



**Mobile Telecom Network (Holdings) Limited**  
(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 8266

*First Quarterly Report*

**2011**



## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors (the “Directors”) of 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.*

## 2 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 2011, together with the unaudited comparative figures for the corresponding period in 2010 as follows:

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT**

For the three months ended 30 June 2011

	<i>Notes</i>	<b>For the three months ended 30 June</b>	
		<b>2011 HK\$'000</b>	2010 HK\$'000
<b>Turnover</b>		<b>7,320</b>	4,495
Other income and gains, net		<b>3</b>	53
Telecom operators and content providers costs		<b>(2,645)</b>	(2,278)
Employment costs		<b>(4,484)</b>	(1,729)
Research and development expenses		<b>(1,243)</b>	(536)
Depreciation of property, plant and equipment		<b>(105)</b>	(53)
Other operating expenses		<b>(4,356)</b>	(1,430)
<b>Operating loss</b>		<b>(5,510)</b>	(1,478)
Finance costs	2	<b>(157)</b>	–
Share of (loss)/profit of associates		<b>(21)</b>	188
<b>Loss before taxation</b>		<b>(5,688)</b>	(1,290)
Taxation	3	<b>(19)</b>	–
<b>Loss for the period</b>		<b>(5,707)</b>	(1,290)
Attributable to:			
Equity holders of the Company		<b>(5,719)</b>	(1,183)
Non-controlling interests		<b>12</b>	(107)
		<b>(5,707)</b>	(1,290)
<b>Loss per share for loss attributable to the equity holders of the Company during the period</b>	4		
– Basic (HK cent)		<b>(0.866)</b>	(0.247)
– Diluted (HK cent)		<b>N/A</b>	N/A

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the three months ended 30 June 2011*

	For the three months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
<b>Loss for the period</b>	<b>(5,707)</b>	(1,290)
<b>Other comprehensive income for the period:</b>		
Exchange difference arising on translation of financial statements of foreign operations	<u>76</u>	<u>(1)</u>
<b>Total comprehensive expenses for the period</b>	<b><u>(5,631)</u></b>	<b><u>(1,291)</u></b>
Attributable to:		
Equity holders of the Company	<b>(5,665)</b>	(1,184)
Non-controlling interests	<u>34</u>	<u>(107)</u>
	<b><u>(5,631)</u></b>	<b><u>(1,291)</u></b>

4 **CONDENSED CONSOLIDATED BALANCE SHEET***As at 30 June 2011*

	<b>Unaudited 30 June 2011 HK\$'000</b>	Audited 31 March 2011 HK\$'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	800	755
Goodwill	32,292	–
Interests in associates	34,066	9,359
Investment deposit	–	9,500
	<u>67,158</u>	<u>19,614</u>
Total non-current assets		19,614
<b>Current assets</b>		
Properties under development	31,415	–
Trade and other receivables	3,018	4,438
Cash and deposits with banks	60,218	24,883
	<u>94,651</u>	<u>29,321</u>
Total current assets		29,321
<b>Total assets</b>	<b><u>161,809</u></b>	<b><u>48,935</u></b>
<b>EQUITY</b>		
<b>Capital and reserves attributable to the equity holders of the Company</b>		
Share capital	91,867	45,959
Reserves	14,060	(3,643)
	<u>105,927</u>	<u>42,316</u>
<b>Non-controlling interests</b>	<b><u>6,376</u></b>	<b><u>38</u></b>
<b>Total equity</b>	<b><u>112,303</u></b>	<b><u>42,354</u></b>

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 March
	<b>2011</b>	2011
	<b>HK\$'000</b>	HK\$'000
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Convertible bonds	<b>27,090</b>	–
Deferred tax liabilities	<b>6,529</b>	–
Total non-current liabilities	<b>33,619</b>	–
<b>Current liabilities</b>		
Trade and other payables	<b>15,851</b>	6,568
Current tax payable	<b>36</b>	13
Total current liabilities	<b>15,887</b>	6,581
<b>Total liabilities</b>	<b>49,506</b>	6,581
<b>Total equity and liabilities</b>	<b>161,809</b>	48,935
<b>Net current assets</b>	<b>78,764</b>	22,740
<b>Total assets less current liabilities</b>	<b>145,922</b>	42,354

## 6 UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 June 2011

	Attributable to equity holders of the Company										Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Exchange translation reserve HK\$'000	Share-based payment reserve HK\$'000	Convertible bonds equity reserve HK\$'000	Warrant reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		
Balance at 1 April 2010	36,977	35,582	16,375	2,943	572	556	-	-	(66,120)	26,685	(107)	26,778
Shares issued upon exercise of share options	416	123	-	-	-	-	-	-	-	539	-	539
Recognition of share option benefits at fair value	-	-	-	-	-	37	-	-	-	37	-	37
Transfer to share premium on exercise of share options	-	122	-	-	-	(122)	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	(1)	-	-	-	(1,183)	(1,184)	-	(1,184)
Balance at 30 June 2010	37,393	35,827	16,375	2,943	571	471	-	-	(67,303)	26,277	(107)	26,170
Balance at 1 April 2011	45,959	47,759	16,375	2,943	581	11	-	-	(71,312)	42,316	38	42,354
Issue of warrants on acquisition of interests in subsidiary	-	-	-	-	-	-	-	7,400	-	7,400	-	7,400
Issue of convertible bonds on acquisition of interests in subsidiary	-	-	-	-	-	-	4,029	-	-	4,029	-	4,029
Issue of shares from open offer	45,908	12,949	-	-	-	-	-	-	-	58,857	-	58,857
Transaction costs attributable to issue of new shares	-	(2,278)	-	-	-	-	-	-	-	(2,278)	-	(2,278)
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	6,304	6,304
Recognition of share option benefits at fair value	-	-	-	-	-	1,268	-	-	-	1,268	-	1,268
Total comprehensive (loss)/income for the period	-	-	-	-	54	-	-	-	(5,719)	(5,665)	34	(5,631)
Balance at 30 June 2011	91,867	58,430	16,375	2,943	635	1,279	4,029	7,400	(77,031)	105,927	6,376	112,303

Notes:

## 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 ("HKICPA") 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, except that the convertible bonds are stated at amortised cost.

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 2011 except in relation to the following new and revised HKFRS that are adopted for the first time for the current period's financial information.

Revised HKAS 24

Related Party Disclosures

Improvements to HKFRSs 2010

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

## 2. Finance costs

	<b>For the three months ended 30 June</b>	
	<b>2011 HK\$'000</b>	2010 HK\$'000
Imputed interest on convertible bonds	<b>157</b>	–

## 3. 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.



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Hong Kong profits tax has been provided at the rate of 16.5% (2010: Nil) on the estimated assessable profits arising in Hong Kong during the period. 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.

	<b>For the three months ended 30 June</b>	
	<b>2011 HK\$'000</b>	2010 HK\$'000
Current tax		
– Hong Kong profits tax	<b>19</b>	–

#### 4. Loss per share

##### (a) *Basic loss per share*

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

	<b>For the three months ended 30 June</b>	
	<b>2011 HK\$'000</b>	2010 HK\$'000
Loss for the period attributable to equity holders of the Company	<b>(5,719)</b>	(1,183)
Weighted average number of ordinary share in issue during the period	<b>659,712,941</b>	478,742,976
Basic loss per share	<b>(0.866) cent</b>	(0.247) cent

##### (b) *Diluted earnings per share*

No diluted loss per share has been calculated for the period ended 30 June 2011 and 2010 as the conversion of the Company's outstanding share options could result in a decrease in the loss per share.

## 5. Dividend

The board does not recommend the payment of an interim dividend for the three months ended 30 June 2011 (2010: Nil).

## 6. Convertible bonds

	<b>HK\$'000</b>
Value of the convertible bonds issued	<b>30,962</b>
Equity component	<b><u>(4,029)</u></b>
Liability component on initial recognition	<b>26,933</b>
Interest expenses	<b><u>157</u></b>
Liability component at 30 June 2011	<b><u><u>27,090</u></u></b>

Convertible bonds with aggregate principal amount of HK\$33,000,000 at zero coupon interest were issued on 3 June 2011 to Mr. Poon Sum and Mr. Poon Sau Tin (the "Bondholders"), each being a connected person, for a term of 3 years. The Bondholders may convert the whole or part (in multiples of HK\$1,000,000) of the principal amount of the convertible bonds into conversion shares at initial conversion price of HK\$0.242, which is subject to adjustments, from the date of issue of the convertible bonds up to the maturity date. As at 20 June 2011, the conversion price was adjusted to HK\$0.163 as a result of completion of open offer. Details of the adjustment are set out in the Company's announcements dated 17 June 2011 and 5 August 2011.

The Company may at any time before the maturity date redeem the convertible bonds (in whole or in part) at 100% of the principal amount of convertible bonds.

The Bondholders may at any time after the first anniversary of the date of issue of the convertible bonds to the second anniversary of the date of issue of the convertible bonds require the Company to redeem the convertible bonds in the aggregate principal amount of not more than HK\$16,500,000 (in whole or in part) at 100% of the principal amount of convertible bonds.

The Bondholders may at any time after the second anniversary of the date of issue of the convertible bonds to the third anniversary of the date of issue of the convertible bonds require the Company to redeem the convertible bonds (in whole or in part) at 100% of the principal amount of convertible bonds.

Further details of the principal terms and conditions regarding the issue of convertible bonds during the period under review have been set out in the circular of the Company dated 29 April 2011.

## 10 MANAGEMENT DISCUSSION AND ANALYSIS

### **Financial review**

For the period ended 30 June 2011, the Group recorded an unaudited turnover of approximately HK\$7,320,000, representing an increase of approximately 62.8% as compared with approximately HK\$4,495,000 for the corresponding period in 2010. The increase in revenue was mainly attributable to our diversification into the apps development business. However, due to the incurrence of non-recurring professional fees for the acquisition of a subsidiary, the charging of fair value of the share-based payments to the directors and employees of the Group arising from newly granted share options under the share option scheme of the Company and the higher employment and running costs, the Group recorded a greater loss of approximately HK\$5,707,000 as compared with that of approximately HK\$1,290,000 for the last year.

### **Business review**

#### ***Products and Services***

Due to the market permeation by the iPhone and other smartphones, the Group has been refining current mobile value added services ("MVAS") to emphasise on application developments and mobile advertising. The Group is also exploring new business opportunities to complement the mobile business.

To diversify our business focus, the Group has expanded into other areas of opportunities. The Group has begun Facebook games and application developments. The Group has completed its acquisition of two property development projects in Mainland China. The property development projects are located in Yangjiang, Guangdong Province, the People's Republic of China (the "PRC").

The Group has signed a MOU with a Chinese company focusing on mobile news publishing services and a MOU with a liquid crystal display modules manufacturer in the PRC. We believe the Group will be benefited from the enhancement and diversification of business focuses from these new companies.

We are operating on 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 applications with their respective handset platform. The movie mobile application is very popular among smart phone users and connects the major cinema lines with their mobile ticketing services. The Group has begun generating some mobile advertising revenue from such popular applications recently.

In the mobile application business, the Group has been appointed by consumer brands, device manufacturers, and mobile operators to design and create 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, we are vowed to deliver both a great experience for users and profit for partners. One of our highlights in mobile application is with one of our consumer clients – Citibank Hong Kong, whom has successfully deployed on 5 major handset platforms including Apple App Store, Nokia Ovi Store, Microsoft Marketplace, Android Market, and Samsung App store. This mobile application not only allows the users to discover the hottest offers instantly based on where the application user is, but also receives the latest promotional and reward information. In the 1st quarter of our mobile application business, the Group has already deployed more than 10 different mobile applications for our clients, such as GZ Daily, Altira Macau, Metro Radio, Yahoo Hong Kong, GME Group, Hutchison 3HK, PCCW Mobile, etc.

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 and Google Map mobile sites in a fashion that is similar to our Mobilesurf service platform.

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

Apart from diversifying our value-added services, the Group is now deploying more resources into mobile application development. In order to strengthen the Group's ability to handle new business opportunities, the Group has employed more professional staffs to provide intensive and creative developments to our clients during the year.

## 12 ***Sales and Marketing Activities***

The mobile industry is in a transition from simple short message and entertainment to sophisticated customer services and enterprise applications. The Group has recently embarked more significantly on mobile application development and in conjunction with mobile marketing. Mobile marketing applications in smartphones allow much better user experience and thus more options for advertisers to carry out targeted promotions. In addition, the Group has formed several alliances with strategic media partners to leverage its expertise to explore into enhancing our media revenue.

The Group is also focusing on various carefully selected customer segments in its markets. These segments include the youth community as well as sport fans community. The Group has developed tailor-made products and services to such target segments and is rolling them out according to the roadmap agreed with local operators. Such product segment thinking enables the Group to roll out its services across different countries with high pace and healthy margins.

The Group is now deploying more value-added services with other sales channels in Malaysia, Singapore, Indonesia, Sri Lanka, Pakistan, Taiwan and Vietnam. The Group believes that more existing MVAS business can be extended to more operators in the Asia Pacific and will be expanding operations through partnership and/or acquisition in those countries.

### **Prospect**

Since Hong Kong is 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 maximise the revenue and minimise 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 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 terms 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.

The Group believes that 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 mobilise their contents and brands from more traditional media platforms. The Group is cooperating with handset manufacturers for efficient service provisioning. The efforts include pre-loading our applications on certain handsets, of which provide the users with quick, optimised and easy access to internet contents and services. These devices will be made available to consumers in Hong Kong and, afterwards will be extending into a number of markets across Asia.

Since the completion of the acquisition of the two property development projects in Yangjiang on 3 June 2011, both projects had been making progress steadily. In one of the property development projects, the construction and building works has been continuing. The works are mostly focused on individual houses and villas due to a limited supply in this particular segment of the property market in the PRC.

In our other property development project, initial planning has been carried out so as to be in line with the overall town planning of Yangjiang. The business angle for this project is aimed to be similar of the above-mentioned one, with the upper middle class and young professionals as our target group of customers.

- 14 Recent introduction of various PRC government policies such as further interest rate hike, additional down payments and home purchase restriction may hamper the property market to prosper. However, with the continuous growth of population, the basic needs for home ownership, gentle increase of property prices due to inflation, and demand against supply means the market outlook continued to be optimistic.

Both of the property development projects will be developed with an aim to be self-sustain with part of the profits to be reinvested to advance itself until completion. The Group will endeavour a strict monitoring process on the costs and returns of our two property development projects.

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

As at 30 June 2011, 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>
Dr. Chan Chung	Beneficial owner	38,448,904	3.27%
Mr. Chan Wai Kwong, Peter	Beneficial owner	216,072	0.02%
		<u>38,664,976</u>	<u>3.29%</u>

## Long positions in underlying shares of equity derivatives – interests in options of the Company

Name of Directors	Capacity	Date of grant	Number of underlying shares	Approximate percentage issued share capital	Option period	Consideration for the grant of the option HK\$	Exercise price per share HK\$
Dr. Chan Chung <i>(Note)</i>	Beneficial owner	29 June 2011	3,000,000	0.255%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Chan Wai Kwong, Peter <i>(Note)</i>	Beneficial owner	29 June 2011	3,000,000	0.255%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Siu King Nin, Peter <i>(Note)</i>	Beneficial owner	29 June 2011	3,000,000	0.255%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Choi Ho Yan <i>(Note)</i>	Beneficial owner	29 June 2011	3,000,000	0.255%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. So Haw, Herman <i>(Note)</i>	Beneficial owner	29 June 2011	1,000,000	0.085%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Chiu Wai Piu <i>(Note)</i>	Beneficial owner	29 June 2011	500,000	0.042%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Cheung Kwan Hung, Anthony <i>(Note)</i>	Beneficial owner	29 June 2011	500,000	0.042%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Heung Chee Hang, Eric <i>(Note)</i>	Beneficial owner	29 June 2011	500,000	0.042%	29 June 2011 – 28 June 2021	1.00	0.140
			14,500,000	1.231%			

*Note:* All of the above share options to Directors were granted under the Share Option Scheme of the Company and are physically settled equity derivatives.



- 16 Save as disclosed above, as at 30 June 2011, 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 required to be kept under section 336 of Part XV of the SFO shows that as at 30 June 2011, the Company had been notified of the following substantial shareholders' interest and short positions, being 5% or more of the issued share capital of the Company.

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

<b>Name of substantial shareholders</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Approximate percentage of the issued share capital</b>
China Oil Resources Group Limited	Beneficial owner	355,571,722	30.21%
PetroAsian Energy Holdings Limited ("PetroAsian Energy")	<i>(Note 1)</i>	355,571,722	30.21%
Vodatel Information Limited	Beneficial owner	155,419,392	13.20%
Vodatel Networks Holdings Limited ("Vodatel")	<i>(Note 2)</i>	155,419,392	13.20%

## Long positions in underlying shares of equity derivatives

Name of substantial shareholders	Capacity	Number of underlying shares held	Approximate percentage of the issued share capital
Mr. Poon Sum	Beneficial owner	175,226,994 (Note 3)	14.89%
Mr. Poon Sau Tin	Beneficial owner	175,226,993 (Note 3)	14.89%

*Notes:*

1. PetroAsian Energy is deemed, by virtue of the SFO, to be interested in the 355,571,722 shares held by China Oil Resources Group Limited as China Oil Resources Group Limited is a direct and 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 355,571,722 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 annual report of PetroAsian Energy, as at 31 March 2011, no person was interested or deemed to be interested in more than one-third of the then issued share capital of PetroAsian Energy.

- 18 2. Vodatel is deemed, by virtue of the SFO, to be interested in the 155,419,392 shares held by Vodatel Information Limited as Vodatel Information Limited is a direct and wholly owned subsidiary of VDT Mobile Holdings Limited which is a direct and wholly owned subsidiary of Vodatel Holdings Limited, a direct and wholly owned subsidiary of Vodatel. 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 155,419,392 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 2010, Mr. Jose Manuel Dos Santos, Miss Lei Hon Kin, Eve Resources Limited, Ocean Hope Holdings Limited and HSBC International Trustee Limited were interested or deemed to be interested in more than one-third of the then issued share capital of Vodatel.
3. These underlying shares represent the new ordinary shares to be issued upon the conversion of convertible bonds by Mr. Poon Sum and Mr. Poon Sau Tin with aggregate principal amount of HK\$33,000,000 at adjusted conversion price of HK\$0.163 per conversion share and the exercise of warrants by Mr. Poon Sum and Mr. Poon Sau Tin with aggregate amount of HK\$22,200,000 at adjusted exercise price of HK\$0.150 per share.

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 2011.

## 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 Option Scheme outstanding as at 30 June 2011 are set out below:

### Pre-IPO Share Option Scheme

Name	Date of grant	Number of Share Options				Outstanding as at 30 June 2011	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 2011	Granted during the period under review	Exercised during the period under review	Lapsed during the period under review					
<b>Other Participants</b>										
Employees in aggregate (Note)	9 February 2007	10,000	2,565	-	-	12,565	0.001%	9 February 2007 – 8 February 2017	1.00	0.078 (Adjusted)
	12 February 2008	20,000	5,130	-	-	25,130	0.002%	12 February 2008 – 11 February 2018	1.00	0.152 (Adjusted)
<b>Business Consultant</b>										
Young Antony, Michael	27 March 2003	300,000	76,952	-	-	376,952	0.032%	9 May 2003 – 8 May 2013	1.00	0.091 (Adjusted)
		<u>330,000</u>	<u>84,647</u>	<u>-</u>	<u>-</u>	<u>414,647</u>	<u>0.035%</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 exercised and cancelled during the period under review.

## 20 Share Option Scheme

Name	Date of grant	Number of Share Options				Outstanding as at 30 June 2011	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 2011	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	29 June 2011	-	3,000,000	-	-	3,000,000	0.255%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Chan Wai Kwong, Peter	29 June 2011	-	3,000,000	-	-	3,000,000	0.255%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Siu King Nin, Peter	29 June 2011	-	3,000,000	-	-	3,000,000	0.255%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Choi Ho Yan	29 June 2011	-	3,000,000	-	-	3,000,000	0.255%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. So Haw, Herman	29 June 2011	-	1,000,000	-	-	1,000,000	0.085%	29 June 2011 – 28 June 2021	1.00	0.140
<b>Independent Non-executive Directors</b>										
Mr. Chiu Wai Piu	29 June 2011	-	500,000	-	-	500,000	0.042%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Cheung Kwan Hung, Anthony	29 June 2011	-	500,000	-	-	500,000	0.042%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Heung Chee Hang, Eric	29 June 2011	-	500,000	-	-	500,000	0.042%	29 June 2011 – 28 June 2021	1.00	0.140
<b>Other Participants</b>										
Employees in aggregate (Note)	17 February 2010	250,000	64,126	-	-	314,126	0.027%	17 February 2010 – 16 February 2020	1.00	0.107 (Adjusted)
	29 June 2011	-	5,000,000	-	-	5,000,000	0.425%	29 June 2011 – 28 June 2021	1.00	0.140
		<u>250,000</u>	<u>19,564,126</u>	<u>-</u>	<u>-</u>	<u>19,814,126</u>	<u>1.683%</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).

Saves as disclosed above, no options pursuant to the Share Option Scheme have been exercised and 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 GOVERNMENT CODE COMPLIANCE**

During the period under review, the Company has complied with the code provision of the Code on Corporate Government Practices contained in Appendix 15 of the GEM Listing Rules except for the deviations from code provision A2.1 and A4.2 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.

Code provision A2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. With the relatively small size of the Group, the executive Directors and the senior management staff can undertake all the day-to-day business decisions without the official appointment of a chief executive officer for the Group. Instead, the Board has appointed two senior executives from the Group as President of the Asia Pacific Operation and President of China Operation, respectively. The Board believes that the balance of power and authority is adequately ensured under the existing arrangement.

Code provision A4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Pursuant to the Articles of Association of the Company, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything herein, the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire each year. The Company is a small company with five executive Directors playing key management role. The Chairman of the Board and Executive Director, Dr. Chan Chung, is the founder of the Company, and his continuing leadership on the Board is important for the stable operation of the Company. The Management considers that there is no imminent need to amend the Articles of Association of the Company and concurs that the Chairman needs not be subjected to retirement by rotation.

## 22 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 dealing 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. Chiu Wai Piu, Mr. Cheung Kwan Hung, Anthony and Mr. Heung Chee Hang, Eric. 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 2011 and has provided advice and comments thereon.

By order of the Board

**Chan Chung**

*Chairman*

Hong Kong, 10 August 2011

*As at the date of this report, the Board comprises five executive Directors, namely, Dr. Chan Chung (Chairman), Mr. Chan Wai Kwong, Peter, Mr. Siu King Nin, Peter, Mr. Choi Ho Yan and Mr. So Haw, Herman; and three independent non-executive Directors, namely, Mr. Chiu Wai Piu, Mr. Cheung Kwan Hung, Anthony and Mr. Heung Chee Hang, Eric.*