



MOBILE TELECOM NETWORK (HOLDINGS) LIMITED
流動電訊網絡(控股)有限公司*

(incorporated in the Cayman Islands with limited liability)



ANNUAL REPORT 2003

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Chan Chung (*Chairman*)
Mr. Chan Wai Kwong, Peter

NON-EXECUTIVE DIRECTORS

Mr. Chen Man Lung
Mr. Goh Yu Min
Ms. Monica Maria Nunes

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jeffrey Matthew Bistrong
Mr. Yin Pi-tak, Peter

REGISTERED OFFICE

Huntlaw Building
P.O. Box 2804
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2805, China Resources Building
26 Harbour Road
Wanchai
Hong Kong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Leung Chun Yu, CPA (*Australia*)

COMPLIANCE OFFICER

Mr. Chan Wai Kwong, Peter

AUDIT COMMITTEE

Mr. Yin Pi-tak, Peter
Mr. Jeffrey Matthew Bistrong

AUTHORISED REPRESENTATIVES

Mr. Chan Chung
Mr. Chan Wai Kwong, Peter

SPONSORS

Kim Eng Capital (Hong Kong) Limited
Room 1901, Bank of America Tower
12 Harcourt Road
Central
Hong Kong

REXCAPITAL (Hong Kong) Limited
34th Floor, COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

AUDITORS AND REPORTING ACCOUNTANTS

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor Prince's Building
Central
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1901-5, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

Standard Chartered Bank
23rd Floor, Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

PUBLIC RELATIONS CONSULTANT

Strategic Financial Relations Limited
Unit A, 29th Floor
Admiralty Centre I
18 Harcourt Road
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Hong Kong
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WEBSITE

www.mtelnet.com

STOCK CODE

8266

SUMMARY FINANCIAL INFORMATION

RESULTS

	2003	2002	From 25 May 2000 (date of incorporation) to 31 March 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4,325	1,170	2,381
Other revenue	15	484	1,371
Materials and equipment	(1,211)	(637)	(2,238)
Employment costs	(3,053)	(9,943)	(8,057)
Research and development expenses	(2,321)	(3,066)	(5,206)
Depreciation of fixed assets	(2,487)	(2,968)	(1,362)
Other operating expenses	(3,989)	(12,153)	(10,563)
Loss from operations	(8,721)	(27,113)	(23,674)
Finance cost	(29)	—	—
Loss before taxation	(8,750)	(27,113)	(23,674)
Taxation	—	—	—
Loss attributable to shareholders	(8,750)	(27,113)	(23,674)
Loss per share			
— Basic	2.7 cents	6.7 cents	4.8 cents
ASSETS AND LIABILITIES			
Total assets	6,801	12,968	42,280
Total liabilities	(6,691)	(744)	(3,574)
Net assets	110	12,224	38,706

Notes:

- The results of the Group for the period from 25 May 2000 (date of incorporation) to 31 March 2001 and the two years ended 31 March 2003 presented above include the results of Mobile Telecom Network (Holdings) Limited (the "Company") and its subsidiaries (the "Group") with effect from 25 May 2000 or since their respective dates of incorporation /establishment, where this is a shorter period, on the basis that the current group structure had been in existence throughout the said period.
- The assets and liabilities of the Group as at 31 March 2001, 2002 and 2003 presented above include the assets and liabilities of the Company and its subsidiaries on the basis that the current group structure had been in existence as at the respective dates as set out in the prospectus dated 30 April 2003 (the "Prospectus").
- The results and assets and liabilities of the Group presented above are extracted from the consolidated income statement and consolidated balance sheet as set out on page 28 and 29 respectively.

CHAIRMAN'S STATEMENT

OPERATING RESULTS

On behalf of the directors (“the Directors”) of the Company, I am pleased to announce the first annual results of the Group since our successful listing on the GEM of the Stock Exchange on 9 May 2003 (the “Listing”). Net proceeds of approximately HK\$26 million were received with the placing of 110,000,000 shares of the Company at the placing price of HK\$0.3 per Share.

Since the Group’s establishment, we have been receiving invaluable support from our strategic shareholders. With the sufficient funding from the Listing, the unsparing support of our strategic shareholders and our current listing status, I am confident that the Group’s business development will be accelerated further.

OVERVIEW

This financial year marked a steady progression in the Group’s business though the global economy remains weak. The improvement was mainly attributable to our continuous efforts to expand our business by widening our business scope with a broadened revenue base.

During the year under review, we placed strong emphasis on research and development enabling us to stay a step ahead in the development and mastering of new data and network technology and to provide advanced services to our customers. Our self-developed integrated wireless data platform, MobileSurf, launched in October 2000, received an overwhelming response. In April 2002, we succeeded in developing GloDAN. We expect that it will further diversify the Group’s service range and widen our source of revenue.

Through our global connectivity network, we offer a spectrum of services and technologies that enable customers to deliver mobile data across the Asia Pacific region, spanning Hong Kong, China, Macau, Taiwan and Singapore. We are encouraged as we have secured a number of co-operation agreements with well-known IT and telecommunication-related companies during the year under review. We will continue to enhance our existing mobile data solutions and develop new solutions to further strengthen our customer base and capture more market share.

In view of the vast market potential in the telecommunications industry, especially with the promising industry prospects in China, the Group is making every effort to expand our mobile data solutions business in the country. To increase our overall value and competitiveness, we are seeking opportunities to create strategic alliances with mobile telecommunication operators and IT-related companies.

We believe with our well-developed technology and strategic business plans, we will be able to tap into the vast potential in the rising market and expand our market share in the region. Our Listing is a milestone for us to achieve our goal to become one of the major mobile data solutions providers in the Asia Pacific region.

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the board of Directors (the "Board"), I would like to express our appreciation to all our management and staff members for their contribution and hard work during the past year. I would also like to thank our shareholders, business partners and customers for their continuing support.

By order of the Board

Chan Chung

Chairman

Hong Kong, 27 June 2003

MANAGEMENT

DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Financial Performance

For the year ended 31 March 2003, the Group recorded a turnover of approximately HK\$4,325,000, representing an increase of 2.7 times when compared to approximately HK\$1,170,000 in the previous year. Loss attributable to shareholders fell to approximately HK\$8,750,000 (2002: HK\$27,113,000). This improvement was due to the significant contribution of our existing services as well as the expansion in the Group's business to the development of customised software and the provision of mobile messaging services that widened our source of revenue. In addition to the Group's foothold in Hong Kong and Macau, our business in the China, Singapore and Taiwan markets also brought in income during the year under review.

Segmental Information

For the year ended 31 March 2003, service fees from the provision of mobile data solutions and related services, and fees for the development of customised software contributed to the Group's major income, accounting for 38.3% and 43.5% of turnover respectively. The remaining 18.2% come from the sales of MobileSurf-installed pocket personal computers and computer accessories, subscription fees from provision of MobileSurf service and fees for provision of mobile messaging services. Among our different markets in the region, Hong Kong and Macau were the main revenue contributors, accounting for 94% of the Group's turnover, whereas China, Singapore and Taiwan brought in 5.1%, 0.6% and 0.3% respectively.

New Products and Services

To expand its service range, the Group expanded its business activities to the development of customised software and the provision of mobile messaging services during the year under review. The Group is continuing to develop new products and services to strengthen its competitive position.

Research and Development

During the review period, we relentlessly sought to enhance and develop the applications and solutions for MobileSurf with additional features. We also launched a self-developed connectivity system named GloDAN in April 2002. GloDAN allows businesses to directly reach their target customers and deliver mobile data including short message service (SMS) alerts, multimedia messages services (MMS), emails and intranet (virtual private network) (VPN) for use in businesses such as logistics, banking, entertainment and advertising. It also allows users to send ring-tones, picture messages and screen savers via their wireless terminals.

In addition, research and development activities during the review period including the development of mobile VPN security solutions, mobile workforce solution for enterprise and the MMS gateway, as well as the launch of the first generation of messaging center and micro-payment, SMS and MMS games, provided yet another significant leap forward for our business apart from broadening our revenue base and enhancing our growth momentum.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales and Marketing Activities

Capitalising on our well-developed technologies and extensive business connections, we successfully entered into additional agreements with various mobile telecommunication operators, hardware manufacturers, IT-related companies and enterprises in the region during the year under review. To list a few, we signed a SMS service agreement with SUNDAY in May 2002 and a memorandum of understanding with FarEasTone Telecommunications Co., Ltd. in Taiwan in July 2002. We also successfully built a SMS payment gateway for various enterprises including financial institutions, banks and on-line merchants. These additional agreements not only demonstrate the recognition and confidence in our services and technologies, they also widen our customer base in the market.

Aiming to enhance our corporate and product branding, we launched a series of promotional campaigns along with our business partners. For instance, we conducted a joint seminar with Compaq Computer Limited and participated in the “HP mobility platform independent software vendor alliance members” signing ceremony and the International Telecommunications Union Expo to demonstrate our state-of-the-art mobile solutions in September and December 2002 respectively.

PROSPECTS

Looking ahead, with the funds raised from the Listing, we will continue to expand our research and development capabilities to cater for increasingly sophisticated demand and to respond promptly to changing technologies. Additionally, we will strategically expand our customer base and distribution network through expansion of our sales and marketing network, establishment of sales and technical support offices in the PRC, formation of strategic alliances and joint ventures with and investment in telecommunication-related companies. In the long term, our aim is to become one of the major mobile data solutions providers in the Asia Pacific region.

Regarding research and development, we will focus on upgrading MobileSurf ensuring greater capabilities and releasing an enhanced version of GloDAN to support greater coverage. We will also engage in enhancing the first generation secure wireless communication channel, wireless multimedia content manager and remote monitoring and controlling systems. Resources will also be dedicated to the development of the first generation mobile office that will enable users to handle office tasks remotely in a 2.5G or 3G environment. To prepare for these developments, we are also upgrading our research and development facilities by acquiring additional workstations and servers.

To strengthen our brandname, we are adopting a proactive marketing strategy to enhance public awareness of our products and services by participating in seminars, exhibitions and tradeshow. To raise our overall value and competitiveness, we will continue to form strategic alliances with mobile telecommunication operators, hardware manufacturers, IT-related companies and enterprises to pursue business opportunities and conduct joint promotional and sales activities.

In view of the spectacular GDP growth in the PRC and the continuously rising living standards of its people after its entry into the WTO international economic arena, we are planning to form strategic alliances and joint ventures with and invest in telecommunication-related companies in the PRC, to benefit from a wider customer base and business connections to further expand our share in the huge and profitable PRC market. To prepare for these developments, we are also planning to set up sales and technical support offices initially in Guangdong, Shanghai and Beijing. In view of the positive signs of an economic rebound and the retreat of SARS in the Asia Pacific region, we will be doing our utmost to strengthen our foothold in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations and investing activities with internally generated cashflows and investments from its existing shareholders. During the year under review, convertible notes of HK\$4,000,000 bearing interest of 1% per annum were issued.

As at 31 March 2003, the Group had net current assets of approximately HK\$2,447,000 (2002: HK\$7,982,000), of which approximately HK\$3,620,000 (2002: HK\$8,301,000) were bank and cash balances. The Directors are confident that the Group's existing financial resources will be sufficient to satisfy its commitments and working capital requirements.

GEARING RATIO

The gearing ratio of the Group, based on total liabilities to shareholders' fund, was 60.8 as at 31 March 2003 (2002: 0.06). The increase was mainly due to the issuance of convertible notes and the accrual of listing expenses.

FOREIGN EXCHANGE EXPOSURE

The income and expenditure of the Group were denominated in Hong Kong dollars, Singapore dollars, New Taiwan dollars and RMB. In view of the stability of the exchange rate among these currencies, the Directors do not consider that the Group was significantly exposed to foreign exchange risk. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

CAPITAL STRUCTURE

As at 31 March 2003, the Group's net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders was approximately HK\$110,000 as at 31 March 2003 (2002: HK\$12,224,000).

MATERIAL ACQUISITIONS/DISPOSAL AND SIGNIFICANT INVESTMENTS

On 28 March 2003, the Group disposed of its entire interest in MTel Network (Holdings) Limited whose principal asset is its shareholding in 八達網移動互聯科技(深圳)有限公司 (MTel Mobile Internetwork Technology (Shenzhen) Co. Ltd.), a wholly foreign-owned enterprise which provided mobile data solutions and related services in the PRC prior to the disposal, at net asset value of MTel Network (Holdings) Limited.

Save as disclosed above, the Group had no material acquisitions and disposal of subsidiaries and affiliated companies during the year under review.

The Group had no significant investments during the year under review.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCE OF FUNDING

Details for the Group's future plans for material investments or capital assets and their expected source of funding have been stated in the Company's Prospectus under the section headed "Business objectives". Other than those disclosed therein, the Group did not have any plan for material investments of capital assets.

CHARGES ON THE GROUP'S ASSETS

As at 31 March 2003, the Group did not have any charges on the Group's assets.

CONTINGENT LIABILITIES

As at 31 March 2003, the Group did not have any contingent liabilities.

EMPLOYEE INFORMATION

As at 31 March 2003, the Group had a total of 20 employees in Hong Kong, Taiwan and Singapore. The Group's employees are remunerated in accordance with their work performance, experience and prevailing industry practices. The total staff costs, including directors' emoluments, amounted to approximately HK\$5,374,000 for the year under review. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

INTENDED USE OF NET PROCEEDS FROM LISTING

Subsequent to the year end date, the Shares were listed on the GEM of the Stock Exchange on 9 May 2003. The future business plans of the Group are set out in the Prospectus. The net proceeds from the Listing after deduction of all related expenses were approximately HK\$26 million.

The Group intends to apply such net proceeds as follows:

- To enhance and develop mobile data products and solutions;
- To upgrade research and development facilities;
- To form strategic alliances and joint ventures with and invest in telecommunication-related companies;
- To establish sales and technical support offices in the PRC; and
- To expand sales and marketing network and to create additional general working capital.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

DIRECTORS

Executive Directors

Mr. Chan Chung, aged 46, is a founder, an executive Director and the chairman and chief executive officer of the Group. Mr. Chan is responsible for formulating the overall business plan and the corporate strategies of the Group. Further, Mr. Chan is also a founder and a director of Silicon Genesis Corporation, a high technology company in the US. Mr. Chan has been elected a fellow of the Institute of Electrical and Electronics Engineers in the US and graduated with a doctor degree in philosophy from the University of Iowa in 1981.

Mr. Chan Wai Kwong, Peter, aged 49, is an executive Director and the chief operation officer and compliance officer of the Group. Mr. Chan is responsible for overseeing and supervising the administration of the Group. Prior to joining the Group in March 2002, Mr. Chan was a chief operation officer of ChinaInfohighway Hong Kong Limited, a total Internet solutions provider. Mr. Chan is also an executive director of REXCAPITAL International Holdings Limited, a listed company in Hong Kong. Mr. Chan graduated with a bachelor of arts degree in social science from the University of Western Ontario, Canada in 1978.

Non-executive Directors

Mr. Chen Man Lung, aged 36, was appointed as a non-executive Director in March 2002. Mr. Chen joined Culturecom as a vice president in December 1998 and is responsible for the restructuring of the business and corporate investment of Culturecom. Mr. Chen is also a chief financial officer and a deputy chief executive officer of Viagold Capital Limited, a shareholder of Culturecom and listed on the Australian Stock Exchange Limited. Mr. Chen graduated with a honours diploma in sociology from Hong Kong Baptist College in 1989 and a master degree of arts in Chinese studies from The Hong Kong University of Science and Technology in 1994. Mr. Chen has worked as an economist in a consultant firm and a bank and has over 8 years of experience in investment industry.

Mr. Goh Yu Min, aged 35, was appointed as a non-executive Director in March 2002. Mr. Goh graduated with a bachelor degree in mathematics from the University of Waterloo, Canada in 1990 and a master degree in business administration from the Nanyang Technological University, Singapore in 1997. Mr. Goh is an associate director of UOB Venture Management Pte Ltd. ("UOBVM"), a subsidiary of UOB. Mr. Goh joined UOBVM in 1997 and focuses on technology investments.

Ms. Monica Maria Nunes, aged 33, was appointed as a non-executive Director in June 2002. Ms. Nunes graduated from the University of Calgary in 1991 with a bachelor degree in commerce. Ms. Nunes is a certified management accountant awarded by the Society of Management Accountants of Alberta, Canada. Ms. Nunes joined Vodatel Holdings Limited, which became a direct wholly-owned subsidiary of Vodatel in February 2000 as a financial controller and has been appointed as an executive director of Vodatel in December 1999.

Independent Non-executive Directors

Mr. Jeffrey Matthew Bistrong, aged 40, was appointed as an independent non-executive Director in March 2002. Mr. Bistrong is a director of Harris Williams & Co, an investment banking company. Mr. Bistrong graduated with a master degree in business administration and a master degree in art from the University of Michigan in 1988.

Mr. Yin Pi-tak, Peter, aged 48, was appointed as an independent non-executive Director in December 2000. Mr. Yin is also a regional vice president of South Pacific region of Federal Express, a logistic company. He graduated with over 18 years of experience in the field of logistic. Mr. Yin holds a doctor degree in philosophy from the University of Minnesota in 1981.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

SENIOR MANAGEMENT

Ms. Chow Siu Fai, Sylvia, aged 29, joined the Group in March 2001 and was later promoted to vice president of marketing for Hong Kong market. Ms. Chow is responsible for overseeing sales and marketing affairs of the Group in Hong Kong. Ms. Chow graduated from Mitchell College with an associate degree in science in 1994 and from Georgetown University with a bachelor degree in science in marketing in 1996. Before joining the Group, Ms. Chow worked in Planet Hollywood Hong Kong Limited, a catering company, as a sales & marketing manager. Ms. Chow has over 7 years of experience in the fields of sales and marketing in several lines of business such as catering and investment holding.

Mr. Chow Wing Kin, aged 36, joined the Group in July 2001 and was later promoted to vice president of business development for China market. Mr. Chow is responsible for overseeing sales and marketing affairs of the Group in China. Mr. Chow obtained a bachelor degree in science in business administration from Suffolk University in 1992. Before joining the Group, Mr. Chow worked in Cable & Wireless HKT Schoolteam (Asia) Limited (now known as SchoolTeam (Asia) Limited), an IT company, as a senior manager. Mr. Chow has over 8 years of experience in the fields of sales and marketing in several lines of business such as publishing and banking.

Mr. Hui Wai Man, aged 27, joined the Group in July 2000 and was later promoted to senior system engineer. Mr. Hui is responsible for overseeing the engineering department of the Group. Mr. Hui graduated with a degree of Bachelor of Science (Honours) in Information Technology from City University of Hong Kong in 2001. Mr. Hui joined the Group after his graduation.

Mr. Lai Leung, aged 37, joined the Group in December 2000 and was later promoted to technical manager in programming department. Mr. Lai is responsible for overseeing the research and development affairs of the Group. Before joining the Group, Mr. Lai worked in an applications provider for e-commerce transactions as a team leader. Mr. Lai has over 10 years of experience in IT industry and Mr. Lai graduated with a degree of Bachelor of Science (Honours) in computer studies from City University of Hong Kong in 2000.

Mr. Leung Chun Yu, aged 29, joined the Group as accountant in July 2002 and promoted as financial controller in February 2003. Mr. Leung is responsible for overseeing the financial and administration affairs of the Group and is the qualified accountant and company secretary of the Group. Mr. Leung is a member of CPA, Australia. Mr. Leung graduated with a bachelor degree in accounting and a bachelor degree in computer science from the University of Auckland in 1998. Before joining the Group, Mr. Leung worked in an international CPA firm. Mr. Leung has over 4 years of experience in the fields of auditing and accounting.

Mr. Tsang Yue Shun, aged 26, has joined the Group since its inception and was promoted as the network manager in November 2000. Mr. Tsang is responsible for overseeing the network department and the sales and marketing networks of the Group. Mr. Tsang graduated with a bachelor degree in IT from City University of Hong Kong in 2001. Mr. Tsang joined the Group prior to his graduation.

Mr. Yeh Kuan I, aged 38, joined the Group as the marketing manager for Taiwan market in March 2001. Before joining the Group, Mr. Yeh worked in Chung Hwa International Communication Network Co., Ltd, an IT company, as a manager. Mr. Yeh has over 10 years of experience in the fields of sales and marketing in several lines of business such as IT and construction. Mr. Yeh graduated with a bachelor degree in economics from Chinese Cultural University in 1988.

REPORT OF THE DIRECTORS

The Directors present their first report together with the audited financial statements of the Group for the year ended 31 March 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 15 to the financial statements. The Group is principally engaged in the development, provision and sale of mobile Internet communication and related services in Hong Kong, United States of America and other Asian countries.

An analysis of the Group's performance for the year by geographical segments is set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2003 are set out in the consolidated income statement on page 28.

The Directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 19 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 20 to the financial statements.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 14 to the financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that immediately following the date on which the distribution or dividend is proposed to be made, the Company shall be able to pay off its debts as they fall due in the ordinary course of business.

As at 31 March 2003 the Company did not have any reserves available for distribution to shareholders (2002: HK\$3,971,000).

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

A summary of results, assets and liabilities of the Group for the period from 25 May 2000 (date of incorporation) to 31 March 2001 and the two years ended 31 March 2003 is set out on page 3.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

DIRECTORS

The Directors of the Company during the year under review and up to the date of this report were as follows:

Executive Directors

Mr. Chan Chung (*Chairman*)

Mr. Chan Wai Kwong, Peter

Non-executive Directors

Mr. Chen Man Lung

Mr. Goh Yu Min

Ms. Monica Maria Nunes (appointed on 17 June 2002)

Mr. Mok Chi Va, Andy (resigned on 17 June 2002)

Independent Non-Executive Directors

Mr. Jeffrey Matthew Bistrong

Mr. Yin Pi-tak, Peter

In accordance with Article 86 of the Company's Articles of Association, Ms. Monica Maria Nunes will hold office only until the forthcoming annual general meeting of the Company and, being eligible, offer herself for re-election.

In accordance with Article 87 of the Company's Articles of Association, Mr. Chen Man Lung, Mr. Chan Wai Kwong, Peter, Mr. Goh Yu Min, Mr. Jeffrey Matthew Bistrong and Mr. Yin Pi-tak, Peter will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on page 11.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of two years commencing from 27 March 2003 and which will continue thereafter until terminated by three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors was appointed for a period of two years commencing on their appointment date.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES OF THE COMPANY (THE "SHARES")

As at 31 March 2003, the Company had no notice of any interest to be recorded under Section 29 of the Securities (Disclosure of Interests) Ordinance because the Company was not listed on the GEM of the Stock Exchange on that date.

As at the date of this report, 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 (Chapter 571 of the Laws of Hong Kong) (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 5.40 to 5.58 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

Name of Directors	Capacity	Number of Shares held	Approximate percentage of issued share capital
Chan Chung	(Note)	180,265,861	41.0%
Chan Wai Kwong, Peter	Beneficial owner	4,064,036	0.9%
		<u>184,329,897</u>	<u>41.9%</u>

Note: By virtue of the SFO, Mr. Chan Chung is deemed to be interested in the 180,265,861 Shares held by Silicon Asia Limited ("Silicon"), a private company beneficially wholly owned by him.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES *(continued)*

Long positions in underlying Shares of equity derivatives - interest in option of the Company

Name of Directors	Capacity	Date of grant	Number of underlying Shares	Approximate percentage of issued share capital	Option Period	Consideration for the grant of the option HK\$	Exercise price per Share HK\$
Chan Chung <i>(Note)</i>	Beneficial owner	27 March 2003	300,000	0.068%	9 May 2004 - 8 May 2014	1.00	0.103
Chan Wai Kwong, Peter <i>(Note)</i>	Beneficial owner	27 March 2003	100,000	0.023%	9 May 2004 - 8 May 2014	1.00	0.103
			<u>400,000</u>	<u>0.910%</u>			

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

Short positions in underlying Shares of equity derivatives

Name of Director	Capacity	Number and description of equity derivatives	Number of underlying Shares	Approximate percentage of issued share capital
Chan Chung	<i>(Note 1)</i>	<i>(Note 2)</i>	1,400,000	0.32%

Notes:

- Mr. Chan Chung is deemed, by virtue of the SFO, to be interested in the short positions taken by Silicon as he is the beneficial owner of the entire issued share capital of Silicon. He is also the sole director of Silicon.
- Pursuant to an option agreement dated 28 March 2002, Silicon granted an option to OUB.com Pte Ltd pursuant to which OUB.com Pte Ltd may purchase 1,400,000 Shares from Silicon at a price of HK\$0.103 per Share (as adjusted in accordance with the terms of the agreement). The option is exercisable on any business day during the period from 9 November 2003 to 4 August 2004.

Save as disclosed above, as at the date of this report, none of the Directors and chief executives of the Company has or was deemed to have any interests or short positions in any Shares, debentures or underlying Shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to Rules 5.40 to 5.58 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDER'S INTEREST IN CONTRACTS

No contracts of significance in relation to the provision of services to the Group or the Group's business to which the Company or its subsidiaries was a party and in which Silicon, a controlling shareholder of the Company, and Mr. Chan Chung, a deemed controlling shareholder of the Company by virtue of its holding of interest in the entire issued share capital of Silicon, had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

OUTSTANDING SHARE OPTIONS

Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO Share Option Scheme, certain Directors and participants have been granted options to subscribe for Shares. Details of the share options outstanding as at 31 March 2003 which have been granted under the Pre-IPO Share Option Scheme are set out as follows:

Name	Date of grant	Granted	Number of Share options				Outstanding as at 31 March 2003	Approximate percentage of issued share capital	Exercise price per Share HK\$
			Outstanding as at 1 April 2002	Granted during the year under review	Exercised during the year under review	Cancelled during the year under review			
<i>Executive Directors</i>									
Chan Chung	27 March 2003	300,000	—	300,000	—	—	300,000	0.068	HK\$0.103
Chan Wai Kwong, Peter	23 March 2002	850,888	850,888	—	(850,888)	—	—	—	US\$0.01 (equivalent to HK\$0.078)
	27 March 2003	100,000	—	100,000	—	—	100,000	0.023	HK\$0.103
Chu Tak Long	23 March 2002	170,178	170,178	—	(170,178)	—	—	—	US\$0.01 (equivalent to HK\$0.078)
<i>Other participants</i>									
Employees in aggregate (Note)	13 August 2001	2,080,000	2,080,000	—	—	(2,080,000)	—	—	HK\$0.50
	31 October 2002	20,000	—	20,000	—	(20,000)	—	—	HK\$0.50
	27 March 2003	1,830,000	—	1,830,000	—	—	1,830,000	0.416	HK\$0.103
<i>Business consultant</i>									
Young Antony, Michael	29 May 2002	300,000	—	300,000	—	(300,000)	—	—	US\$0.071 (equivalent to HK\$0.5538)
	27 March 2003	300,000	—	300,000	—	—	300,000	0.068	HK\$0.114
			<u>3,101,066</u>	<u>2,850,000</u>	<u>(1,021,066)</u>	<u>(2,400,000)</u>	<u>2,530,000</u>	<u>0.575</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).

REPORT OF THE DIRECTORS

OUTSTANDING SHARE OPTIONS *(continued)*

Pre-IPO Share Option Scheme *(continued)*

The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme as disclosed below except for:

- (i) the subscription price per Share ranges from approximately 34.3% to 38.0% of the placing price under the Listing, depending on the employment period of the grantee and the grantee's contribution to the Group;
- (ii) the total number of Shares subject to the Pre-IPO Share Option Scheme is 2,530,000 Shares equivalent to approximately 0.58% of the issued share capital of the Company as at the date of the annual report;
- (iii) save for the options which have been granted under the Pre-IPO Share Option Scheme, no further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so will terminate on the day immediately prior to the day on which the bulk-print of the Prospectus took place; and
- (iv) the Pre-IPO Share Option Scheme contains no provisions on (a) the granting of options to connected persons (as defined in the GEM Listing Rules); (b) the restrictions of the total number of Shares which may be issued upon exercise of all the options to be granted; and (c) the maximum entitlement of a grantee under the Pre-IPO Share Option Scheme.

No share options under the Pre-IPO Share Option Scheme were exercised during the year under review.

Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme"), which was adopted pursuant to a resolution passed on 27 March 2003 for the purpose of granting options to any full-time employees, executives or officers, directors of the Company or any of the subsidiaries and any suppliers, consultants, agents and/or advisers who have contributed to the Company and/or any of its subsidiaries as incentives and rewards for their contribution to the Company and/or its subsidiaries (the "Eligible Participants"). The following is a summary of the principal terms of the Share Option Scheme:

(a) Maximum number of Shares

Pursuant to the terms of the Share Option Scheme, the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and Pre-IPO Share Option Scheme of the Company must not in aggregate exceed 44,000,000 Shares, representing 10% of the Shares in issued as at the date of commencement of dealings of the Shares on the GEM of the Stock Exchange. Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of such share options scheme(s) will not be counted for the purpose of the 10% limit.

(b) Maximum number of options to any one individual

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme(s) of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period shall not exceed 1% of the Shares in issue for the time being.

OUTSTANDING SHARE OPTIONS *(continued)*

Share Option Scheme *(continued)*

(c) Price of Shares

The subscription price for a Share in respect of any particular option granted under the Share Option Scheme (which shall be payable upon exercise of the option) shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the higher of (a) the closing price of one Share as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant and; (c) the nominal value of a share.

(d) Granting options to connected persons

Any grant of options to a Director, chief executive, management shareholder or substantial shareholder of the Company or any of their respective associates as defined in the GEM Listing Rules is required to be approved by the independent non-executive Directors (excluding an independent non-executive Director who is the grantee of the options).

If the Board proposes to grant options to a substantial shareholder (as defined in the GEM Listing Rules) of the Company or any independent non-executive Director or their respective associates (as defined in the GEM Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue on the date of the offer; and
- (ii) having an aggregate value in excess of HK\$5 million, based on the closing price of the Shares at the date of each offer,

such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the GEM Listing Rules) of the Company shall abstain from voting, and/or such other requirements prescribed under the GEM Listing Rules from time to time. A connected person (as defined in the GEM Listing Rules) of the Company will be permitted to vote against the grant only if his intention to do so has been stated in the circular.

Details of the principal terms of the Share Option Scheme are set out in the Prospectus.

No share options under the Share Option Scheme were granted up to 31 March 2003.

(e) Time of exercise of option

The date of grant and acceptance of any particular option is the date when the duplicate offer document constituting acceptance of the option duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration is received by the Company, such date must be on or before the 30th day after the option is offered to the relevant grantee. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted and accepted.

REPORT OF THE DIRECTORS

Other Options

As at 31 March 2003, other than the options under the Pre-IPO Share Option Scheme stated above, the following options to subscribe for an aggregate of 5,042,133 Shares have been granted by the Company:

Name	Date of grant	Number of Shares	Exercise price	Approximate percentage of issued Share capital
Wellen Sham	4 September 2001	3,000,000	USD0.01 (equivalent to approximately HK\$0.078)	0.7
OUB.com Pte Ltd	28 March 2002	2,042,133	HK\$0.103	0.5
		<u>5,042,133</u>		<u>1.2</u>

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, the Company had no notice of any interest to be recorded under Section 29 of the Securities (Disclosure of Interests) Ordinance because the Company was not listed on the GEM of the Stock Exchange on that date.

As at the date of this report, so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executives of the Company, the persons who have, directly or indirectly, interests or had short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long positions in Shares - interest in the Shares

Name of shareholders	Capacity	Number of Shares held	Approximate percentage of the issued share capital
Silicon	Beneficial owner	180,265,861	41.0%
Chan Chung	(Note 1)	180,265,861	41.0%
Vodatel Information Limited	Beneficial owner	31,902,233	7.3%
Vodatel Networks Holdings Limited ("Vodatel")	(Note 2)	31,902,233	7.3%
Go Capital Limited	Beneficial owner	31,902,233	7.3%
Culturecom Holdings Limited ("Culturecom")	(Note 3)	31,902,233	7.3%
Universal Line Venture Limited	Beneficial owner	31,902,233	7.3%
Chan How Chung, Victor	(Note 4)	31,902,233	7.3%
OUB.com Pte Ltd	Beneficial owner	25,269,451	5.7%
United Overseas Bank Limited ("UOB")	(Note 5)	25,269,451	5.7%
Lake Haven Limited	Beneficial owner	23,881,144	5.4%
Hutchison Whampoa Limited ("Hutchison Whampoa")	(Note 6)	23,881,144	5.4%
			<u>74%</u>

SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

- 1 Silicon, a company incorporated in BVI, is an investment holding company. Silicon is directly wholly owned by Mr. Chan Chung. Mr. Chan Chung is deemed, by virtue of the SFO, to be interested in the same 180,265,861 Shares held by Silicon.
- 2 Vodatel is deemed, by virtue of the SFO, to be interested in the 31,902,233 Shares to be held by Vodatel Information Limited as Vodatel Information Limited is a direct wholly-owned subsidiary of Vodatel Hong Kong 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 31,902,233 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 quarter report of Vodatel, as at 31 March 2003 Mr. José Manuel dos Santos and Eve Resources Limited were both interested or deemed to be interested in more than one-third of the then issued share capital of Vodatel.
- 3 Culturecom is deemed, by virtue of the SFO, to be interested in the 31,902,233 Shares to be held by Go Capital Limited as Go Capital Limited is a direct wholly-owned subsidiary of Culturecom Investments Limited which is a direct wholly-owned subsidiary of Culturecom Holdings (BVI) Limited, a direct wholly-owned subsidiary of Culturecom. Culturecom is a company incorporated in Bermuda whose shares are listed on the Main Board (Stock code 343). 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 Culturecom or in accordance with whose directions or instructions Culturecom or its directors are accustomed to act or who are otherwise taken to be interested in any shares in which Culturecom is interested under the SFO will be deemed to be interested in the 31,902,233 Shares which Culturecom is deemed to be interested in. The names and particulars of the shareholdings of such persons or corporations (if any) in Culturecom can be found in the information published by Culturecom from time to time and from the website of the Stock Exchange at www.hkex.com.hk. According to the latest interim report of Culturecom, as at 30 September 2002 no person was interested or deemed to be interested in more than one-third of the then issued share capital of Culturecom.
- 4 Mr. Chan How Chung, Victor is deemed, by virtue of the SFO, to be interested in the 31,902,233 Shares to be held by Universal Line Venture Limited as Universal Line Venture Limited is directly wholly owned by Mr. Chan How Chung, Victor.
- 5 UOB is deemed, by virtue of the SFO, to be interested in the 25,269,451 Shares to be held by OUB.com Pte Ltd as OUB.com Pte Ltd is a direct wholly-owned subsidiary of UOB. UOB is a company incorporated in Singapore, the shares of which are listed on Singapore Stock Exchange Securities Trading Limited. 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 UOB or in accordance with whose directions or instructions UOB or its directors are accustomed to act or who are otherwise taken to be interested in any shares in which UOB is interested under the SFO will be deemed to be interested in the 25,269,451 Shares which UOB will be deemed to be interested in. The names and particulars of the shareholdings of such persons or corporations (if any) in OUB can be found in the information published by OUB from time to time and from the website of Singapore Stock Exchange Securities Trading Limited at www.info.sgx.com. According to the latest annual report of OUB, as at 17 March 2003 no person was interested or deemed to be interested in more than one-third of the then issued share capital of UOB.
- 6 Hutchison Whampoa is deemed, by virtue of the SFO, to be interested in the 23,881,144 Shares to be held by Lake Haven Limited as Lake Haven Limited is an indirect wholly-owned subsidiary of Hutchison Whampoa. Hutchison Whampoa is a company incorporated in Hong Kong whose shares are listed on the Main Board (Stock code 13). 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 Hutchison Whampoa or in accordance with whose directions or instructions Hutchison Whampoa or its directors are accustomed to act or who are otherwise taken to be interested in any shares in which Hutchison Whampoa is interested under the SFO will be deemed to be interested in the 23,881,144 Shares which Hutchison Whampoa will be deemed to be interested in. The names and particulars of the shareholdings of such persons or corporations (if any) in Hutchison Whampoa can be found in the information published by Hutchison Whampoa from time to time and from the website of the Stock Exchange at www.hkex.com.hk.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS (continued)

Long positions in underlying Shares of equity derivatives - interests in options of the Company

Name	Capacity	Number of underlying Shares	Approximate percentage of the issued share capital	Exercise period	Exercise price per Share HK\$
OUB.com Pte Ltd (Note 1)	Beneficial owner	2,042,133	0.46%	9 November 2003 - 4 August 2004	0.103
UOB	(Note 2)	2,042,133	0.46%	9 November 2003 - 4 August 2004	0.103
OUB.com Pte Ltd (Note 3)	Beneficial owner	1,400,000	0.32%	9 November 2003 - 4 August 2004	0.103
UOB	(Note 4)	1,400,000	0.32%	9 November 2003 - 4 August 2004	0.103
			0.78%		

Notes:

- These share options were granted to OUB.com Pte Ltd by the Company pursuant to an option agreement dated 28 March 2002 as amended by a supplemental agreement between the same parties dated 3 April 2003.
- UOB is deemed, by virtue of the SFO, to be interested in the share options to subscribe for 2,042,133 Shares held by OUB.com Pte Ltd as OUB.com Pte Ltd is a direct wholly-owned subsidiary of UOB. UOB is a company incorporated in Singapore, the shares of which are listed on Singapore Stock Exchange Securities Trading Limited. 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 UOB or in accordance with whose directions or instructions UOB or its directors are accustomed to act or who are otherwise taken to be interested in any shares in which UOB is interested under the SFO will be deemed to be interested in the share options to subscribe for 2,042,133 Shares which UOB will be deemed to be interested in. The names and particulars of the shareholdings of such persons or corporations (if any) in UOB can be found in the information published by UOB from time to time and from the website of Singapore Stock Exchange Securities Trading Limited at www.sgx.com. According to the latest annual report of UOB, as at 17 March 2003 no person was interested or deemed to be interested in more than one-third of the then issued share capital of UOB.
- These share options were granted to OUB.com Pte Ltd by Silicon pursuant to an option agreement dated 28 March 2002.
- UOB is deemed, by virtue of the SFO, to be interested in the share options to subscribe for 1,400,000 Shares held by OUB.com Pte Ltd as OUB.com Pte Ltd is a direct wholly-owned subsidiary of UOB. UOB is a company incorporated in Singapore, the shares of which are listed on Singapore Stock Exchange Securities Trading Limited. 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 UOB or in accordance with whose directions or instructions UOB or its directors are accustomed to act or who are otherwise taken to be interested in any shares in which UOB is interested under the SFO will be deemed to be interested in the share options to subscribe for 1,400,000 Shares which UOB will be deemed to be interested in. The names and particulars of the shareholdings of such persons or corporations (if any) in UOB can be found in the information published by UOB from time to time and from the website of Singapore Stock Exchange Securities Trading Limited at www.sgx.com. According to the latest annual report of UOB, as at 17 March 2003 no person was interested or deemed to be interested in more than one-third of the then issued share capital of UOB.

SUBSTANTIAL SHAREHOLDERS (continued)**Long positions in underlying Shares of equity derivatives - interests in convertible notes of the Company** (Note 1)

Name	Capacity	Amount of convertible notes of the Company issued	Number of underlying Shares (Note 5)	Approximate percentage of issued share capital
Vodatel Information Limited	Beneficial owner	HK\$1,600,000	20,512,820	4.7%
Vodatel	(Note 2)	HK\$1,600,000	20,512,820	4.7%
Go Capital Limited	Beneficial owner	HK\$1,800,000	23,076,923	5.2%
Culturecom	(Note 3)	HK\$1,800,000	23,076,923	5.2%
Universal Line Venture Limited	Beneficial owner	HK\$1,600,000	20,512,820	4.7%
Chan How Chung, Victor	(Note 4)	HK\$1,600,000	20,512,820	4.7%
				14.6%

Notes:

- These convertible notes were issued pursuant to the subscription agreement dated 28 March 2002 entered into between the Company and Universal Line Venture Limited, Vodatel Information Limited, Go Capital Limited and OUB.com Pte Ltd as amended by a supplemental agreement dated 27 January 2003.
- Vodatel is deemed, by virtue of the SFO, to be interested in the convertible notes held by Vodatel Information Limited as Vodatel Information Limited is a direct wholly-owned subsidiary of Vodatel Hong Kong 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 convertible notes 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 quarter report of Vodatel, as at 31 March 2003 Mr. José Manuel dos Santos and Eve Resources Limited were both interested or deemed to be interested in more than one-third of the then issued share capital of Vodatel.
- Culturecom is deemed, by virtue of the SFO, to be interested in the convertible notes held by Go Capital Limited as Go Capital Limited is a direct wholly-owned subsidiary of Culturecom Investments Limited which is a direct wholly-owned subsidiary of Culturecom Holdings (BVI) Limited, a direct wholly-owned subsidiary of Culturecom. Culturecom is a company incorporated in Bermuda whose shares are listed on the Main Board (Stock code 343). 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 Culturecom or in accordance with whose directions or instructions Culturecom or its directors are accustomed to act or who are otherwise taken to be interested in any shares in which Culturecom is interested under the SFO will be deemed to be interested in the convertible notes which Culturecom is deemed to be interested in. The names and particulars of the shareholdings of such persons or corporations (if any) in Culturecom can be found in the information published by Culturecom from time to time and from the website of the Stock Exchange at www.hkex.com.hk. According to the latest interim report of Culturecom, as at 30 September 2002 no person was interested or deemed to be interested in more than one-third of the then issued share capital of Culturecom.
- Mr. Chan How Chung, Victor is deemed, by virtue of the SFO, to be interested in the convertible notes held by Universal Line Venture Limited as Universal Line Venture Limited is directly wholly owned by Mr. Chan How Chung, Victor.
- This assumes full conversion of the convertible notes at HK\$0.078 per Share based on the total number of 440,000,000 Shares in issue as at the date of this report. The conversion price of the convertible notes may change from time to time.
- During the year ended 31 March 2003, neither Vodatel Information Limited, Go Capital Limited or Universal Line Venture Limited has converted, in part or in whole, its convertible notes into Shares.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS *(continued)*

Short positions in underlying Shares of equity derivatives

Name	Capacity	Number and description of equity derivatives	Number of underlying Shares	Percentage of issued Share Capital
Silicon	<i>(Note)</i>	<i>(Note)</i>	1,400,000	0.32%

Note: Pursuant to an option agreement dated 28 March 2002, Silicon granted an option to OUB.com Pte Ltd pursuant to which OUB.com Pte Ltd may purchase 1,400,000 Shares from Silicon at a price of HK\$0.103 per Share (as adjusted in accordance with the terms of the agreement). The option is exercisable for the period from 9 November 2003 to 4 August 2004.

Save as disclosed above, as at the date of this report, the Directors are not aware of any shareholder who has directly or indirectly, an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or any options in respect of such capital.

CONNECTED TRANSACTIONS

Details of connected transactions of the Company during the year under review are set out in note 3 to the financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year under review.

SPONSORS' INTEREST

Pursuant to a sponsor agreement dated 30 April 2003 entered into between the Company and Kim Eng Capital (Hong Kong) Limited ("Kim Eng") and REXCAPITAL Hong Kong Limited ("RexCapital"), Kim Eng and RexCapital have received and will receive fees for acting as the Company's retained sponsors for the period up to 31 March 2006.

Universal Line Venture Limited is directly wholly owned by Mr. Chan How Chung, Victor. Mr. Chan How Chung, Victor is a director of RexCapital and also the chairman, executive director and a substantial shareholder of REXCAPITAL International Holdings Limited, a company incorporated in Bermuda, the shares of which are listed on the Main Board of Stock Exchange. RexCapital is an indirect wholly-owned subsidiary of REXCAPITAL International Holdings Limited.

Mr. Chan Wai Kwong, Peter, an initial management shareholder of the Company and a Director, is an executive director of REXCAPITAL International Holdings Limited.

Save as disclosed above, as at 31 March 2003, neither Kim Eng and RexCapital nor their directors, employees or their respective associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company or its subsidiaries, including options or rights to subscribe for such Shares, pursuant to Rules 6.36 and 18.63 of the GEM Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales of sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
- the largest supplier	14%
- five largest suppliers combined	48%
Sales	
- the largest customer	28%
- five largest customers combined	72%

Vodatel Information Limited, an initial management shareholder of the Company, is a wholly-owned subsidiary of Vodatel Holdings Limited which holds a 100% interest in the share capital of one of the 5 largest suppliers of the Group.

Vodatel Information Limited, an initial management shareholder of the Company, is a wholly-owned subsidiary of one of the 5 largest customers of the Group.

Go Capital Limited, an initial management shareholder of the Company, is a wholly-owned subsidiary of Culturecom Holdings (BVI) Limited which holds a 49% interest in the share capital of one of the 5 largest customers of the Group.

Universal Line Venture Limited, a significant shareholder of the Company, is wholly owned by Mr. Chan How Chung, Victor who holds a 51% interest in the share capital of one of the 5 largest customers of the Group.

Save as those disclosed above, none of the directors, their respective associates and shareholders of the Company (which to the knowledge of the directors own more than 5% of the issued share capital of the Company) had any interest in any of the five largest customers and suppliers of the Group for the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year 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.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the Listing.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of an Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive Directors, namely Mr. Yin Pi Tak, Peter and Mr. Jeffrey Matthew Bistrong.

Since its establishment, the audit committee has met once to review the results of the Group.

SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 March 2003 and up to the date of this report:

- (i) Convertible notes amounting to HK\$1,000,000 were issued to Universal Line Venture Limited and Go Capital Limited on 10 April 2003; and
- (ii) Shares were listed on the GEM of the Stock Exchange on 9 May 2003.

AUDITORS

Messrs. PricewaterhouseCoopers will retire and, being eligible, offer themselves for re-appointment. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint them.

On behalf of the Board

Chan Chung

Chairman

Hong Kong, 27 June 2003

REPORT OF THE
AUDITORS



羅兵咸永道會計師事務所

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**TO THE SHAREHOLDERS OF
MOBILE TELECOM NETWORK (HOLDINGS) LIMITED**

(Incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 28 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 March 2003 and of the group's loss and cash flows for the year then ended, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 June 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2003

	<i>Note</i>	2003 HK\$'000	2002 <i>HK\$'000</i>
Turnover	4	4,325	1,170
Other revenue	4	15	484
Materials and equipment		(1,211)	(637)
Employment costs		(3,053)	(9,943)
Research and development expenses		(2,321)	(3,066)
Depreciation of fixed assets		(2,487)	(2,968)
Other operating expenses		(3,989)	(12,153)
Loss from operations	5	(8,721)	(27,113)
Finance cost	6	(29)	—
Loss before taxation		(8,750)	(27,113)
Taxation	7	—	—
Loss attributable to shareholders	8	(8,750)	(27,113)
Loss per share			
-Basic		HK 2.7 cents	HK 6.7 cents

BALANCE SHEET

As at 31 March 2003

	Note	Consolidated		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS					
Fixed assets	14	1,662	4,242	—	—
Investment in subsidiaries	15	—	—	1,758	5,210
Investment in an associate	16	1	—	—	—
Total non-current assets		<u>1,663</u>	<u>4,242</u>	<u>1,758</u>	<u>5,210</u>
CURRENT ASSETS					
Inventories		—	38	—	—
Trade receivables	17	752	49	—	—
Deposits, prepayments and other current assets		766	338	454	—
Cash and bank deposits		3,620	8,301	3,475	7,074
Total current assets		<u>5,138</u>	<u>8,726</u>	<u>3,929</u>	<u>7,074</u>
CURRENT LIABILITIES					
Accruals and other payables		(2,640)	(564)	(1,577)	(60)
Customer deposits and receipts in advance		(51)	(180)	—	—
Total current liabilities		<u>(2,691)</u>	<u>(744)</u>	<u>(1,577)</u>	<u>(60)</u>
Net current assets		<u>2,447</u>	<u>7,982</u>	<u>2,352</u>	<u>7,014</u>
Total assets less current liabilities		<u>4,110</u>	<u>12,224</u>	<u>4,110</u>	<u>12,224</u>
NON-CURRENT LIABILITIES					
Convertible notes	18	(4,000)	—	(4,000)	—
Net assets		<u>110</u>	<u>12,224</u>	<u>110</u>	<u>12,224</u>
Representing-					
SHARE CAPITAL	19	5,323	5,310	5,323	5,310
RESERVES	20	(5,213)	6,914	(5,213)	6,914
Shareholders' equity		<u>110</u>	<u>12,224</u>	<u>110</u>	<u>12,224</u>

Chan Chung
Chairman

Peter Chan Wai Kwang
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2003

	<i>Note</i>	2003 HK\$'000	2002 <i>HK\$'000</i>
OPERATING ACTIVITIES			
Net cash outflow from operations	22(a)	(4,825)	(24,759)
Interest paid		(29)	—
Interest received		15	484
		<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Net cash used in operating activities		(4,839)	(24,275)
		<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
INVESTING ACTIVITIES			
Additions of fixed assets		(22)	(1,346)
Proceeds from disposal of fixed assets		24	4
Sales of subsidiaries, net of cash disposed	22(b)	(448)	—
Translation adjustments		1	775
		<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Net cash used in investing activities		(445)	(567)
		<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Net cash outflow before financing		(5,284)	(24,842)
		<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
FINANCING ACTIVITIES			
Proceeds from issue of convertible notes	22(c)	4,000	—
Proceeds from issue of shares		13	—
Shares issue costs		(3,410)	—
		<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Net cash from financing activities		603	—
		<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Decrease in cash and bank deposits		(4,681)	(24,842)
Cash and bank deposits, beginning of year		8,301	33,143
		<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Cash and bank deposits, end of year		3,620	8,301
		<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

CONSOLIDATED
STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2003

	<i>Note</i>	2003 HK\$'000	2002 HK\$'000
Total equity as at 1 April		12,224	38,706
Loss for the year		(8,750)	(27,113)
Issue of shares upon exercise of share options	19	13	—
Share issue costs	20	(3,410)	—
Translation adjustments	20	33	631
Total equity as at 31 March		110	12,224

NOTES TO THE ACCOUNTS

1 ORGANISATION AND OPERATIONS

Mobile Telecom Network (Holdings) Limited (the “Company”) was incorporated in the Cayman Islands on 25 May 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since 9 May 2003.

The Company is an investment holding company. Its subsidiaries are principally engaged in the development and provision of mobile data solutions and related services.

2 PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Adoption of new/revised Statements of Standard Accounting Practice

In the current year, the Company and its subsidiaries (together, the “Group”) have adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

Except for certain presentation changes which have been made upon the adoption of SSAP 1 (revised) and SSAP 15 (revised), the adoption of the above new/revised SSAPs had no significant impact on the accounts.

The 2002 comparative figures presented herein have incorporated the effect on the adoption of the new/revised SSAPs.

(b) Basis of measurement

The accounts have been prepared on the historical cost basis.

(c) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March.

(ii) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the member of the board of directors, or to cast majority votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

NOTES TO THE ACCOUNTS (CONT'D)

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Group accounting *(continued)*

(ii) Subsidiaries *(continued)*

Gain or loss on disposal of a subsidiary represents the difference between the proceeds of the disposal and the Group's share of its net assets.

In the Company's accounts, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(iii) Associate

An associate is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associate for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associate. Equity accounting is discontinued when the carrying amount of the investment in associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

(d) Turnover and revenue recognition

Turnover comprises sales of MobileSurf-installed pocket personal computers and computer accessories, subscription fees from provision of MobileSurf service, service fees from provision of mobile data solutions and related service, fees for development of customised software, and fees for provision of mobile messaging service, after allowances for returns and discount.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group, on the following basis:

(i) Sales of MobileSurf-installed pocket personal computers and computer accessories

Sales of MobileSurf-installed pocket personal computers and computer accessories is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers.

(ii) Subscription fees from provision of MobileSurf service

Subscription fees are recognised in the month during which the MobileSurf service are rendered. Revenue received in advance from subscribers is deferred and amortised on a straight-line basis over the period of the subscription agreement.

(iii) Service fees from provision of mobile data solutions and related services

Service fees are recognised when the services are rendered.

(iv) Fees for development of customised software

Fees for development of customised software are recognised by reference to the stage of completion of the related development work. Stage of completion is generally determined by reference to the services performed to date as a proportion of total services to be performed.

NOTES TO THE ACCOUNTS (CONT'D)

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Turnover and revenue recognition *(continued)*

(v) Fees for provision of mobile messaging service

Fees for provision of mobile messaging service are recognised when the message is sent to mobile phone users.

(vi) Bundled contracts

The Group enters into contracts with customers whereby sales of MobileSurf-installed pocket personal computers and computer accessories and subscription fees from provision of MobileSurf service are bundled in one contract. The contract price is divided between sales of the MobileSurf-installed pocket personal computers and computer accessories and subscription fees from the provision of MobileSurf services, and revenue is recognised in accordance with the accounting policies described in Note 2 (d) (i) and (ii) above.

(vii) Interest income

Interest income is recognised on a time-proportion basis on the principal outstanding and at the rates applicable.

(e) Taxation

Individual companies within the Group provide for profits tax on the basis of their profits for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the accounts, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

(f) Employee retirement benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group's contributions to defined contribution retirement schemes are expensed as incurred.

(g) Equity compensation benefits

Share options are granted to directors and employees at the discretion of the directors of the Company. If the options are granted at the approximate market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognised. If the options are granted at a discount on the approximate market price, a compensation cost is recognised in the profit and loss account based on the discount. When the options are exercised, the proceeds received net of any transaction costs are credited to the share capital and share premium.

NOTES TO THE ACCOUNTS (CONT'D)

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Research and development expenses

Research expenses are written off as incurred. Development expenses are also written off as incurred except for those incurred for specific projects which are deferred where recoverability can be foreseen with reasonable assurance and comply with the following criteria: (i) the product or process is clearly defined and the costs are separately identified and measured reliably; (ii) the technical feasibility of the product or process is demonstrated; (iii) the product or process will be sold or used in-house; (iv) a potential market exists for the product or process or its usefulness in the case of internal use is demonstrated; and (v) adequate technical, financial and other resources required for completion of the product or process are available.

All research and development expenses incurred during the year ended 31 March 2003 were expensed as no expenditure met the criteria for deferral.

(i) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Major expenditures on modifications and betterments of fixed assets which will result in an increase in future economic benefits are capitalised, while expenditures on maintenance and repairs of fixed assets are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Computer hardware and software	33%
Leasehold improvements	20% to 50% (lease term)
Furniture and fixtures	20%
Office equipment	20%

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from the fixed assets.

Gains and losses on disposal of fixed assets are recognised in the profit and loss account based on the net disposal proceeds less the then carrying amount of the assets.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method of costing and includes costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated normal selling price in the ordinary course of business less further costs expected to be incurred to disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

NOTES TO THE ACCOUNTS (CONT'D)

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Provisions and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are not recognised in the accounts. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. A contingent asset is not recognised in the accounts but disclosed when an inflow of economic benefits is probable.

(l) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognised in the profit and loss account. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the profit and loss account.

(m) Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate ("adjusting events") are reflected in the accounts. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(n) Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the relevant leases.

NOTES TO THE ACCOUNTS (CONT'D)

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions; monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The Group prepares consolidated accounts in Hong Kong dollars. For the purpose of consolidation, all of the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date and income and expense items of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the average applicable exchange rates during the year. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustments.

(p) Segment reporting

In accordance with the Group's internal financial report the Group has determined that geographical segments be presented as the primary reporting format. Unallocated costs represent corporate expenses, segment assets consist primarily of operating cash. Segment liabilities comprise operating liabilities and convertible notes. Capital expense comprises additions to fixed assets.

3 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or to exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Significant transactions with related parties are summarised below:

Nature of transactions/Name of related party	2003 HK\$'000	2002 HK\$'000
Service fees from provision of mobile data solutions and related services		
- Vodatel Holdings Limited (i)	780	—
- Guangzhou Videotex Information Service Company Limited (i)	222	—
	<u>1,002</u>	<u>—</u>
Fees for provision of mobile messaging service		
- United Overseas Bank Limited (ii)	50	—
	<u>50</u>	<u>—</u>

NOTES TO THE ACCOUNTS (CONT'D)

3 RELATED PARTY TRANSACTIONS *(continued)*

Significant transaction with related parties is summarised below *(continued)*:

Nature of transactions/Name of related party	2003 HK\$'000	2002 HK\$'000
Fees for development of customised software		
- Dataguard International Limited (iii)	1,201	—
- Chinese 2000 Technology Limited (iv)	400	—
	<u>1,601</u>	<u>—</u>
Sales of MobileSurf-installed pocket personal computers and computer accessories		
- Vodatel Holdings Limited (i)	—	17
	<u>—</u>	<u>17</u>
Purchase of computer accessories		
- Mega Technologia Informatica Lda (i)	169	—
	<u>169</u>	<u>—</u>

Notes:

- (i) Vodatel Holdings Limited is the holding company of Vodatel Information Limited, an initial management shareholder of the Company. Guangzhou Videotex Information Service Company Limited and Mega Technologia Informatica Lda are subsidiaries of Vodatel Holdings Limited, the holding company of Vodatel Information Limited, an initial management shareholder of the Company.
- (ii) United Overseas Bank Limited is the holding company of OUB.com Pte Ltd., an initial management shareholder of the Company.
- (iii) Dataguard International Limited was beneficially owned by Mr. Chan How Chung, Victor, who is also the beneficial owner of Universal Line Venture Limited, a significant shareholder of the Company. Dataguard International Limited has become an associate of the Group since 30 September 2002.
- (iv) Chinese 2000 Technology Limited is beneficially owned as to 49% by Culturecom Holdings Limited, an initial management shareholder of the Company.

In the opinion of the Company's Director and the Group's management, the above related party transactions were carried out in the usual course of business of the Group, on normal commercial terms and, where applicable, in accordance with the terms of the contracts entered into by the Group and the related parties.

NOTES TO
THE ACCOUNTS (CONT'D)

4 TURNOVER AND REVENUE AND SEGMENT INFORMATION

Turnover and revenue consisted of:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover		
Sales of MobileSurf-installed pocket personal computers computer accessories	498	550
Subscription fees from provision of MobileSurf service	104	287
Service fees from provision of mobile data solutions and related services	1,655	333
Fees for development of customised software	1,881	—
Fees for provision of mobile messaging service	187	—
	4,325	1,170
Interest income	15	484
Total revenue	4,340	1,654

Approximately 72% (2002: 60%) of the Group's turnover for the year was derived from its top five customers.

No segment information by business segment is presented as the Group operates in one business segment — mobile data solutions.

NOTES TO
THE ACCOUNTS (CONT'D)

4 TURNOVER AND REVENUE AND SEGMENT INFORMATION (continued)

Analysis by geographical location is as follows:

	Hong Kong/ Macau 2003 HK\$'000	Mainland China 2003 HK\$'000	Singapore 2003 HK\$'000	Taiwan 2003 HK\$'000	The United States of America 2003 HK\$'000	Total 2003 HK\$'000
Turnover*	<u>4,067</u>	<u>222</u>	<u>25</u>	<u>11</u>	<u>—</u>	<u>4,325</u>
Segment result	<u>(5,884)</u>	<u>102</u>	<u>(1,088)</u>	<u>(915)</u>	<u>(45)</u>	<u>(7,830)</u>
Unallocated cost						<u>(891)</u>
Loss from operation						<u>(8,721)</u>
Finance cost						<u>(29)</u>
Loss before taxation						<u>(8,750)</u>
Taxation						<u>—</u>
Loss for the year						<u>(8,750)</u>
Segment assets	2,413	—	133	305	21	2,872
Unallocated assets						<u>3,929</u>
Total assets						<u>6,801</u>
Segment liabilities	(955)	—	(107)	(26)	(27)	(1,115)
Unallocated liabilities						<u>(5,576)</u>
Total liabilities						<u>(6,691)</u>
Capital expenditure	22	—	—	—	—	22
Depreciation	<u>1,950</u>	<u>—</u>	<u>292</u>	<u>235</u>	<u>10</u>	<u>2,487</u>

NOTES TO
THE ACCOUNTS (CONT'D)

4 TURNOVER AND REVENUE AND SEGMENT INFORMATION (continued)

	Hong Kong/ Macau 2002 HK\$'000	Mainland China 2002 HK\$'000	Singapore 2002 HK\$'000	Taiwan 2002 HK\$'000	The United States of America 2002 HK\$'000	Total 2002 HK\$'000
Turnover*	551	19	505	95	—	1,170
Segment result	(16,254)	(125)	(2,795)	(4,134)	(1,214)	(24,522)
Unallocated cost						(2,591)
Loss from operation						(27,113)
Finance cost						—
Loss before taxation						(27,113)
Taxation						—
Loss for the year						(27,113)
Segment assets	4,127	498	713	519	31	5,888
Unallocated assets						7,080
Total assets						12,968
Segment liabilities	(547)	—	(109)	(2)	(27)	(685)
Unallocated liabilities						(59)
Total liabilities						(744)
Capital expenditure	502	8	76	760	—	1,346
Depreciation	2,302	—	344	321	1	2,968

* Turnover by geographical location is determined on the basis of the destination of delivery of merchandise or the location of rendering of services.

NOTES TO
THE ACCOUNTS (CONT'D)

5 LOSS FROM OPERATIONS

Loss from operations was determined after charging the following items:

	2003 HK\$'000	2002 <i>HK\$'000</i>
After charging-		
Staff costs (including directors' emoluments and staff redundancy cost), including amount classified as research and development expenses (<i>Note 11</i>)	5,374	13,009
Operating lease rentals of premises and facilities	972	2,781
Write-off of and provision for bad and doubtful debts	130	82
Provision for slow-moving and obsolete inventories	25	—
Depreciation of fixed assets	2,487	2,968
Loss on disposal of fixed assets	117	1,045
Net exchange loss	4	1,144
Auditors' remuneration	399	80

6 FINANCE COST

	2003 HK\$'000	2002 <i>HK\$'000</i>
Interest expense on convertible notes	29	—

NOTES TO THE ACCOUNTS (CONT'D)

7 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 British Virgin Islands income tax.

No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising in or derived from Hong Kong during the year (2002: Nil). No provision for overseas (Singapore, Taiwan, the United States of America and Mainland China) income taxes has been made as the Group operating in these countries were operating at a loss during the year (2002: Nil).

The taxation effect of the deferred tax assets, which has not been recognised in the accounts, is analysed as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Accelerated depreciation allowance of fixed assets	(191)	(538)
Tax losses	5,258	4,450
	5,067	3,912

8 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss during the year included a loss of approximately HK\$8,717,000 (2002: HK\$49,051,000) dealt with in the accounts of the Company.

9 DIVIDENDS

No dividend was paid or declared by the Company or any of its subsidiaries during the year (2002: Nil).

10 LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year of approximately HK\$8,750,000 (2002: HK\$27,113,000), and on the weighted average number of approximately 327,581,620 (2002: 407,683,000 shares) shares in issue during the year after adjusted for the capitalisation issue as described in Note 19 (iv).

No diluted loss per share for the years ended 31 March 2003 and 2002 were presented as the outstanding share options were anti-dilutive.

NOTES TO
THE ACCOUNTS (CONT'D)

11 STAFF COSTS

	2003 HK\$'000	2002 <i>HK\$'000</i>
Wages and salaries	5,159	12,559
Pension costs - defined contribution schemes	215	450
	<u>5,374</u>	<u>13,009</u>

12 EMPLOYMENT RETIREMENT BENEFITS

The Group has arranged its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK\$1,000 per month and thereafter contributions are voluntary.

The Group has arranged for its employees in Singapore to join the Central Provident Fund Scheme ("the CPF Scheme"), a defined contribution scheme managed by the Central Provident Board. Under the CPF Scheme, the Group and its Singapore employees makes monthly contributions of 16% and 20%, respectively, of the employees' earnings as defined by the Central Provident Fund Board. The contributions of the Group and the employees are subject to a cap of approximately HK\$4,300 and approximately HK\$5,300, respectively.

For the year ended 31 March 2003, the aggregate amount of the Group's contribution to the aforementioned retirement schemes was approximately HK\$215,000 (2002: HK\$450,000).

NOTES TO
THE ACCOUNTS (CONT'D)

13 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments were:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees for executive directors	—	—
Fees for non-executive directors	2	—
Fees for independent non-executive directors	2	—
Other emoluments for executive directors		
- Basic salaries and allowances	717	3,011
- Retirement contributions	12	4
	<u>733</u>	<u>3,015</u>

The number of directors whose emoluments falls within the following bands:

	2003	2002
Executive directors		
- Nil to HK\$1,000,000	2	—
- HK\$1,000,001 to HK\$1,500,000	—	1
- HK\$1,500,001 to HK\$2,000,000	—	1
Non-executive directors		
- Nil to HK\$1,000,000	5	5
	<u>7</u>	<u>7</u>

In addition to the abovementioned emolument, options were granted to directors to subscribe for 400,000 shares (2002: 3,000,000 shares) in the Company at an exercise price of HK\$0.103 per share under the Pre-IPO Share Option Scheme (See note 21(vii)).

No directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year.

During the year, the executive directors received individual emolument of approximately HK\$729,000 (2002: HK\$1,364,000) and approximately Nil (2002: HK\$1,651,000).

NOTES TO
THE ACCOUNTS (CONT'D)

13 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(continued)*

- (b) The five individuals whose emoluments were the highest in the Group for the year include one director (2002: two directors) whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining four (2002: three) individuals during the year are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Basic salaries and allowance	1,298	4,195
Retirement contributions	48	27
	1,346	4,222

The emoluments fell within the following band:

	2003	2002
Nil to HK\$1,000,000	4	3

NOTES TO
THE ACCOUNTS (CONT'D)

14 FIXED ASSETS

Movements of fixed assets (consolidated) were:

	Computer hardware and software <i>HK\$'000</i>	Leasehold improvements, furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1 April 2002	7,309	313	227	7,849
Additions	12	—	10	22
Disposals	(268)	(5)	(23)	(296)
Disposal of subsidiaries	—	(9)	—	(9)
Translation adjustments	52	—	2	54
At 31 March 2003	7,105	299	216	7,620
Accumulated depreciation				
At 1 April 2002	3,440	95	72	3,607
Provision for the year	2,381	62	44	2,487
Disposals	(145)	(2)	(8)	(155)
Disposal of subsidiaries	—	(3)	—	(3)
Translation adjustments	22	—	—	22
At 31 March 2003	5,698	152	108	5,958
Net book value				
At 31 March 2003	1,407	147	108	1,662
At 31 March 2002	3,869	218	155	4,242

NOTES TO THE ACCOUNTS (CONT'D)

15 INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries consisted of:

	2003	2002
	HK\$'000	<i>HK\$'000</i>
Unlisted shares, at cost	24,319	24,175
Due from subsidiaries	32,657	27,658
	56,976	51,833
Less: Impairment loss	(55,218)	(46,623)
	1,758	5,210

The amounts due from subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so.

The underlying value of the investment in subsidiaries is, in the opinion of the Company's Directors and the Group's management, not less than its carrying value as at 31 March 2003.

Details of the subsidiaries as at 31 March 2003 were:

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest attributable to the Group (i)	Principal activities
Mobile Telecom (BVI) Limited	British Virgin Islands	US\$100	100%	Investment holding
MTel Limited	Hong Kong	HK\$1 ordinary HK\$1,000,000 non-voting deferred (ii)	100% —	Development and provision of mobile data solutions and related services
MTel (Singapore) Pte Limited	Singapore	SG\$30,000	100%	Provision of mobile data solutions and related services
MTel (Taiwan) Limited	British Virgin Islands/ Taiwan	US\$100	100%	Provision of mobile data solutions and related services
M Telecom Corporation	The United States of America	US\$1,000	100%	Provision of liaison services

NOTES TO THE ACCOUNTS (CONT'D)

15 INVESTMENT IN SUBSIDIARIES *(continued)*

Notes:

- (i) The shares of Mobile Telecom (BVI) Limited are held directly by the Company. The shares of other subsidiaries are held indirectly.
- (ii) Holders of non-voting deferred shares have no voting rights, are not entitled to dividends and are not entitled to any distribution upon winding up unless a sum of HK\$100,000,000,000,000 has been distributed by the company to the holders of its ordinary shares.

16 INVESTMENT IN AN ASSOCIATE

Investment in an associate consisted of:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	1	—

Details of the associate as at 31 March 2003 were:

Name	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group (indirect)	Principal activities
Dataguard International Limited	British Virgin Islands/ Hong Kong	USD1,176	49%	Development and sales and marketing of Softswich

NOTES TO
THE ACCOUNTS (CONT'D)

16 INVESTMENT IN AN ASSOCIATE *(continued)*

The financial information of the associate as at 31 March 2003 is summarised as follows:

	2003 HK\$'000	2002 <i>HK\$'000</i>
Net liabilities		
- Amount due to a shareholder	<u>5</u>	<u>—</u>
Turnover	<u>—</u>	<u>—</u>
Net losses		
- Write-off of intangible assets*	<u>1,200</u>	<u>—</u>
- Others	<u>9</u>	<u>—</u>
	<u>1,209</u>	<u>—</u>

* *In the Group's consolidated accounts, the cost of investment in an associate has reflected the financial effect of an adjustment to write-off an intangible asset of HK\$1,200,000 as recorded in the accounts of associate for conformity with the Group's accounting policies. As a result, the equity accounting of the results of the associate in the profit and loss account of the Group does not have to reflect the loss arising from this write-off of the intangible asset.*

17 TRADE RECEIVABLES

The credit period granted by the Group to its customers is generally 30 days. Aging analysis of trade receivable (consolidated) is as follows:

	2003 HK\$'000	2002 <i>HK\$'000</i>
0 to 30 days	423	19
31 to 60 days	283	5
61 to 90 days	6	4
91 to 180 days	116	13
Over 180 days	<u>—</u>	<u>36</u>
	828	77
Less: Provision for bad and doubtful debts	<u>(76)</u>	<u>(28)</u>
	<u>752</u>	<u>49</u>

NOTES TO THE ACCOUNTS (CONT'D)

18 CONVERTIBLE NOTES

Pursuant to a subscription agreement dated 28 March 2002 and the related supplemental agreement dated 27 January 2003, the Company agreed to issue convertible notes up to an amount of HK\$6,000,000 to Vodatel Information Limited, Go Capital Limited and OUB.com Pte Ltd (the initial management shareholders of the Company), and Universal Line Venture Limited (significant shareholders of the Company) during the period from 15 April 2002 to 10 April 2003. As at 31 March 2003, convertible notes of HK\$4,000,000 were issued. In April 2003, additional convertible notes of HK\$1,000,000 were issued. On 10 April 2003, the subscription period for the remaining balance of HK\$1,000,000 was expired.

The convertible notes issued are unsecured, bear interest at 1% per annum, are convertible into shares of the Company based on a prescribed formula (subject to adjustment) over a period of three years from the date of issue, and are repayable upon maturity at the end of a three-year period from the date of issue if not converted or at the option of the holders of the convertible notes extend such a date to two years after a proposed listing of the Company's shares on the GEM of The Stock Exchange of Hong Kong Limited if the listing happens after one year but before the end of the three-year period of the issue of the convertible notes.

Details of the convertible notes as at 31 March 2003 are:

Holder	Amount <i>HK\$'000</i>	Date of issue	Maturity date
Universal Line Venture Limited	600	17 April 2002	9 May 2005*
	600	7 August 2002	7 August 2005
	1,200		
Vodatel Information Limited	600	17 April 2002	9 May 2005*
	600	3 August 2002	3 August 2005
	400	19 March 2003	19 March 2006
	1,600		
Go Capital Limited	600	17 April 2002	9 May 2005*
	600	7 August 2002	7 August 2005
	1,200		
	4,000		

Note:

- * In April 2003, Vodatel Information Limited, Go Capital Limited and Universal Line Venture Limited have agreed to extend the maturity date of their respective holding of convertible notes of HK\$1,800,000, in aggregate, from 17 April 2003 to 9 May 2005.

The Company is required to comply with certain financial covenants, which include, among others, the maintenance of a minimum current ratio of 1 and a maximum amount of the Group's long-term borrowings of HK\$6,000,000.

NOTES TO THE ACCOUNTS (CONT'D)

19 SHARE CAPITAL

Movements were:

	2003		2002	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised (ordinary shares of US\$0.01 each)				
At 1 April	500,000	39,000	500,000	39,000
Increase in authorised ordinary shares (i)	1,500,000	117,000	—	—
At 31 March	2,000,000	156,000	500,000	39,000
Issued and fully paid (ordinary shares of US\$0.01 each)				
At 1 April	68,071	5,310	105,813	8,253
Repurchase of shares (ii)	—	—	(37,742)	(2,943)
Issue of shares upon exercise of share options (iii)	1,021	79	—	—
	69,092	5,389	68,071	5,310
Subscription receivable (iii)	—	(66)	—	—
At 31 March	69,092	5,323	68,071	5,310

Notes:

- (i) On 27 March 2002, the Company's authorised share capital was increased from HK\$39,000,000 (equivalent of US\$5,000,000) to HK\$156,000,000 (equivalent of US\$20,000,000), by the creation of an additional 1,500,000 shares of US\$0.01 each, ranking pari passu with the then existing shares in all respects.
- (ii) On 4 September 2001, the Company repurchased 37,742,300 ordinary shares of US\$0.01 each from Mr. Wellen Sham, a former director of the Company, for a cash consideration of approximately HK\$8 (equivalent of US\$1). The repurchased shares were cancelled. The par value of the repurchased shares is transferred to the capital redemption reserve.
- (iii) During the year ended 31 March 2003, Mr. Chu Tak Long, a consultant of the Group, exercised his share options and subscribed for 170,178 shares of US\$0.01 each for cash of approximately HK\$13,000 (equivalent to US\$1,702) and Mr. Chan Wai Kwong, Peter, a director of the Company, exercised his share options and subscribed for 850,888 of US\$0.01 each for HK\$66,000 (equivalent of US\$8,509).
- (iv) On 6 May 2003, the Company issued 260,908,000 shares of US\$0.01 each to its shareholders (before the placement as described in note (v) below) in proportion of their respective shareholdings in the Company, by capitalisation of HK\$20,351,000 from the share premium resulting from the placing as described in note (v) below.
- (v) On 6 May 2003, 110,000,000 shares of US\$0.01 each were issued by way of a placing for cash of HK\$0.3 per share, raising an amount of HK\$33,000,000. Total share issue costs amounted to approximately HK\$7,600,000, of which approximately HK\$3,410,000 was incurred as at 31 March 2003 and was recorded as a deduction against shareholders' equity (see note 20).

NOTES TO
THE ACCOUNTS (CONT'D)

20 RESERVES

Consolidated

	Share premium <i>HK\$'000</i>	Capital reserve (i) <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Shares issue costs <i>HK\$'000</i>	Cumulative translation adjustments <i>HK\$'000</i>	Accumulated deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2001	38,587	16,375	—	—	—	(24,509)	30,453
Repurchase of shares	—	—	2,943	—	—	—	2,943
Loss for the year	—	—	—	—	—	(27,113)	(27,113)
Translation adjustments	—	—	—	—	631	—	631
At 31 March 2002	38,587	16,375	2,943	—	631	(51,622)	6,914
Shares issue costs	—	—	—	(3,410)	—	—	(3,410)
Loss for the year	—	—	—	—	—	(8,750)	(8,750)
Translation adjustments	—	—	—	—	33	—	33
At 31 March 2003	38,587	16,375	2,943	(3,410)	664	(60,372)	(5,213)

Company

	Share premium <i>HK\$'000</i>	Contributed surplus (ii) <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Shares issuance costs <i>HK\$'000</i>	Accumulated deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2001	38,587	16,375	—	—	(1,940)	53,022
Loss for the year	—	—	—	—	(49,051)	(49,051)
Repurchase of shares	—	—	2,943	—	—	2,943
At 31 March 2002	38,587	16,375	2,943	—	(50,991)	6,914
Loss for the year	—	—	—	—	(8,717)	(8,717)
Shares issue costs	—	—	—	(3,410)	—	(3,410)
At 31 March 2003	38,587	16,375	2,943	(3,410)	(59,708)	(5,213)

Notes:

- (i) Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of the subsidiary acquired through exchanges of shares.
- (ii) Contributed surplus represents the difference between the net asset value of a subsidiary acquired and the nominal value of the ordinary shares issued by the Company in connection with the acquisition.
- (iii) Under the Company Law of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

NOTES TO THE ACCOUNTS (CONT'D)

21 SHARE OPTIONS

Movements were:

Date of grant	Exercise price per share	As at 1 April 2002	Granted during the year	Exercised during the year	Cancelled during the year	As at 31 March 2003
13 August 2001 (i)	HK\$0.50	2,080,000	—	—	(2,080,000)	—
4 September 2001 (ii)	US\$0.01	3,000,000	—	—	—	3,000,000
23 March 2002 (iii)	US\$0.01	1,021,066	—	(1,021,066)	—	—
28 March 2002 (iv)	HK\$0.103	2,042,133	—	—	—	2,042,133
29 May 2002 (v)	US\$0.071	—	300,000	—	(300,000)	—
31 October 2002 (vi)	HK\$0.50	—	20,000	—	(20,000)	—
27 March 2003 (vii)	HK\$0.103	—	2,230,000	—	—	2,230,000
27 March 2003 (vii)	HK\$0.114	—	300,000	—	—	300,000
		<u>8,143,199</u>	<u>2,850,000</u>	<u>(1,021,066)</u>	<u>(2,400,000)</u>	<u>7,572,133</u>

Notes:

- (i) On 13 August 2001, options were granted to employees to subscribe for 2,080,000 shares of the Company at an exercise price of HK\$0.10 and HK\$0.15 per share, which were exercisable after three years from the date of grant. On 9 April 2002, the exercise price of the options granted were changed to HK\$0.50 per share. These options were cancelled upon the granting of the pre-IPO share options on 27 March 2003 as detailed in Note 21(vii).
- (ii) On 4 September 2001, options were granted to Mr. Wellen Sham, a former director of the Company, to subscribe for 3,000,000 shares in the Company at an exercise price of US\$0.01 per share. These options are exercisable upon a listing of the Company's shares on a stock exchange or immediately before a change in more than 75% interest in the issued share capital of the Company.
- (iii) On 23 March 2002, options were granted to Mr. Chan Wai Kwong, Peter, a director of the Company, and Mr. Chu Tak Long, a consultant of the Group, to subscribe for 850,888 and 170,178 shares in the Company, respectively, at an exercise price of US\$0.01 per share. There is no specified exercise period for those options. On 17 April 2002, Mr. Chu Tak Long, exercised his options and subscribed for 170,178 shares in the Company for a consideration of approximately HK\$13,000. On 21 March 2003, Mr. Chan Wai Kwong, Peter exercised his options to subscribe for 850,888 shares in the Company for a consideration of approximately HK\$66,000.
- (iv) On 28 March 2002, options were granted to OUB.com Pte Ltd, a substantial shareholder of the Company, to subscribe for 2,042,133 shares in the Company at an exercise price of HK\$0.50 per share. These options are exercisable during the 270-day period after six months from the date of listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Pursuant to a supplemental agreement dated 3 April 2003, the exercise price of these options was adjusted to HK\$0.103 per share.
- (v) On 29 May 2002, options were granted to Mr. Antony Michael Young, a consultant of the Group, to subscribe for 300,000 shares in the Company at an exercise price of HK\$0.55 per share (equivalent of US\$0.071 per share), exercisable after three years from the date of grant, in exchange for the mobile advertising and marketing business consultancy services provided by him to the Group. These options were cancelled upon the granting of pre-IPO share options on 27 March 2003 as detailed in note 21(vii).
- (vi) On 31 October 2002, options were granted to an employee to subscribe for 20,000 shares in the Company at an exercise price of HK\$0.50 per share, exercisable after three years from the date of grant. These options were cancelled upon the granting of Pre-IPO share options on 27 March 2003 as detailed in note 21(vii).

NOTES TO THE ACCOUNTS (CONT'D)

21 SHARE OPTIONS (continued)

- (vii) On 27 March 2003, options were granted to certain directors, employees and a consultant of the Group under a Pre-IPO share option scheme to subscribe for an aggregate of 2,530,000 shares in the Company at an exercise price ranging from HK\$0.103 per share to HK\$0.114 per share. These options are exercisable after 12 to 36 months from the date of listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. In connection with the granting of the aforementioned Pre-IPO share options, all options outstanding as at 31 October 2002 were cancelled except for (i) options to subscribe for 3,000,000 shares in the Company at an exercise price of US\$0.01 per share, and (ii) options to subscribe for 2,042,133 shares of the Company at an exercise price of HK\$0.103 per share
- (viii) On 27 March 2003, the Company adopted a new share option scheme under which it may grant options to any full-time employees, executives or officers, directors of the Company or its subsidiaries and any suppliers, consultants, agents and advisors who have contributed to the Group to subscribe for shares in the Company. Options granted are exercisable at any time during a period to be notified by the Board of Directors of the Company to the grantees provided that the period within which the options must be exercised shall be not more than ten years from the date of grant of the options. The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not exceed 10% of the issued share capital of the Company from time to time. The subscription price of the option shares is not to be less than the higher of (a) the closing price of one share as stated in the stock exchange's daily quotations sheet on the date of grant, (b) the average of the closing prices of the shares as stated in the stock exchange's daily quotations sheet for the five business days immediately preceding the date of grant, and (c) the nominal value of a share. As at 31 March 2003, no options were granted under this scheme.

22 CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of loss before taxation to net cash outflow from operating activities:

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(8,750)	(27,113)
Adjustments for:		
Depreciation of fixed assets	2,487	2,968
Loss on disposal of fixed assets	117	1,045
Interest expense	29	—
Interest income	(15)	(484)
Increase in investment in an associate	(1)	—
Operating loss before working capital changes	(6,133)	(23,584)
Decrease in inventories	38	621
Increase in trade receivables	(703)	(33)
(Increase)/decrease in rental and other deposits	(52)	772
Decrease in prepayments and other current assets	78	295
Increase/(decrease) in accruals and other payables	2,076	(2,912)
(Decrease)/increase in customer deposits and receipts in advance	(129)	82
Net cash used in operating activities	(4,825)	(24,759)

NOTES TO
THE ACCOUNTS (CONT'D)

22 CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of subsidiaries:

Details of the subsidiaries disposed on 28 March 2003 were as follows:

	2003 HK\$'000
Net assets disposed of	
Fixed assets	6
Cash and bank deposits	448
	<hr/> 454
Satisfied by -	
Note receivable	(454)
	<hr/> —
(Gain) /loss on disposal	<hr/> <hr/> —

Analysis of the net outflow in respect of the disposal of subsidiaries:

	2003 HK\$'000
Cash consideration	—
Cash and bank deposits disposed of	(448)
	<hr/> (448)
Net cash outflow in respect of the disposal of subsidiaries	<hr/> <hr/> (448)

(c) Analysis of changes in financing:

	Share capital and share premium HK\$'000	Share issuance costs HK\$'000	Convertible notes HK\$'000
At 1 April 2001	8,253	—	—
Repurchases of shares (Note 19 (ii))	(2,943)	—	—
	<hr/> 5,310	<hr/> —	<hr/> —
At 31 March 2002	5,310	—	—
Shares issued	79	—	—
Share issue costs	—	(3,410)	—
Issue of convertible loans	—	—	4,000
	<hr/> 5,389	<hr/> (3,410)	<hr/> 4,000
At 31 March 2003	<hr/> <hr/> 5,389	<hr/> <hr/> (3,410)	<hr/> <hr/> 4,000

NOTES TO THE ACCOUNTS (CONT'D)

23 COMMITMENTS

Total commitments under various non-cancellable operating agreements in respect of rented premises are analysed as follows:

	2003 HK\$'000	2002 <i>HK\$'000</i>
Amounts payable		
- within one year	507	825
- between one year and two years	—	393
	507	1,218

24 SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 March 2003 and up to the date of approval of these accounts:

- (a) Refer to Note 18 for details of additional issue of convertible notes.
- (b) Refer to Note 19 (iv) and (v) for details of changes in the Company's share capital.

25 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 23 June 2003.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Mobile Telecom Network (Holdings) Limited (the “Company”) will be held at Unit A, 29th Floor, Admiralty Centre I, 18 Harcourt Road, Admiralty, Hong Kong on Thursday, 21 August 2003 at 9:30 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the year ended 31 March 2003.
2. To elect directors of the Company (the “Directors”) and to authorise the board of directors of the Company (“Board of Directors”) to fix the Directors’ remuneration.
3. To appoint auditors and to authorise the Board of Directors to fix their remuneration.
4. As special business, to consider and if thought fit, pass the following resolutions with or without amendments as ordinary resolutions:

A. **“THAT**

- (a) subject to paragraph (c) of this Resolution, and pursuant to The Rules (the “GEM Listing Rules”) Governing the Listing of Securities on the Growth Enterprise Market (the “GEM”) on the Stock Exchange, the exercise by the Directors during the Relevant Period (as hereinafter defined) to allot, issue and deal with the new shares in the capital of the Company, and to make or grant offers, agreements and options which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Right Issue (as hereinafter defined); or (ii) the exercise of rights of subscription or conversion under the terms of any warrants, bonds, debentures, notes and other securities of the Company which carry rights to subscribe for or are convertible into shares of the Company; or (iii) the exercise of any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and its subsidiaries and/or other eligible persons of shares or rights to acquire shares of the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of the cash payment for a dividend on shares of the Company in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution and the said approval shall be limited accordingly;
- (d) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of :
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; and
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

NOTICE OF ANNUAL GENERAL MEETING

“Right Issue” means an offer of shares or other securities of the Company open for a period fixed by the Directors to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside the Hong Kong Special Administrative Region of the People’s Republic of China).”

B. “THAT

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to repurchase its own shares on the GEM or on any other exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, subject to and in accordance with all applicable laws and the requirements of the GEM Listing Rules or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved and authorised;
- (b) the aggregate nominal amount of the shares of the Company to be purchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, “Relevant Period” shall have the same meanings as ascribed to it under paragraph (d) of the Resolution No 4(A).”

C. “THAT

Conditional upon Resolutions 4A and 4B being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the Directors as mentioned in Resolution 4B shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to Resolution 4A above.”

On behalf of the Board

Chan Chung

Chairman

Hong Kong, 27 June 2003

NOTICE OF ANNUAL GENERAL MEETING

Head office and principal place of business:

Room 2805
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Notes:

- (1) A member of the Company entitled to attend and vote at the annual general meeting convened by the above notice is entitled to appoint another person as his proxy to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company but must attend the annual general meeting to represent the member.
- (2) In order to be valid, the form of proxy must be deposited with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Securities Limited, Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong together with any power of attorney or other authority, under which it is signed, or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting.
- (3) In the case of joint holders of any shares in the Company any one of such joint holders may vote at the annual general meeting, either in person or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the meeting, either personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such shares shall be accepted to the exclusion of the votes of the other joint registered holders.
- (4) A circular containing further details regarding the resolution set out in item 4 will be sent to the shareholders of the Company together with the annual report of the Company for the year ended March 2003.