

**INTERIM REPORT 2005**

The logo for M Tel, featuring a yellow square with a white rectangle inside. The letters 'M' and 'Tel' are written in black, with 'M' to the left of 'Tel'.

**M Tel**

**MOBILE TELECOM NETWORK (HOLDINGS) LIMITED**  
(Incorporated in the Cayman Islands with limited liability)

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

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*This report, for which the directors (the “Directors”) of Mobile Telecom Network (Holdings) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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.*

## RESULTS

The board of Directors (the “Directors”) of the Company is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 September 2005, together with the unaudited comparative figures for the corresponding periods in 2004 as follows:

### UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and six months ended 30 September 2005

	Notes	Three months ended 30 September		Six months ended 30 September	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	2	4,520	5,139	8,375	10,602
Other revenue		31	9	76	83
Telecom operators costs		(2,502)	(3,399)	(4,567)	(7,254)
Employment costs		(1,430)	(1,389)	(2,868)	(2,839)
Research and development expenses		(208)	(270)	(461)	(561)
Depreciation of fixed assets		(30)	(62)	(73)	(182)
Other operating expenses		(964)	(966)	(1,967)	(1,991)
Loss from operations	3	(583)	(938)	(1,485)	(2,142)
Share of profit/(loss) of an associate		17	—	(5)	—
Finance costs	4	(52)	(18)	(65)	(35)
Loss before taxation		(618)	(956)	(1,555)	(2,177)
Taxation	5	—	—	—	—
Loss after taxation		(618)	(956)	(1,555)	(2,177)
Attributable to:					
Equity holders of the parent		(515)	(1,146)	(1,209)	(2,393)
Minority interests		(103)	190	(346)	216
Loss attributable to shareholders		(618)	(956)	(1,555)	(2,177)
Loss per share — basic	6	0.11 cent	0.26 cent	0.26 cent	0.54 cent

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September and 31 March 2005

	Notes	Unaudited 30 September 2005 HK\$'000	Audited 31 March 2005 HK\$'000
Non-current assets			
Fixed assets		185	96
Interest in an associate	7	5,476	5,368
Investment in a joint venture		11	—
		5,672	5,464
Current assets			
Trade receivables	8	2,788	1,923
Deposits, prepayments and other current assets		877	887
Bank balances and cash		17,957	20,437
		21,622	23,247
Current liabilities			
Trade payables	9	1,756	1,818
Accruals and other payables		4,647	4,525
Customer deposits and receipts in advance		12	12
Convertible notes	11	2,572	4,000
		8,987	10,355
Net current assets		12,635	12,892
Total assets less current liabilities		18,307	18,356
Financed by:			
Share capital	10	36,930	34,530
Reserves		(18,834)	(17,731)
Equity attributable to equity holders of the parent		18,096	16,799
Minority interests		211	557
Total equity		18,307	17,356
Non-current liabilities			
Convertible notes	11	—	1,000
		18,307	18,356

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2005

	Unaudited										
	Attributable to equity holders of the parent										
	Share capital	Share premium	Capital reserve	Capital redemption reserve	Shares issue costs	Cumulative translation adjustments	Convertible notes reserves	Accumulated deficits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2005, as previously stated	34,530	35,303	16,375	2,943	-	544	-	(72,896)	16,799	557	17,356
Effect of adoption of HKAS 39	-	-	-	-	-	-	545	(463)	82	-	82
At 1 April 2005, as restated	34,530	35,303	16,375	2,943	-	544	545	(73,359)	16,881	557	17,438
Translation adjustments	-	-	-	-	-	35	-	-	35	-	35
Issue of shares	2,400	-	-	-	-	-	-	-	2,400	-	2,400
Exercise of convertible notes	-	-	-	-	-	-	(11)	-	(11)	-	(11)
Loss for the period	-	-	-	-	-	-	-	(1,209)	(1,209)	(346)	(1,555)
At 30 September 2005	36,930	35,303	16,375	2,943	-	579	534	(74,568)	18,096	211	18,307
At 1 April 2004	34,320	35,303	16,375	2,943	-	531	-	(68,916)	20,556	243	20,799
Translation adjustments	-	-	-	-	-	68	-	-	68	-	68
Issue of shares	210	-	-	-	-	-	-	-	210	-	210
Loss for the period	-	-	-	-	-	-	-	(2,393)	(2,393)	216	(2,177)
At 30 September 2004	34,530	35,303	16,375	2,943	-	599	-	(71,309)	18,441	459	18,900

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2005

	Unaudited Six months ended 30 September	
	2005	2004
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(2,234)	(2,117)
Net cash outflow from investing activities	(281)	(5,322)
Net cash inflow from financing activities	—	210
Decrease in cash and cash equivalents	(2,515)	(7,229)
Cash and cash equivalents at 1 April	20,437	27,002
Effect of foreign exchange rate changes*	35	67
Cash and cash equivalents at 30 September	17,957	19,840
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	17,957	19,840

\* consistency of accounting treatment

## NOTES TO THE CONDENSED INTERIM ACCOUNTS:

### 1. Basis of preparation and accounting policies

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34: Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

These unaudited condensed consolidated accounts should be read in conjunction with the 2005 annual accounts.

The accounting policies adopted for the preparation of these unaudited condensed consolidated accounts are consistent with those used in the annual accounts for the year ended 31 March 2005 except that the Group has changed certain of its accounting policies following the adoption of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKAS”) (collectively referred to as “new HKFRSs”) which are relevant to its operation and effective for accounting periods commencing on or after 1 January 2005. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies and the effects of adopting these new HKFRSs are set out as below:

- (a) The presentation of minority interests in the consolidated balance sheet, profit and loss account and statement of changes in equity has been changed. The presentation for the comparative period has been restated accordingly.
- (b) On adoption of HKASs 32 and 39, the component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On the issue of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible notes, and this amount is carried as liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders’ equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

This change in accounting policies is applied retrospectively by way of adjustments to the opening balance of accumulated deficits as at 1 April 2005, and comparative figures have not been restated.

2. Revenue and turnover 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. Revenue recognised during the periods is as follows:

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 September		30 September	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Subscription fees from provision of MobileSurf services	—	1	—	7
Service fees from provision of mobile data solutions and related services	4,520	5,138	8,375	10,595
	4,520	5,139	8,375	10,602

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 periods by geographical locations is as follows:

	Unaudited						Total HK\$'000
	Six months ended 30 September 2005						
	Hong Kong/ Macau HK\$'000	Australia HK\$'000	Malaysia HK\$'000	Singapore HK\$'000	Taiwan HK\$'000	Others** HK\$'000	
Turnover*	4,512	1,378	127	603	629	1,126	8,375
Segment results	(1,671)	123	38	(61)	168	338	(1,065)
Unallocated costs							(420)
Loss from operations							(1,485)
Share of loss of an associate							(5)
Finance costs							(65)
Loss before taxation							(1,555)
Taxation							—
Loss after taxation							(1,555)

Unaudited  
Six months ended 30 September 2004

	Hong Kong/ Macau <i>HK\$'000</i>	Australia <i>HK\$'000</i>	Malaysia <i>HK\$'000</i>	Singapore <i>HK\$'000</i>	Taiwan <i>HK\$'000</i>	Others** <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover *	2,708	5,405	619	493	734	643	10,602
Segment results	(4,034)	2,054	186	52	102	160	(1,480)
Unallocated costs							(662)
Loss from operations							(2,142)
Finance costs							(35)
Loss before taxation							(2,177)
Taxation							—
Loss after taxation							(2,177)

\* 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"), Thailand and South Africa.

There are no sales or other transactions between the business segments. Unallocated costs represent corporate expenses.

### 3. Loss from operations

Loss from operations is stated after charging the following:

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 September		30 September	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	30	62	73	182
Loss on disposal of subsidiary	—	—	—	68
Operating lease rentals of premises and facilities	332	130	460	336
Staff costs (including directors' emoluments and staff redundancy cost), including amount classified as research and development expenses	1,638	1,659	3,329	3,400

### 4. Finance costs

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 September		30 September	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank interest and charges	1	6	4	10
Interest expenses — others	51	12	61	25
	52	18	65	35

**5. Taxation**

No provision for Hong Kong profits tax has been made in the accounts, as the Group had no estimated assessable profits arising in or derived from Hong Kong during the six months ended 30 September 2005 (six months ended 30 September 2004: Nil).

No provision for overseas (the PRC, Singapore and Australia) income taxes has been made as the Group operating in these countries were operating at a loss during the six months ended 30 September 2005 (six months ended 30 September 2004: Nil).

No provision for deferred taxation has been made as the Group did not have any significant unprovided deferred tax in respect of the periods.

**6. Loss per share**

The calculation of the basic loss per share is based on the unaudited net loss attributable to equity holders of the parent for the six months end 30 September 2005 of approximately HK\$1,209,000 (2004: HK\$2,393,000) and on the weighted average number of approximately 458,771,851 shares in issue for the six months ended 30 September 2005 (2004: 440,502,164 shares).

No diluted loss per share is presented as there was no dilutive potential ordinary share during the period.

**7. Interest in an associate**

	Unaudited 30 September 2005 <i>HK\$'000</i>	Audited 31 March 2005 <i>HK\$'000</i>
Unlisted shares, at cost	—	—
Share of net assets, other than goodwill	37	43
Goodwill	5,250	5,250
	5,287	5,293
Due from an associate	189	75
	5,476	5,368

The amount due from an associate is unsecured, non-interest bearing and with no repayment term.

## 8. 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:

	Unaudited 30 September 2005 <i>HK\$'000</i>	Audited 31 March 2005 <i>HK\$'000</i>
0 to 30 days	2,060	1,223
31 to 60 days	315	444
61 to 90 days	106	77
91 to 180 days	143	98
Over 180 days	164	81
	2,788	1,923

## 9. Trade payables

Aging analysis of trade payables is as follows:

	Unaudited 30 September 2005 <i>HK\$'000</i>	Audited 31 March 2005 <i>HK\$'000</i>
0 to 30 days	500	397
31 to 60 days	109	398
61 to 90 days	152	73
Over 90 days	995	950
	1,756	1,818

10. Share capital

	Authorised			
	30 September 2005		31 March 2005	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised ordinary shares of US\$0.01 each	2,000,000	156,000	2,000,000	156,000
	Issued and fully paid			
	30 September 2005		31 March 2005	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
At 1 April 2005 and 2004	442,042	34,530	440,000	34,320
Issue of shares upon exercise of share options	—	—	2,042	210
Issue of shares upon conversion of convertible notes ( <i>note (i)</i> )	30,769	2,400	—	—
At 30 September 2005 and 31 March 2005	472,811	36,930	442,042	34,530

- (i) On 9 May 2005 and 8 August 2005, Vodatel Information Limited, converted HK\$2,400,000 convertible notes for 30,769,230 ordinary shares of HK\$0.078 each. Vodatel is deemed, by virtue of the SFO, to be interested in the 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).

11. Convertible notes

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.

The fair values of the liability component and the equity conversion component were determined at the date of issuance of the notes.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible notes. The residue amount, representing the value of the equity conversion component, is included in reserves.

The convertible notes recognised in the balance sheet are calculated as follows:

	Unaudited 30 September 2005 <i>HK\$'000</i>	Audited 31 March 2005 <i>HK\$'000</i>
Fair value of convertible notes at the dates of issues	5,000	5,000
Equity component	(545)	—
Liability component at the dates of issues	4,455	5,000
Interest expenses	654	—
Interest paid	(148)	—
Exercise of convertible notes	(2,389)	—
Liability component at the end of the period/year	<b>2,572</b>	<b>5,000</b>

Interest expense on the notes is calculated using the effective interest method by applying the effective interest rate of 5% to the liability component.

The Group's convertible notes were repayable as follows:

	Unaudited 30 September 2005 <i>HK\$'000</i>	Audited 31 March 2005 <i>HK\$'000</i>
Within one year	2,572	4,000
In the second year	—	1,000
	<b>2,572</b>	<b>5,000</b>

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2005 (2004: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Performance

For the six-month period ended 30 September 2005, total turnover of the Group amounted to approximately HK\$8,375,000 representing a decrease of 21% as compared to HK\$10,602,000 that was recorded in the corresponding period of the previous financial period. The Group's turnover decreases as a result of the service agreement with Optus, for provision of ringtone download was expired, and has not been renewed. This event has an adverse impact on the Group's turnover. However, as the Group has now focused on higher margin services, the gross profit ratio has improved from approximately 32% to 45% when compared with the corresponding period in 2004. This significant improvement on gross margin resulted in a reduction of approximately 49% in net loss when compared to the corresponding period last year.

Compared with the corresponding period in 2004, the aggregate operating expenses for the period under review decreased by approximately HK\$204,000, an approximately 3% decrease over the corresponding period in 2004.

Among the different markets in the region, Hong Kong was the main turnover contributors, accounting for 54% of the Group's turnover, while Australia, Malaysia, Singapore, Taiwan and other Asia countries brought in 16%, 2%, 7%, 8% and 13% respectively.

### Business Review

For the first six months of the Group's financial year, our value added mobile business has been in an industry transition. On one hand, the Group's mobile data business in 2G recorded a steady decline. In fact, the conventional 2G businesses such as ring-tones down loads are seeing considerable revenue declined. On the other hand, more operators in the region are rolling out their 3G networks and the products that the Group represents are playing a key strategic role in this development. As such, the Group recorded a slight decline in revenue within this period but an improvement on the net loss was recorded in this period.



The Group anticipates that in the second half of this year, more developments in 3G offerings are heating up in other parts of the Asia Pacific region, e.g. Taiwan, Singapore, Malaysia and Australia as well as in New Zealand. It is expected that more operators will commercially launch their 3G services by the end of 2005. This development started in the early part of the year, and the Christmas season is going to be a critical time for the Group.

The mobile entertainment segment has reached a point of richer and user-friendlier contents thus delivering real value for the subscribers. The Group has confirmed several strategic alliances with content providers in order to be able to fulfil the requirements in the markets where it operates. These partnerships include content providers, well known brands as well as mobile marketing partners.

The Group continues to have its strategic focus in further developing its 3G service offering not only in Hong Kong but also other leading markets such as Taiwan, Singapore, Malaysia, Australia and New Zealand. The Group positions itself as the leader and the most innovative mobile service provider in the region. The 3G services are not limited into video on demand services, and the Group is now deploying in video broadcasting, interactive video gaming services with operators. 3G subscribers are proven to be high-end customers, who have the highest Average Revenue Per User (ARPU) level and heavy users of the services provided by the Group. Due to the competitive market, more operators are considering to outsource their existing products and services to third parties. The Group has benefited by this trend and has won several outsourcing projects from operators in the past 6 months.

By planning to be a leader in 3G services provisioning, the Group continues to strengthen its core business in 2.5G but reduces its dependence in 2G. During the first half of the year 2005, we strengthened our position in Singapore, Australia, Taiwan, Thailand and Hong Kong by launching several new services with our key accounts. These services included Comic Channel services in Singapore, own mobile entertainment portal in Australia and New Zealand, Sports Portal in Australia, Java Gaming platform integration and all WAP services in Taiwan. In Australia, Hong Kong and Taiwan, the Group has been offering full range 3G services with the dominant 3G operators there. Those services include Entertainment, Lifestyle & Leisure, Dining, Movie, Cartoon, Comedy, Fortune Telling, and etc. Besides 3G, the Group is also deploying video services with Peoples and CSL via EDGE (2.75G) in Hong Kong. The Group has very strong position especially in the Sport & Entertainment Services for mobile users across the region through key partnerships with the leading global news agencies.

## Prospects

During the latter part of the year 2005, the Group will launch various i-mode services in Singapore and Australia. The Group will also start to provide the leading operators in Hong Kong, Singapore, Malaysia and Australia with the quality sport data services through various platforms, i.e. SMS, WAP, MMS, JAVA. These sport data services include the English Premier League as well as all the other major soccer leagues from Europe.

For Australia, Hong Kong, Singapore and Taiwan markets, the Group believes 3G will become the mainstream services in the near future and the Group will develop applications and create more services with the 3G operators to bring 3G technology to the business and the consumer markets. The Group brings to the telecom operators with a broad frontier of new businesses and entertainment services based on our extensive experience in mobile data services provisioning since 1999. The Group's newly developed services include video messaging with the subscribers easily downloading clips from films, music, sports and information services channels. In addition, the Group shall deploy more Interactive gaming services and video broadcasting services in order to enhance the user behaviours on the mobile phone. The Group has recently signed up with more content partners including established brands such as eBay, Getty Images and the world's leading gaming companies.

One of the most interesting cases for the coming months for the Group is the launch of the world's leading internet auction site's mobile version throughout the Asia market. This is one of the best examples on how the Group is able to position itself as an enabler and service provider in highly competitive market place. With this successful reference, the Group shall focus with more strategic partnership deals for the Asia Pacific region.

For the existing markets, Australia, Hong Kong, Singapore, Malaysia and Taiwan continue to be the Group's most important markets what it comes to the growth potential and existing business relationship. The Group shall continue to work with operators in outsourcing projects in order to maintain steady revenue on a recurrent basis. Although the manpower cost is relatively high in Hong Kong, the Group benefits from further outsource lower requirement projects to its associate company in the PRC.

The Group is also scaling its business to serve the various brands to mobilize their content and brands from more traditional media platforms. The Group has also won a major outsourcing deal in Australia, where Australian's leading operator is outsourcing

the whole Java game operation to be handled by MTel's subsidiary company Mobilemode. This service was launched in September and will continue driving revenues in our outsourcing services to the Group.

At present, the Group covers a total of almost 45 telecom operators and portals in 13 markets in the Asia Pacific region. This number is expected to increase steadily into the regions such as Korea, Indonesia, the Philippines and Thailand. The scale in terms of contents' quantity and quality remains the Group's strongest differentiation point from our main competitors in the region.

## Research and Development

### 1. *Mobile video broadcasting*

The group has deployed a live video streaming system. This system operates daily and continuously (7 x 24). The system further interconnects with local operators and provides live mobile video broadcast services. There is a new subscription model with exciting end user experience and further compliments with traditional VOD services.

### 2. *Video IVR*

Video IVR is a new fancy mobile user interface for triggering mobile video based services instead using comparatively complex traditional mobile browser with XHTML portal or Java based application. The Group has begun to develop a unique Video IVR application interconnecting with 3G operator's Video Gateway (ViG) with Multipoint Conferencing Unit (MCU).

## Sales and Marketing

The Group has generated most of its revenue from its recurring business with telecommunication operators over the past six months. The Group has expanded its business into 3G services with Hutchison 3 Hong Kong and other video services in 2.5G and 2.75G networks. In addition, the Group is now deploying more value-added services with operators' sales channels in Australia, New Zealand, Singapore, Thailand and Taiwan. The Group's sales network now covers 13 markets across the South East Asian region with almost 45 telecommunication operators. In Hong Kong and Taiwan, the Group operates with all the local telecommunication players. 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 maximize revenues and maximize the potential of the Group's service delivery engine that is connected to the operator infrastructure.

The Group co-operated with Hutchison 3 Hong Kong to successfully launch more than 30 multimedia services since February 2004. The Group further extended applications into two areas: (1) deploying the interactive features on our Mobilesurf platform; and (2) providing an user-friendly interface of connecting with a variety of branded content that centralizing its Mobilesurf platform as a major hub between network operators and content providers across Asia Pacific region.

The Group plans to deploy more JAVA applications in data streaming with a variety of content, e.g. Soccer Betting Monitoring applications for 2.5G & 3G and co-operated with various handset manufacturers. Without a single click, all LIVE soccer information will be real time pushed on the mobile phone via streaming technology. In addition, the Group plans to explore more opportunities in mobile broadcasting channel that will help operators to stimulate the usage of video airtime and user driven video advertisement.

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

## **LIQUIDITY AND FINANCIAL RESOURCES**

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

As at 30 September 2005, the Group had net current assets of approximately HK\$12,635,000 (as at 31 March 2005: approximately HK\$12,892,000), of which approximately HK\$17,957,000 (as at 31 March 2005: approximately to HK\$20,437,000) were cash and bank balances. The Directors are confident that the Group's existing financial resources will be sufficient to satisfy its commitments and working capital requirements.

## **GEARING RATIO**

The gearing ratio of the Group, based on total liabilities to shareholders' equity, was 0.50 as at 30 September 2005 (as at 31 March 2005: 0.68). The decrease in gearing ratio was mainly due to HK\$2,400,000 convertible notes converted into 30,769,230 shares during the period under review.

## **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 RMB. 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**

On 9 May 2005 and 8 August 2005, Vodetal Information Limited, converted HK\$2,400,000 convertible notes into 30,769,230 shares of HK\$0.078 each. As at 30 September 2005, the Group's net assets were financed by internal resources through share capital and reserves. The equity attributable to shareholders as at 30 September 2005 was approximately HK\$18,307,000 (as at 31 March 2005 (as restated): HK\$17,438,000)

## **MATERIAL ACQUISITIONS/DISPOSAL AND SIGNIFICANT INVESTMENTS**

The Group had no material acquisition or disposal of investment during the period under review.

## **CHARGES ON GROUP'S ASSETS**

As at 30 September 2005, the Group did not have any charges on the Group's assets.

## **CONTINGENT LIABILITIES**

As at 30 September 2005, the Group did not have any contingent liabilities.

## **EMPLOYEE INFORMATION**

As at 30 September 2005, the Group had a total of 18 employees in Hong Kong. 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\$3,329,000 during the period under review (2004: approximately to HK\$3,400,000). Share options and bonuses are also available to the Group's employees at the discretion of the Directors and depending upon the financial performance of the Group.

## COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

Business Objectives as set out in the Company's Prospectus dated 30 April 2003 (the "Prospectus") from 9 May 2003 to 30 September 2005

Actual business progress in respect of the period ended 30 September 2005

### 1. Enhancement and development of mobile data products and solutions

MobileSurf	—	To further enhance MobileSurf by adding new multimedia components	The Group is deploying its MobileSurf services under local operator's portal
GloDAN	—	Continue to enhance the capabilities of GloDAN to improve operation performance	The Group built and tested the WAP Push mechanism with video
Secure wireless communication channel	—	Upgrade the 2nd generation of wireless communication channel	The Group has continuously developed its 2nd generation prototype of wireless communication channel
Wireless multimedia content manager	—	Develop the 2nd generation of wireless multimedia	The Group developed its 1st generation of wireless multimedia content manager, a system which is used to deploy multimedia contents through wireless channel

Business Objectives as set out in the Company's Prospectus dated 30 April 2003 (the "Prospectus") from 9 May 2003 to 30 September 2005	Actual business progress in respect of the period ended 30 September 2005	
Remote monitoring and controlling system	— Develop the 2nd generation of remote monitoring and controlling system	The Group deployed SMS and E-mail alert features in the monitoring and controlling system
Mobile office	— Continue to enhance the capabilities of the 2nd generation of mobile office	The Group deployed additional SMS and E-mail alert features for 1st generation of the mobile office
i-building	— Continue to enhance the 1st generation of I-building system	The Group has continuously developed its 1st generation I-building system
<b>2. Upgrading R&amp;D facilities</b>	— Acquire 2 additional workstations and servers for research and development purpose	The Group has acquired a high level server for research and development purpose

Business Objectives as set out in the Company's Prospectus dated 30 April 2003 (the "Prospectus") from 9 May 2003 to 30 September 2005	Actual business progress in respect of the period ended 30 September 2005	
<p>3. Forming strategic alliances and joint ventures with and investing in telecommunication-related companies</p>	<p>— Continue to form strategic alliances with mobile telecommunication operators, hardware manufacturers, information technology 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</p>	<p>The Group has generated substantial revenue from recurring business with many leading telecommunication operators over the past six months. For example, the Group co-operated with Hutchison 3 Hong Kong to successfully launch several new 3G Applications</p>
<p>4. Establishment of sales and technical support offices in the PRC</p>	<p>— Start feasibility study on setting up offices in Zhejiang and Tianjin, the PRC</p> <p>— Establish office in Zhejiang, the PRC</p>	<p>The Group has formed a JV to work with various service providers in the PRC</p> <p>The Group has formed a JV to work with various service providers in the PRC</p>



Business Objectives as set out in the Company's Prospectus dated 30 April 2003 (the "Prospectus") from 9 May 2003 to 30 September 2005	Actual business progress in respect of the period ended 30 September 2005
5. Expansion of sales and marketing network	<ul style="list-style-type: none"> <li data-bbox="356 316 1047 470">— Continue to jointly participate in various seminars and roadshows with business partners  The Group actively participated in various seminars and roadshows with business partners</li> <li data-bbox="356 510 1047 790">— Continue to participate in/ coordinate various seminars, exhibitions and tradeshows to promote and introduce the Group's existing and new services products  The Group participated in various seminars including 3G launch by 3HK as well as other exhibitions and events including with the HK Productivity Council on promotion of mobile technology and IT education</li> <li data-bbox="356 829 1047 1080">— Continue to establish and expand sales and distribution network by partnering with telecommunication companies in different regions  The Group expanded its business to Indonesia and has opened new sales channels in Australia, Europe, South Africa, Singapore, Indonesia and Taiwan. The Group plans to open an office in Australia</li> </ul>

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

As at 30 September 2005, the interests and short positions of the Directors and chief executives of the Company in the Shares, debentures or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to Rules 5.46 to 5.68 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
Dr. Chan Chung	<i>(Note)</i>	176,169,861	37.3%
Mr. Chan Wai Kwong, Peter	Beneficial owner	4,064,036	0.9%
		<hr/>	
		180,233,897	38.2%

*Note:* By virtue of the SFO, Dr. Chan Chung is deemed to be interested in the 176,169,861 Shares held by Silicon Asia Limited ("Silicon"), a private company beneficially wholly owned by him.

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

Name of Directors	Capacity	Date of grant	Number of underlying Shares	Approximate percentage of issued share capital	Option Period	Consideration for the grant of the option HK\$	Exercise price per share HK\$
Dr. Chan Chung (Note)	Beneficial owner	27 March 2003	300,000	0.063%	9 May 2003 – 8 May 2013	1.00	0.103
Mr. Chan Wai Kwong, Peter (Note)	Beneficial owner	27 March 2003	100,000	0.021%	9 May 2003 – 8 May 2013	1.00	0.103
			400,000	0.084%			

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

Save as disclosed above, as at the date of this report, none of the Directors and chief executives of the Company has or was deemed to have any interests or short positions in any Shares, debentures or underlying Shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

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

As at 30 September 2005, so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executives of the Company, the persons who have, directly or indirectly, interests or had short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

### Long positions in Shares – interest in the Shares

Name of shareholder	Capacity	Number of shares held	Approximate Percentage of the issued share capital
Silicon	Beneficial owner	176,169,861	37.3%
Dr. Chan Chung	(Note 1)	176,169,861	37.3%
Vodatel Information Limited	Beneficial owner	94,573,696	20.0%
Vodatel Networks Holdings Limited ("Vodatel")	(Note 2)	94,573,696	20.0%
Go Capital Limited	Beneficial owner	31,902,233	6.7%
Culturecom Holdings Limited ("Culturecom")	(Note 3)	31,902,233	6.7%
OUB.com Pte Ltd	Beneficial owner	27,295,584	5.8%
United Overseas Bank Limited ("UOB")	(Note 4)	27,295,584	5.8%
Lake Haven Limited	Beneficial owner	21,881,144	4.6%
Hutchison Whampoa Limited ("Hutchison Whampoa")	(Note 5)	21,881,144	4.6%
			74.4%

*Notes:*

1. Silicon, a company incorporated in the British Virgin Islands, is an investment holding company. Silicon is directly wholly owned by Dr. Chan Chung. Dr. Chan Chung is deemed, by virtue of the SFO, to be interested in the same 176,169,861 Shares held by Silicon.
2. Vodatel is deemed, by virtue of the SFO, to be interested in the 94,573,696 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 94,573,696 Shares which Vodatel is deemed to be interested in. The names and particulars of the shareholdings of such persons or corporations (if any) in Vodatel can be found in the information published by Vodatel from time to time and from the GEM website at [www.hkgem.com](http://www.hkgem.com). According to the latest interim report of Vodatel, as at 30 June 2005, Mr. Jose Manuel dos Santos and ERL 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](http://www.hkex.com.hk). According to the latest annual report of Culturecom, as at 31 March 2005, no person was interested or deemed to be interested in more than one-third of the then issued share capital of Culturecom.

4. UOB is deemed, by virtue of the SFO, to be interested in the 27,295,584 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 27,295,584 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](http://www.sgx.com). According to the latest annual report of UOB, as at 31 December 2004, no person was interested or deemed to be interested in more than one-third of the then issued share capital of UOB.
  
5. Hutchison Whampoa is deemed, by virtue of the SFO, to be interested in the 21,881,144 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 any shares in which Hutchison Whampoa is interested under the SFO will be deemed to be interested in the 21,881,144 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](http://www.hkex.com.hk).

## 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 4)	Approximate percentage of issued share capital
Vodatel Information Limited	Beneficial owner	HK\$800,000	10,256,410	2.2%
Vodatel	(Note 2)	HK\$800,000	10,256,410	2.2%
Go Capital Limited	Beneficial owner	HK\$1,800,000	23,076,923	4.9%
Culturecom	(Note 3)	HK\$1,800,000	23,076,923	4.9%
				7.1%

### 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. Convertible notes of the Company amounted to HK\$1,600,000 originally issued to Universal Line Venture Limited were disposed of to Vodatel Information Limited on 14 April 2004. 30,769,230 ordinary shares were issued to Vodatel Information Limited as a result of conversion of HK\$2,400,000 convertible notes at HK\$0.078 each on 9 May 2005 and 8 August 2005.
- 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](http://www.hkgem.com). According to

the latest interim report of Vodatel, as at 30 June 2005, Mr. Jose Manuel dos Santos and ERL 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 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](http://www.hkex.com.hk). According to the latest annual report of Culturecom, as at 31 March 2005, no person was interested or deemed to be interested in more than one-third of the then issued share capital of Culturecom.
4. This assumes full conversion of the convertible notes at HK\$0.078 per Share based on the total number of 472,811,363 Shares in issue as at the date of this report. The conversion price of the convertible notes may change from time to time.

## **SHARE OPTIONS RULES**

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



Pursuant to the 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 30 September 2005 are set out as below:

Name	Date of grant	Number of Share Options							Option Period	Consi-deration for the grant of the option HK\$	Exercise price per share HK\$
		Out-standing as at 1 April 2005	Granted during the period under review	Exercised during the period under review	Lapsed during the period under review	Out-standing as at 30 September 2005	Approximate percentage of issued share capital				
<b>Executive Directors</b>											
Dr. Chan Chung	27 March 2003	300,000	-	-	-	300,000	0.063%	9 May 2003 – 8 May 2013	1.00	0.103	
Mr. Chan Wai Kwong, Peter	27 March 2003	100,000	-	-	-	100,000	0.021%	9 May 2003 – 8 May 2013	1.00	0.103	
<b>Other Participants</b>											
Employees in aggregate (Note)	27 March 2003	1,830,000	-	-	-	1,830,000	0.387%	9 May 2003 – 8 May 2013	1.00	0.103	
<b>Business Consultant</b>											
Young Antony, Michael	27 March 2003	300,000	-	-	-	300,000	0.063%	9 May 2003 – 8 May 2013	1.00	0.114	
		2,530,000	-	-	-	2,530,000	0.534%				

*Note:* Employees working under employment contracts that were regarded as “continuous contracts” for the purpose of the Employment Ordinance (Chapter 57 of the laws of Hong Kong).

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

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

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

## **SPONSOR'S INTEREST**

As at 30 September 2005, neither Kingston Corporate Finance Limited nor its directors, employees or its respective associates 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.

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

During the period under review, none of the Directors or the management shareholders or substantial shareholders or their respective associates (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with or might compete with the business of the Group.

## **BOARD PRACTICES AND PROCEDURES**

Throughout the period under review, the Company was in compliance with the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules.

## **AUDIT COMMITTEE**

As required by Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. Its principal duties are to review and supervise the Group's financial reporting process and internal control systems. The Group's unaudited results for the six months ended 30 September 2005 have been reviewed by the audit committee of the Company, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

As at the date of this report, the Board comprises of executive directors namely Dr. Chan Chung (Chairman) and Mr. Chan Wai Kwong, Peter; non-executive directors namely Mr. Goh Yu Min; and independent non-executive directors namely Mr. Jeffery Matthew Bistrong, Mr. Charles George St. John Reed and Mr. Ko Tak Fai, Desmond.

By Order of the Board  
**Chan Chung**  
*Chairman*

Hong Kong, 14 November 2005