



Mobile Telecom Network (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8266



3RD quarterly report 2012

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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 the 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") of Mobile Telecom Network (Holdings) Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred as the "Group") for the three months and nine months ended 31 December 2012, together with the unaudited comparative figures for the corresponding periods in 2011 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 31 December 2012

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Turnover		216,838	9,152	282,051	23,407
Other income and gains, net		(15)	17	1,408	31
Telecom operators and content providers costs		(2,114)	(2,147)	(7,237)	(7,130)
Changes in inventories of finished goods		(198,527)	–	(242,040)	–
Employment costs		(7,517)	(3,940)	(19,666)	(12,716)
Research and development expenses		(2,842)	(1,729)	(7,773)	(4,353)
Depreciation and amortisation		(354)	(131)	(830)	(347)
Transportation expenses		(1,145)	–	(1,315)	–
Other operating expenses		(6,583)	(4,212)	(20,836)	(11,958)
Loss from operations		(2,259)	(2,990)	(16,238)	(13,066)
Finance costs	2	(2,115)	(589)	(3,409)	(1,220)
Impairment loss on investments in associates and amount due from associates		–	–	(27,690)	–
Share of (losses)/profits of associates		(282)	468	(1,337)	286
Loss before tax		(4,656)	(3,111)	(48,674)	(14,000)
Income tax expense	3	(481)	–	(524)	–
Loss for the period		(5,137)	(3,111)	(49,198)	(14,000)
Loss for the period attributable to:					
Owners of the Company		(5,697)	(3,203)	(49,785)	(13,966)
Non-controlling interests		560	92	587	(34)
		(5,137)	(3,111)	(49,198)	(14,000)
Loss per share (HK cents)	4				
– Basic		(0.445)	(0.272)	(4.477)	(1.353)
– Diluted		N/A	N/A	N/A	N/A

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 31 December 2012

	Three months ended 31 December		Nine months ended 31 December	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Loss for the period	(5,137)	(3,111)	(49,198)	(14,000)
Other comprehensive income for the period:				
Exchange difference on translating foreign operations	<u>14</u>	<u>30</u>	<u>117</u>	<u>286</u>
Total comprehensive loss for the period	<u>(5,123)</u>	<u>(3,081)</u>	<u>(49,081)</u>	<u>(13,714)</u>
Total comprehensive loss for the period attributable to:				
Owners of the Company	<u>(5,688)</u>	(3,181)	<u>(49,709)</u>	(13,791)
Non-controlling interests	<u>565</u>	<u>100</u>	<u>628</u>	<u>77</u>
Total comprehensive loss for the period	<u>(5,123)</u>	<u>(3,081)</u>	<u>(49,081)</u>	<u>(13,714)</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2012

	Attributable to owners of the Company										Total equity HK\$'000	
	Share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Exchange translation reserve HK\$'000	Share-based payment reserve HK\$'000	Warrant reserve HK\$'000	Convertible bonds reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		Non-controlling interests HK\$'000
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 subsidiaries	-	-	-	-	-	-	7,400	-	-	7,400	-	7,400
Issue of convertible bonds on acquisition of subsidiaries and associates	-	-	-	-	-	-	-	17,056	-	17,056	-	17,056
Shares issued upon open offer	45,909	12,948	-	-	-	-	-	-	-	58,857	-	58,857
Shares issued upon exercise of share options	78	62	-	-	-	-	-	-	-	140	-	140
Transaction costs attributable to issue of new shares	-	(2,335)	-	-	-	-	-	-	-	(2,335)	-	(2,335)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	6,304	6,304
Recognition of share option benefits at fair value	-	-	-	-	-	1,267	-	-	-	1,267	-	1,267
Transfer to share premium upon exercise of share options	-	65	-	-	-	(65)	-	-	-	-	-	-
Total comprehensive (loss)/income for the period	-	-	-	-	175	-	-	-	(13,966)	(13,791)	77	(13,714)
At 31 December 2011	91,946	58,499	16,375	2,943	756	1,213	7,400	17,056	(85,278)	110,910	6,419	117,329
At 1 April 2012	91,946	58,499	16,375	2,943	1,131	1,213	7,400	17,056	(97,974)	98,589	18,306	116,895
Shares issued upon conversion of convertible bonds	5,379	4,621	-	-	-	-	-	-	-	10,000	-	10,000
Conversion of convertible bonds	-	5,949	-	-	-	-	-	(7,700)	-	(1,751)	-	(1,751)
Shares issued on placement	9,694	9,571	-	-	-	-	-	-	-	19,265	-	19,265
Transaction costs attributable to issue of new shares	-	(327)	-	-	-	-	-	-	-	(327)	-	(327)
Issue of convertible bonds on acquisition of a subsidiary	-	-	-	-	-	-	-	6,572	-	6,572	-	6,572
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	1,822	1,822
Total comprehensive (loss)/income for the period	-	-	-	-	76	-	-	-	(49,785)	(49,709)	628	(49,081)
At 31 December 2012	107,019	78,313	16,375	2,943	1,207	1,213	7,400	15,928	(147,759)	82,639	20,756	103,395

NOTES:

1. Basis of preparation

The unaudited condensed consolidated results for the nine months ended 31 December 2012 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collectively term include all applicable individually HKFRS, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

These condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2012.

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 2012.

2. Finance costs

	Unaudited			
	Three months ended		Nine months ended	
	31 December		31 December	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Effective interest expenses on liability component of convertible bonds	820	589	1,967	1,220
Finance leases charges	6	–	19	–
Interest on bank borrowings	854	–	988	–
Interest on other loans wholly repayable within five years	435	–	435	–
	2,115	589	3,409	1,220

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 are exempted companies with limited liability under the Companies Law of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income tax.

Hong Kong profits tax has been provided at a rate of 16.5% on the estimated assessable profits for the nine months ended 31 December 2012. No provision for Hong Kong profits tax has been made for the nine months ended 31 December 2011 as the Group did not generate any assessable profits arising in Hong Kong during that period.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operate, based on existing legislation, interpretation and practices in respect thereof.

	Unaudited			
	Three months ended		Nine months ended	
	31 December		31 December	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
– Hong Kong profits tax	485	–	528	–
– Overseas tax	–	–	–	–
	<u>485</u>		<u>528</u>	
Deferred tax	(4)	–	(4)	–
	<u>481</u>		<u>524</u>	
Taxation charge	481	–	524	–

4. Loss per share

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the period attributable to owners of the Company and the weighted average number of ordinary shares in issue during the period.

	Unaudited			
	Three months ended 31 December		Nine months ended 31 December	
	2012	2011	2012	2011
Loss for the period attributable to owners of the Company (HK\$'000)	(5,697)	(3,203)	(49,785)	(13,966)
Weighted average number of ordinary shares in issue during the period (in thousands)	1,280,874	1,178,135	1,111,909	1,031,812
Basic loss per share	(HK0.445 cents)	(HK0.272 cents)	(HK4.477 cents)	(HK1.353 cents)

(b) Diluted loss per share

As the exercise of the Group's outstanding convertible bonds, warrants and outstanding options for the three months and nine months ended 31 December 2012 and 2011 would be anti-dilutive, no diluted loss per share was presented for the three months and nine months ended 31 December 2012 and 2011.

5. Dividend

The Board does not recommend the payment of any dividend for the nine months ended 31 December 2012 (2011: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the three months ended 31 December 2012, the Group recorded an unaudited turnover of approximately HK\$216,838,000, or an increase of 2,269.3% as compared to the corresponding period of last year. The increase in revenue was mainly attributable to successful completion of the very substantial acquisition, namely ETC Technology Limited ("ETC"). ETC is principally engaged in the trading of electronic parts and components in relation to display modules and touch panel modules. Also, ETC provides professional solution with engineering services to meet individual customer needs. Unaudited turnover contributed from ETC for the three months ended 31 December 2012 was approximately HK\$206,121,000.

Loss attributable to owners of the Company for the three months ended 31 December 2012 was approximately HK\$5,697,000, representing an increase of 77.9% as compared with approximately HK\$3,203,000 for the corresponding period in 2011. The increase was mainly due to increase in rental expenses and interest expenses and share of loss of associates compared to that of share of profit of associates for the same period in 2011.

Unaudited turnover of the Group reached approximately HK\$282,051,000 for the nine months ended 31 December 2012, representing an increase of approximately 1,105.0% as compared with approximately HK\$23,407,000 for the corresponding period in 2011.

The loss attributable to owners of the Company for the nine months ended 31 December 2012 was increased to approximately HK\$49,785,000 from approximately of HK\$13,966,000. Other than the reason of increasing in rental and interest expenses and sharing of loss of associates, the greater loss was also made as a result of provision in impairment losses in two of the associated companies of the Group, such provisions were amounted to HK\$27,690,000.

Business Review

The Board of Directors of the Company will again like to pay tributes to the former Chairman of the Company, the late Dr. Chan Chung, and thank him for his inspiration and passion since he founded the Group in the late 1990s.

Despite the dishearten news on the departure of our former Chairman, the Group will continue the hard work and effort to upkeep the Company's operations and excel in performance to advance the Company forward.

The principal activities of the Group can mainly be classified in the following three areas:

- (i) development, provision and sale of mobile and internet communication telecommunications and other related services;
- (ii) trading of electronic parts and components in relation to display modules and touch panel modules, and provision of professional solution with engineering services; and
- (iii) property development and investment properties.

Development, provision and sale of mobile and internet communication telecommunications and other related services

The Group carries out this operation under the brand of "MTel". This can further be classified into the following major areas:

- **Mobile Value-Added Service**
- **Mobile Application Development**
- **IT Outsourcing and Consultation**
- **Game Development**

For **Mobile Value-Added Service**, the Group operates over 100 value-added services with over 30 mobile network operators in 15 countries, mainly focusing in popular topics, such as:-

- sports news (including live score update around the globe, odds and analysis)
- movies info (including real-time available seating plan and in-Apps purchase of movie tickets)
- music channels

For **Mobile Application Development**, the Group is strong and renowned in its cross-platforms (such as iOS, Android, Window 8, Blackberry, etc) development, execution and implementation in our development for our clients, not only just as a developer/programmer, but, very importantly, the integrated services (whether it is marketing related (such as number of downloads) or even Apps-launch related campaigns) we can offer and bestow. Our clients include the Hong Kong Jockey Club, major retail banks in Hong Kong, reputable magazines, international brokerage houses, and utility and public transport providers in Hong Kong.

For **IT Outsourcing and Consultation**, it is trivial as we provide solutions to our customers. Most importantly, we also bring values to our customers in an all-rounded way, no matter where our customers are in the finance sector or insurance sector or telecommunications sector and many more. Our customers included Three Mobile (Hong Kong and Macau), China Construction Bank (Asia), LUXE City Guides, The Hong Kong Jockey Club, China Light Power, Vietnamobile, etc.

For **Game Development**, the Group serve our customers as a digital creative consultant unit and specialises in game/interactive application production on mobile, web, and social networking platforms. We also have solid knowledge and proven portfolio on digital advertising, viral marketing and social game/community operation.

Trading of electronic parts and components in relation to display modules and touch panel modules, and provision of professional solution with engineering services

The Group carries out this operation under the brand of "ETC". ETC has been in the market for more than 10 years. It has had more than 7 years of very good agency service contracts with two of its renowned suppliers of electronic parts and components in relation to display modules and touch panel modules, both listed on the Taiwan Exchange.

The successful acquisition of 75% of ETC (in September 2012) has led to a three month turnover of approximately HK\$206,121,000; an average monthly turnover of approximately HK\$68,707,000, compared to an average monthly turnover of approximately HK\$30,721,000 for the year ended 31 March 2012.

Top 10 customers of ETC for the three months ended 31 December 2012 accounted to approximately 73.9% of its turnover in the same period. Its customers include renowned and reputable brands and sizeable merchandisers whose customers include ZTE, Tian Ma, Lenovo, Huawei, Konka, LG and Haier, etc.

Property development and investment properties

The Group has 2 property development projects in the PRC, one held in our 25% owned associated company while the other is held in one of our subsidiaries. The latter one is still in its juvenile stage as further planning is required.

The Group also has 2 investment properties (residential units) in Hong Kong. Both have been successfully leased out providing the Group with a reliable asset foundation and a stable return.

Prospects

Since Hong Kong is affected by the worldwide financial crisis and recovery seems to be sluggish and negative at times, the Group has been concentrating on its investment in human resources particularly in strengthening key businesses in targeted markets.

Flourished and popular, the competitive mobile entertainment market is slowly dominated by large corporations creating new divisions to enter this market. The Group has always stay alert and will continue to monitor and seek new opportunities to diversify its dependence on mobile service both in premium services and advertising model associated with existing channels, mobile operators business and mobile application.

In new markets within South East Asia, the Group will act as a master content aggregator on behalf of the local operators and define business to maximise revenue whilst minimise resources allocation. The Group shall also extend more business relationships with WiFi service providers and handset/tablet manufacturers as there are increasingly more devices which support WiFi connection.

The Group is working closely with mobile operators to strengthen our sports channel especially in relation to football. Other content services, such as Entertainment, Lifestyle & Leisure, Dining, Movie, Cartoon, Games, Fortune Telling, etc. will also be our focuses serving specifically the Chinese communities outside China. To support this, the Group is partnering with more content and technology providers including established brands and leading gaming companies to target youth lifestyle applications & services such as dating services, mobile blogging, and mobile comics.

4G/LTE technologies will bring a shift in the dynamics of the market in Asia, especially in Greater China market, which are becoming more advanced on internet and multimedia-based content. We therefore plan to use our knowledge and experience to provide a variety of rich-media content with operators and new potential platform on 4G/LTE smartphones across the Asian markets.

The financial crisis has hit the PRC real estate market segment hard and the effect is likely to last despite worldwide central banks assistance. The outlook of the country plus other regional reasons have had the PRC government to push and alter various policies, where it will affect the development project. Nonetheless residential need is a basic requirement for the large population particular for the newly-weds and younger generation moving up the social ladder plus the wish of returning to birthplace and family reunion. In view of these, we remain optimistic to the development, but we will exercise caution during execution of the plan.

Touch-screen panels are used in many applications such as the heavy industry for direct machinery controls, medical for cleanliness and easy control and entertainment/media mediums like televisions or computer screens. Most notably the latest hit is on mobile phones and tablets. These are driven heavily first by Apple and now also Samsung, HTC and Blackberry. Divided in several pricing categories with technical cost being driven down, there are now cheaper versions of the same technology providing for the consumers to choose. With the increasing popularity and applications of touch-screen panels being used in more aspects of our daily life, the Group is optimistic that it is the direction to move forward to.

In September 2012, the Group has completed the acquisition of the 75% interest of ETC, that engages in trading of electronic parts and components in relation to display modules and touch panel modules whereas it also provides professional solution with engineering services to meet individual customer needs.

In order to diversify the Group's existing business through horizontal integration and maximise the return of the shareholders, the Group have been and will be identifying further investment opportunities.

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

As at 31 December 2012, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of 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:

Aggregate long positions in the shares and underlying shares of the Company

Name of Director/ chief executive	Capacity	Nature of interest	Number of shares held	Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital
Directors:						
Mr. Chan Wai Kwong, Peter	Beneficial owner	Personal interest	216,072	3,000,000 <i>(Note 1)</i>	3,216,072	0.23%
Mr. Siu King Nin, Peter	Beneficial owner	Personal interest	–	3,000,000 <i>(Note 1)</i>	3,000,000	0.22%
Mr. Choi Ho Yan	Beneficial owner	Personal interest	–	3,000,000 <i>(Note 1)</i>	3,000,000	0.22%
Mr. So Haw, Herman	Beneficial owner	Personal interest	–	1,000,000 <i>(Note 1)</i>	1,000,000	0.07%
Mr. Chiu Wai Piu	Beneficial owner	Personal interest	–	500,000 <i>(Note 1)</i>	500,000	0.04%
Mr. Cheung Kwan Hung, Anthony	Beneficial owner	Personal interest	–	500,000 <i>(Note 1)</i>	500,000	0.04%
Mr. Heung Chee Hang, Eric	Beneficial owner	Personal interest	–	500,000 <i>(Note 1)</i>	500,000	0.04%
Chief executive:						
Mr. Wong Chun Wai	Beneficial owner	Personal interest	–	18,720,000 <i>(Note 2)</i>	18,720,000	1.37%

Notes:

1. These interests represented the interests in underlying shares in respect of share options granted by the Company under the Share Option Scheme to these Directors as beneficiary owners, the details of which are set out in the section below headed "**Share Options Rules**". All of the share options to Directors are physically settled equity derivatives.
2. All interests in underlying shares are interests in convertible bonds of the Company which may be converted into 9,360,000 shares at a conversion price of HK\$0.25 per conversion share during the period from 10 April 2013 to 9 October 2015 and interests in convertible bonds of the Company which may be converted into 9,360,000 shares at a conversion price of HK\$0.25 per conversion share during the period from 10 October 2013 to 9 October 2015.
3. As at 31 December 2012, the Company had a total of 1,371,388,373 shares in issue.

Save as disclosed above, as at 31 December 2012, none of the directors and chief executive 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 THE 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 31 December 2012, 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.

Aggregate long positions in the shares and underlying shares of the Company

Name of substantial shareholders	Capacity	Nature of interest	Number of shares held	Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital
China Oil Resources Group Limited	Beneficial owner	Corporate interest	355,571,722	-	355,571,722	25.93%
PetroAsian Energy Holdings Limited	Interest in controlled corporation (Note 1)	Corporate interest	355,571,722	-	355,571,722	25.93%
Vodatel Information Limited	Beneficial owner	Corporate interest	155,419,392	-	155,419,392	11.33%
Vodatel Networks Holdings Limited	Interest in controlled corporation (Note 2)	Corporate interest	155,419,392	-	155,419,392	11.33%
Mr. Poon Sum	Beneficial owner	Personal interest	-	175,226,994 (Note 3)	175,226,994	12.78%
Mr. Poon Sau Tin	Beneficial owner	Personal interest	-	175,226,993 (Note 3)	175,226,993	12.78%

Notes:

1. PetroAsian Energy Holdings Limited ("**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 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 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. According to the latest interim report of PetroAsian Energy, as at 30 September 2012, 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 Networks Holdings Limited ("**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. According to the latest quarterly report of Vodatel, as at 30 September 2012, 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.
4. As at 31 December 2012, the Company had a total of 1,371,388,373 shares in issue.

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 31 December 2012.

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 31 December 2012 are set out below:

Pre-IPO Share Option Scheme

Name	Date of grant	Number of Share Options				Outstanding as at 31 December 2012	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 2012	Granted during the period under review	Exercised during the period under review	Lapsed during the period under review					
Other Participants										
Employees in aggregate <i>(Note)</i>	9 February 2007	12,365	-	-	-	12,365	0.001%	9 February 2007 – 8 February 2017	1.00	0.078 (Adjusted)
	12 February 2008	25,130	-	-	-	25,130	0.002%	12 February 2008 – 11 February 2018	1.00	0.152 (Adjusted)
Business Consultant										
Young Antony, Michael	27 March 2003	376,952	-	-	-	376,952	0.027%	9 May 2003 – 8 May 2013	1.00	0.091 (Adjusted)
		414,647	-	-	-	414,647	0.030%			

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.

Share Option Scheme

Name	Date of grant	Number of Share Options				Outstanding as at 31 December 2012	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 2012	Granted during the period under review	Exercised during the period under review	Lapsed during the period under review					
Executive Directors										
Dr. Chan Chung (deceased) (Note 1)	29 June 2011	3,000,000	-	-	-	3,000,000	0.219%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Chan Wai Kwong, Peter	29 June 2011	3,000,000	-	-	-	3,000,000	0.219%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Siu King Nin, Peter	29 June 2011	3,000,000	-	-	-	3,000,000	0.219%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Choi Ho Yan	29 June 2011	3,000,000	-	-	-	3,000,000	0.219%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. So Haw, Herman	29 June 2011	1,000,000	-	-	-	1,000,000	0.073%	29 June 2011 – 28 June 2021	1.00	0.140
Independent Non-executive Directors										
Mr. Chiu Wai Piu	29 June 2011	500,000	-	-	-	500,000	0.036%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Cheung Kwan Hung, Anthony	29 June 2011	500,000	-	-	-	500,000	0.036%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Heung Chee Hing, Eric	29 June 2011	500,000	-	-	-	500,000	0.036%	29 June 2011 – 28 June 2021	1.00	0.140
Other Participants										
Employees in aggregate (Note 2)	17 February 2010	314,126	-	-	-	314,126	0.023%	17 February 2010 – 16 February 2020	1.00	0.107 (Adjusted)
	29 June 2011	4,000,000	-	-	-	4,000,000	0.292%	29 June 2011 – 28 June 2021	1.00	0.140
		<u>18,814,126</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,814,126</u>	<u>1.372%</u>			

Notes:

- According to the Share Option Scheme and following the demise of Dr. Chan Chung on 20 December 2012, the title to the relevant share options of the late Dr. Chan Chung would pass to his personal representative who is entitled to exercise the same during a period of 12 months following 20 December 2012.
- 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 exercised and cancelled during the period under review.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its shares during the nine-month period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares the nine-month period.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the period under review, none of the Directors or the controlling 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

During the period under review, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 of the GEM Listing Rules except for the deviations from code provisions A.2.1, A.4.2, A.6.7, C.1.2 and E.1.2 which are explained as follows:

Under the code provision A.2.1, the roles of chairman and chief executive should be separated and should not be performed by the same individual. The Board has appointed two senior executives from the Group as President of the Asia Pacific Operation and President of China Operation, respectively. However, pursuant to the expansion of the business operation of the Company and in order to comply with this code provision A.2.1, Mr. Wong Chun Wai has been appointed as the chief executive officer of the Company with effect from 17 December 2012; thus, the roles of chairman and chief executive have been separated since then.

Under the code provision A.4.2, 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. Since the demise of the chairman of Board in December 2012, the role of chairman of the Board has been left vacant. The Board has considered that, with the upcoming adoption of the amended and restated Articles of Association of the Company, the chairman of the Board and/or the managing director of the Company shall, 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.

Under the code provision A.6.7, two of the independent non-executive Directors were unable to attend the annual general meeting (the “**AGM**”) of the Company held on 2 August 2012 due to their other business engagement.

Under the code provision C.1.2, management should provide all Directors with monthly updates giving a balanced and understandable assessment of the Company’s performance, position and prospects in sufficient details to enable the board as a whole and each Director to discharge their duties. During the first half of 2012, quarterly updates and periodic instant updates when developments arising out of the ordinary business instead of monthly updates were provided to the Directors. From November 2012 the Company has change its practice to provide all Directors with monthly updates.

Under the code provision E.1.2 which provides that the Chairman of the Board should attend the AGM of the Company which held on 2 August 2012. The Chairman of the Board did not attend the AGM due to sick leave. Four (out of five) executive Directors and members of Audit, Remuneration and Nomination Committees and the Financial Controller attended the AGM. The Company considers that their presence is sufficient for (i) answering questions from and (ii) effective communication with shareholders attended at the AGM.

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. Chiu Wai Piu, Mr. Cheung Kwan Hung, Anthony and Mr. Heung Chee Hang, Eric.

The audit committee is mainly responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of such auditor; reviewing the quarterly reports, interim report and annual report and accounts of the Group; and overseeing the Company’s financial reporting system and internal control procedures.

The audit committee has reviewed the unaudited third quarterly results for the nine months ended 31 December 2012 and has provided advice and comments thereon.

By order of the Board

Choi Ho Yan

Executive Director

Hong Kong, 7 February 2013

As at the date of this report, the Board comprises four executive Directors, namely, 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.