>                                                                 |                                       |             |                         |             |              |             |
| Interest on promissory note                                                              | 2,237                                 | 15,011      | –                       | –           | 2,237        | 15,011      |
| Total interest expense on financial liabilities not at fair value through profit or loss | 2,237                                 | 15,011      | –                       | –           | 2,237        | 15,011      |
| <b>(b) Staff costs (including directors' emoluments)</b>                                 |                                       |             |                         |             |              |             |
| Salaries, allowances and benefits in kind                                                | 7,127                                 | 4,787       | 486                     | 1,747       | 7,613        | 6,534       |
| Retirement scheme contributions                                                          | 638                                   | 51          | 159                     | 384         | 797          | 435         |
|                                                                                          | 7,765                                 | 4,838       | 645                     | 2,131       | 8,410        | 6,969       |
| <b>(c) Other items</b>                                                                   |                                       |             |                         |             |              |             |
| Amortisation on intangible assets                                                        |                                       |             |                         |             |              |             |
| – included in cost of sales                                                              | 34,689                                | –           | –                       | 5,125       | 34,689       | 5,125       |
| – included in selling and distribution expenses                                          | –                                     | –           | –                       | 8,351       | –            | 8,351       |
|                                                                                          | 34,689                                | –           | –                       | 13,476      | 34,689       | 13,476      |
| Depreciation for property, plant and equipment                                           | 853                                   | 284         | –                       | 3,419       | 853          | 3,703       |
| Operating lease charges for land and buildings:                                          |                                       |             |                         |             |              |             |
| – minimum lease payments                                                                 | 1,765                                 | 880         | 84                      | 2,197       | 1,849        | 3,077       |
| Cost of inventories*                                                                     | 5                                     | –           | –                       | 222         | 5            | 222         |
| Equity-settled share-based payment expenses                                              | 7,199                                 | 449         | –                       | –           | 7,199        | 449         |
| Reversal of write down of inventories                                                    | –                                     | –           | (14)                    | –           | (14)         | –           |
| (Gain)/loss on disposal of property, plant and equipment                                 | (68)                                  | 4           | –                       | –           | (68)         | 4           |
| Other operating expenses                                                                 |                                       |             |                         |             |              |             |
| – Impairment loss on property, plant and equipment                                       | –                                     | –           | –                       | 413         | –            | 413         |
| – Impairment loss on intangible assets                                                   | –                                     | –           | –                       | 12,923      | –            | 12,923      |
| – Impairment loss on trade receivables                                                   | –                                     | –           | –                       | 8,226       | –            | 8,226       |
|                                                                                          | –                                     | –           | –                       | 21,562      | –            | 21,562      |

\* Cost of inventories include reversal of write down of inventories for the period which amount are also included in the respective total amount disclosed separately above.

## 6. INCOME TAX IN THE CONDENSED CONSOLIDATED INCOME STATEMENT

|                                                     | For the three months ended 31 December |             |                         |              |              |              |
|-----------------------------------------------------|----------------------------------------|-------------|-------------------------|--------------|--------------|--------------|
|                                                     | Continuing operations                  |             | Discontinued operations |              | Consolidated |              |
|                                                     | 2010                                   | 2009        | 2010                    | 2009         | 2010         | 2009         |
|                                                     | HK\$'000                               | HK\$'000    | HK\$'000                | HK\$'000     | HK\$'000     | HK\$'000     |
|                                                     | (Unaudited)                            | (Unaudited) | (Unaudited)             | (Unaudited)  | (Unaudited)  | (Unaudited)  |
|                                                     |                                        | (Restated)  |                         | (Restated)   |              | (Restated)   |
| Current tax                                         |                                        |             |                         |              |              |              |
| – PRC Enterprise Income Tax                         | (40)                                   | –           | –                       | –            | (40)         | –            |
| Deferred tax                                        |                                        |             |                         |              |              |              |
| – Origination and reversal of temporary differences | 2,936                                  | –           | –                       | 2,857        | 2,936        | 2,857        |
|                                                     | <u>2,896</u>                           | <u>–</u>    | <u>–</u>                | <u>2,857</u> | <u>2,896</u> | <u>2,857</u> |
|                                                     |                                        |             |                         |              |              |              |
|                                                     | For the nine months ended 31 December  |             |                         |              |              |              |
|                                                     | Continuing operations                  |             | Discontinued operations |              | Consolidated |              |
|                                                     | 2010                                   | 2009        | 2010                    | 2009         | 2010         | 2009         |
|                                                     | HK\$'000                               | HK\$'000    | HK\$'000                | HK\$'000     | HK\$'000     | HK\$'000     |
|                                                     | (Unaudited)                            | (Unaudited) | (Unaudited)             | (Unaudited)  | (Unaudited)  | (Unaudited)  |
|                                                     |                                        | (Restated)  |                         | (Restated)   |              | (Restated)   |
| Current tax                                         |                                        |             |                         |              |              |              |
| – PRC Enterprise Income Tax                         | (544)                                  | –           | –                       | –            | (544)        | –            |
| Deferred tax                                        |                                        |             |                         |              |              |              |
| – Origination and reversal of temporary differences | 8,672                                  | –           | –                       | 3,735        | 8,672        | 3,735        |
|                                                     | <u>8,128</u>                           | <u>–</u>    | <u>–</u>                | <u>3,735</u> | <u>8,128</u> | <u>3,735</u> |

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2009: 25%).

No Hong Kong Profits Tax has been provided for in the condensed consolidated financial statements as the Group has no assessable profits for the three months and nine months ended 31 December 2010 (three months and nine months ended 31 December 2009: HK\$Nil).

## 7. DISCONTINUED OPERATIONS

During the year ended 31 March 2010, the Group ceased its online game operation upon the expiration of the license rights of the online computer game “Sudden Attack” in the PRC on 10 February 2010.

Further on 1 December 2010, Oriental Glory (H.K.) Limited (“Oriental Glory”), an indirect wholly-owned subsidiary of the Company, as vendor and China Communication Investment Limited (“CCI”), a substantial shareholder of the Company, as purchaser entered into a disposal agreement, pursuant to which Oriental Glory has conditionally agreed to sell, and CCI has conditionally agreed to purchase, the 75% equity interest in 神州奧美網絡有限公司 (China Cyber Port Co., Ltd. #) (“CCP”) for a consideration of HK\$140,000,000 which shall be paid by CCI by setting off against the face value of the promissory note, which is in the principal amount of HK\$238,690,000 issued by the Group in favour of CCI, in the sum equivalent to the consideration of HK\$140,000,000. CCP is principally engaged in the operation of the e-Sports platform and online game and distribution of computer games in the PRC. The disposal has been approved by the independent shareholders of the Company in an extraordinary general meeting of the Company held on 20 January 2011. The disposal has not completed up to 9 February 2011 due to the processing of relevant transfer and registration procedures by the Group.

The results of CCP for the period from 1 April 2010 to 31 December 2010, which have been included in the condensed consolidated income statement, are as follows:

|                                                  | For the three months<br>ended 31 December |                                               | For the nine months<br>ended 31 December |                                               |
|--------------------------------------------------|-------------------------------------------|-----------------------------------------------|------------------------------------------|-----------------------------------------------|
|                                                  | 2010<br>HK\$'000<br>(Unaudited)           | 2009<br>HK\$'000<br>(Unaudited)<br>(Restated) | 2010<br>HK\$'000<br>(Unaudited)          | 2009<br>HK\$'000<br>(Unaudited)<br>(Restated) |
| Turnover (note 3)                                | 90                                        | 1,234                                         | 299                                      | 13,394                                        |
| Cost of sales                                    | (169)                                     | (3,828)                                       | (629)                                    | (15,482)                                      |
| Gross loss                                       | (79)                                      | (2,594)                                       | (330)                                    | (2,088)                                       |
| Other revenue (note 4)                           | 7                                         | 17                                            | 32                                       | 1,132                                         |
| Selling and distribution expenses                | (15)                                      | (3,421)                                       | (378)                                    | (10,235)                                      |
| Administrative expenses                          | (116)                                     | (1,533)                                       | (832)                                    | (4,264)                                       |
| Other operating expenses (note 5(c))             | –                                         | (11,908)                                      | –                                        | (21,562)                                      |
| Loss from operations                             | (203)                                     | (19,439)                                      | (1,508)                                  | (37,017)                                      |
| Finance costs (note 5(a))                        | –                                         | –                                             | –                                        | –                                             |
| Loss before taxation                             | (203)                                     | (19,439)                                      | (1,508)                                  | (37,017)                                      |
| Income tax (note 6)                              | –                                         | 2,857                                         | –                                        | 3,735                                         |
| Loss for the period from discontinued operations | (203)                                     | (16,582)                                      | (1,508)                                  | (33,282)                                      |

## 8. DIVIDENDS

No dividends was paid or proposed during the three months and nine months ended 31 December 2010, nor has any dividend been proposed since the end of the reporting period (three months and nine months ended 31 December 2009: HK\$Nil).

## 9. LOSS PER SHARE

### (a) Basic loss per share

#### (i) From continuing and discontinued operations

The calculation of the basic loss per share for the three months and nine months ended 31 December 2010 is based on the unaudited consolidated loss attributable to the owners of the Company of approximately HK\$15,128,000 (three months ended 31 December 2009: HK\$20,367,000) and HK\$44,470,000 (nine months ended 31 December 2009: HK\$48,698,000) respectively and the weighted average number of 1,194,697,017 ordinary shares (three months ended 31 December 2009: 802,286,761 ordinary shares) and 1,194,697,017 ordinary shares (nine months ended 31 December 2009: 802,286,761 ordinary shares) in issue during the period.

(ii) *From continuing operations*

The calculation of the basic loss per share from continuing operations for the three months and nine months ended 31 December 2010 is based on the unaudited consolidated loss attributable to the owners of the Company of approximately HK\$14,925,000 (three months ended 31 December 2009: HK\$7,930,000 (restated)) and HK\$42,962,000 (nine months ended 31 December 2009: HK\$23,736,000 (restated)) respectively and the weighted average number of 1,194,697,017 ordinary shares (three months ended 31 December 2009: 802,286,761 ordinary shares) and 1,194,697,017 ordinary shares (nine months ended 31 December 2009: 802,286,761 ordinary shares) in issue during the period. The unaudited consolidated loss attributable to the owners of the Company are calculated as follows:

|                                                                                                                                  | For the three months<br>ended 31 December |                           | For the nine months<br>ended 31 December |                           |
|----------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|---------------------------|------------------------------------------|---------------------------|
|                                                                                                                                  | 2010                                      | 2009                      | 2010                                     | 2009                      |
|                                                                                                                                  | HK\$'000                                  | HK\$'000                  | HK\$'000                                 | HK\$'000                  |
|                                                                                                                                  | (Unaudited)                               | (Unaudited)<br>(Restated) | (Unaudited)                              | (Unaudited)<br>(Restated) |
| Loss for the period attributable to the owners of the Company for the purpose of basic loss per share                            | <u>(15,128)</u>                           | <u>(20,367)</u>           | <u>(44,470)</u>                          | <u>(48,698)</u>           |
| Loss for the period from discontinued operations                                                                                 | (203)                                     | (16,582)                  | (1,508)                                  | (33,282)                  |
| Add: Loss for the period attributable to non-controlling interest from discontinued operations                                   | –                                         | 4,145                     | –                                        | 8,320                     |
| Loss for the period attributable to the owners of the Company from discontinued operations                                       | <u>(203)</u>                              | <u>(12,437)</u>           | <u>(1,508)</u>                           | <u>(24,962)</u>           |
| Loss for the period attributable to the owners of the Company for the purpose of basic loss per share from continuing operations | <u>(14,925)</u>                           | <u>(7,930)</u>            | <u>(42,962)</u>                          | <u>(23,736)</u>           |

(iii) *From discontinued operations*

The calculation of the basic loss per share from discontinued operations for the three months and nine months ended 31 December 2010 is based on the unaudited consolidated loss attributable to the owners of the Company of approximately HK\$203,000 (three months ended 31 December 2009: HK\$12,437,000 (restated)) and HK\$1,508,000 (nine months ended 31 December 2009: HK\$24,962,000 (restated)) respectively and the weighted average number of 1,194,697,017 ordinary shares (three months ended 31 December 2009: 802,286,761 ordinary shares) and 1,194,697,017 ordinary shares (nine months ended 31 December 2009: 802,286,761 ordinary shares) in issue during the period.

(b) **Diluted loss per share**

Diluted loss per share equals to basic loss per share as the potential ordinary shares outstanding during the periods ended 31 December 2010 and 2009 have an anti-dilutive effect on the basic loss per share for both periods.

## 10. MOVEMENT OF RESERVES

|                                               | Attributable to owners of the Company |                  |                |                  |                             |                    |                  |                          |                  |
|-----------------------------------------------|---------------------------------------|------------------|----------------|------------------|-----------------------------|--------------------|------------------|--------------------------|------------------|
|                                               | Share capital                         | Share premium    | Merger reserve | Exchange reserve | Share-based payment reserve | Accumulated losses | Total            | Non-controlling interest | Total equity     |
|                                               | HK\$'000                              | HK\$'000         | HK\$'000       | HK\$'000         | HK\$'000                    | HK\$'000           | HK\$'000         | HK\$'000                 | HK\$'000         |
|                                               | (Unaudited)                           | (Unaudited)      | (Unaudited)    | (Unaudited)      | (Unaudited)                 | (Unaudited)        | (Unaudited)      | (Unaudited)              | (Unaudited)      |
| At 1 April 2009                               | 8,023                                 | 679,423          | 8,320          | 9,135            | 3,246                       | (888,900)          | (180,753)        | 12,482                   | (168,271)        |
| Total comprehensive loss for the period       | –                                     | –                | –              | 46               | –                           | (48,698)           | (48,652)         | (8,305)                  | (56,957)         |
| Share option scheme                           |                                       |                  |                |                  |                             |                    |                  |                          |                  |
| – equity-settled share-based payment expenses | –                                     | –                | –              | –                | 449                         | –                  | 449              | –                        | 449              |
| – forfeiture of share options granted         | –                                     | –                | –              | –                | (1,914)                     | 1,914              | –                | –                        | –                |
| At 31 December 2009                           | <u>8,023</u>                          | <u>679,423</u>   | <u>8,320</u>   | <u>9,181</u>     | <u>1,781</u>                | <u>(935,684)</u>   | <u>(228,956)</u> | <u>4,177</u>             | <u>(224,779)</u> |
| At 1 April 2010                               | 11,947                                | 1,042,779        | 8,320          | 9,218            | 1,830                       | (1,105,963)        | (31,869)         | –                        | (31,869)         |
| Total comprehensive loss for the period       | –                                     | –                | –              | 5,068            | –                           | (44,470)           | (39,402)         | –                        | (39,402)         |
| Share option scheme                           |                                       |                  |                |                  |                             |                    |                  |                          |                  |
| – equity-settled share-based payment expenses | –                                     | –                | –              | –                | 7,199                       | –                  | 7,199            | –                        | 7,199            |
| – forfeiture of share options granted         | –                                     | –                | –              | –                | (1,781)                     | 1,781              | –                | –                        | –                |
| At 31 December 2010                           | <u>11,947</u>                         | <u>1,042,779</u> | <u>8,320</u>   | <u>14,286</u>    | <u>7,248</u>                | <u>(1,148,652)</u> | <u>(64,072)</u>  | <u>–</u>                 | <u>(64,072)</u>  |

## 11. COMPARATIVE FIGURES

Certain comparative figures have been restated or reclassified as a result of the presentation of discontinued operations and conformation with the current period's presentation.

## OTHER INFORMATION

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

As at 31 December 2010, 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 | 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 |                                                                   |
| Xiao Haiping     | 1,000,000             | –                   | –                | –               | 1,000,000                 | –                           | 1,000,000           | 0.08%                                                             |

Save as disclosed above, none of the Directors or the chief executives has any interests or short positions in the shares and underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the director is taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred therein; or (c) were required to be notified to the Company and the Stock Exchange, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules as at 31 December 2010.

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

As at 31 December 2010, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, the following persons (other than the Directors or chief executives of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO and Section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

| Name of shareholder                    | Number of shares held |                     |                  |                 | Number of underlying shares |                     | Aggregate interests | Approximate percentage of the issued share capital of the Company |
|----------------------------------------|-----------------------|---------------------|------------------|-----------------|-----------------------------|---------------------|---------------------|-------------------------------------------------------------------|
|                                        | Personal interests    | Corporate interests | Family interests | Other interests | Total interests in shares   | Share Option Scheme |                     |                                                                   |
| CCC (Note 1)                           | –                     | 356,542,000         | –                | –               | 356,542,000                 | –                   | 356,542,000         | 29.84%                                                            |
| CCI                                    | 356,542,000           | –                   | –                | –               | 356,542,000                 | –                   | 356,542,000         | 29.84%                                                            |
| Jin Xian Gen (Note 2)                  | –                     | 128,205,128         | –                | –               | 128,205,128                 | –                   | 128,205,128         | 10.73%                                                            |
| Full Ocean Development Limited         | 128,205,128           | –                   | –                | –               | 128,205,128                 | –                   | 128,205,128         | 10.73%                                                            |
| Jin Lin Jun (Note 3)                   | –                     | 128,205,128         | –                | –               | 128,205,128                 | –                   | 128,205,128         | 10.73%                                                            |
| Amazing International Holdings Limited | 128,205,128           | –                   | –                | –               | 128,205,128                 | –                   | 128,205,128         | 10.73%                                                            |

### Notes:

- (1) 神州通信集團有限公司 (China Communication Group Co., Ltd.#) (formerly known as 神州通信有限公司 (China Communication Co., Ltd.#)) (“CCC”) is deemed to be substantial shareholder as defined in the GEM Listing Rules. CCI is a wholly-owned subsidiary of CCC.
- (2) Mr. Jin Xian Gen is interested in 90% of the entire issued share capital of Full Ocean Development Limited and is therefore deemed to be interested in 128,205,128 shares held by Full Ocean Development Limited by virtue of the SFO.
- (3) Mr. Jin Lin Jun is interested in 97% of the entire issued share capital of Amazing International Holdings Limited and is therefore deemed to be interested in 128,205,128 shares held by Amazing International Holdings Limited by virtue of the SFO.

Save as disclosed above, as at 31 December 2010, so far as is known to, or can be ascertained after reasonable enquiry by the Directors, no other person (other than the Directors or chief executives of the Company) had an interest or short position in the shares or underlying shares of the Company which requires to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and Section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

## SHARE OPTION SCHEMES

Share options were granted to certain directors, employees and consultants of the Company under the share option scheme (the “Share Option Scheme”) conditionally adopted on 28 October 2002. The Share Option Scheme became unconditional upon the listing of the Company’s shares on GEM on 15 November 2002. The 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. Details of the Share Option Scheme have been set out in the Company’s annual report of year 2009/2010.

Particulars of the outstanding options which have been granted under the Share Option Scheme as at 31 December 2010 were as follows:

| Name or category of participant    | Date of grant   | Exercisable period               | Exercise price per share HK\$ | As at 1 April 2010 | Options granted during the period | Options exercised during the period <sup>(2)</sup> | Options lapsed during the period <sup>(1)</sup> | Options cancelled during the period | As at 31 December 2010 |
|------------------------------------|-----------------|----------------------------------|-------------------------------|--------------------|-----------------------------------|----------------------------------------------------|-------------------------------------------------|-------------------------------------|------------------------|
| <i>Other Eligible Participants</i> |                 |                                  |                               |                    |                                   |                                                    |                                                 |                                     |                        |
| In aggregate                       | 30 July 2007    | 30 January 2008 to 29 July 2010  | 2.80                          | 800,000            | –                                 | –                                                  | (800,000)                                       | –                                   | –                      |
| In aggregate                       | 14 August 2008  | 14 August 2009 to 13 August 2010 | 0.97                          | 1,000,000          | –                                 | –                                                  | (1,000,000)                                     | –                                   | –                      |
| In aggregate                       | 15 August 2008  | 15 August 2009 to 14 August 2010 | 1.30                          | 1,500,000          | –                                 | –                                                  | (1,500,000)                                     | –                                   | –                      |
| In aggregate                       | 14 January 2009 | 14 July 2009 to 13 July 2010     | 0.82                          | 1,200,000          | –                                 | –                                                  | (1,200,000)                                     | –                                   | –                      |
| In aggregate                       | 19 March 2010   | 19 March 2011 to 18 March 2012   | 1.12                          | 1,000,000          | –                                 | –                                                  | –                                               | –                                   | 1,000,000              |
| In aggregate                       | 22 March 2010   | 22 March 2011 to 21 March 2012   | 1.15                          | 2,000,000          | –                                 | –                                                  | –                                               | –                                   | 2,000,000              |
| In aggregate                       | 24 March 2010   | 24 March 2011 to 23 March 2012   | 1.17                          | 7,000,000          | –                                 | –                                                  | –                                               | –                                   | 7,000,000              |
| In aggregate                       | 29 March 2010   | 29 March 2011 to 28 March 2012   | 1.23                          | 1,000,000          | –                                 | –                                                  | –                                               | –                                   | 1,000,000              |
| In aggregate                       | 7 April 2010    | 7 April 2011 to 6 April 2012     | 1.25                          | –                  | 31,170,000                        | –                                                  | –                                               | –                                   | 31,170,000             |
|                                    |                 |                                  |                               | <u>15,500,000</u>  | <u>31,170,000</u>                 | <u>–</u>                                           | <u>(4,500,000)</u>                              | <u>–</u>                            | <u>42,170,000</u>      |

*Notes:*

- (1) In accordance with the Share Option Scheme, the grantee of an option ceases to be an Eligible Participant due to termination of relationship with the Company or its subsidiary companies, the grantee may exercise the option up to his entitlement at the date of cessation of his relationship within the period of three months following the date of such cessation.
- (2) No share options were exercised during the 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 nine months ended 31 December 2010.

## **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 Code on Corporate Governance Practices 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 auditor. 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 interim report for the nine months ended 31 December 2010.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules during the nine months ended 31 December 2010.

## **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 nine months ended 31 December 2010.

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

*As at the date of this announcement, the Board comprises:*

Mr. He Chenguang (*Executive Director and Chairman*)  
Mr. Xiao Haiping (*Executive Director*)  
Mr. Zhang Peng (*Executive Director and Chief Executive Officer*)  
Mr. Bao Yueqing (*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, 9 February 2011

*This announcement will remain at [www.hkgem.com](http://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](http://www.ccpi.com.hk).*

<sup>#</sup> *English translation of the name for identification purpose only*