



## **Mobile Telecom Network (Holdings) Limited**

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8266)

First Quarterly Report 2006

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of this report.*

*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.*

The board of Directors is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred as the "Group") for the three months ended 30 June 2006, together with the unaudited comparative figures for the corresponding periods in 2005 as follows:

### UNAUDITED CONDENSED CONSOLIDATED RESULTS

For the three months ended 30 June 2006

	Note	For the three months ended 30 June	
		2006 HK\$'000	2005 HK\$'000
Turnover	2	7,732	3,855
Other revenue		127	45
Telecom operators costs		(5,029)	(2,065)
Employment costs		(1,583)	(1,438)
Research and development expenses		(208)	(253)
Depreciation of property, plant and equipment		(24)	(43)
Other operating expenses		(926)	(1,004)
Operating Gain/(Loss)		89	(903)
Finance costs		(2)	(13)
Share of profit/(loss) of an associate		120	(22)
Share of loss of a jointly controlled entity		(1)	—
Profit/(Loss) before taxation		206	(938)
Taxation	3	—	—
Profit/(Loss) after taxation		206	(938)
Attributable to:			
Equity holders of the Company		39	(695)
Minority interests		167	(243)
		206	(938)
Earning/(Loss) per share			
— basic (HK cent)	4	0.008	(0.15)
— diluted (HK cent)		0.008	—

*Notes:*

**1. Basis of preparation**

The unaudited consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The unaudited consolidated financial statements have been prepared under the historical cost convention.

The accounting policies and methods of computation used in the preparation of the quarterly financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2006.

**2. Turnover**

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 from provision of mobile data solutions and related services during the three months period ended 30 June 2006 is approximately HK\$7,732,000 (three months ended 30 June 2005: HK\$3,855,000).

**3. Taxation**

No provision for Hong Kong profit tax is made in the financial statements as the Group has sufficient tax losses brought forward available to offset the current estimated profits (three months ended 30 June 2005: Nil). Taxation on overseas profits has been calculated on the estimated profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

#### 4. Earning per share

Basic earning per share is calculated by dividing the earning attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Profit/(Loss) attributable to equity holders of the Company	<u>39</u>	<u>(695)</u>
Weighted average number of ordinary shares in issue	<b>472,811,363</b>	451,002,403
Effect of dilutive potential ordinary shares: Options	<u>2,530,000</u>	<u>—</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u><b>475,341,363</b></u>	<u>451,002,403</u>

A diluted loss per share amount for the 3 months period 30 June 2005 has not been disclosed as share options outstanding during the period had anti-dilutive effects on the basic loss per share for the period.

## 5. Movement of reserves

	Share Premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Cumulative translation adjustments HK\$'000	Convertible notes reserve HK\$'000	Accumulated deficits HK\$'000	Total HK\$'000
<b>Balance at 1st April 2006</b>	35,564	16,375	2,943	572	44	(74,479)	(18,981)
Profit for the period	—	—	—	—	—	39	39
Redemption of convertible notes	—	—	—	—	(44)	44	—
<b>At 30th June 2006</b>	<b>35,564</b>	<b>16,375</b>	<b>2,943</b>	<b>572</b>	<b>—</b>	<b>(74,396)</b>	<b>(18,942)</b>
<b>Balance at 1st April 2005,</b> as previously reported	35,303	16,375	2,943	544	—	(73,083)	(17,918)
Initial recognition of convertible notes — equity component and interest expenses	—	—	—	—	545	(314)	231
<b>Balance at 1st April 2005,</b> as restated	35,303	16,375	2,943	544	545	(73,397)	(17,687)
Translation adjustments	—	—	—	12	—	—	12
Loss for the period	—	—	—	—	—	(695)	(695)
<b>At 30th June 2005</b>	<b>35,303</b>	<b>16,375</b>	<b>2,943</b>	<b>556</b>	<b>545</b>	<b>(74,092)</b>	<b>(18,370)</b>

## DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2006 (three months ended 30 June 2005: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The first quarter of 2006, the Group recorded a turnover of HK\$7,732,000, representing a remarkable growth of 100% over that of the corresponding period in 2005. This was mainly attributable to the growth of multimedia mobile business in the Asia Pacific region. As such, the Group recorded a net profit attributable to equity holders of the Company was HK\$39,000, as compared with a loss of HK\$695,000 in the same period of 2005. Earning per share of 0.008 cent was therefore recorded, compared to a loss per share of 0.15 cent in the same period of last year.

### BUSINESS REVIEW

Our value added mobile business has been in an industry transition. Conventional 2G businesses such as ring-tones downloads are seeing considerable revenue declined. On the positive note, more operators in the region are started rolling out their 3G value added services as operators set its eyes on third-generation, or 3G, mobile phone services and plans to place a stake on the service by the end of next year and those services that the Group represents are playing a key strategic role in this development.

The Group anticipates that more developments in 3G offerings are heating up in other parts of the Asia Pacific region, e.g. Taiwan, Singapore, Malaysia and China. It is expected that more operators will expand their 3G services in the coming years.

The mobile entertainment segment has reached a point of richer and user-friendlier contents thus delivering real value for the subscribers. One of the most popular sports, World Cup Soccer is again heating up around the world in June 06 and the Group is appointed by Hutchison 3HK to offer the World Cup Value Added Services across 3G and 2G dual band mobile users. In addition, the Group offered an English version of World Cup in Australia, Sri Lanka and Singapore. The major World Cup Value Added Services under strategic alliances in Hong Kong are with well-known content providers and sponsors in order to be more fun, informative, and with emphasis on high multimedia content. Recent partnerships include Adidas, Pepsi, eBay, EA Entertainment and Sport Services and Press Association Sports. The Group has also expanded the recent collaborations with Adidas, Pepsi, and eBay to ongoing mobile marketing partnerships for future events as well.

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 China, 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 video broadcasting and 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. More outsourcing projects shall be implemented in the remaining months of 2006.

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 on 2G. The Group is deploying the existing 2G services into the new market such as Indonesia, Vietnam, Sri Lanka, etc. in order to fully utilize the past development & services. The Group is now teaming with Hutchison International Group in order to extending our own expertise and apply into other new market of Hutchison's operations. The Group has very strong position especially in the Sport & Entertainment Services for mobile users across the region and the Group has launched the 1st World Cup Live score SMS service with Hutchison in Sri Lanka through key partnerships with the leading global news agencies. The Group also positions itself as one of the leading games providers in the region and sees great opportunities scaling the truly international offering of the games throughout the region.

## **PROSPECTS**

The Group will start to provide the leading operators in Australia, China, India, Hong Kong, Singapore, Sri Lanka, Malaysia and Vietnam with quality mobile data services through various platforms, i.e. SMS, WAP, MMS, JAVA and 3G. For example, the sport data services include the English Premier League as well as all the other major soccer leagues from Europe. In addition, more other content services include Entertainment, Lifestyle & Leisure, Dining, Movie, Cartoon, Games, Fortune Telling, and etc. will be available as well. For some of the new market such as Vietnam and Indonesia, the Group will plan to act as a master content aggregator on behalf with the local operators in order to maximize the revenue and minimize the resources allocation.

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 technologies 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 Getty Images and the world's leading gaming companies. The Group believes our extensive experience in mobile video services with the best position to capture more business opportunities especially in the China market.

For the existing markets, Australia, China, 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. In addition, the Group believes its business model can be extended into other new market such as Vietnam, Indonesia or any other new potential markets for business cooperation.

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 is cooperating with handset manufacturers for efficient service provisioning. The efforts include pre-load and prominently feature and the Group's services with optimized handsets starting in the third quarter of 2006, giving consumers quick and easy access to their Internet content and services. The devices will be available to consumers in Hong Kong and afterward will be extending into a number of markets across Asia.

At present, the Group covers more than 40 telecom operators and portals across markets in the Asia Pacific region. This number is expected to increase steadily into the regions such as Korea, Indonesia, the Philippines, Thailand and Vietnam. The scale in terms of contents' quantity and quality remains the Group's strongest differentiation point from our main competitors in the region.

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

As at 30 June 2006, 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	(Note)	176,169,861	37.3%
Mr. Chan Wai Kwong, Peter	Beneficial owner	<u>4,064,036</u>	<u>0.9%</u>
		<u>180,233,897</u>	<u>38.2%</u>

*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
			<u>400,000</u>	<u>0.084%</u>			

*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

The register of Substantial Shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 30 June 2006, the Company had been notified of the following Substantial Shareholders’ interests and short positions, being 5% or more of the issued share capital of the Company.

## 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	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%
			69.8%

### 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 VDT Mobile Holdings Limited which is a direct wholly-owned subsidiary of Vodatel Holdings Limited, a direct wholly-owned subsidiary of Vodatel. Vodatel is a company incorporated in Bermuda whose shares are listed on GEM (Stock code 8033). Those persons or corporations who are entitled to exercise or control the exercise of one-third or more of the voting power in general meetings of Vodatel or in accordance with whose directions or instructions Vodatel or its directors are accustomed to act or who are otherwise taken to be interested in any shares in which Vodatel is interested under the SFO will be deemed to be interested in the 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 annual report of Vodatel,

as at 31 December 2005, Mr. Jose Manuel dos Santos and LRL 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 interim report of Culturecom, as at 30 September 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 2005, no person was interested or deemed to be interested in more than one-third of the then issued share capital of UOB.

## 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 June 2006 are set out as below:

Name	Date of grant	Outstanding as at 1 April 2006	Number of share options			Outstanding as at 30 June 2006	Approximate percentage of issued share capital	Option period	Consideration for the grant of the option HK\$	Exercise price per Share HK\$
			Granted during the period under review	Exercised during the period under review	Lapsed during the period under review					
<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>										
Mr. Young Antony, Michael	27 March 2003	300,000	—	—	—	300,000	0.063%	9 May 2003 - 8 May 2013	1.00	0.114
		<u>2,530,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,530,000</u>	<u>0.534%</u>			

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

Save as disclosed above, no options pursuant to the Pre-IPO Share Option 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.

## 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.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules ("Code") takes effect from 1 January 2005. The Company is committed to maintain a high stand of corporate governance. To maintain a good and solid framework of corporate governance will ensure the Company to run its business in the best interests of the shareholders. Throughout the period under review, the Company has complied with the Code.

## AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with the GEM Listing Rules. The audit committee has three members comprising all independent non-executive directors namely Mr. Jeffery Matthew Bistrong, Mr. Chu Chin Tai, Mr. Chen Kwok Wang. The primary duties of the audit committee are to oversee that management (i) has maintained the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the Company; (ii) has established and maintained processes to assure that an adequate system of internal control is functioning within the Company; and (iii) has established and maintained processes to assure compliance by the Company with all applicable laws, regulations and corporate policy. The audit committee has reviewed with the management this unaudited quarterly announcement for the three months end 30 June 2006 and has provided advice and comments thereon.

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

Hong Kong, 11 August 2006

*As at the date of this report, the Board comprises 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 and Mr. Chu Chin Tai, Eric and Mr. Chen Kwok Wang, Kester.*