



# Mobile Telecom Network (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8266



first  
quarterly  
report

**2010**

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

## RESULTS

The board of Directors (the "Board") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred as the "Group") for the three months ended 30 June 2010, together with the unaudited comparative figures for the corresponding period in 2009 as follows:

### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2010

	Notes	For the three months ended 30 June	
		2010 HK\$'000	2009 HK\$'000
Turnover		4,495	4,398
Other income and gains, net		53	252
Telecom operators and content providers costs		(2,278)	(2,313)
Employment costs		(1,729)	(1,492)
Research and development expenses		(536)	(395)
Depreciation of property, plant and equipment		(53)	(45)
Other operating expenses		(1,430)	(700)
Operating loss		(1,478)	(295)
Share of profit of an associate		188	336
(Loss)/profit before taxation		(1,290)	41
Taxation	2	–	(3)
(Loss)/profit for the period		(1,290)	38
Attributable to:			
Equity holders of the Company		(1,183)	38
Non-controlling interests		(107)	–
		(1,290)	38
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the period	3		
– Basic (HK cent)		(0.247)	0.008
– Diluted (HK cent)		N/A	0.008

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

For the three months ended 30 June 2010

	For the three months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
(Loss)/profit for the period	<b>(1,290)</b>	38
Other comprehensive income for the period:		
Exchange difference arising on translation of financial statements of foreign operations	<b>(1)</b>	(3)
Total comprehensive (loss)/income for the period	<b>(1,291)</b>	35
Attributable to:		
Equity holders of the Company	<b>(1,184)</b>	35
Non-controlling interests	<b>(107)</b>	–
Total comprehensive (loss)/income for the period	<b>(1,291)</b>	35

## 1. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. The unaudited condensed consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”). The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets designated as at fair value through profit or loss, which are carried at fair value.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2010 except in relation to the following new and revised HKFRS that are adopted for the first time for the current period’s financial information.

HKFRS 2 (Amendment)	Group cash settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment)	Classification of Right Issues
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
HK(IFRIC) – Int 17 (Amendment)	Distributions of Non-Cash Assets to Owners
Improvements to HKFRSs 2009	

The Group has not early applied any new standard, amendment or interpretation that has been issued but is not yet effective.

## 2. Taxation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and, accordingly, is exempted from Cayman Islands income tax. Subsidiaries incorporated in the British Virgin Islands were exempted companies with limited liability under the Companies Law of the British Virgin Islands and, accordingly, are exempted from the British Virgin Islands income tax.

No provision for Hong Kong profits tax is made in the financial statements as the Group has sufficient tax losses brought forward available to offset the current estimated assessable profits (2009: Nil). Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

	For the three months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Taxation charge		
Current tax – overseas taxation	–	3

### 3. (Loss)/earnings per share

#### (a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit for the period attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	For the three months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
(Loss)/profit for the period attributable to equity holders of the Company	<b>(1,183)</b>	38
Weighted average number of ordinary shares in issue during the period	<b>478,742,976</b>	473,411,363
Basic (loss)/earnings per share	<b>(0.247) cent</b>	0.008 cent

**(b) Diluted earnings per share**

Diluted earnings per share is calculated by dividing the profit for the period attributable to equity holders of the Company by the total of the weighted average number of ordinary shares in issue during the period and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

	For the three months ended 30 June 2009 HK\$'000
Profit for the period attributable to equity holders of the Company	<u>38</u>
Weighted average number of ordinary shares in issue during the period	473,411,363
Weighted average number of ordinary shares issued at no consideration on the deemed exercise of all share options outstanding during the period	<u>4,965,388</u>
	<u>478,376,751</u>
Diluted earnings per share	<u>0.008 cent</u>

No diluted loss per share has been calculated for the period ended 30 June 2010 as the conversion of the Company's outstanding share options could result in a decrease in the loss per share.

#### 4. Movement of reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Exchange translation reserve HK\$'000	Share-based payment reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 April 2009	35,582	16,375	2,943	543	320	(65,443)	(9,680)
Recognition of share option benefits at fair value	-	-	-	-	62	-	62
Share option forfeited	-	-	-	-	(11)	11	-
Total comprehensive (loss)/ income for the period	-	-	-	(3)	-	38	35
Balance at 30 June 2009	<u>35,582</u>	<u>16,375</u>	<u>2,943</u>	<u>540</u>	<u>371</u>	<u>(65,394)</u>	<u>(9,583)</u>
Balance at 1 April 2010	35,582	16,375	2,943	572	556	(66,120)	(10,092)
Shares issued upon exercise of share options	123	-	-	-	-	-	123
Recognition of share option benefits at fair value	-	-	-	-	37	-	37
Transfer to share premium on exercise of share options	122	-	-	-	(122)	-	-
Total comprehensive (loss) for the period	-	-	-	(1)	-	(1,183)	(1,184)
Balance at 30 June 2010	<u>35,827</u>	<u>16,375</u>	<u>2,943</u>	<u>571</u>	<u>471</u>	<u>(67,303)</u>	<u>(11,116)</u>

## DIVIDEND

The board does not recommend the payment of an interim dividend for the three months ended 30 June 2010 (2009: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

For the period ended 30 June 2010, the Group recorded an unaudited turnover of approximately HK\$4,495,000, representing an increase of approximately 2.2% as compared with approximately HK\$4,398,000 for the corresponding period in 2009. However, the Group recorded a loss of approximately HK\$1,290,000 as compared to a profit of approximately HK\$38,000 for the last year. The loss was mainly due to the incurrence of non-recurring professional fees for the general offer pursuant to the Hong Kong Code on Takeover and Mergers. The Group has managed to retain its gross profit margin at 49.3% which is slightly higher than 47.4% recorded in the corresponding period of last year.

### Business review

Due to the ongoing changes in mobile technologies and platforms, especially the market permeation of the iPhone and other smart phones, the Group has been refining current mobile value added services (“MVAS”) for such transitions in consumer behaviors. For the competitions stemming from Apple’s application stores and consumers moving away from operators’ portals, the Group has suffered a decrease of MVAS revenue from the mobile operators’ on-portal business. As a result, the Group is exploring new business models to complement the established “on-portal” operator business with new market and the emerging “off-portal” business marketed directly to the consumers.

The Group has developed a strong position in the Sport & Entertainment Services for mobile users across the region through key partnerships with the leading global news agencies. After the successful football season ended in 2009 and the East Asian Games with 3 major Hong Kong mobile operators in November 2009, our Sports MVAS revenues in 2009 were boosted in part by the coverage of major international sporting events – World Cup football services in June 2010. The Group is also developing multiple services for the World Cup event and deployed in 9 major mobile operators including 3 Hong Kong, PCCW Mobile Hong Kong, China Mobile Hong Kong, CTM Macau, 3 Macau, SingTel Singapore, Vietnamobile Vietnam, Dialog Sri Lanka, Taiwan mobile Taiwan. The Group has been selected by PCCW Mobile to develop its mobile application for World Cup event to PCCW mobile users.

All our sports services delivery into Indonesia, Taiwan, Singapore, Sri Lanka, and etc. that fully utilize our unique GloDan (Global Data Network) network connections. We have coordinated the rights from branded content owners to distribute relevant content via the regional mobile operators' networks.

The mobile entertainment experience has been becoming richer and user-friendlier thus delivering more real value for the subscribers. Leveraging on our partnerships with various content and technology providers, the Group continued to offer a wide range of quality contents targeted at the mobile users, and creating an innovative and targeted platform with a new business model for potential advertisers. The Group has extended the Sports & Entertainment services into different mobile application platforms and launching the applications individually into the application store of the relevant mobile platform. The Group has appointed several media agencies to explore with potential advertisers to form new business partnerships.

We are participating in the launching of the mobile TV services with 3HK in Hong Kong and also offering various mobile TV services across the region. Other than operating all the movie channels with all 6 mobile operators in Hong Kong, the Group has partnered with Nokia Hong Kong, Samsung Hong Kong, Microsoft Hong Kong to extend our Movie VAS services into mobile application with individual handset platform. The movie mobile application is now available into mobile Nokia Widget, Microsoft Windows Mobile 6.5, Samsung Bada, Apple iPhone platform and the application is able to connect the major cinema lines with their mobile ticketing service.

In the mobile application business, the Group has appointed with the consumer brands, device manufacturers, and mobile operators to design and create its mobile applications on popular mobile platforms including iPhone, Android, Nokia, Microsoft, Blackberry, and Samsung Bada. Leveraging the Group's 10 years of mobile application development experience in order to deliver both a great experience for users and profit for partners. One of our recognition of mobile application with consumer client – Citibank Hong Kong has been launched in June 2010 and successfully deployed and available in 5 major handset platform including Apple App Store, Nokia Ovi Store, Microsoft Marketplace, Android Market, and Samsung App store. This project of mobile application offers the mobile users to discover the nearby hottest offers instantly and receive the latest promotional and reward information with all new mobile platforms at anytime and anywhere. In the 1st quarter of mobile application business, the Group also deployed more than 10 different mobile applications and the clients including GZ Daily, Altira Macau, Metro Radio, Yahoo Hong Kong, GME Group, Hutchison 3HK, PCCW Mobile, etc.

In the other market, the Group has also been able to offer a full range of multi-media services and business know-how to the operators throughout Southeast Asia. Under our strong content portfolios and our large library of offerings in 3G services provisioning in Hong Kong and Macau, the Group has successfully extended and is continually expanding our services to the emerging markets including Malaysia, Pakistan, Singapore, Sri Lanka, Vietnam and Indonesia.

In the Hong Kong market, the Group has partnership with Blackberry RIM and National Geographic Channel to develop the Nat Geo App for Blackberry in Hong Kong and Australia market. The Nat Geo App offers rich media content and programmes from the channels archive. Apart from documentaries, photos, and videos, users can also download wallpapers and ringtones to suit their own BlackBerry phones. The service is offered through mobile operator PCCW mobile in Hong Kong and Blackberry App World in Australia. The Group believes there will be more similar partnerships of the mobile application business in the coming future.

The Group believes the interactive gaming service is the evolution of deploying mobile content services that focuses on the interactive aspect and creates unique applications that simulate users' interests and enjoyment. Those interactive gaming services are mainly associated with key campaigns together with advertisers for sponsorship including movie distributors, sports brands, etc. The Group has partnership with an advertising media company – Buspak to co-development the new media campaign into the Webus platform with 100 WiFi Buses in Hong Kong and the recent mobile campaigns including VISA, Kit Kat, CNY etc.

For mobile game business, the Group has entered into major partnerships with Big Point, a world-class selection of the browser games titles. The games can be played without downloading or installation of extra software, and are enjoyed by over 60 million players worldwide. The Group distributes Big Point titles leveraging our network of mobile operators and the 1st launch is available on SingTel, Singapore market in early 2010.

Apart of online games business, the Group has allocated more resources into the marketing promotion of launching several key campaigns with the mobile operators and game providers into our existing mobile games business. We further assist our games & content partners to enter other Asian markets through the GloDan system to streamline the workflow of game launch. The Group has launched a JAVA Games Portal with Mobilink and Dialog, the largest mobile subscribers in Pakistan and Sri Lanka market to deliver the latest JAVA games and a range of MVAS. In Hong Kong, China Mobile Hong Kong has appointed the Group as a Master Game Provider to manage the entire JAVA Games business and the service has commenced in April 2009 and the Group is now working as a Master Game Provider in JAVA Games business with 7 major mobile operators in Hong Kong and Macau. Apart from single player JAVA Games, the Group has launched a series of multi-player JAVA games titles with CSL, the largest mobile operator in Hong Kong since July 2008. The Group will continue to provide exceptional service quality & efficiency in the MVAS business. This is likely to lead more operators to collaborate with us in their MVAS operations.

The mobile entertainment segment is increasingly internet bounded. The Group's Mobilesurf service platform for full entertainment service provisioning is relevant to this trend. Instead of a typical operator wall garden approach to content delivery, the launching of the iPhone brings internet content such as YouTube & Google map mobile sites in a fashion that is similar to our Mobilesurf service platform. We plan to further expand our Mobilesurf platform to deliver content via the internet and to look for iPhone, Widget type of client application opportunities in China. The Group also partnered with Hutchison 3HK to launch four key value added services on 3G iPhone that tie into the handset launching since 11 July 2008 and the Group started to develop more widget applications with different handset manufacturers.

In addition, the Group has licensed our content management and delivery system to Hong Kong Jockey Club, facilities to manage workflow needed to collaboratively publish various kinds of digital media and content feed and dispatch into various types of media channel or to external parties.

The Group continues to develop new services in China including portals and e-business platforms development supporting services to China Mobile and e-business platform development with China Mobile–Inner Mongolia on B2C business. The Group also provided services to China Mobile at both provincial and municipal levels include China Mobile–Beijing, China Mobile–Guangdong, China Mobile–Jiangsu, China Mobile–Inner Mongolia, China Mobile–Dongguan, China Mobile–Foshan and China Mobile–Guangzhou. On 31 July 2009, The Hong Kong Wireless Development Center signed a MOU with Jiangmen 3G Application Industrial Base and MTEL will be appointed as the 1st MVAS provider to cooperate with five other parties inclusive of: Information Office of Jiangmen Municipal, Pengjian District People’s Government of Jiangmen City, China Mobile, China Telecom and China Unicom to further foster partnership and new business opportunities. The Group has been selected by China Telecom GD China to offer a full comprehensive World Cup VAS services in Guangdong province in China and the services include all 64 live match video streaming and match video highlights content. For the mobile application business in China, the Group is partnership with GZ Daily, one of the most popular local newspapers in GD province and offers a full extension to iPhone users. This iPhone application brings the latest & top breaking news on politics, current affairs, finance, entertainment, and sports information in Mainland China.

The Group has received the Award of the 2009 Most Innovative Chinese Enterprise from the committee organized by the China Productivity Society, the China Marketing Society and the Chinese Enterprise Newspaper. The award ceremony took place at the Great Hall of China during the China 2009 (9th session) of Enterprise Innovation Forum held at Beijing in June 2009.

## **Prospect**

Since Hong Kong is slowly recovering from the worldwide financial crisis, the Group has been increasing its investment in human resources on strengthening key business in existing key markets and exploring new business with mobile applications. The mobile entertainment market is getting increasingly competitive with major corporations creating new companies or divisions to enter this market in a major way. The Group will also explore new opportunities to diversify its main dependence on mobile service provisioning both in premium services and advertising model associated with existing channels with mobile operators business and mobile application with handsets’ application stores business. The outsourcing business seems to be a growing trend in periods of economical crises and the Group will focus to expand more in this direction as more demands from various handset manufacturers.

We expand content aggregation business to include IP rights management for our partners. For some of the new markets such as Philippines, Vietnam, Sri Lanka, and Indonesia, the Group will plan to act as a master content aggregator on behalf of the local operators and define the solid business cases for them in order to maximize the revenue and minimize the resources allocation. In addition, the Group will also share its experience and strategy of our successful services with operators in new markets in order to achieve the mutual benefit between both parties. The Group has recently signed up with more content partners including established brands such as Star TV, to distribute its programs in the region, and the world's leading gaming companies. In addition, the Group shall extend more business relationships with WiFi service providers and handset manufacturers as more new handsets shall support the WiFi connection. In term of the content strategy, the Group is exploring the cross platform value added services with mobile operators and the Group shall extend some of the core value added services into the Web platform business as well as the mobile operators have extended their business strategies into the mobile broadband. In addition, the Group is extending several key value added services into the client applications and launching with handset manufacturers for pre-install application or handset vendors' application stores.

For the more advanced 3G markets such as Hong Kong, Malaysia, Singapore and Taiwan, the Group believes diversification of multi-media with interactive services to attract customers from different content types will be the focus of the near future. The Group continues to operate its 3G services in Malaysia and Singapore and plans to expand our offerings to more operators there. The Group will develop applications and create more interactive services with the 3G operators to bring 3G technologies to the business and the consumer markets. Once the market acceptance has adopted and increased more traffic in hit rates of individual service, the mobile advertising will be the next curve into the business and the Group shall also play a key role in this business with launching more than 100+ mobile value added services with the mobile operators in the Asian markets. In addition, the Group has formed and extended our focus into the mobile enterprise market which tackles into the vertical market with SME businesses. The Group believes it will be driven another new revenue stream both on recurrent and project based business.

In addition, the Group is working closely with mobile operators to strengthen our sports channel as well as the new football services riding on the World Cup. The Group believes the Sports channel shall be one of our key value added services in mobile market and the Group is partnering with various media agencies to explore the mobile advertising into our Sports channel. More other content services include Entertainment, Lifestyle & Leisure, Dining, Movie, Cartoon, Games, Fortune Telling, etc. will be available as well. The Group is ideally positioned to benefit from this development, as the Group is currently one of the largest 3G content providers with longest track record to provide 3G related services to operators in Hong Kong and it is also expected to be introduced soon in Singapore, Taiwan, and Malaysia especially with Asian contents for Chinese communities in the region. In the advanced services, the Group shall deploy more interactive gaming services and video broadcasting services such as mobile TV in order to enhance the user behaviors on the mobile phone. The Group has recently signed up with more content partners including established brands and leading gaming companies. Our extensive experience in offering different types of mobile services totaling several hundred further positions the Group to capture more business opportunities as they quickly emerges in the PRC market.

For the Game business, the Group is focusing on our key partners and providing them with greater levels of innovation, support and attention; this has enabled us to significantly reduce overheads and generate more margin of business for the year.

For the existing markets, China, Hong Kong, Singapore and Taiwan continue to be the Group's major revenue markets. The Group shall continue to expand its outsourcing projects with operators in order to maintain steady revenue on a recurrent basis. Although the manpower cost is relatively high in Hong Kong, the Group benefits from further outsourcing of lower requirement projects to its associated company in the PRC. In addition, the Group believes its business model can be extended into other new markets such as Vietnam, Pakistan, Indonesia or any other new potential markets for business cooperation. The scale in terms of both quantity of content and operators remains the Group's strongest differentiation point.

Youth targeted lifestyle applications & services such as dating services, mobile blogging, and mobile comics are also gaining popularity in Hong Kong. Operators are expecting a high demand for Internet-based, interactive, multi-media mobile communication services such as chat, video, and interactive games in the near term. Although Hong Kong is still a small market, the Group is expected to achieve a high growth in the medium term. Two main drivers for the growth would be popularity of the mobile gaming and mobile blogging. In terms of internet strategy, the Group believes the trend to deliver the same communication services to end-user over both internet and mobile networks will determine the future access. The Group shall extend our force to explore with strategic partnerships to extend its services into internet platform as extension.

The uptake of 3G services into 3.5G technologies will also bring a shift in the dynamics of the market in Asia. As the market is likely to move to a more advanced internet and multimedia-based content, we plan to ride on our existing advantages and experience to provide a variety of rich-media content with operators and new potential platform on 3G iPhone across the Asian markets. The overall revenue in other markets is expected to achieve a higher growth in the upcoming quarters.

The Group believes the advertising and MVAS businesses are robust in recent years because of a strong local economy, growth in mobile users and a shift of advertising budgets from traditional media to online media. In order to grow our mobile user base and attract new advertisers, the Group expects to continue to invest in new and innovative services and services enhancement, expand the content and services on our network and distribution channels. The Group also expects to continue to invest in marketing initiatives both on-portal and off-portal business to increase the awareness of our brand to both users and advertisers.

The Group is focusing its business to serve various brands to mobilize their contents and brands from more traditional media platforms. The Group is cooperating with handset manufacturers for efficient service provisioning. The efforts include pre-load and prominently feature and the Group's services with optimized handsets, giving consumers quick and easy access to their internet contents and services. The devices will be available to consumers in Hong Kong and, afterwards will be extending into a number of markets across Asia.

At present, the Group covers most of the telecom operators and portals in the Asia Pacific region. We continue to work steadily with partners in other regions such as Korea, Indonesia, Philippines, Sri Lanka, Pakistan, Thailand and Vietnam. We plan to develop our 2G & 3G services in terms of advances in technology, customer services, user experience and quality of services as our strongest differentiation from other competitors in the region.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2010, the interests and short positions of the Directors and chief executives of the Company in the shares, debentures or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

### Long positions in shares – interests in the shares

<b>Name of Directors</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Approximate percentage of issued share capital</b>
Mr. Chan Wai Kwong, Peter	Beneficial owner	<u>4,064,036</u>	<u>0.85%</u>

## Long positions in underlying shares of equity derivatives – interest in option of the Company

Name of Directors	Capacity	Date of grant	Number of underlying shares	Approximate	Option period	Consideration for the grant of the option HK\$	Exercise price per share HK\$
				percentage of issued share capital			
Dr. Chan Chung ( <i>Note</i> )	Beneficial owner	27 March 2003	300,000	0.063%	9 May 2003 – 8 May 2013	1.00	0.103
		18 September 2006	4,728,113	0.988%	18 September 2006 – 17 September 2016	1.00	0.078
		12 February 2008	4,728,113	0.988%	12 February 2008 – 11 February 2018	1.00	0.191
		13 February 2009	4,734,113	0.989%	13 February 2009 – 12 February 2019	1.00	0.101
		17 February 2010	4,734,113	0.989%	17 February 2010 – 16 February 2020	1.00	0.134
Mr. Chan Wai Kwong, Peter ( <i>Note</i> )	Beneficial owner	27 March 2003	100,000	0.021%	9 May 2003 – 8 May 2013	1.00	0.103
			<u>19,324,452</u>	<u>4.038%</u>			

*Note:* Share options to Dr. Chan Chung and Mr. Chan Wai Kwong, Peter, were granted under the Pre-IPO Share Option Scheme and Share Option Scheme which were approved by the shareholders of the Company on 27 March 2003. All of the above share options are physically settled equity derivatives.

Save as disclosed above, as at the date of this report none of the Directors and chief executives of the Company has or was deemed to have any interests or short positions in any shares, debentures or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to 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 which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, DEBENTURES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders is required to be kept under section 336 of Part XV of the SFO shows that as at 30 June 2010, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the issued share capital of the Company.

### Long positions in shares – interest in the shares

Name of shareholders	Capacity	Number of shares held	Approximate percentage of the issued share capital
China Oil Resources Group Limited	Beneficial owner	177,785,861	37.14%
PetroAsian Energy Holdings Limited ("PetroAsian Energy")	(Note 1)	177,785,861	37.14%
Vodatel Networks Holdings Limited ("Vodatel")	(Note 2)	81,325,696	16.99%
			54.13%

#### Notes:

- PetroAsian Energy is deemed, by virtue of the SFO, to be interested in the 177,785,861 shares held by China Oil Resources Group Limited as China Oil Resources Group Limited is a direct wholly-owned subsidiary of PetroAsian Energy. PetroAsian Energy is a company incorporated in the Cayman Islands whose shares are listed on the Main Board (Stock code: 850). Those persons or corporations who are entitled to exercise or control the exercise of one-third or more of the voting power in general meetings of PetroAsian Energy or in accordance with whose directions or instructions PetroAsian Energy or its directors are accustomed to act or who are otherwise taken to be interested in any shares in which PetroAsian Energy is interested under the SFO will be deemed to be interested in the 177,785,861 shares which PetroAsian Energy is deemed to be interested in. The names and particulars of the shareholdings of such persons or corporations (if any) in PetroAsian Energy can be found in the information published by PetroAsian Energy from time to time and from the website of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk). According to the latest interim report of PetroAsian Energy, as at 30 September 2009, no person was interested or deemed to be interested in more than one-third of the then issued share capital of PetroAsian Energy.

2. Vodatel is a company incorporated in Bermuda whose shares are listed on GEM (Stock code: 8033). Those persons or corporations who are entitled to exercise or control the exercise of one-third or more of the voting power in general meetings of Vodatel or in accordance with whose directions or instructions Vodatel or its directors are accustomed to act or who are otherwise taken to be interested in any shares in which Vodatel is interested under the SFO will be deemed to be interested in the 81,325,696 shares which Vodatel is deemed to be interested in. The names and particulars of the shareholdings of such persons or corporations (if any) in Vodatel can be found in the information published by Vodatel from time to time and from the GEM website at [www.hkgem.com](http://www.hkgem.com). According to the latest annual report of Vodatel, as at 31 December 2009, Mr. Jose Manuel dos Santos, Miss Lei Hon Kin, Lois Resources Limited and Eve Resources Limited were interested or deemed to be interested in more than one-third of the then issued share capital of Vodatel.

Save as disclosed above, the Directors and the chief executive of the Company were not aware of any person (other than the Directors or chief executive of the Company the interests of which were disclosed above) who has an interest or short position in the securities of the Company that were required to be entered in the register of the Company pursuant to section 336 of the SFO as at 30 June 2010.

## SHARE OPTIONS RULES

The Company adopted a share option scheme (the "Share Option Scheme") and the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") on 27 March 2003. Details of the share options are set out below.

Pursuant to the Share Option Scheme and the Pre-IPO Share Option Scheme, certain Directors and participants have been granted options to subscribe for shares. Details of the share options granted under the Share Option Scheme and the Pre-IPO Share Option Scheme outstanding as at 30 June 2010 are set out below:

## Pre-IPO Share Option Scheme

Name	Date of grant	Number of Share Options				Outstanding as at 30 June 2010	Approximate percentage of issued share capital	Option period	Consideration for the grant of the option HK\$	Exercise price per share HK\$
		Outstanding as at 1 April 2010	Granted during the period under review	Exercised during the period under review	Lapsed during the period under review					
<b>Executive Directors</b>										
Dr. Chan Chung	27 March 2003	300,000	-	-	-	300,000	0.063%	9 May 2003 – 8 May 2013	1.00	0.103
Mr. Chan Wai Kwong, Peter	27 March 2003	100,000	-	-	-	100,000	0.021%	9 May 2003 – 8 May 2013	1.00	0.103
<b>Other Participants</b>										
Employees in aggregate ( <i>Note</i> )	27 March 2003	492,500	-	(492,500)	-	-	-	9 May 2003 – 8 May 2013	1.00	0.103
	9 February 2007	115,000	-	(105,000)	-	10,000	0.002%	9 February 2007 – 8 February 2017	1.00	0.090
	12 February 2008	20,000	-	-	-	20,000	0.004%	12 February 2008 – 11 February 2018	1.00	0.191
<b>Business Consultant</b>										
Young Antony, Michael	27 March 2003	300,000	-	-	-	300,000	0.063%	9 May 2003 – 8 May 2013	1.00	0.114
		<u>1,327,500</u>	<u>-</u>	<u>(597,500)</u>	<u>-</u>	<u>730,000</u>	<u>0.153%</u>			

*Note:* Employees working under employment contracts that were regarded as “continuous contracts” for the purpose of the Employment Ordinance (Chapter 57 of the laws of Hong Kong).

Save as disclosed above, no options pursuant to the Pre-IPO Share Option Scheme have been cancelled during the period under review.

## Share Option Scheme

Name	Date of grant	Number of Share Options				Outstanding as at 30 June 2010	Approximate percentage of issued share capital	Option period	Consideration for the grant of the option <i>HK\$</i>	Exercise price per share <i>HK\$</i>
		Outstanding as at 1 April 2010	Granted during the period under review	Exercised during the period under review	Lapsed during the period under review					
<b>Executive Directors</b>										
Dr. Chan Chung	18 September 2006	4,728,113	-	-	-	4,728,113	0.988%	18 September 2006 – 17 September 2016	1.00	0.078
	12 February 2008	4,728,113	-	-	-	4,728,113	0.988%	12 February 2008 – 11 February 2018	1.00	0.191
	13 February 2009	4,734,113	-	-	-	4,734,113	0.989%	13 February 2009 – 12 February 2019	1.00	0.101
	17 February 2010	4,734,113	-	-	-	4,734,113	0.989%	17 February 2010 – 16 February 2020	1.00	0.134
<b>Other Participants</b>										
Employees in aggregate <i>(Note)</i>	13 February 2009	5,234,113	-	(4,734,113)	-	500,000	0.104%	13 February 2009 – 12 February 2019	1.00	0.101
	17 February 2010	300,000	-	-	-	300,000	0.063%	17 February 2010 – 16 February 2020	1.00	0.134
		<u>24,458,565</u>	<u>-</u>	<u>(4,734,113)</u>	<u>-</u>	<u>19,724,452</u>	<u>4.121%</u>			

*Note:* Employees working under employment contracts that were regarded as “continuous contracts” for the purpose of the Employment Ordinance (Chapter 57 of the laws of Hong Kong).

Save as disclosed above, no options pursuant to the Share Option Scheme have been cancelled during the period under review.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed shares since the date of listing.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

During the period under review, none of the Directors or the management shareholders or substantial shareholders or their respective associates (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with or might compete with the business of the Group.

## CORPORATE GOVERNANCE CODE COMPLIANCE

During the period under review, the Company has complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules except for the deviations from code provision A2.1 and A4.2 as detailed in the Corporate Governance Report included in the 2010 Annual Report that the roles of chairman and chief executive officer are performed by the same individual, and that the Chairman (who is also the founder of the Company) is not subject to retirement by rotation.

## DIRECTORS' SECURITIES TRANSACTIONS

During the period under review, the Company has complied with the GEM Listing Rules 5.48 to 5.67 regarding Directors' securities transactions and all Directors have complied with the required standard of dealings set out therein.

## AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with the GEM Listing Rules. The audit committee has three members comprising all independent non-executive directors namely Mr. Jeffery Matthew Bistrong (retired on 30 July 2010 and replaced by Mr. Chiu Wai Piu on the same date), Mr. Chu Chin Tai, Eric and Mr. Chen Kwok Wang, Kester. The primary duties of the audit committee are to oversee that management (i) has maintained the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the Company; (ii) has established and maintained processes to assure that an adequate system of internal control is functioning within the Company; and (iii) has established and maintained processes to assure compliance by the Company with all applicable laws, regulations and corporate policy. The audit committee has reviewed with the management this unaudited quarterly report for the three months ended 30 June 2010 and has provided advice and comments thereon.

By order of the Board  
**Chan Chung**  
Chairman

Hong Kong, 10 August 2010

*As at the date of this report, the Board comprises four Executive Directors, namely, Dr. Chan Chung (Chairman), Mr. Chan Wai Kwong, Peter, Mr. Siu King Nin, Peter and Mr. Choi Ho Yan; and three Independent Non-executive Directors, namely, Mr. Chu Chin Tai, Eric, Mr. Chen Kwok Wang, Kester and Mr. Chiu Wai Piu.*