



Mobile Telecom Network (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability)

2004
Annual Report

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The annual report, for which the directors of Mobile Telecom Network (Holdings) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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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. Jeffery Matthew Bistrong
Mr. Charles George St. John Reed

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 3401, China Resources Building
26 Harbour Road
Wan Chai
Hong Kong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Yip Heung Yin, ACCA, AHKSA

COMPLIANCE OFFICER

Mr. Chan Wai Kwong, Peter

AUDIT COMMITTEE

Mr. Charles George St. John Reed
Mr. Jeffery Matthew Bistrong

AUTHORISED REPRESENTATIVES

Mr. Chan Chung
Mr. Chan Wai Kwong, Peter

SPONSORS

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

AUDITORS AND REPORTING ACCOUNTANTS

Ting Ho Kwan & Chan
Certified Public Accountants
9th Floor Tung Ning Building
249-253 Des Voeux Road 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
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WEBSITE

www.mtelnet.com

STOCK CODE

8266

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Mobile Telecom Network (Holdings) Limited (the "Company") and our subsidiaries (the "Group"), I am delighted to announce the second annual results of the Group since our successful listing on GEM of the Stock Exchange in 2003.

OPERATING RESULTS

The financial year 2003/04 was a challenging year for the Group as the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the Asia Pacific region adversely affected the overall business environment across the world. The outbreak of SARS has created considerable negative impact on the depressing economy of Hong Kong, and the economy recovery within the region remains uncertain. Fortunately, the downside impact of SARS was compensated by the fast growing of mobile entertainment business in the region and the consolidated turnover of the Group for the year surged to HK\$11,534,000 representing an approximately 167% increase over the turnover of the corresponding financial year 2002/03.

OVERVIEW

The mobile entertainment industry continues to experience steady growth in the Asia Pacific region during the financial year 2003/04. The value of the data driven business, in which the Group operates, is seen as one of the key value drivers of the mobile business. Additionally, the launch of 3rd Generation ("3G") telecom services in Hong Kong sends a strong signal to the world that Hong Kong remains the mobile industry leader in the Asia Pacific region.

Demand for rich and diverse content is growing as data-enabled handsets become readily available and services quality improves. In 2003, only 7% of Hong Kong mobile users used their mobiles for data transaction, but this figure is expected to reach about 15% by the end of 2004. Multimedia message service ("MMS") traffic is also increasing in the region showing that the learning curve for usage is very steep.

The Group continues to operate in more developed markets in the region with Australia, Hong Kong, Singapore, Malaysia and Taiwan being its key focus markets. The Group persists in the development of services such as JAVA based sporting and information channels, localised music and picture content and gaming services, which cater for these markets and strengthen its portfolio enabling it to increase market share. Scalability of the content is the key to strong growth and performance in its operation. The Group operates now in 11 markets across the region and is able to diversify the market/country risk by doing so.

Chairman's Statement

During the year, the mobile content business was in the middle of its transition from traditional, low level services to rich content services, which will create higher entry barriers for "new players" to enter the mobile content business where the Group is already well established. The Group is able to help these companies enter the business by providing them with the opportunity to join its comprehensive distribution network. During the year, the Group was able to source new content partners from new markets such as Ireland, Turkey and Germany. The Group assists these companies to enter the Asian markets through its wide distribution network. It is vital for the Group to aggressively expand its content provider pool in order to maintain its competitive edge in content offering.

APPRECIATION

The employees are the sources of our growth and success and I am very grateful to be able to work with such a young and spirited team. 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, 31 May 2004

Management Discussion and Analysis

BUSINESS REVIEW

Financial Performance

The Group recorded a remarkable growth in turnover during the financial year ended 31 March 2004. The Group achieved a turnover amounting to HK\$11,534,000 (2003: HK\$4,325,000), representing a surge of approximately 167% over the turnover of the corresponding period in 2003. Despite the inclusion of charges by various professional parties since the listing of the Company's shares on GEM of the Stock Exchange in 2003, loss per share narrowed to HK cents 1.99 representing a significant reduction of approximately 25.5% as compared to that of the last year.

During the financial year ended 31 March 2004, service fees from provision of mobile data solutions and related services continued to be the major contributor to the Group's income, accounting for 93.1% of the Group's consolidated turnover and recording a progressive growth of approximately HK\$9,081,000 or a growth rate of approximately 550% as compared to that of the previous financial year.

Segmental Information

Among the various markets in the Asia Pacific region, Hong Kong and Macau and Australia were the main revenue contributors to the Group, accounting for 40.0% and 35.7% (2003: Hong Kong and Macau: 94.0% and Australia: Nil) respectively of the Group's turnover, while Malaysia, Singapore and Taiwan generated approximately 9.6%, 6.0% and 7.3% respectively (2003: Malaysia: Nil, Singapore: 0.6% and Taiwan: 0.3%).

New Products and Services

In order to expand its service range, the Group is continuing to develop new products and services to strengthen its competitive position.

For the year under review, the Group successfully acquired Mobilemode Limited ("Mobilemode"), a company incorporated in Hong Kong. Mobilemode is a mobile entertainment and information contents aggregator serving the needs of mobile phone operators and portals in the Asia Pacific and the People's Republic of China (the "PRC"). Mobilemode distributes the latest fun and interesting mobile entertainment applications and content including ring tones, JAVA games, MMS and other graphic content downloadable onto mobile phones. The contents are originated from the world's most advanced mobile markets in Europe and the Asia Pacific and are distributed throughout the Asia Pacific, including Hong Kong, Singapore, Malaysia, Indonesia, Australia and the PRC. The Group believes that Mobilemode will broaden and enrich the Group's business in the market of mobile data solutions in terms of both applications and contents and geographical coverage.

Management Discussion and Analysis

Recently, the program “#3222 Movie Jetso” was launched for Hutchison Telecom and by which mobile subscribers can redeem free movie tickets by downloading an M-Coupon via their mobile phones while Hutchison Telecom dispatches short message service (“SMS”) promoting the movie in return. This service is highly popular and the Group shares the revenue generated from the M-Coupon downloads with the parties involved.

The Group positions itself as a key 3G-service provider. The only true way of accessing the rich content through mobile is through 3G. During the year, the Group rolled out its first services in Hong Kong 3G market through “3”. These services included video channel, games and picture downloads.

Research and Development

During the financial year ended 31 March 2004, the Group extended its MobileSurf platform into MMS, XHTML, and JAVA Applications developments on various mobile handsets. At the same time, the operation system level optimisation for GloDAN has been upgraded with the WAP Push mechanism being built and tested with operators.

The Group has also been strengthening the development of its applications and solutions for MobileSurf with additional features.

Sales and Marketing Activities

Apart from generating substantial revenue from its recurring business with telecommunication operators during the year, the Group has expanded its business into Indonesia and has opened new operator sales channels in Australia, New Zealand, South Africa, Singapore, Indonesia and Taiwan. The Group’s sales network now covers 11 markets across the Asia Pacific region with nearly 30 telecommunication operators and the Group operates with all the local telecommunication players in Hong Kong and Taiwan. From the products’ point of view, the Group has maintained its focus on developing completely new and user-friendly services and streamlined its distribution channel to deliver third party content even further to maximise both the revenues and the potential of the Group’s service delivery engine that is connected to the operators’ infrastructure.

The Group co-operated with Hutchison Telecom to successfully launch a Soccer Betting JAVA Application in August 2003. The Group further enhanced such application by: (1) building in SMS and MMS related features on the Soccer Betting JAVA Application; and (2) extending the platform into XHTML development on Soccer Betting. The response rate has been good and services are being extended to other local telecommunication operators such as Sunday and Peoples.

Management Discussion and Analysis

The Group plans to deploy more JAVA applications with a variety of contents. With these applications, users can browse all LIVE news and reports including breaking news, local news, international news, weather and air pollution and other information around Hong Kong, etc. In addition, market information is also included in this application for financial news, currencies, stock quotes and indexes and stock portfolios, etc. Besides, the Group is working on Mobile Video with telecommunication operators including 3 from Hutchison Telecom.

Meanwhile, the Group has extended its movie channel to many local telecommunication operators so that movie trailers and movie content (MMS and wallpaper) are available for downloading and viewing by their 2.5G mobile users. Also, the Group maintains the strong position in mobile music business as well catering markets such as Australia, Singapore and Malaysia with its offering.

PROSPECT

2004 looks promising for the entire business based on positive developments in Europe and the growing and enriched content, which will create even higher natural demand for the services provided and produced by the Group. 3G services were launched in Hong Kong in January 2004 and it is also expected to be introduced soon in Singapore, Australia and Taiwan. The Group is ideally positioned to benefit from this development, as the Group is currently one of the largest 3G content providers to operators in Hong Kong.

At present, the Group covers a total of nearly 30 telecom operators in 11 markets in the Asia Pacific region. This number is expected to increase steadily in regions such as Thailand, the Philippines and Indonesia. The scale in terms of both quantity of content and operators remains the Group's strongest differentiation point.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operation and investment activities with internally generated cash flows and the balance of the net proceeds from the listing of the Company's shares on GEM on 9 May 2003.

As at 31 March 2004, the Group had net current assets of approximately HK\$25,451,000 (2003: HK\$2,447,000), of which approximately HK\$27,002,000 (2003: HK\$3,620,000) were bank balances and cash. 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' equity, was 0.47 as at 31 March 2004 (2003: 60.83). The decrease was due to the enlargement of the shareholders' equity since the listing of the Company's shares on GEM of the Stock Exchange on 9 May 2003.

Management Discussion and Analysis

FOREIGN EXCHANGE EXPOSURE

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

CAPITAL STRUCTURE

The shares of the Company were listed on GEM of the Stock Exchange on 9 May 2003. There has been no change in the capital structure of the Company since the Company's listing on that date. Up to the year ended 31 March 2004, the Group's net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders as at 31 March 2004 was approximately HK\$20,556,000 (2003: HK\$110,000).

MATERIAL ACQUISITION AND DISPOSALS/FUTURE PLANS FOR MATERIAL INVESTMENTS

Apart from the acquisition of Mobilemode during the year, the Group has no material acquisitions and disposals during the year. For details of the acquisition of Mobilemode, please refer to the section headed "Business Review" above.

The Group had no significant investments during the year.

CHARGES ON THE GROUP'S ASSETS

As at 31 March 2004, the Group did not have any charges on the Group's assets.

CONTINGENT LIABILITIES

As at 31 March 2004, the Group did not have any contingent liabilities.

EMPLOYEE INFORMATION

As at 31 March 2004, the Group had a total of 26 employees in Hong Kong, Taiwan and the PRC. The Group's employees are remunerated in accordance with their work performance, experience and prevailing industry practices. Total staff costs, including Directors' emoluments, amounted to approximately HK\$7,071,000 for the year ended 31 March 2004 (2003: HK\$5,374,000). Share options and bonuses are also available to the Group's employees at the discretion of the Directors and depending upon the financial performance of the Group.

Management Discussion and Analysis

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

The following is a summary of the actual progress of the Group compared with the business objectives set out in the prospectus of the Company dated 30 April 2003 (the "Prospectus") for the period from 9 May 2003 (the "Listing Date") to 31 March 2004:

Business Objectives as set out in the Prospectus from the Listing Date to 31 March 2004

Actual business progress from the Listing Date to 31 March 2004

1. Enhancement and development of mobile data products and solutions

MobileSurf	— to further enhance MobileSurf with greater capacities by adding new multimedia components	The Group extended its MobileSurf services in the forms of MMS, XHTML and JAVA Applications on various mobile handsets
GloDAN	— release an enhanced version of GloDAN to support greater coverage	The Group built and tested the WAP Push mechanism
Secure wireless communication channel	— upgrade the 1st generation prototype of wireless communication channel	The Group has been continuously developing its 1st generation prototype of wireless communication channel
Wireless multimedia content manager	— enhance the 1st generation of wireless multimedia content manager	The Group has been continuously developing its 1st generation of wireless multimedia content manager, a system which is used to deploy multimedia contents through wireless channel

Management Discussion and Analysis

Remote monitoring and controlling system

— enhance the 1st generation of remote monitoring and controlling system

The Group deployed SMS and E-mail alert features in the monitoring and controlling system

Mobile office

— develop the 1st generation of mobile office, a mobile application, enables users to handle office tasks remotely in a 2.5G/3G environment

The Group has marketed with enterprise customers of mobile office and other enterprise applications

2. Upgrading R&D facilities

— acquire 2 additional workstations and servers for R&D purpose

Due to the acquisition of Mobilemode which would provide additional workstations and servers for our research and development works, no other workstations and servers were acquired

3. Forming strategic alliances and joint ventures with and investing in telecommunication-related companies

— form joint venture with or invest in telecommunication-related companies in Hunan, Henan and Jiangsu, the PRC

Due to the outbreak of SARS, the Group adopted a cautious approach and did not form any joint venture with or invest in telecommunication-related companies in Hunan, Henan and Jiangsu, the PRC

The Group acquired Mobilemode (a company incorporated in Hong Kong), a mobile entertainment and information content aggregator serving the needs of mobile phone operators and portals in the Asia Pacific and the PRC

Management Discussion and Analysis

4. Establishment of sales and technical support offices in the PRC

- continue to form strategic alliances with mobile telecommunication operators, hardware manufacturers, IT-related companies including software/applications developers and enterprises to identify and pursue business opportunities, launch mobile data services and solutions and conduct joint promotional and sales activities

- established office in Guangdong province, the PRC

- start planning on setting up office in Shanghai and Beijing, the PRC

- start feasibility study on setting up sales and technical support offices in Hunan and Henan, the PRC

The Group is in negotiations with several mobile-data companies but no investment has yet been made

The Group has generated substantial revenue from recurring business with many leading telecommunication operators over the year. For example, the Group co-operated with Hutchison Telecom to successfully launch the Soccer Betting JAVA Application

During the year, the Group consistently adopted a cautious approach and did not set up an office in Guangdong province, the PRC but has appointed 1 consultant in the PRC who is stationed at Guangdong to understand the market situations

The Management has visited Shanghai and Beijing for initial investigations. The Group has appointed a consultant in Beijing and is also in discussions with companies in Shandong

Since the Group is still under the investigation progress for setting up office in Shanghai and Beijing, the feasibility study on setting up sales and technical support offices in Hunan and Henan will be postponed

Management Discussion and Analysis

5. Expansion of sales and marketing network

— continue to jointly participate in various seminars and roadshows with business partners

The Group actively participated in various seminars and roadshows with business partners

— continue to participate in/coordinate various seminars, exhibitions and tradeshow to promote and introduce the Group's existing and new services products

The Group joined a High Level Business Delegation in Beijing organised by the Hong Kong Chamber of Commerce to meet the Vice-Premier Wu Yi and other key government officials to promote and introduce the Group's existing and new services products

The Group took a booth and participated in a seminar to introduce its "Universal Content Management System" in the "IT in the 1st Conference on the Development of Chinese IT & V-Dragon CPU Trade Forum" organised by Culturecom Holdings Limited on 17 July 2003

— continue to establish and expand sales and distribution network by partnering with telecommunication companies in different regions

The Group has expanded its business to Indonesia and has opened new sales channels in Australia, New Zealand, South Africa, Singapore, Indonesia and Taiwan. The Group's sales network now covers 11 markets across the Asia Pacific region extending to almost 30 telecommunication operators

Management Discussion and Analysis

USE OF PROCEEDS

	<i>Note</i>	From the Listing Date to 31 March 2004	
		Proposed HK\$'000	Actual HK\$'000
Enhancement and development of mobile data products and solutions	1	2,940	86
Upgrading R&D facilities	2	300	0
Forming strategic alliances and joint ventures with and investing in telecommunication-related companies	3	5,000	190
Establishment of sales and technical support offices in the PRC	1	540	38
Expansion of sales and marketing network	1	500	116
Working capital	1	1,380	0
Total		10,660	430

Notes:

1. During the period from early March to late June in 2003, a few of the countries had suffered from the outbreak of SARS. In particular, Asia Pacific region countries including Hong Kong and the PRC were seriously affected. This situation also affected the Group's performance. As the Group adopted a cautious approach, the proceeds used during the year were far less than the amount estimated in the Prospectus.
2. Due to the acquisition of Mobilemode which would provide additional workstations and servers for our research and development works, no other workstations and servers were acquired during the year.
3. The actual cost shown above represents only the acquisition costs of Mobilemode. As the Group adopted a cautious approach (please refer to note 1 above for reason), the proceeds used during the year were far less than the amount estimated in the Prospectus.
4. The remaining net proceeds of approximately HK\$25.5 million will be applied according to the usage disclosed in the Prospectus.

Directors and Senior Management Profiles

DIRECTORS

Executive Directors

Mr. Chan Chung, aged 47, 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 a founder 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 50, 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 37, 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 honour 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 36, 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 Ptd Ltd. ("UOBVM"), a subsidiary of UOB. Mr. Goh joined UOBVM in 1997 and focuses on technology investments.

Directors and Senior Management Profiles

Ms. Monica Maria Nunes, aged 35, was appointed as a non-executive Director in June 2002. Ms. Nunes graduated from 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, a direct wholly-owned subsidiary of Vodatel Networks Holdings Limited (“Vodatel”), as a financial controller in May 1999 and has been appointed as an executive director of Vodatel in December 1999.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jeffery Matthew Bistrong, aged 41, 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. Charles George St. John Reed, aged 38, was appointed as an independent non-executive Director in March 2004. Mr. Reed is a director of Ntegrator Pte Ltd., an Asia wide telecommunications systems integrator. Mr. Reed graduated with a bachelor degree in engineering mathematics from the University of Bristol.

SENIOR MANAGEMENT

Mr. Jarno Salmivuori, aged 29, is the co-founder of Mobilemode, which was acquired by MTel Limited (“MTel”), an indirectly wholly owned subsidiary of the Company, in August 2003. Mr. Salmivuori acts as the CEO of Mobilemode and an Executive Vice President of MTel. He is responsible for the sales and strategy of the Group. Mr. Salmivuori has been working for Mobilemode in Hong Kong since the end of 1999. Mr. Salmivuori holds a BBA in Finance Administration and is a undergraduate-MBA in Western Sydney University. Prior to founding Mobilemode, Mr. Salmivuori held a position in the Finland office of a French drinks Group — Pernod Ricard.

Mr. Yip Heung Yin, aged 30, is the qualified accountant and company secretary of the Group. Mr. Yip joined the Group as financial controller in August 2003 and is responsible for the management of the financial and administrative affairs of the Group. Prior to that, he spent over 6 years in PricewaterhouseCoopers. He is a qualified accountant with over 7 years of experience in the fields of auditing and accounting. Mr. Yip graduated with a bachelor degree in accounting and finance from the University of Glamorgan, UK in 1996 and he is an associate member of the Hong Kong Society of Accountants and The Association of Chartered Certified Accountants.

Mr. Wong Ming Wai, aged 28, joined the Group at November 2002 and was later promoted to the Vice President of business development. Mr. Wong is responsible for developing new business and revenue streams for the Group. Mr. Wong has over 6 years experience in business development and marketing in mobile and I.T. industries. Mr. Wong holds a Bachelor of Mathematics degree from the University of Waterloo, Ontario, Canada.

Directors and Senior Management Profiles

Mr. Tsang Yue Shun, aged 27, 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. Hui Wai Man, aged 28, 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. Yeh Kuan I, aged 39, joined the Group as the marketing manager for Taiwan market in March 2001. Before joining the Group, Mr. Yeh worked in Chuna Hwa International Communication Network Co., Ltd, an IT company, as a manager. Mr. Yeh had 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 submit their report together with the audited accounts for the year ended 31 March 2004.

GROUP REORGANISATION

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. Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on GEM of the Stock Exchange (the "Listing"), the Company became the holding company of Mobile Telecom (BVI) Limited and its subsidiaries. Further details of the Reorganisation are set out in notes 1 and 19 to the accounts and in the Prospectus.

The shares of the Company were listed on the GEM of the Stock Exchange on 9 May 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 14 to the accounts. The Group is principally engaged in the development, provision and sale of mobile Internet communication telecommunications and related services in Hong Kong and other Asian countries.

An analysis of the Group's performance for the year ended 31 March 2004 by business and geographical segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2004 are set out in the consolidated profit and loss account on page 37.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 20 to the accounts.

FIXED ASSETS

Details of the movement in fixed assets of the Group are set out in note 13 to the accounts.

Report of the Directors

SHARE CAPITAL

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

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 2004 the Company did not have any reserves available for distribution to shareholders (2003: Nil)

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Memorandum and Articles of Association and there was no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the period from 25 May 2000 (date of incorporation) to 31 March 2001 and the three years ended 31 March of 2004 is set out on page 76.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

Report of the Directors

SHARE OPTIONS RULES

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

(i) 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 granted under the Pre-IPO Share Option Scheme outstanding as at 31 March 2004 are set out as below:

Name	Date of grant	Number of share options				Outstanding as at 31 March 2004	Approximate percentage of issued share capital	Option period	Consideration for the grant of the option HK\$	Exercise price per Share HK\$
		Outstanding as at 1 April 2003	Granted during the year	Exercised during the year	Lapsed during the year					
		Executive Directors								
Mr. Chan Chung	27 March 2003	300,000	—	—	—	300,000	0.068%	9 May 2003 — 8 May 2013	1.00	0.103
Mr. Chan Wai Kwong, Peter	27 March 2003	100,000	—	—	—	100,000	0.023%	9 May 2003 — 8 May 2013	1.00	0.103
Other Participants										
Employees in aggregate (Note)	27 March 2003	1,830,000	—	—	(750,000)	1,080,000	0.245%	9 May 2003 — 8 May 2013	1.00	0.103
Business Consultant										
Mr. Young Antony, Michael	27 March 2003	300,000	—	—	—	300,000	0.068%	9 May 2003 — 8 May 2013	1.00	0.114
		2,530,000	—	—	(750,000)	1,780,000	0.404%			

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

SHARE OPTIONS RULES *(Continued)*

(i) 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:

- (a) 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;
- (b) as at 31 March 2004, the total number of shares subject to the Pre-IPO Share Option Scheme is 1,780,000 shares equivalent to approximately 0.404% of the issued share capital of the Company as at the date of the annual report;
- (c) 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
- (d) the Pre-IPO Share Option Scheme contains no provisions on (i) granting of options to connected persons (as defined in the GEM Listing Rules); (ii) the restrictions of the total number of shares which may be issued upon exercise of all the options to be granted; and (iii) the maximum entitlement of a grantee under the Pre-IPO Share Option Scheme.

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

Report of the Directors

SHARE OPTIONS RULES *(Continued)*

(ii) **Share Option Scheme**

The Company operates the Share Option Scheme for the purpose of granting options to any full-time employees, executive 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 of its subsidiaries (the "Eligible Participants") as incentives and rewards for their contribution to the Company and/or its subsidiaries. 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 Scheme of the Company must not in aggregate exceed 44,000,000 shares, representing 10% of the shares in issue 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 schemes(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.

(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 (i) 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; (ii) 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 (iii) the nominal value of a share.

Report of the Directors

SHARE OPTIONS RULES *(Continued)*

(ii) Share Option Scheme *(Continued)*

(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 of the Company 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 this 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 2004. Subsequent to the balance sheet date, options were granted to employees on 26 April 2004 to subscribe for 750,000 shares of the Company at an exercise price of HK\$0.32 each, representing, in aggregate, approximately 0.17% of the existing issued share capital of the Company and the aforesaid options can be exercised in one year after the date of grant.

Report of the Directors

SHARE OPTIONS RULES *(Continued)*

(ii) Share Option Scheme *(Continued)*

(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 30 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.

DIRECTORS

The Directors of the Company during the year 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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jeffery Matthew Bistrong

Mr. Yin Pi-tak, Peter (resigned on 18 March 2004)

Mr. Charles George St. John Reed (appointed on 18 March 2004)

In accordance with Article 86(3) of the Company's Memorandum and Articles of Association, Mr. Charles George St. John Reed will hold office only until the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election.

Report of the Directors

DIRECTORS *(Continued)*

In accordance with Article 87 of the Company's Memorandum and Articles of Association, Mr. Jeffery Matthew Bistrong will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election.

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.

The non-executive Directors were appointed for a period of two-year term expiring on 26 March 2005.

The independent non-executive directors, Mr. Jeffery Matthew Bistrong and Mr. Charles George St. John Reed, were appointed for a two-year term expiring on 26 March 2005 and 17 March 2006 respectively.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries of which the unexpired period is not determinable by the Company within one year without payment of compensation other than statutory compensation.

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 of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on page 14.

Report of the Directors

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

As at 31 March 2004, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures 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) 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 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in Shares — interests in the Shares

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

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.

Long position 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\$
Mr. Chan Chung (Note)	Beneficial owner	27 March 2003	300,000	0.068%	9 May 2003 — 8 May 2013	1.00	0.103
Mr. Chan Wai Kwong, Peter (Note)	Beneficial owner	27 March 2003	100,000	0.023%	9 May 2003 — 8 May 2013	1.00	0.103
			400,000	0.091%			

Note: Share options to Mr. Chan Chung and Mr. Chan Wai Kwong, Peter were granted under the Pre-IPO Share Option Scheme. All of the above share options are physically settled equity derivatives.

Report of the Directors

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

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
Mr. Chan Chung	(Note 1)	(Note 2)	1,400,000	0.32%

Notes:

1. 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.
2. 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, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

Report of the Directors

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

As at 31 March 2004, 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 required to be entered in the register maintained by the Company pursuant to Section 336 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%
			74.0%

Notes:

1. Silicon, a company incorporated in the British Virgin Islands, 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.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Long positions in Shares — interest in the Shares *(Continued)*

Notes: *(Continued)*

2. Vodatel is deemed, by virtue of the SFO, to be interested in the 31,902,233 Shares 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 2004, 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 SFO, to be interested in the 31,902,233 Shares 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 2003, 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 held by Universal Line Venture Limited as Universal Line Venture Limited is directly wholly owned by Mr. Chan How Chung, Victor. On 14 April 2004, a deed of transfer was entered into between Universal Line Venture Limited and Vodatel Information Limited in relation to the sale of 31,902,233 Shares and the convertible notes in the principal amount of HK\$1,600,000 to Vodatel Information Limited.
5. UOB is deemed, by virtue of the SFO, to be interested in the 25,269,451 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 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 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 12 March 2004, no person was interested or deemed to be interested in more than one-third of the then issued share capital of UOB.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Long positions in Shares — interest in the Shares *(Continued)*

Notes: *(Continued)*

6. Hutchison Whampoa is deemed, by virtue of the SFO, to be interested in the 23,881,144 Shares 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 the 23,881,144 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.

Long position in underlying Shares of equity derivatives — interests in options of the Company

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

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Long position in underlying Shares of equity derivatives — interests in options of the Company *(Continued)*

Notes:

1. 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.
2. 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 12 March 2004, no person was interested or deemed to be interested in more than one-third of the then issued share capital of UOB.
3. These share options were granted to OUB.com Pte Ltd by Silicon pursuant to an option agreement dated 28 March 2002.
4. 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 those 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 annual report of UOB, as at 12 March 2004, no person was interested or deemed to be interested in more than one-third of the then issued share capital of UOB.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

Long positions in underlying Shares of equity derivatives — interests in convertible notes of the Company (Note 1)

Name of shareholders	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 2004, 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.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Long positions in underlying Shares of equity derivatives — interests in convertible notes of the Company *(Note 1) (Continued)*

Notes: *(Continued)*

- 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 2003, 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. On 14 April 2004, a deed of transfer was entered into between Universal Line Venture Limited and Vodatel Information Limited in relation to the sale of 31,902,233 Shares and the convertible notes in the principal amount of HK\$1,600,000 to Vodatel Information Limited.
- 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 2004, neither Vodatel Information Limited, Go Capital Limited or Universal Line Venture Limited has converted, in part or in whole, its convertible notes into Shares.

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 terms of the agreement). The option is exercisable for the period from 9 November 2003 to 4 August 2004.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Short positions in underlying Shares of equity derivatives *(Continued)*

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 required to be entered in the register maintained by the Company pursuant to Section 336 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.

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.

MAJOR SUPPLIERS AND CUSTOMERS

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

Purchases

— the largest supplier	4%
— five largest suppliers combined	15%

Sales

— the largest customer	13%
— five largest customers combined	33%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

Report of the Directors

BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in rules 5.34 to 5.45 of the Listing Rules.

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 report of the Directors and the auditors' report for the year ended 31 March 2004 have been reviewed by the Audit Committee of which comprises two independent non-executive directors, namely Mr. Jeffery Matthew Bistrong and Mr. Charles George St. John Reed. Two meetings were held during the current financial year.

DIRECTORS' INTEREST 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.

SPONSOR'S 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.

As certain license persons of Kim Eng, who were eligible to act as principal and assistant supervisors (as defined in the GEM Listing Rules), were deregistered as licensed persons of Kim Eng and certain deed of guarantee and undertaking given by Kim Eng Holdings (Hong Kong) Limited in favour of Kim Eng were cancelled and released, Kim Eng no longer complied with the eligibility criteria as set out in Chapter 6 of the GEM Listing Rules with effect from 30 March 2004 and had ceased its roles as continuing sponsor to the Company.

Report of the Directors

SPONSOR'S INTEREST *(Continued)*

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 the Stock Exchange. RexCapital is an indirect wholly-owned subsidiary of REXCAPITAL International Holdings Limited. On 14 April 2004, a deed of transfer was entered into between Universal Line Venture Limited and Vodatel Information Limited, an initial management shareholder of the Company, in relation to the sale of 31,902,233 Shares and the convertible notes in the principal amount of HK\$1,600,000 to Vodatel Information 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 2004, neither 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.

SUBSEQUENT EVENTS

Details of subsequent events of the Company after the balance sheet are set out in note 25 to the accounts.

AUDITORS

A resolution will be submitted at the forthcoming annual general meeting of the Company to re-appoint Ting Ho Kwan & Chan, the retiring auditors, who were appointed by the Board to fill the casual vacancy following the resignation of PricewaterhouseCoopers, as auditors.

PricewaterhouseCoopers were auditors of the Company for the financial year ended 31 March 2003.

On behalf of the Board

Chan Chung

Chairman

Hong Kong, 31 May 2004

Auditors' Report

TING HO KWAN & CHAN

Certified Public Accountants

9th Floor, Tung Ning Building

249-253 Des Voeux Road Central

Hong Kong



To the shareholders of

MOBILE TELECOM NETWORK (HOLDINGS) LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 37 to 75 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, that adjustments and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 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 of 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 2004 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.

Ting Ho Kwan & Chan

Certified Public Accountants

Hong Kong, 31 May 2004

Consolidated Profit and Loss Account

For the year ended 31 March 2004

	Note	2004 HK\$'000	2003 HK\$'000
Turnover	3	11,534	4,325
Other revenue	3	193	15
Telecom operators costs		(6,701)	—
Materials and equipment		(536)	(1,211)
Employment costs		(5,452)	(3,053)
Research and development expenses		(1,469)	(2,321)
Depreciation of fixed assets		(1,727)	(2,487)
Other operating expenses		(4,268)	(3,989)
Loss from operations	4	(8,426)	(8,721)
Finance costs	5	(51)	(29)
Loss before taxation		(8,477)	(8,750)
Taxation	6	—	—
Loss after taxation		(8,477)	(8,750)
Minority interests		(67)	—
Loss attributable to shareholders		(8,544)	(8,750)
Loss per share — basic (HK cents)	9	1.99	2.67

Balance Sheet

As at 31 March 2004

	Note	GROUP		COMPANY	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Non-current assets					
Fixed assets	13	348	1,662	—	—
Interests in subsidiaries	14	—	—	27,210	1,758
Investment in an associate	15	—	1	—	—
Total non-current assets		348	1,663	27,210	1,758
Current assets					
Trade receivables	16	1,936	752	—	—
Deposits, prepayments and other receivables		1,266	766	199	454
Bank balances and cash		27,002	3,620	49	3,475
Total current assets		30,204	5,138	248	3,929
Current liabilities					
Trade payables	17	744	—	—	—
Accruals and other payables		3,979	2,640	758	1,577
Customer deposits and receipts in advance		30	51	—	—
Total current liabilities		4,753	2,691	758	1,577
Net current assets/(liabilities)		25,451	2,447	(510)	2,352
Total assets less current liabilities		25,799	4,110	26,700	4,110
Financed by:					
Share capital	19	34,320	5,323	34,320	5,323
Reserves	20	(13,764)	(5,213)	(12,620)	(5,213)
Shareholders' funds		20,556	110	21,700	110
Non-current liabilities					
Minority interests		243	—	—	—
Convertible notes	18	5,000	4,000	5,000	4,000
		25,799	4,110	26,700	4,110

Chan Chung
Chairman

Chan Wai Kwong, Peter
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2004

	Note	2004 HK\$'000	2003 HK\$'000
Total equity as at 1 April	20	110	12,224
Loss for the year	20	(8,544)	(8,750)
Issue of shares upon exercise of share options	19	66	13
Issue of shares upon placing of new shares	19, 20	33,000	—
Shares issue expenses	20	(3,943)	(3,410)
Translation adjustments	20	(133)	33
Total equity as at 31 March		20,556	110

Consolidated Cash Flow Statement

For the year ended 31 March 2004

		2004	2003
		HK\$'000	HK\$'000
Operating activities			
Net cash outflow from operations	22(a)	(6,740)	(4,825)
Interest paid		(51)	(29)
Interest received		74	15
Net cash outflow from operating activities		(6,717)	(4,839)
Investing activities			
Additions of fixed assets		—	(22)
Proceeds from disposal of fixed assets		—	24
Purchase of subsidiaries, net of cash used	22(c)	(24)	—
Sales of subsidiaries, net of cash disposed		—	(448)
Effect of foreign exchange rate changes		—	1
Net cash outflow from investing activities		(24)	(445)
Net cash outflow before financing		(6,741)	(5,284)
Financing activities			
Proceeds from issue of convertible notes	22(b)	1,000	4,000
Proceeds from issue of shares		33,066	13
Shares issue expenses		(3,943)	(3,410)
Net cash inflow from financing		30,123	603
Increase/(decrease) in cash and cash equivalents		23,382	(4,681)
Cash and cash equivalents at 1 April		3,620	8,301
Cash and cash equivalents at 31 March		27,002	3,620
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		27,002	3,620

Notes to the Accounts

1. GROUP REORGANISATION AND BASIS OF PREPARATION

- (a) 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.
- (b) Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued capital of Mobile Telecom (BVI) Limited through a share swap and became the holding company of Mobile Telecom (BVI) Limited and its subsidiaries. Details of the Reorganisation are set out in note 19 to the accounts and in the prospectus of the Company dated 30 April 2003. The shares of the Company were listed on the GEM of the Stock Exchange on 9 May 2003.
- (c) The Reorganisation is accounted for using merger accounting as stipulated in the Hong Kong Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstruction" issued by the Hong Kong Society of Accountants ("HKSA"). The consolidated accounts of the Group for the year ended 31 March 2004, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the years presented.
- (d) The difference between the nominal value of the shares of Mobile Telecom (BVI) Limited acquired pursuant to the Reorganisation and the nominal value of the Company's shares issued in exchange therefore is dealt with in the capital reserve on consolidation.
- (e) The accounts have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKSA.
- (f) In the current year, the Group has adopted SSAP12 (revised) "Income Taxes" issued by the HKSA which is effective from accounting periods commencing on or after 1 January 2003. The adoption of the above SSAP has no material impact on the accounts of the Group.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Group accounting

(i) Consolidation

The Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the Company as the holding company of the Group from the beginning of the years presented. The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(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 members of the board of directors; or to cast majority of votes at the meeting of the board of directors.

In the Company's balance sheet, interests in subsidiaries are stated at cost less any provision for impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(iii) Associate

An associate is an entity, 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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Group accounting *(Continued)*

(iii) Associate *(Continued)*

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 an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

In the Company's balance sheet, the investment in an associate is stated at cost less any provision for impairment loss. The results of the associate are accounted for by the Company on the basis of dividends received and receivable.

(b) Negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1 January 2001, negative goodwill is presented as a deduction from assets. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

For acquisitions prior to 1 January 2001, negative goodwill was taken directly to reserves on acquisition.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) 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 2004 were expensed as no expenditure met the criteria for deferral.

(d) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any accumulated impairment loss. Major expenditures on modifications and betterments of fixed assets which will result in 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 less any accumulated impairment loss over its estimated useful life. The annual rates of depreciation are as follows:

Computer hardware and software	33% to 50%
Leasehold improvement	20% to 50% (lease term)
Furniture and fixtures	20% to 33 1/3%
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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(g) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Provision 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.

(j) 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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Employee retirement benefits *(Continued)*

(ii) Pension obligations

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

(k) Equity compensation benefits

Share options are granted to directors and to 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 market price, the discount is recognised in the profit and loss account as a compensation cost and recognised in the balance sheet as an increase to equity. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital at nominal value and share premium.

(l) 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 in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) **Taxation** *(Continued)*

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has no material effect on the prior year's net assets of the Group and its results for the current or prior year. Accordingly, no prior year adjustment is required.

(m) **Revenue recognition**

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 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 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 are recognised when the services are rendered.
- (iv) Fees for provision of mobile messaging service are recognised when the message is sent to mobile phone users.
- (v) 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.
- (vi) Interest income is recognised on a time-proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Borrowing costs

Borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(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 reporting the Group has determined that geographical segments be presented as the primary reporting format and no segment information by business segment is presented as the Group operates in one business segment — mobile data solutions.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, trade receivables and operating cash. Segment liabilities comprise operating liabilities and convertible notes. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are based on where the assets are located.

Notes to the Accounts

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the development, provision and sale of mobile Internet communication telecommunications and related services in Hong Kong and other Asian countries. Revenues recognised during the year are as follows:

	2004	2003
	HK\$'000	HK\$'000
Turnover		
Sales of MobileSurf-installed pocket personal computers and computer accessories	468	498
Subscription fees from provision of MobileSurf service	39	104
Service fees from provision of mobile data solutions and related services	10,736	1,655
Fees for development of customised software	220	1,881
Fees for provision of mobile messaging service	71	187
	11,534	4,325
Other revenue		
Interest income	74	15
Negative goodwill released	119	—
	193	15
Total revenue	11,727	4,340

Notes to the Accounts

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

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

An analysis of the Group's turnover and results for the year by geographical locations is as follows:

	Hong Kong/ Macau 2004 HK\$'000	The People's Republic of China (the "PRC") 2004 HK\$'000	Australia 2004 HK\$'000	Malaysia 2004 HK\$'000	Singapore 2004 HK\$'000	Taiwan 2004 HK\$'000	Others** 2004 HK\$'000	Total 2004 HK\$'000
Turnover *	4,616	—	4,114	1,107	696	839	162	11,534
Segment results	(6,642)	—	1,643	295	(193)	(385)	12	(5,270)
Unallocated costs								(3,156)
Loss from operations								(8,426)
Finance costs								(51)
Loss before taxation								(8,477)
Taxation								—
Loss after taxation								(8,477)
Minority interests								(67)
Loss attributable to shareholders								(8,544)
Segment assets	29,530	—	73	305	331	56	11	30,306
Unallocated assets								246
Total assets								30,552
Segment liabilities	(4,190)	—	—	—	(469)	(19)	(27)	(4,705)
Unallocated liabilities								(5,048)
Total liabilities								(9,753)
Capital expenditure	413	—	—	—	—	—	—	413
Depreciation	1,379	—	—	—	112	228	8	1,727

Notes to the Accounts

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

	Hong Kong/ Macau 2003 HK\$'000	The PRC 2003 HK\$'000	Singapore 2003 HK\$'000	Taiwan 2003 HK\$'000	Others** 2003 HK\$'000	Total 2003 HK\$'000
Turnover*	4,067	222	25	11	—	4,325
Segment results	(5,884)	102	(1,088)	(915)	(45)	(7,830)
Unallocated costs						(891)
Loss from operations						(8,721)
Finance costs						(29)
Loss before taxation						(8,750)
Taxation						—
Loss attributable to shareholders						(8,750)
Segment assets	2,413	—	133	305	21	2,872
Unallocated assets						3,929
Total assets						6,801
Segment liabilities	(955)	—	(107)	(26)	(27)	(1,115)
Unallocated liabilities						(5,576)
Total liabilities						(6,691)
Capital expenditure	22	—	—	—	—	22
Depreciation	1,950	—	292	235	10	2,487

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

** Others represent the turnover generated from the United States of America (the "USA") and Thailand.

There are no sales or other transactions between the geographical segments.

Notes to the Accounts

4. LOSS FROM OPERATIONS

Loss from operations is stated after (crediting)/charging the following:

	2004	2003
	HK\$'000	<i>HK\$'000</i>
Auditors' remuneration	210	399
Depreciation:—		
Owned assets	1,727	2,483
Leased assets	—	4
Loss on disposal of fixed assets	—	117
Net exchange (gains)/losses	(571)	4
Operating lease rentals of premises and facilities	1,135	972
Provision for bad and doubtful debts	587	130
Staff costs (including directors' emoluments and staff redundancy cost)	7,071	5,374

5. FINANCE COSTS

	2004	2003
	HK\$'000	<i>HK\$'000</i>
Interest expense on convertible notes	51	29

6. 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 the Cayman Islands income tax. Subsidiaries incorporated in the British Virgin Islands were exempted companies with limited liability under the Companies Law of the British Virgin Islands and, accordingly, are exempted from the British Virgin Islands income tax.

Notes to the Accounts

6. TAXATION (Continued)

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in or derived from Hong Kong during the year (2003: Nil). No provision for overseas (the PRC, Singapore, Taiwan and the USA) income taxes has been made as the Group operating in these countries were operating at a loss during the year (2003: Nil).

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Group as follows:

	2004	2003
	HK\$'000	HK\$'000
Loss before taxation	8,477	8,750
Calculated at a taxation rate of 17.5% (2003: 16%)	(1,483)	(1,400)
Tax effect of income not subject to taxation	(7)	(10)
Tax effect of temporary differences for the year unrecognised	173	55
Tax effect of tax losses for the year unrecognised	576	621
Effect of different tax rates of subsidiaries operating in other jurisdictions	741	734
Taxation charge	—	—

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Loss attributable to shareholders during the year included a loss of approximately HK\$7,533,000 (2003: HK\$8,717,000) dealt with in the accounts of the Company.

8. DIVIDENDS

No dividend was paid or declared by the Company or any of its subsidiaries for the year (2003: Nil).

Notes to the Accounts

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders for the year of approximately HK\$8,544,000 (2003: HK\$8,750,000), and on the weighted average number of 428,547,945 shares (2003: 327,581,620 shares) in issue during the year.

No diluted loss per share for the years ended 31 March 2004 and 2003 were presented as the outstanding share options were anti-dilutive.

10. STAFF COSTS

	2004	2003
	HK\$'000	HK\$'000
Wages and salaries	6,931	5,159
Pension costs — defined contribution schemes	140	215
	7,071	5,374

11. 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 Scheme Ordinance and up to a maximum of HK\$1,000 per employee per month (the "MPF Contributions"). The employees are required to contribute a corresponding amount to the MPF Scheme only if their relevant income is more than HK\$5,000 per month. The MPF Contributions are fully and immediately vested as accrued benefits to the employees once they are paid.

Notes to the Accounts

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	365	4
Other emoluments:		
Basic salaries, housing allowances, share options, other allowances and benefit in kind	1,985	717
Contributions to pension schemes for directors	24	12
	2,374	733

Directors' fees disclosed above include HK\$192,000 (2003: HK\$2,000) and HK\$173,000 (2003: HK\$2,000) paid to independent non-executive directors and non-executive directors respectively.

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

	2004	2003
HK\$nil to HK\$1,000,000	7	7
HK\$1,000,001 to HK\$2,000,000	1	—

The executive directors received individual emoluments for the year ended 31 March 2004 of approximately HK\$1,611,000 (2003: HK\$729,000) and approximately HK\$398,000 (2003: Nil).

During the year, no emoluments were paid by the Group to any of the above directors or the five highest paid individual as an inducement to join the Group, or as compensation for loss of office. None of them had waived any emoluments.

Notes to the Accounts

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2003: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2003: four) individuals during the year are as follows:

	2004	2003
	HK\$'000	HK\$'000
Basic salaries, housing allowances, share options, other allowances and benefit in kind	812	1,298
Contributions to pension schemes	27	48
	839	1,346

The number of the remaining three (2003: four) individuals whose emoluments fell within the following band:

	2004	2003
HK\$nil to HK\$1,000,000	3	4

Notes to the Accounts

13. FIXED ASSETS

	GROUP			
	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 2003	7,105	299	216	7,620
Acquisition of subsidiaries	386	5	22	413
At 31 March 2004	7,491	304	238	8,033
Accumulated depreciation				
At 1 April 2003	5,698	152	108	5,958
Charge for the year	1,606	51	70	1,727
At 31 March 2004	7,304	203	178	7,685
Net book value				
At 31 March 2004	187	101	60	348
At 31 March 2003	1,407	147	108	1,662

Notes to the Accounts

14. INTERESTS IN SUBSIDIARIES

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

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	24,319	24,319
Due from subsidiaries (note (i))	62,009	32,657
	86,328	56,976
Less: Impairment losses	(59,118)	(55,218)
	27,210	1,758

Details of the subsidiaries as at 31 March 2004 were:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Directly held:				
Mobile Telecom (BVI) Limited	British Virgin Islands	Investment holding in Hong Kong	100 ordinary shares of US\$1 each	100%
Indirectly held:				
MTel Limited	Hong Kong	Development and provision of mobile data solutions and related services in Hong Kong	100 ordinary shares of HK\$0.01 each 100,000,000 non-voting deferred shares of HK\$0.01 each (note (ii))	100%
MTel (Singapore) Pte Limited	Singapore	Provision of mobile data solutions and related services in Singapore	30,000 ordinary shares of SG\$1 each	100%

Notes to the Accounts

14. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
<i>Indirectly held: (Continued)</i>				
MTel (Taiwan) Limited	British Virgin Islands	Provision of mobile data solutions and related services in Taiwan	100 ordinary shares of US\$1 each	100%
M Telecom Corporation	The USA	Provision of liaison services in the USA	1,000 ordinary shares of US\$1 each	100%
Invest China Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100%
Mobilemode Limited	Hong Kong	Investment holding and the provision of mobile complete solutions for purposes of enhancing tele-operators mobile portals in Hong Kong	25,000,000 ordinary shares of HK\$0.01 each	60%
Mobilemode (Singapore) Pte Limited	Singapore	Provision of mobile complete solutions in Singapore	25,000 ordinary shares of SG\$1 each	60%
Mobilemode (Australia) Pty Limited	Australia	Provision of mobile complete solutions in Australia	100 ordinary shares of AUD\$1 each	60%
Madpulse.com Limited	Hong Kong	Investment holding in Hong Kong	10,000 ordinary shares of HK\$1 each	60%

Notes to the Accounts

14. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

- (i) The amounts due from subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so.
- (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\$100,000,000,000,000,000 has been distributed by the Company to the holders of its ordinary shares.

15. INVESTMENT IN AN ASSOCIATE

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	1	1
Less: Impairment loss	(1)	—
	—	1

Details of the associate as at 31 March 2004 were:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Dataguard International Limited	British Virgin Islands	Development and sales and marketing of Softswitch in Hong Kong	1,176 ordinary shares of US\$1 each	49%

Notes to the Accounts

16. TRADE RECEIVABLES

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

	2004	2003
	HK\$'000	HK\$'000
0 to 30 days	741	423
31 to 60 days	532	283
61 to 90 days	232	6
91 to 180 days	640	116
Over 180 days	454	—
	2,599	828
Less: Provision for bad and doubtful debts	(663)	(76)
	1,936	752

17. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	2004	2003
	HK\$'000	HK\$'000
0 to 30 days	159	—
31 to 60 days	168	—
61 to 90 days	121	—
Over 90 days	296	—
	744	—

Notes to the Accounts

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 shareholder of the Company) during the period from 15 April 2002 to 10 April 2003. As at 10 April 2003, convertible notes of HK\$5,000,000 were issued and 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 if the listing happens after one year but before the end of the three-year period of the issue of the convertible notes.

The Group's convertible notes were repayable as follows:

	2004	2003
	HK\$'000	HK\$'000
Within one year	—	—
In the second year	4,000	—
In the third to fifth year	1,000	4,000
	5,000	4,000

Notes to the Accounts

18. CONVERTIBLE NOTES (Continued)

Details of the convertible notes as at 31 March 2004 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
	400	10 April 2003	10 April 2006
	1,600		
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
	600	10 April 2003	10 April 2006
	1,800		
	5,000		

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

19. SHARE CAPITAL

	Note	Ordinary shares of US\$0.01 each	
		Number of shares	Nominal value HK\$'000
Authorised:			
At 1 April 2002	(a)	500,000,000	39,000
Increase in authorised share capital	(b)	1,500,000,000	117,000
At 31 March 2003 and 2004		2,000,000,000	156,000
Issued:			
Issue of shares upon incorporation	(a)	100	—
Issue of shares arising from the Reorganisation	(c)	99,999,900	7,800
Issue of shares	(d)	5,813,401	453
At 31 March 2001		105,813,401	8,253
Repurchase of shares	(e)	(37,742,300)	(2,943)
At 31 March 2002		68,071,101	5,310
Issue of shares upon exercise of share options	(f)	170,178	13
Issue of shares upon exercise of share options	(g)	850,888	66
Subscription receivable	(g)	—	(66)
At 31 March 2003		69,092,167	5,323
Subscription received	(g)	—	66
Shares issued pursuant to the capitalisation issue	(h)	260,907,833	20,351
Shares issued pursuant to the placing of new shares	(i)	110,000,000	8,580
At 31 March 2004		440,000,000	34,320

Notes to the Accounts

19. SHARE CAPITAL (Continued)

Notes:

- (a) The Company was incorporated in the Cayman Islands on 25 May 2000 with an initial authorised share capital of HK\$3,900 (equivalent of US\$500), divided into 50,000 shares of US\$0.01 each. 100 shares were allotted and issued as nil paid on the same date. On 31 August 2000, the Company's authorised share capital was increased from HK\$3,900 (equivalent of US\$500) to HK\$39,000,000 (equivalent of US\$5,000,000), by the creation of an additional 499,950,000 shares of US\$0.01 each ranking pari passu with the then existing shares in all respects.
- (b) 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 1,500,000,000 shares of US\$0.01 each, ranking pari passu with the then existing shares in all respects.
- (c) On 23 October 2000, 99,999,900 shares of US\$0.01 each were issued and 100 shares previously issued as nil paid were credited as fully paid, as consideration for the acquisition of the entire issued capital of MTel Network (Holdings) Limited ("MNH"), the then intermediate holding company of the Group.
- (d) On 27 October 2000, 5,813,401 shares of US\$0.01 each were issued, of which 5,290,670 shares were issued at an aggregate cash consideration of HK\$39,000,000 (equivalent of US\$5,000,000) and 522,731 shares were issued for cash at par value of HK\$40,773 (equivalent of approximately US\$5,000).
- (e) On 4 September 2001, the Company repurchased 37,742,300 ordinary shares of US\$0.01 each 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.
- (f) On 17 April 2002, Mr. Chu Tak Long, a consultant of the Group, exercised his options and subscribed for 170,178 shares of US\$0.01 each for cash of approximately HK\$13,000 (equivalent of US\$1,702).
- (g) On 21 March 2003, Mr. Chan Wai Kwong, Peter, an executive director of the Group, exercised his options and subscribed for 850,888 shares of US\$0.01 each for cash of approximately HK\$66,000 (equivalent of US\$8,509) of which was not received until 30 April 2003.
- (h) On 6 May 2003, the Company issued 260,907,833 shares of US\$0.01 each to its shareholders (before the placement as described in note 19(i) below) in proportion of their respective shareholdings in the Company, by capitalisation of approximately HK\$20,351,000 (equivalent of US\$2,609,078) from the share premium resulting from the placing as described in note 19(i) below.
- (i) On 6 May 2003, 110,000,000 shares of US\$0.01 each were issued by way of placing for cash of HK\$0.3 per share, raising an amount of HK\$33,000,000 (equivalent of US\$4,230,769). Total share issue costs amounted to approximately HK\$7,400,000, of which approximately HK\$3,410,000 was incurred as at 31 March 2003, and the whole amount was recorded as a deduction against shareholders' equity.

Notes to the Accounts

20. RESERVES

	GROUP						
	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i> <i>Note (i)</i>	Capital redemption reserve <i>HK\$'000</i>	Shares issue expenses <i>HK\$'000</i>	Cumulative translation adjustments <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	38,587	16,375	2,943	—	631	(51,622)	6,914
Translation adjustments	—	—	—	—	33	—	33
Shares issue expenses	—	—	—	(3,410)	—	—	(3,410)
Loss for the year	—	—	—	—	—	(8,750)	(8,750)
At 31 March 2003	38,587	16,375	2,943	(3,410)	664	(60,372)	(5,213)
At 1 April 2003	38,587	16,375	2,943	(3,410)	664	(60,372)	(5,213)
Translation adjustments	—	—	—	—	(133)	—	(133)
Shares issued pursuant to capitalisation issue	(20,351)	—	—	—	—	—	(20,351)
Shares issued pursuant to the placing of new shares	24,420	—	—	—	—	—	24,420
Shares issue expenses	(7,353)	—	—	3,410	—	—	(3,943)
Loss for the year	—	—	—	—	—	(8,544)	(8,544)
At 31 March 2004	35,303	16,375	2,943	—	531	(68,916)	(13,764)

Notes to the Accounts

20. RESERVES (Continued)

	COMPANY					
	Share premium	Contributed surplus	Capital redemption reserve	Shares issue expenses	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002	38,587	16,375	2,943	—	(50,991)	6,914
Shares issue expenses	—	—	—	(3,410)	—	(3,410)
Loss for the year	—	—	—	—	(8,717)	(8,717)
At 31 March 2003	38,587	16,375	2,943	(3,410)	(59,708)	(5,213)
At 1 April 2003	38,587	16,375	2,943	(3,410)	(59,708)	(5,213)
Shares issued pursuant to capitalisation issue	(20,351)	—	—	—	—	(20,351)
Shares issued pursuant to the placing of new shares	24,420	—	—	—	—	24,420
Shares issue expenses	(7,353)	—	—	3,410	—	(3,943)
Loss for the year	—	—	—	—	(7,533)	(7,533)
At 31 March 2004	35,303	16,375	2,943	—	(67,241)	(12,620)

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 exchange 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 Companies 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

21. SHARE OPTIONS

The Company adopted a Pre-IPO Share Option Scheme (the "Pre-IPO Share Option Scheme") and a Share Option Scheme (the "Share Option Scheme") on 27 March 2003.

The purposes of the share option schemes are to provide incentives or rewards for any full-time employees, executives or officers, directors of the Company or any of the subsidiaries and any suppliers, consultants, agents and/or advisors who have contributed to the Company and/or any of its subsidiaries.

(i) Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO Share Option Scheme, the Company had granted Pre-IPO share options to two executive directors, one business consultant and employees. The options granted under the Pre-IPO Share Option Scheme entitle the holders to subscribe for a total of up to 2,530,000 shares at exercise prices ranging from HK\$0.103 to HK\$0.114 each, representing, in aggregate, approximately 0.58% of the existing issued share capital of the Company. All of the options have duration of ten years from 9 May 2003 to 8 May 2013. There are restrictions to options holders that 83.8%, 10.1% and 6.1% of the options granted under the Pre-IPO Share Option Scheme are only exercisable by the options holders after the expiry of 12, 24 and 36 months from 9 May 2003 respectively.

Movements in the number of share options outstanding during the year are as follows:

	Number of options	
	2004	2003
At 1 April 2003 and 2002	2,530,000	—
Options granted under the Pre-IPO Share Option Scheme	—	2,530,000
Lapsed	(750,000)	—
At 31 March	1,780,000	2,530,000

Notes to the Accounts

21. SHARE OPTIONS *(Continued)*

(ii) Share Option Scheme

Pursuant to the Share Option Scheme, the Company may grant share options to any full-time employees, executive 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 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 quotation sheet on the date of grant, (b) the average of the closing price 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 2004, no options were granted under the Share Option Scheme but on 26 April 2004 options were granted to employees to subscribe for 750,000 shares of the Company at an exercise price of HK\$0.32 each, representing, in aggregate, approximately 0.17% of the existing issued share capital of the Company and the aforesaid options were exercisable after one year from the date of grant.

(iii) Other Options

On 4 September 2001, options were granted to a former director of the Company to subscribe for 3,000,000 shares in the Company at an exercise price of HK\$0.078 (equivalent of US\$0.01) per share. These options are exercisable upon a listing of the Company shares on a stock exchange.

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 (equivalent of US\$0.064) per share. These options are exercisable during the 270-days period after six months from the date of listing of the Company's shares on the GEM of the Stock Exchange. Pursuant to a supplemental agreement dated 3 April 2003, the exercise price of these options was adjusted to HK\$0.103 per share (equivalent of US\$0.013).

Notes to the Accounts

22. CONSOLIDATED CASH FLOW STATEMENT

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

	2004	2003
	HK\$'000	<i>HK\$'000</i>
Loss before taxation	(8,477)	(8,750)
Adjustments for:		
Depreciation of fixed assets	1,727	2,487
Loss on disposal of fixed assets	—	117
Interest expense	51	29
Interest income	(74)	(15)
Increase in investment in an associate	—	(1)
Provision for impairment loss of investment in an associate	1	—
Negative goodwill released	(119)	—
Operating loss before working capital changes	(6,891)	(6,133)
Decrease in inventories	—	38
Increase in trade receivables	(233)	(703)
(Increase)/decrease in deposits, prepayments and other receivables	(71)	26
Increase in trade payables	569	—
(Decrease)/increase in accruals and other payables	(93)	2,076
Decrease in customer deposits and receipts in advance	(21)	(129)
Net cash used in operating activities	(6,740)	(4,825)

Notes to the Accounts

22. CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing:

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Shares issue expenses <i>HK\$'000</i>	Convertible notes <i>HK\$'000</i>
At 1 April 2002	5,310	38,587	—	—
Cash inflow from issuance of shares (<i>note 19(f)</i>)	13	—	—	—
Shares issue expenses	—	—	(3,410)	—
Issue of convertible notes	—	—	—	4,000
At 31 March 2003	5,323	38,587	(3,410)	4,000
Cash inflow from issuance of shares (<i>notes 19(g) & (i)</i>)	8,646	24,420	—	—
Shares issue expenses	—	—	(3,943)	—
Offset shares issue expenses against share premium	—	(7,353)	7,353	—
Issue of shares for non-cash considerations (<i>note 19(h)</i>)	20,351	(20,351)	—	—
Issue of convertible notes	—	—	—	1,000
At 31 March 2004	34,320	35,303	—	5,000

Notes to the Accounts

22. CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Purchase of subsidiaries:

	2004 HK\$'000
Net assets acquired	
Fixed assets	413
Trade receivables	951
Deposits, prepayments and other receivables	429
Bank balances and cash	126
Trade payables	(20)
Accruals and other payables	(1,451)
Minority shareholder's interest	(179)
	269
Negative goodwill	(119)
	150
Satisfied by:	
Cash	150

Analysis of the cash outflow in respect of the purchase of subsidiaries:

	2004 HK\$'000
Cash consideration	(150)
Bank balances and cash acquired	126
Net cash outflow in respect of the purchase of subsidiaries	(24)

Notes to the Accounts

23. DEFERRED TAXATION

Deferred tax (assets)/liabilities have not been recognised in respect of the following items:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Taxable temporary differences	1,011	53
Unused tax losses	(69,084)	(32,863)
	(68,073)	(32,810)

The unused tax losses do not expire under current tax legislation.

24. COMMITMENTS

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Amounts payable		
— Not later than one year	549	507
— Later than one year and not later than five years	474	—
	1,023	507

Notes to the Accounts

25. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 March 2004 and up to the date of approval of these accounts:

- (a) On 14 April 2004, a deed of transfer was entered into between Vodatel Information Limited and Universal Line Venture Limited, an initial management shareholder and a substantial shareholder respectively of the Company, in relation to purchase and sale of 31,902,233 shares and the convertible notes in the principal amount of HK\$1,600,000. Immediately after the transaction, the shareholding interest of Vodatel Information Limited in the Company will increase to approximately 14.6% and it will hold convertible notes in the aggregate principal amount of HK\$3,200,000, which could be converted into 41,025,640 shares of the Company at HK\$0.078 per share representing 9.3% of existing issued share capital of the Company.
- (b) Refer to Note 21(ii) for details of granting share options on 26 April 2004 under the Share Option Scheme.

26. APPROVAL OF ACCOUNTS

The accounts were approved and authorised for issue by the board of directors on 31 May 2004.

Financial Summary

The following is summary of the published results and assets and liabilities of the Group for the prior financial years prepared on the basis set out in the note below:

RESULTS

	Year ended 31 March			
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	From 25 May 2000 (date of incorporation) to 31 March 2001 HK\$'000
Turnover	11,534	4,325	1,170	2,381
Loss attributable to shareholders	8,544	8,750	27,113	23,674

ASSETS AND LIABILITIES

	As at 31 March			
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Total assets	30,552	6,801	12,968	42,280
Total liabilities and minority interests	(9,996)	(6,691)	(744)	(3,574)
Shareholders' funds	20,556	110	12,224	38,706

Notes:

1. The Company was incorporated in the Cayman Islands on 25 May 2000 and became the holding company of the companies comprising the Group pursuant to the Reorganisation. Accordingly, the combined results, assets and liabilities for the period from 25 May 2000 (date of incorporation) to 31 March 2001 and the two years ended 31 March 2003 are prepared based on the audited financial statements of the companies comprising the Group as if the current group structure had been in existence since 25 May 2000.
2. The above financial summary as of and for the two years ended 31 March 2003 and 2004 have been extracted from the audited financial statements of the Group as set out on pages 37 to 75.