



Interim Report 2012



Mobile Telecom Network (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8266

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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 (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 six months ended 30 September 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 six months ended 30 September 2012

	<i>Notes</i>	Three months ended 30 September		Six months ended 30 September	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Turnover	2	54,947	6,935	65,213	14,255
Other income and gains, net		1,284	11	1,423	14
Telecom operators and content providers costs		(2,562)	(2,338)	(5,123)	(4,983)
Changes in inventories of finished goods		(43,513)	–	(43,513)	–
Employment costs		(6,657)	(4,292)	(12,149)	(8,776)
Research and development expenses		(2,485)	(1,381)	(4,931)	(2,624)
Depreciation and amortisation		(270)	(111)	(476)	(216)
Transportation expenses		(170)	–	(170)	–
Other operating expenses		(4,314)	(3,390)	(14,253)	(7,746)
Loss from operations		(3,740)	(4,566)	(13,979)	(10,076)
Finance costs	3	(628)	(474)	(1,294)	(631)
Impairment loss on investments in associates and amount due from associates		(27,690)	–	(27,690)	–
Share of losses of associates		(202)	(161)	(1,055)	(182)
Loss before tax		(32,260)	(5,201)	(44,018)	(10,889)
Income tax expense	4	(43)	19	(43)	–
Loss for the period		(32,303)	(5,182)	(44,061)	(10,889)

	<i>Notes</i>	Three months ended 30 September		Six months ended 30 September	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Loss for the period attributable to:					
Owners of the Company		(32,396)	(5,044)	(44,088)	(10,763)
Non-controlling interests		93	(138)	27	(126)
		(32,303)	(5,182)	(44,061)	(10,889)
Loss per share (HK cents)	5				
– Basic		(2.626)	(0.429)	(3.631)	(1.123)
– Diluted		N/A	N/A	N/A	N/A

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 September 2012

	Three months ended 30 September		Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Loss for the period	(32,303)	(5,182)	(44,061)	(10,889)
Other comprehensive income for the period:				
Exchange difference on translating foreign operations	117	180	103	256
Total comprehensive loss for the period	(32,186)	(5,002)	(43,958)	(10,633)
Total comprehensive loss for the period attributable to:				
Owners of the Company	(32,315)	(4,945)	(44,021)	(10,610)
Non-controlling interests	129	(57)	63	(23)
Total comprehensive loss for the period	(32,186)	(5,002)	(43,958)	(10,633)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2012

	Notes	Unaudited 30 September 2012 HK\$'000	Audited 31 March 2012 HK\$'000
Non-current assets			
Property, plant and equipment	7	8,106	2,080
Investment property		31,000	30,000
Goodwill		24,727	–
Intangible assets		161	194
Investments in associates		23,617	45,749
		87,611	78,023
Current assets			
Inventories		12,004	–
Trade and other receivables	8	74,531	8,569
Due from associates		–	2,204
Properties under development		59,967	59,986
Due from directors of subsidiaries		6,618	–
Derivative financial assets		–	1,210
Call Options of convertible bonds		7,744	12,032
Pledged bank deposits		16,067	–
Bank and cash balances		18,761	8,797
		195,692	92,798
Current liabilities			
Trade and other payables	9	108,360	11,541
Due to an associate		4,285	4,297
Put Option of convertible bonds		378	466
Liability component of convertible bonds		29,481	28,494
Finance lease payables		273	269
Bank borrowings	10	41,904	–
Current tax liabilities		523	13
		185,204	45,080
Net current assets		10,488	47,718
Total assets less current liabilities		98,099	125,741

		Unaudited 30 September 2012 HK\$'000	Audited 31 March 2012 HK\$'000
	<i>Notes</i>		
Non-current liabilities			
Liability component of convertible bonds		–	8,090
Finance lease payables		619	756
Bank borrowings	10	13,914	–
Deferred tax liabilities		558	–
		<u>15,091</u>	<u>8,846</u>
NET ASSETS		83,008	116,895
Capital and reserves			
Share capital	11	97,325	91,946
Reserves		(34,508)	6,643
Equity attributable to owners of the Company		62,817	98,589
Non-controlling interests		20,191	18,306
TOTAL EQUITY		83,008	116,895

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2012

	Attributable to owners of the Company										Non-controlling interests	Total equity
	Share capital	Share premium account	Contributed surplus	Capital redemption reserve	Exchange translation reserve	Share-based payment reserve	Warrant reserve	Convertible bonds reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	-	-	-	-	-	-	-	9,356	-	9,356	-	9,356
Shares issued upon open offer	45,908	12,949	-	-	-	-	-	-	-	58,857	-	58,857
Shares issued upon exercise of share options	78	62	-	-	-	-	-	-	-	140	-	140
Transaction costs attributable to issue of new shares	-	(2,278)	-	-	-	-	-	-	-	(2,278)	-	(2,278)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	6,304	6,304
Recognition of share option benefits at fair value	-	-	-	-	-	1,268	-	-	-	1,268	-	1,268
Transfer to share premium upon exercise of share options	-	65	-	-	-	(65)	-	-	-	-	-	-
Total comprehensive (loss)/income for the period	-	-	-	-	153	-	-	-	(10,763)	(10,610)	(23)	(10,633)
At 30 September 2011	91,945	58,557	16,375	2,943	734	1,214	7,400	9,356	(82,075)	106,449	6,319	112,768
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)
Acquisition of subsidiary (Note 12)	-	-	-	-	-	-	-	-	-	-	1,822	1,822
Total comprehensive (loss)/income for the period	-	-	-	-	67	-	-	-	(44,088)	(44,021)	63	(43,958)
At 30 September 2012	97,325	69,069	16,375	2,943	1,198	1,213	7,400	9,356	(142,062)	62,817	20,191	83,008

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2012

	Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
Net cash used in operating activities	<u>(3,257)</u>	<u>(6,136)</u>
Net cash used in investing activities	<u>(761)</u>	<u>(53,378)</u>
Net cash generated from financing activities	<u>14,097</u>	<u>56,719</u>
Net increase/(decrease) in cash and cash equivalents	10,079	(2,795)
Effect of foreign exchange rates changes	(115)	30
Cash and cash equivalents at 1 April	<u>8,797</u>	<u>24,883</u>
Cash and cash equivalents at 30 September	<u>18,761</u>	<u>22,118</u>
Analysis of cash and cash equivalents:		
Bank and cash balances	<u>18,761</u>	<u>22,118</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited interim financial statements for the six months ended 30 September 2012 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants 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 interim 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 except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRS”) that are adopted for the first time for the current period’s financial information.

HKFRS 7 (Amendment)

Disclosures – Transfers of Financial Assets

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

2. Segment information

The Group has four reportable segments as follow:

Mobile data solution business	–	provision of mobile data solution and related services
Property development	–	sale of developed properties
Property investment	–	rental income
Trading	–	trading of electronic parts and components in relation to display modules and touch panel modules and providing professional solution with engineering services to meet individual customer needs

The Group’s reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include unallocated corporate results.

Information about reportable segment profit or loss

For the six months ended 30 September

	Unaudited									
	Mobile data solution business		Property development		Property investment		Trading		Total	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Revenue from external customers	19,949	14,255	1,597	–	62	–	43,605	–	65,213	14,255
Segment profit/(loss)	(5,395)	(906)	(2,586)	(1,348)	853	(50)	223	–	(6,905)	(2,304)

Reconciliations of reportable segment profit or loss:

	Unaudited Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
Total loss of reportable segments	6,905	2,304
Unallocated corporate results	37,156	8,585
Consolidated loss for the period	44,061	10,889

Segment assets

The major changes in segment assets during the six months ended 30 September 2012 relate to the acquisition of the Trading segment in September 2012.

As a result of the acquisition, total segment assets of the Trading segment as at 30 September 2012 are approximately HK\$109,319,000.

3. Finance costs

	Unaudited			
	Three months ended		Six months ended	
	30 September		30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Effective interest expenses on liability component of convertible bonds	541	474	1,147	631
Finance leases charges	7	–	13	–
Interest expenses on bank borrowings	80	–	134	–
	<u>628</u>	<u>474</u>	<u>1,294</u>	<u>631</u>
Taxation charge				

4. 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 profit for the six months ended 30 September 2012. No provision for Hong Kong profits tax has been made for the six months ended 30 September 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		Six months ended	
	30 September		30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Current tax				
– Hong Kong profits tax	43	(19)	43	–
– Overseas tax	–	–	–	–
	<u>43</u>	<u>(19)</u>	<u>43</u>	<u>–</u>
Taxation charge				

5. 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 30 September		Six months ended 30 September	
	2012	2011	2012	2011
Loss for the period attributable to owners of the Company (HK\$'000)	(32,396)	(5,044)	(44,088)	(10,763)
Weighted average number of ordinary shares in issue during the period (in thousands)	1,233,832	1,177,320	1,214,313	958,251
Basic loss per share	(HK2.626 cents)	(HK0.429 cents)	(HK3.631 cents)	(HK1.123 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 six months ended 30 September 2012 and 2011 would be anti-dilutive, no diluted loss per share was presented for the three months and six months ended 30 September 2012 and 2011.

6. Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2012 (six months ended 30 September 2011: Nil).

7. Property, plant and equipment

During the six months ended 30 September 2012, the Group acquired assets with a cost of approximately HK\$7,342,000 (six months ended 30 September 2011: approximately HK\$227,000), including assets acquired through a business combination of approximately HK\$6,191,000 (six months ended 30 September 2011: HK\$Nil).

8. Trade and other receivables

	Unaudited 30 September 2012 HK\$'000	Audited 31 March 2012 HK\$'000
Trade receivables	36,422	3,580
Less: Allowance for impairment of bad and doubtful debts	(1,219)	(290)
	35,203	3,290
Prepayments, deposits and other receivables	39,328	5,279
	74,531	8,569

The credit period granted by the Group to its customers is generally 30 days. The ageing analysis of the trade receivables is as follows:

	Unaudited 30 September 2012 HK\$'000	Audited 31 March 2012 HK\$'000
Less than 30 days	33,565	2,392
31 to 60 days	660	522
61 to 90 days	–	114
Over 90 days	978	262
	35,203	3,290

9. Trade and other payables

	Unaudited 30 September 2012 HK\$'000	Audited 31 March 2012 HK\$'000
Trade payables	39,733	1,458
Deposit received, accruals and other payables	38,434	10,083
Consideration payable for acquisition of subsidiary	30,193	–
	108,360	11,541

The ageing analysis of trade payables is as follows:

	Unaudited 30 September 2012 HK\$'000	Audited 31 March 2012 HK\$'000
Less than 30 days	38,641	295
31 to 60 days	41	269
61 to 90 days	97	8
Over 90 days	954	886
	39,733	1,458

10. Bank borrowings

	Unaudited 30 September 2012 HK\$'000	Audited 31 March 2012 HK\$'000
Bank loans – secured	55,818	–
The borrowings are repayable as follows:		
On demand or within one year	41,904	–
In the second year	349	–
In the third to fifth years, inclusive	1,102	–
After five years	12,463	–
	55,818	–
Less: Amount due within one year shown under current liabilities	(41,904)	–
Amount due after one year shown as non-current liabilities	13,914	–

The bank loans are secured by the investment property, leasehold properties, properties owned by directors and related persons of a subsidiary, bank deposits, personal guarantee with unlimited amount executed by directors and related persons of a subsidiary, personal guarantee given by one of the Directors for unlimited amount and guarantee executed by the Hong Kong Special Administrative Region Government in respect of Special Loan Guarantee Scheme.

Bank loan of approximately HK\$39,648,000 denominated in US\$ and of approximately HK\$16,170,000 denominated in Hong Kong dollars.

The effective annual interest rates on the Group's bank loans range from 2.25% to 5.00% per annum.

11. Share capital

	Number of shares		Nominal value	
	Unaudited 30 September 2012	Audited 31 March 2012	Unaudited 30 September 2012 HK\$'000	Audited 31 March 2012 HK\$'000
<i>Authorised:</i>				
At beginning and end of the period/year				
Ordinary shares of US\$0.01 each	2,000,000,000	2,000,000,000	156,000	156,000
<i>Issued and fully paid:</i>				
At beginning of the period/year				
Ordinary shares of US\$0.01 each	1,178,134,856	588,567,428	91,946	45,959
Shares issued upon open offer	–	588,567,428	–	45,909
Shares issued upon exercise of share options	–	1,000,000	–	78
Conversion of convertible bonds	68,965,517	–	5,379	–
At end of the period/year				
Ordinary shares of US\$0.01 each	1,247,100,373	1,178,134,856	97,325	91,946

12. Acquisition of subsidiary

In September 2012, the Group obtained control of ETC Technology Limited, a trader of electronic parts and components in relation to display modules and touch panel modules, by acquiring 75% of the shares in the company for a total consideration of HK\$39,000,000. The transaction has been accounted for using the acquisition method.

The fair value of identifiable assets and liabilities of ETC Technology Limited as at the date of acquisition is as follows:

	HK\$'000
Property, plant and equipment	5,317
Inventories	20,852
Trade and other receivables	50,519
Pledged bank deposits	16,057
Bank and cash balances	4,964
Trade and other payables	(47,811)
Bank borrowings	(41,586)
Current tax liabilities	(466)
Deferred tax liabilities	(558)
Total net identifiable assets	7,288
Non-controlling interest	(1,822)
	5,466
Goodwill arising on acquisition	24,727
Fair value of consideration payable (included in other payables in current liabilities)	30,193

The acquiree contributed turnover of approximately HK\$43,605,000 and profit of approximately HK\$223,000 to the Group for the period between the date of acquisition and 30 September 2012.

13. Lease commitments

The Group leases various office premises under operating lease arrangement, with lease negotiated for original terms of one to three years. None of the leases includes contingent rentals.

As at 30 September 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited 30 September 2012 HK\$'000	Audited 31 March 2012 HK\$'000
Within one year	2,456	1,835
In the second to fifth years, inclusive	3,761	—
	6,217	1,835

14. Transactions with related parties

The Group's key management compensation for the six months ended 30 September 2012 amounted to approximately HK\$4,465,000 (six months ended 30 September 2011: HK\$2,362,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 September 2012, the Group recorded an unaudited turnover of approximately HK\$65,213,000, representing an increase of approximately 357.5% as compared with approximately HK\$14,255,000 for the corresponding period in 2011. The increase in revenue was mainly attributable to successful completion of the very substantial acquisition, namely ETC Technology Limited ("ETC") (for details on the acquisition, please refer to the announcement of the Company dated 15 March 2012 and also the circular of the Company dated 23 August 2012). 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 six months ended 30 September 2012 (since the completion of the acquisition in September 2012) was approximately HK\$43,605,000. For details on the breakdown of Group's turnover, please refer to the section headed "Information about reportable segment" above.

For the six months ended 30 September 2012, the Group recorded an unaudited loss of approximately HK\$44,061,000, representing an increase of approximately 304.6% as compared with approximately HK\$10,889,000 for the corresponding period in 2011. Greater losses were made mainly as a result of provisions in impairment losses in two of our associated companies; such provisions were amounted to HK\$27,690,000. On the other hand, other operating expenses such as the incurrence of non-recurring professional fees for the acquisition of ETC and the accounting charges on the conversion of the Company's convertible bonds (by bondholders), together with the higher employment costs, and research and development costs were the main reasons for the greater loss for the period under review.

Business Review

Products and Services

The Group continues on mobile value added services ("MVAS"), such as Soccer Express which uses the unique GloDan (Global Data Network) network connections to enhance application developments and mobile advertising as the market remains dominated by the iPhone and other smartphones. At the same time, the Group carries on the Games and related entertainment application developments like Bearadise 2, Sooff and Mobilesurf service. The latter includes a movie mobile application connecting major cinema line ticketing services with 6 mobile operators in HK to complement the mobile business. Regional corporate consumer clients is also another focus area, examples are mobile banking application for China Construction Bank Asia and content management and delivery system for Hong Kong Jockey Club.

To diversify our business focus, the Group has been exploring into other area of business opportunities in the People's Republic of China (the "PRC") by taking part in a project to provide residential units in capitalising on the boom of the forever increasing living standard of the Mainland Chinese population and in Hong Kong by involving in residential units leasing, the beginning of an attempt to develop into property management and development.

The Group took an opportunity in October 2011 to invest, as a 33.3% associated partner, into a manufacturing plant of LCD and touch-screen panels, with an aim to target the top tier market in the PRC. However, fierce competitions (including hostile pricing strategy), put on by other manufacturers of LCD and touch-screen panels in the PRC, were encountered in the past three months (when it is traditionally the beginning of the high season for meeting orders to be shipped out for the festive periods near the year end). Moreover, as a whole, the LCD and touch-screen panels industry has also been suffering from smaller orders from manufacturers of electronic products, which was chiefly the reason that led to fierce competition in the LCD and touch-screen panels industry. As a result, provisions for impairment on its investment and amount due from it were made.

On the other hand, provisions for impairment on an investment and amount to the Group by another associated company of the Group were also made. This associated company mainly carried out mobile data solution businesses in the PRC. Provision were made after consideration in that such associated company has been facing tough competitions in its operating environments, such as losing long-serving projects from its major customer and with the ever-rising running costs, namely staff costs. Moreover, its inability of repaying the overdue loans made to the associated company by the Group were also a daunting factor to prompt the provisions.

Nonetheless, to further diversify the businesses of the Group, the Group has successfully completed the acquisition of 75% of ETC in September 2012 (for details on the acquisition, please refer to the announcement made by the Company on 15 March 2012 and also the circular of the Company dated 23 August 2012). 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. With the sound and proven track record of ETC, the Group is conservatively confident that it is heading in the direction in improving its performances in the future.

Sales and Marketing Activities

Customers are increasingly demanding more on sophistication, usability, in-app experience, high quality services and enterprise applications. As a result, the Group has focused significantly more on mobile application development specifically targeting promotions to individuals providing an almost tailored service, especially to the youth and sport fans customer segments. Several alliances with strategic media partners further enables to leverage this expertise to explore therefore enhance our media revenue.

In the PRC residential real estate development the project is still in its juvenile stage and further planning is required. As for the residential leasing in Hong Kong, the property has been successfully let out providing the company with asset foundation and stable return.

Prospects

Since Hong Kong is affected by the worldwide financial crisis, 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 will continue to seek new opportunities and diversify its dependence on mobile service both in premium services and advertising model associated with existing channels, mobile operators business and mobile application. Such as the expansion of content aggregation business to include IP rights management for our business partners. 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.

Liquidity and Financial Resources

The Group financed its operations with internally generated cash flow and banking facilities provided by its bankers in Hong Kong. The Group had total outstanding borrowings of approximately HK\$86,569,000 as at 30 September 2012 (31 March 2012: HK\$Nil). 83.2% of the borrowings are considered as current liabilities and repayable within one year, the remaining are repayable in two to thirty years. HK and US dollar denominated borrowings accounted for 54.2% and 45.8% of the total borrowings respectively. 64.5% of borrowings are interest bearing bank loans on floating rate terms, 1.0% are interest bearing finance lease obligation as fixed interest rate and the remaining are non-interest bearing convertible bonds.

At 30 September 2012, the Group had cash reserves of approximately HK\$18,761,000 (31 March 2012: approximately HK\$8,797,000). Most of the cash reserves were placed with major banks in Hong Kong and the PRC.

The gearing ratio as at 30 September 2012 was 104.3% (31 March 2012: 32.6%). The gearing ratio was derived by dividing the total borrowings including the convertible bonds, finance lease payables and bank borrowings of approximately HK\$86,569,000 by the amount of shareholders' equity.

The management of the Company will continue to make good effort to improve the liquidity condition. Measures will include but not limited to tightening of costs control, expansion of current businesses, the securing of additional loan facilities and/or raising funds from the capital market.

Foreign Exchange Exposure

The income and expenditure of the Group are mainly denominated in HK dollar, US dollar and Renminbi, the impact of foreign exchange exposure to the Group is considered minimal in this respect and no hedging or other arrangements to reduce the currency risk have been implemented.

Capital Structure

During the six months ended 30 September 2012, a total of 68,965,517 ordinary shares of the Company were allotted and issued as a result of conversion of the convertible bonds. Share premium increased by approximately HK\$4,621,000 accordingly.

Save for the above, there was no change in the capital structure of the Group during the period under review.

Material Acquisitions and Disposals

On 22 February 2012, the Group entered into an agreement (as supplemented by the supplemental agreement dated 15 March 2012) with Mr. Chan Wan Kim and Mr. Wong Chun Wai (together with Mr. Chan Wan Kim, the "Vendors") pursuant to which the Group has agreed to purchase and the Vendors have agreed to sell 75% of the issued share capital of ETC Technology Limited for a total consideration of HK\$39,000,000. The consideration is to be satisfied as to HK\$10,400,000 in cash, as to HK\$23,400,000 by way of issuance of convertible bonds and as to HK\$5,200,000 by way of issuance of promissory notes. Details of the acquisition are set out in the Company's circular dated 23 August 2012. The transaction has been completed in September 2012.

Save as disclosed, the Group did not make any material acquisitions or disposals during the six-month period.

Charges on Group's Assets

As at 30 September 2012, the Group pledged the following assets to secure the Group's bank borrowings:

- (i) an investment property with fair value of HK\$31,000,000 (2011: Nil);
- (ii) the leasehold properties with carrying amount of approximately HK\$5,000,000 (2011: Nil); and
- (iii) bank deposits of approximately HK\$16,067,000 (2011: Nil).

Contingent Liabilities, Capital Commitments and Significant Investments

As at 30 September 2012, the Group did not have any contingent liabilities, capital commitments and significant investments.

Employee Information

As at 30 September 2012, the Group had an aggregate of 127 employees of which 97 were based in Hong Kong while the rest were located in the PRC. The Group's employees are remunerated in accordance with their work performance, experience and prevailing industry practices. Total staff costs, including Directors' emoluments, amounted to approximately HK\$17,080,000 for the six months ended 30 September 2012 (six months ended 30 September 2011: HK\$11,400,000). Share options and bonuses are also available to the Group's employees at the discretion of the Directors and depending upon the financial performance of the Group.

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

As at 30 September 2012, the interests and short positions of each Directors and chief executives 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:

Long position in shares – interests in shares

Name of Directors	Capacity	Number of shares held	Approximate percentage of issued share capital
Dr. Chan Chung	Beneficial owner	38,448,904	3.08%
Mr. Chan Wai Kwong, Peter	Beneficial owner	216,072	0.02%
		<u>38,664,976</u>	<u>3.10%</u>

Long position 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 of issued share capital	Option period	Consideration for the grant of the option HK\$	Exercise price per share HK\$
Dr. Chan Chung (Note)	Beneficial owner	29 June 2011	3,000,000	0.241%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Chan Wai Kwong, Peter (Note)	Beneficial owner	29 June 2011	3,000,000	0.241%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Siu King Nin, Peter (Note)	Beneficial owner	29 June 2011	3,000,000	0.241%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Choi Ho Yan (Note)	Beneficial owner	29 June 2011	3,000,000	0.241%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. So Haw, Herman (Note)	Beneficial owner	29 June 2011	1,000,000	0.080%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Chiu Wai Piu (Note)	Beneficial owner	29 June 2011	500,000	0.040%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Cheung Kwan Hung, Anthony (Note)	Beneficial owner	29 June 2011	500,000	0.040%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Heung Chee Hang, Eric (Note)	Beneficial owner	29 June 2011	500,000	0.040%	29 June 2011 – 28 June 2021	1.00	0.140
			<u>14,500,000</u>	<u>1.164%</u>			

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.

Save as disclosed above, as at 30 September 2012, none of the Directors and chief executives of the Company has or was deemed to have any interests or short positions in any shares, underlying shares or debentures 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, UNDERLYING SHARES AND DEBENTURES 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 September 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.

Long position in shares – interests in shares

Name of substantial shareholders	Capacity	Number of shares held	Approximate percentage of issued share capital
China Oil Resources Group Limited	Beneficial owner	355,571,722	28.51%
PetroAsian Energy Holdings Limited ("PetroAsian Energy")	Interest in controlled corporation (<i>Note 1</i>)	355,571,722	28.51%
Vodatel Information Limited	Beneficial owner	155,419,392	12.46%
Vodatel Networks Holdings Limited ("Vodatel")	Interest in controlled corporation (<i>Note 2</i>)	155,419,392	12.46%
			<hr/> 40.97% <hr/>

Long position in underlying shares of equity derivatives

Name of substantial shareholders	Capacity	Number of underlying shares held	Approximate percentage of issued share capital
Mr. Poon Sum	Beneficial owner	175,226,994 (Note 3)	14.05%
Mr. Poon Sau Tin	Beneficial owner	175,226,993 (Note 3)	14.05%
			<hr/> 28.10% <hr/>

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 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. According to the latest annual report of PetroAsian Energy, as at 31 March 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 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 wholly-owned subsidiary of VDT Mobile Holdings Limited which is a direct wholly-owned subsidiary of Vodatel Holdings Limited, a direct 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 to subscribe for up to HK\$22,200,000 in cash 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 September 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 30 September 2012 are set out below:

Pre-IPO Share Option Scheme

		Number of Share Options				Outstanding as at 30 September 2012	Approximate percentage of issued share capital	Option period	Consideration for the grant of the option HK\$	Exercise price per share HK\$
Name	Date of grant	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 (Note)	9 February 2007	12,565	–	–	–	12,565	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	0.030%	9 May 2003 – 8 May 2013	1.00	0.091 (Adjusted)
		414,647	–	–	–	414,647	0.033%			

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

		Number of Share Options				Outstanding as at 30 September 2012	Approximate percentage of issued share capital	Option period	Consideration for the grant of the option HK\$	Exercise price per share HK\$
Name	Date of grant	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	29 June 2011	3,000,000	–	–	–	3,000,000	0.241%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Chan Wai Kwong, Peter	29 June 2011	3,000,000	–	–	–	3,000,000	0.241%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Siu King Nin, Peter	29 June 2011	3,000,000	–	–	–	3,000,000	0.241%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Choi Ho Yan	29 June 2011	3,000,000	–	–	–	3,000,000	0.241%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. So Haw, Herman	29 June 2011	1,000,000	–	–	–	1,000,000	0.080%	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	0.040%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Cheung Kwan Hung, Anthony	29 June 2011	500,000	–	–	–	500,000	0.040%	29 June 2011 – 28 June 2021	1.00	0.140
Mr. Heung Chee Hang, Eric	29 June 2011	500,000	–	–	–	500,000	0.040%	29 June 2011 – 28 June 2021	1.00	0.140
Other Participants										
Employees in aggregate (Note)	17 February 2010	314,126	–	–	–	314,126	0.025%	17 February 2010 – 16 February 2020	1.00	0.107 (Adjusted)
	29 June 2011	4,000,000	–	–	–	4,000,000	0.321%	29 June 2011 – 28 June 2021	1.00	0.140
		18,814,126	–	–	–	18,814,126	1.510%			

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 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 six-month period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the six-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 set out in the Corporate Governance Code contained 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. 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 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, and that regular review will be carried out to evaluate whether such arrangement would be sufficient.

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. 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.

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 will 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 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 interim report for the six months ended 30 September 2012 and has provided advice and comments thereon.

By order of the Board

Chan Chung

Chairman

Hong Kong, 14 November 2012

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.