m-mode™

Mobile Media At Your Fingertips
Anytime, Anywhere

# ANNUAL REPORT 2005

M - MODE BERHAD (company No: 635759-U)
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# CORPORATE INFORMATION

**Board of Directors**
Lim Thean Keong
*Chairman / Managing Director*

Lee Kok Chiang
*Executive Director*

Thong Kooi Pin
*Executive Director*

Aminuddin Yusof Lana
*Executive Director*

Fam Lee Ee
*Independent Non-Executive Director*

Mohd Zaini Bin Noordin
*Independent Non-Executive Director*

**Audit Committee**
Fam Lee Ee
*Chairman / Independent Non-Executive Director*

Mohd Zaini Bin Noordin
*Independent Non-Executive Director*

Aminuddin Yusof Lana
*Executive Director*

**Company Secretaries**
Ng Yen Hoong (LS 008016)
Joanne Toh Joo Ann (LS 0008574)

**Registered Office**
Level 14 Uptown 1
No.1 Jalan SS21/58
Damansara Uptown
47400 Petaling JayaSelangor
Tel : 03-7725 2888
Fax : 03-7725 7791

**Principal Banker**
Public Merchant Bank Berhad

**Share Registrar**
PFA Registration Services Sdn Bhd
(Co. No. 19234-W)
Level 13, Uptown 1,
No. 1, Jalan SS21/58,
Damansara Uptown,
47400 Petaling Jaya
Selangor Darul Ehsan
Tel : 03-7725 4888
Fax : 03-7722 2311

**Listing Sponsor**
Public Merchant Bank
(Co. No. 14328-V)
25th Floor, Menara Public Bank
146 Jalan Ampang,
50450 Kuala Lumpur.
Tel : 03-2166 9382
Fax : 03-2166 9386

**Stock Exchange Listing**
Bursa Malaysia Securities Berhad (MESDAQ Market)
Stock Name : MMODE (0059)

**Auditor**
Chanthiran & Co.
Suite EFGH, 11 Floor,
Bangunan Angkasa Raya,
Jalan Ampang, 50450 Kuala Lumpur.
Tel : 03-2715 5678

**Corporate Website**
www.m-mode.com.my

# BOARD OF DIRECTORS

**Lim Thean Keong**, age 43, Malaysian citizen, is the Chairman/Managing Director of M-Mode. He was appointed to the Board on 31 March 2004. As the founder of M-Mode Group since its inception, he is responsible for charting the strategic directions and growth of the M-Mode Group. Mr Lim graduated with Bachelor of Arts (Honours) degree from University of Malaya, Malaysia in 1987. He has been engaged in the publishing industry for numerous years before starting the mobile data business in year 2002.

**Mr. Lee Kok Chiang**, age 37, Malaysian citizen and graduated from Canberra Institute of Technology, Australia with Diploma in Computer Science in year 1992. He was appointed to the Board on 15 March 2006. He has 12 years of experience in value added services (voice), mobile contents (text and rich contents) and Mobile Solutions industry. He began his career with Brokerion Telemactic Sdn Bhd, Dataco (M) Sdn Bhd and Freefon Marketing Solutions Sdn Bhd and held various posts from 1992 to 1997. He joined Nyholt Telecommunications (M) Sdn Bhd as Marketing Manager in year 1997 and was promoted to Chief Operating Officer in year 2001. He has a short stint with REDtone Technology Sdn Bhd and Articulate Online Sdn Bhd as Senior General Manager, Mobile Business Unit and Managing Director respectively in April 2004 and August 2004 before joining M-Mode Group as Chief Executive Officer of Mobile Multimedia Sdn Bhd in September 2005. He is responsible for the business development of the Group.

**Thong Kooi Pin**, age 34, Malaysian citizen, is the Executive Director of M-Mode. He was appointed to the Board on 21 September 2005. He graduated with a professional degree in ACCA (Association of Chartered Certified Accountant) in 1998 and admitted as member of Malaysian Institute of Accountants as Chartered Accountant in year 2000. He further obtained his Master degree in business administration majoring in finance in year 2006 from Universiti Putra Malaysia. He has extensive working experiences with various public listed company prior to joining M-Mode in year 2004 and currently is responsible for the Group's finance and corporate affairs.

**Aminuddin Yusof Lana**, age 57, New Zealand citizen holding a Malaysian permanent resident status, is Non-Independent Executive Director of M-Mode. He was appointed to the Board on 28 March 2005. He holds a Bachelor of Commerce & Business Administration, double majors in Business Administration and Accounting degree from Victoria University of Wellington, New Zealand. He is a Chartered Accountant and member of The Institute of Chartered Secretaries and Administrators of London and Wales (ACIS). He had previously served as Director and later Managing Director of Renong Berhad from May 1990 to February 1994. He has previously served as Director and later Managing Director of Renong Berhad from May 1990 to February 1994 and as Director and Group Managing Director of Faber Group Berhad from June 1990 to December 1994. He was the Managing Director of Metacorp Berhad from January 1995 to October 1996. He was the Managing Director of UEM Builders Bhd from March 2000 to November 2003 and a director of Costain Group PLC (UK) from June 2000 to April 2004. He currently sits on the board of Malaysia Aica Berhad as Independent Non-Executive Director as well as Independent Non-Executive Director of ENC Sdn Bhd, C.H. Offshore Ltd and Oiltool International Inc.

**Fam Lee Ee**, age 45, Malaysian citizen, is the Independent Non-Executive Director of M-Mode. He was appointed to the Board on 13 September 2004. He graduated from University of Malaya, Malaysia with a Bachelor of Arts (Hons) in 1986. He obtained his LLB (Hons) from the University of Liverpool, England in 1989. He is currently a practising partner in Messrs. YF Chun, Fam & Yeo. He is an independent non-executive director of AirAsia Berhad.

**Mohd Zaini bin Noordin**, age 44, Malaysian citizen, is the Independent Non-Executive Director of M-Mode. He was appointed to the Board on 13 September 2004. He completed courses in Insurance and Actuarial Science from Indiana University in United States of America. He is the founder of MOL AccessPortal Bhd (Mesdaq - "MOLAccess") and has more than twenty (20) years of experience in the IT industry and marketing profession. He has entrepreneurial experience with his own companies and corporate experience in both local and foreign multinational companies including NEC Sales (M) Sdn Bhd, Uniphone Sdn Bhd and Mesiniaga Bhd. He was also previously the General Manager of Special Projects at YPJ Holdings Sdn Bhd (a Johor State Investment company) and directly managed Perbadanan Usahawan Johor Sdn Bhd and set-up the Johor Incubation Centre.

None of the Directors have family relationship with any other Directors or major shareholders.

None of the Directors have any conflict of interest with the Company and none of the Directors have any convictions for offences other than traffic offences if any in the past 10 years.

# CHAIRMAN'S STATEMENT

Dear shareholders,

I am pleased as the Chairman of M-Mode Berhad to present the Annual Report and the Audited Financial Statements of the Group and the Company for the year ended 31 December 2005.

During the year under review, the mobile data industry has become more competitive with the emergence of local and foreign content provider companies mushrooming in Malaysia taking advantage of the high mobile penetration in the nation. At present, there were about 19.5 million mobile subscribers in Malaysia according to the statistic provided by Malaysian Communications and Multimedia Commission (MCMC) for year ended 2005 representing 74.1 % penetration.

## *Financial Performance*

The Group has posted a disappointing loss of RM807,781 as compared with restated RM1.5 million profits over last year. The losses are largely attributable to the intense competitions compounded by heavy discounting on retail pricing, mushrooming of unlicensed content traders and restricted business environment imposed by both mobile telecommunication companies and MCMC across to all service providers in Malaysia. Despite operating in such difficulty, I am delighted that the Group is able to achieve profitability in 3rd quarter onwards in the same year through implementing numerous strategic measures to curb overheads and revised marketing strategies.

The Group's China operations for year 2005 are relatively new and not matured enough to contribute any profit for the Group at the moment. However, I am confident that the operations would generate revenues in year 2006 with the measures that had been put in place.

## *Industry Trends and Development*

The mobile data industry has gone through another year with the introduction of new rules and regulations by mobile telecommunication companies and MCMC in Malaysia mainly to contain and to prevent the abuse by any registered short code holders sending chargeable unauthorized content. The move by the mobile telecommunication companies has some direct impact on the revenues of the Group due to extensive modification requires to be done to our existing gateway and related applications.

In addition to the above, mobile data industry is being regulated with tougher stance from MCMC requiring all service providers to register for an ASP class license which were not enforced in previous years. I am welcoming the moves by MCMC which makes unlicensed content traders illegal without the license and its does not affect the Group as we have been a registered holder of ASP class license since year 2002 through our operating subsidiary.

Apart from the new tighter regulations, year 2005 has been another milestone for Malaysian mobile technology evolution with the introduction of 3G services by Celcom and Maxis. 3G enables users to experience higher bandwidth within their handsets would pose greater challenges and opportunities for the company.

### *Utilisation of Proceeds*

As at 31 December 2005, M-Mode had utilised approximately 84.5% of the proceeds raised from its initial public offering in December 2004. The remaining 15.5% will be utilised in due course for the intended purposes as disclosed in M-Mode's prospectus dated 9 November 2004.

### *Prospects*

The Group in year 2006 is adopting the strategy to become more regional content providers and increase its application based contents in addition to its current services in order to increase its profit margin. With a strong research and development team present in Dalian China, the Group is working towards expanding its presence in mainland China to other provinces in order to capitalize on the booming economy of China especially in mobile content industry.

Year 2006 also, the company will expand to other regional country especially in Indonesia. I would have greater confidence that M-Mode's business model could be replicate in Indonesia since the both countries share many similar characteristics in terms of mobile content markets.

### *Research & Development*

The Company constantly keeps abreast with the latest technology update of the mobile network operators and focus its development activities in providing more efficient yet user friendlier mobile gateway connection to enable real time sales report to be accessed through the internet.

With the young research and development team in Dalian, China, the company would expect more application based contents to be introduced in year 2006 other than mobile games.

### *Appreciation*

I wish to record my sincere appreciation to all the members of the Board of Directors, valuable employees, our indispensable business partners and associates, for their effort, contribution and their continuous support to the Company.

Thank you,

LIM THEAN KEONG
Chairman

The Audit Committee was established in September 2004 with the primary objective to provide assistance to the Board in fulfilling its fiduciary responsibilities relating to the corporate accounting and practices for the Group, to improve the business efficiency and enhance the independent role of external and internal auditors.

## 1. Composition of Audit Committee

The present members of the Audit Committee comprise of:-

**Chairman**
Fam Lee Ee – Independent Non-Executive Director

**Members**
Mohd. Zaini Bin Noordin – Independent Non-Executive Director
Aminuddin Yusof Lana – Executive Director

## 2. Term of Reference

### A. Composition

The Audit Committee shall be appointed by the directors from among themselves and shall be no fewer than three (3) members. The majority of the members and the Chairman of the Audit Committee must be independent directors. The chief executive officer shall not be a member of the Audit Committee. Quorum of meeting requires 2/3 of its members to be present which one of member must be Independent Non-Executive Director.

### B. Authority

The Audit Committee is empowered by the Board to investigate any activity within its terms of reference and access to any resources within the Company which are required to perform its duties without any restriction. The Committee is authorised to have direct communication channels with the external auditors and person(s) carrying out the internal audit function or convene meetings with them excluding the attendance of the executive members of the Company whenever is deemed necessary.

The Committee is also authorised to obtain independent/external professional or other advices and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

## C. Functions and Duties

The functions of the Audit Committee are as follows :-

1. To review :

    (a) the nomination of external auditors;
    (b) the adequacy of existing external auditors' audit arrangements, with particular emphasis on the scope and quality of the audit;
    (c) the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;
    (d) the effectiveness of the internal control and management information systems;
    (e) the financial statements of the Company with both the external auditors and the management;
    (f) the external auditors' audit report;
    (g) any management letter sent by the external auditors to the Company and the management's response to such letter;
    (h) any letter of resignation from the Company's external auditors;
    (i) the assistance given by employees of the Company to the external auditors;
    (j) all areas of significant financial risk and the arrangements in place to contain those risks to acceptable levels; and
    (k) all related-party transactions and potential conflict of interests situations that may arise within the Company/Group.

2. To consider the appointment of the external auditors, the audit fee and any questions of resignation or dismissal and on whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment.

3. To discuss with the external auditor before the audit commences, the nature and scope of the audit and ensure co-ordination where more than one audit firm is involved.

4. To carry out any other function that may be mutually agreed upon by the Committee and the Board that would be beneficial to the Company and improve effectiveness of the Committee in discharging its duties and responsibilities.

5. The Committee actions shall be reported to the Board of Directors with such recommendations as the Committee deemed appropriate.

6. To report to Bursa Malaysia Securities Berhad ("Bursa Securities") on any matter reported by it to the Board of the Company which has not been satisfactorily resolved resulting in a breach of the Listing Requirements of MESDAQ Market.

## D. Retirement and Resignation

In the event of any vacancy in the Audit Committee, the Company shall fill in the vacancy within two (2) months, but in any case not later than three (3) months.

### 3. Meetings

A minimum of four (4) meetings per year are planned and additional meetings may be called at the Committee's or Chairman's discretion.

The Committee may invite the external auditors, any other Board members and senior management of the Group to be in attendance during meetings to assist in its deliberations. At least once a year, the Committee shall meet with the external auditors without the presence of any Executive Director.

### 4. Summary of Activities Undertaken

The Audit Committee held five (5) meetings during the financial year ended 31 December 2005. The details of attendance of Committee members are as below:-

| Name | Attendance |
| --- | --- |
| Fam Lee Ee | 4/5 |
| Aminuddin Yusof Lana | 3/5 (appointed on 28 March 2005) |
| Mohd. Zaini Bin Noordin | 5/5 |
| Lim Bee Tat | 2/5 (resigned on 28 March 2005) |

Among the matters discussed and deliberated during all the meetings include:-

- Reviewed the financial statements before the quarterly announcement to Bursa Securities.
- Reviewed the year-end financial statements together with the external auditors' management letter and the management's response.
- Reviewed the reports of the external auditors.
- Reviewed the risk management framework report.
- Reviewed and approved the internal audit plan and internal audit report.

### 5. Employees' Share Option Scheme (ESOS)

The ESOS or Option Committee was established on 19 September 2005 following the implementation of ESOS. Members of the Option Committee comprise of:-

| | | |
| --- | --- | --- |
| Lim Thean Keong | - | Chairman/Managing Director |
| Fam Lee Ee | - | Independent Non-Executive Director |
| Thong Kooi Pin | - | Executive Director |
| Lee Kok Chiang | - | Executive Director |

The objectives of the Option Committee are to:
- assist the Board of the Company in discharging its responsibilities relating to the implementation of the ESOS in accordance with the relevant laws and regulations including the By-Law.
- carry out functions relating to the Scheme assigned by the Board of the Company.

One (1) meeting was held during the financial year ended 31 December 2005 with full attendance from all the Committee members.

### *6. Internal Audit Function*

The Internal Auditors of the Company report directly to the Audit Committee. The internal audit function is to ensure a regular review of the adequacy and integrity of its internal control system. They will also be required to assist the Group in enhancing its existing risk management framework and adopting a risk-based approach.

They conduct regular and systematic reviews on all operating units and submit an independent report to the Committee.

The Board recognizes the importance of corporate governance in discharging its responsibilities, protecting and enhancing shareholders' value through promoting and practising high standards of corporate governance throughout the Group. The Board adopts and applies the principles and best practices as governed by the Listing Requirements of the MESDAQ Market of Bursa Securities and Malaysian Code on Corporate Governance ("Code").

The following statements set out the Company's compliance with the principles of the Code.

## *A. Directors*

### (i) The Board

The Board is primarily responsible for the strategic directions of the Group and is scheduled to meet at least four (4) times a year. However, additional meetings may be convened as and when deemed necessary as determined by the members of the Board.

The Board had convened six (6) meetings during year 2005. Details of attendance are as follows:-

| Director | Meeting Attendance |
|---|---|
| Lim Thean Keong (Chairman) | 5/6 |
| Tung Wai Fun (retired at the first AGM on 18 May 2005) | 3/6 |
| Lim Bee Tat (resigned on 28 March 2005) | 2/6 |
| Thong Kooi Pin (appointed on 21 September 2005) | 1/6 |
| Aminuddin Yusof Lana (appointed on 28 March 2005) | 4/6 |
| Fam Lee Ee | 5/6 |
| Mohd Zaini Bin Noordin | 6/6 |

### (ii) Board Balance & Composition

The Board members of M-Mode come from diverse backgrounds ranging from business, marketing, legal and technical knowledge.

The current Board has five (5) members comprising three (3) Executive Directors and two (2) Independent Non-Executive Directors which have complied with paragraph 13.2 of the Listing Requirements of Bursa Securities for the MESDAQ Market. The Board satisfies that the current composition fairly reflects the investment of shareholders and balance view of the Group's business.

### (iii) Supply of Information

The Board assumes the following responsibilities:-

- reviewing and adopting a strategic plan for the Group;

### (iii) Supply of Information (continued)

- dentifying risks and assume active role in ensuring the implementation of appropriate systems to manage or mitigate these risks;
- succession planning, including appointing, training, fixing the compensation of and where appropriate;
- developing and implementing an investor relations programme or shareholder communications policy for the Group; and
- reviewing the adequacy and the integrity of the Group's internal control systems and management information systems, including system for compliance with applicable laws, regulations, rules, directives and guidelines.

All Directors including Independent Non-Executive Directors have full and timely access to information concerning the Company or others external information as they may feel necessary. Board papers and reports which include the Group's performance and major operational, financial and corporate information are distributed to the Directors in sufficient time prior to Board Meetings to enable Directors to obtain further explanation, where necessary, in order to be properly briefed before the meeting.

Directors also have direct access to the advice and the services of the Group's Company Secretary. The Board is advised and updated on statutory and regulatory requirements pertaining to their duties and responsibilities as well as appropriate procedures for management of meetings.

### (iv) Appointment to the Board and Re-election

In accordance to the Company's Articles of Association, Directors appointed during the year is required to retire and seek election by shareholders at the following Annual General Meeting ("AGM") immediately after their appointment. The Articles also require one-third of the Directors to retire by rotation and seek re-election at each AGM and that each Director shall submit himself for re-election every three (3) years.

### (v) Directors' Training

All members of the Board have attended the Mandatory Accreditation Programme (MAP) as prescribed by the Listing Requirements. Directors are also encourage to attend any relevant training programme to further enhance their knowledge to enable them to discharge their responsibilities more effectively.

## *B. Director Remuneration*

The determination of the remuneration packages for all the Directors is a matter for the Board as a whole and is linked to performance, seniority, experience and scope of responsibility, with the Director concerned abstaining from deliberations and voting on decisions in respect of his individual remuneration.

The aggregate Directors' remuneration paid or payable to all Directors of the Company categorised into appropriate components for the financial year ended 31 December 2005 are as follows:-

### *B. Director Remuneration (continued)*

| Band of remuneration | Executive Directors | Non Executive Directors |
|---|---|---|
| RM 50,000 and below | 4 | 2 |
| RM 50,001 – RM100,000 | 1 | — |

### *C. Relation with Shareholders*

The Company maintains various methods of dissemination of information important to shareholders, stakeholders and the public at large through timely announcement of events, quarterly announcement of financial results and product information on the Company's various websites.

The Company's AGM also provides an effective mean of face to face communication with the shareholders where they are encouraged to participate in the open question and answering session during the AGM. Shareholders are notified of the meeting and provided with a copy of the Company's Annual Report at least 21 days before the meeting in order for them to have sufficient time to read and understand about the Company before the actual event takes place.

### *D. Accountability and Audit*

**(i) Financial Reporting**

It is the Board's responsibility to ensure that the financial statements are prepared in accordance with the Companies Act, 1965 and the applicable approved accounting standards set by Malaysian Accounting Standard Board so as to present a balanced and fair assessment of the Group's financial position and prospects. The Directors are also responsible for keeping proper accounting records, safeguarding the assets of the Company and taking reasonable steps to prevent and enable detection of fraud and other irregularities.

In preparing the financial statements, the Directors have taken the necessary steps and actions as follows:-

(a) selecting suitable accounting policies and then applying them consistently;
(b) stating whether applicable accounting standards have been followed;
(c) making judgments and estimates that are reasonable and prudent; and
(d) preparing the financial statements on a going concern basis, having made reasonable enquiries and assessment on the resources of the Company on its ability to continue further business in foreseeable future.

### (ii) Internal Control

The Board acknowledges its overall responsibility for maintaining a sound system of internal controls to safeguard shareholders' investment and Group's assets. However, the Board recognizes that such system is structured to manage rather than eliminate possibility of encountering risk of failure to achieve corporate objectives.

The Statement on Internal Controls is set out on pages 16 to 17 of the Annual Report providing an overview of the state of internal controls within the Group.

### (iii) Relationships With Auditors

The Board has established a transparent relationship with the external auditors through the Audit Committee, which has been accorded the authority to communicate directly with the external auditors. turn are able to highlight matters require the attention of the Board effectively to the Audit Committee in term of compliance with the accounting standards and other related regulatory requirements.

## *1. Introduction*

The Malaysian Code on Corporate Governance requires listed company to maintain a sound system of internal control to safeguard shareholders' investments and the company's assets. The Board is pleased to provide the following statement, which outlines the nature and scope of internal control of the Company during the year.

## *2. Board Responsibilities*

The Board of Directors recognizes the importance of sound internal controls and risk management in safeguarding the assets of the Group. However, such systems are designed to manage rather than eliminate the business risk totally. It should be noted that any system could provide only reasonable and not absolute assurance against material misstatement or fraud.

The Group has in place an on-going process to identify, evaluate, monitor and manage any significant risks through the internal controls set out in order to attain a reasonably assurance that business objective has been met. These controls are regularly reviewed by the Board and subject to continuous improvement.

## *3. Internal Control Framework*

The Board has established an organization with clearly defined lines of accountability and delegated authority.

A risk analysis of the Group is conducted on a regular basis and necessary measures being put up to assess and monitor the impacts on the operation and business. The audit program is being continuously enhanced to accommodate changes in the assessment of risk to ensure proper control of the business and the achievement of corporate objectives.

The other key elements of the Group's internal control systems are described below:

- Monthly monitoring of operational results against the budget for the Board's review and discussion;
- Regular and comprehensive information provided to the Board, covering financial performance and key business indicators;
- Regular updates of internal policies and procedures, to reflect changing risks or resolve operational deficiencies; and
- Regular management meeting with all key personnel of respective department to address weaknesses and improve efficiency.

The Board is of the view that there is no significant breakdown or weaknesses in the system of internal control of the Group that may have material impact against the operations of the Group for the financial year ended 31 December 2005.

### *4. Conclusion*

Although the Board is of the view that the present internal control is adequately in place to safeguard the Company's assets and sufficient to detect any fraud or irregularities, the Board is on a constant watch for any improvement that may strengthen its current system through a special task team appointed within the organization that report on a monthly basis on all angle of the Group's operations.

The Directors hereby submit their annual report to the members together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2005.

## *PRINCIPAL ACTIVITIES*

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are the provision of mobile contents and data application services.

There were no significant changes in the nature of these activities during the financial year.

## *FINANCIAL RESULTS*

| | GROUP<br>2005<br>RM | COMPANY<br>2005<br>RM |
|---|---|---|
| Net loss attributable to shareholders | (807,781) | (671,331) |

## *DIVIDEND*

No dividend has been paid or declared by the Company since the end of previous financial year. The Directors do not recommend the payment of any dividend in respect of the current financial year.

## *RESERVES AND PROVISIONS*

There were no material transfers to or from reserves or provisions during the financial year except as disclosed in the financial statements.

## *ISSUE OF SHARES AND DEBENTURES*

On May 18, 2005, the authorised share capital of the Company was increased from RM10,000,000 to RM25,000,000 by the creation of 150,000,000 new ordinary shares of RM0.10.

There were no debentures issued during the financial year.

### *EMPLOYEE SHARE OPTIONS SCHEME (ESOS)*

The Company's Employee Share Options Scheme is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 18 May 2005. The ESOS is to be in force for a period of 10 years from the date of implementation.

The salient features and other terms of the ESOS are disclosed in Note 26(a) to the financial statements.

There were no share options exercised by the employee during the financial year.

### *DIRECTORS*

The Directors who have held office since the date of the last report are as follows:

| | |
|---|---|
| Lim Thean Keong | |
| Fam Lee Ee | |
| Mohd Zaini Bin Noordin | |
| Aminuddin Yusof Lana | (appointed on 28 March 2005) |
| Thong Kooi Pin | (appointed on 21 September 2005) |
| Lee Kok Chiang | (appointed on 15 March 2006) |
| Tung Wai Fun | (resigned on 18 May 2005) |
| Lim Bee Tat | (resigned on 28 March 2005) |

### *DIRECTORS' INTERESTS IN SHARES*

According to the register of Directors' shareholdings, particulars of interest of Directors who held office at the end of the financial year in shares of the Company and its related corporation are as follows:

| | Number of ordinary shares of RM0.10 each | | | |
|---|---|---|---|---|
| **The Company** | **At date** | | | **At** |
| **Direct interest** | **01.01.05** | **Bought** | **Sold** | **31.12.2005** |
| Lim Thean Keong | 45,908,000 | 1,950,000 | (3,753,800) | 44,104,200 |
| Thong Kooi Pin | 87,000 | 20,000 | — | 107,000 |

None of the other Directors in office at the end of the financial year held any interests in the shares in the Company or its related corporations during the financial year.

### *DIRECTORS' BENEFITS*

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than the remuneration disclosed in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Neither during nor at the end of the financial year was the Company or any of its related corporations a party to any arrangement whose object was to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### *OTHER STATUTORY INFORMATION*

(a) Before the income statements and balance sheets of the Group and of the Company were made out, the Directors took reasonable steps: -

 (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts have been written off and that adequate allowance had been made for doubtful debts; and

 (ii) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including their value as shown in the accounting records of the Group and of the Company have been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances:

 (i) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or

 (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading, or

 (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(c) At the date of this report, there does not exist:

 (i) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

 (ii) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

(d) No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year, which in the opinion of the Directors, will or may affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

(e) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements, which would render any amount stated in the financial statements misleading.

(f) In the opinion of the Directors,

(i) the results of the Group's and Company's operations during the financial year were not substantially affected by any items, transactions or events of a material and unusual nature; and

(ii) there has not arisen in the interval between the end of the financial year and the date of this report any items, transactions or events of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

***OTHER SIGNIFICANT EVENTS***

(a) On 25 June 2005, the Company entered into a Joint Venture Agreement with Elegant Archer (M) Sdn. Bhd. and Dalian Dreamfun Digital Technology Co. Ltd to set up a joint venture company in Dalian, People's Republic of China known as Dalian M-Mode Dreamfun Technology, Ltd. The Joint Venture Company was incorporated on 16 August 2005, and the Group acquired 65% equity interest for a total cash consideration of RM468,395.

(b) On 2 March 2005, the Group incorporated a wholly owned subsidiary, Beijing M-Mode Network Technology Ltd., in People's Republic of China for a total cash consideration of RM571,500.

***AUDITORS***

The auditors, Chanthiran & Co. have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors,

**LIM THEAN KEONG**
**DIRECTOR**

**THONG KOOI PIN**
**DIRECTOR**

Kuala Lumpur
Date: 10 April 2006

# STATEMENT BY DIRECTORS

**Pursuant to Section 169 (15) of the Companies Act, 1965**

We, **LIM THEAN KEONG** and **THONG KOOI PIN**, two of the Directors of **M-MODE BERHAD**, state that, in the opinion of the Directors, the financial statements set out on pages 25 to 51 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2005 and of the results and the cash flows of the Group and of the Company for the financial year ended on that date in accordance with the applicable approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors,

**LIM THEAN KEONG**
**DIRECTOR**

**THONG KOOI PIN**
**DIRECTOR**

Kuala Lumpur
Date: 10 April 2006

## STATUTORY DECLARATION

**Pursuant to Section 169 (16) of the Companies Act, 1965**

I, **LIM THEAN KEONG**, being the Director primarily responsible for the financial management of **M-MODE BERHAD**, do solemnly and sincerely declare that the financial statements set out on pages 25 to 51 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

**LIM THEAN KEONG**
**DIRECTOR**

Subscribed and solemnly declared at Kuala Lumpur on 10 April 2006 before me.

Mohd Radzi Bin Yasin (No. W327)
Commissioner for Oaths
Kuala Lumpur

# AUDITOR'S REPORT

## TO THE MEMBERS

We have audited the financial statements set out on pages 25 to 51. These financial statements are the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall presentation of the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

(a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved Accounting Standards in Malaysia so as to give a true and fair view of:

   (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and

   (ii) the state of affairs of the Group and of the Company at 31 December 2005 and of the results and cash flows of the Group and of the Company for the financial year ended on that date;

   and

(b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The names of the subsidiaries of which we have not acted as auditors are indicated in Note 17 to the financial statements. We have considered the financial statements of these subsidiaries and the auditors' report thereon.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditor's report on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsections (3) of Section 174 of the Act.

**CHANTHIRAN & CO**
**AF 1385**
**Chartered Accountants (M)**

**N. CHANTHIRAN A/L NAGAPPAN**
**2007/06/06/ (J/PH)**
**Chartered Accountant**

Kuala Lumpur
Date: 10 April 2006

| | Note | Group 2005 RM | Group 2004 RM (As restated) | Company 2005 RM | Company 2004 RM |
|---|---|---|---|---|---|
| Revenue | 7 | 8,836,461 | 11,148,290 | 146,981 | 170,154 |
| Direct costs | 8 | (4,072,409) | (4,841,264) | — | — |
| Gross profit | | 4,764,052 | 6,307,026 | 146,981 | 170,154 |
| Other operating income | | 544,910 | 4,304 | 75,675 | 3,055 |
| Administration expenses | | (3,037,103) | (1,241,463) | (1,094,687) | (251,619) |
| Research and development expenses | | (446,163) | (489,740) | — | — |
| Selling and distribution expenses | | (2,855,396) | (3,076,411) | — | — |
| (Loss)/profit from operations | 9 | (1,029,700) | 1,503,716 | (872,031) | (78,410) |
| Finance costs | 12 | (6,965) | (12,569) | — | — |
| (Loss)/profit from ordinary activities before tax | | (1,036,665) | 1,491,147 | (872,031) | (78,410) |
| Taxation | 13 | 194,995 | 20,020 | 200,700 | 18,980 |
| (Loss)/profit from ordinary activities after tax | | (841,670) | 1,511,167 | (671,331) | (59,430) |
| Minority interests | | 33,889 | — | — | — |
| Net (loss)/profit for the year | | (807,781) | 1,511,167 | (671,331) | (59,430) |
| Earnings per share (sen) | | | | | |
| - basic | 14 (a) | (0.99) | 2.60 | — | — |
| - diluted | 14 (b) | N/A | — | — | — |

The accompanying Notes form an integral part of the financial statements

# BALANCE SHEETS

## AS AT 31 DECEMBER 2005

| | Note | Group 2005 RM | Group 2004 RM (As restated) | Company 2005 RM | Company 2004 RM |
|---|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | | |
| PROPERTY, PLANT & EQUIPMENT | 15 | 2,613,847 | 1,668,408 | 5,840 | — |
| INTANGIBLE ASSETS | 16 | 5,754,268 | 5,324,313 | — | — |
| INVESTMENT IN SUBSIDIARIES | 17 | — | — | 7,089,895 | 6,050,000 |
| DEFERRED TAX ASSET | 18 | 219,680 | 18,980 | 219,680 | 18,980 |
| | | 8,587,795 | 7,011,701 | 7,315,415 | 6,068,980 |
| **CURRENT ASSETS** | | | | | |
| Trade receivables | 19 | 2,499,761 | 1,929,072 | — | — |
| Non-trade receivables, deposits and prepayments | 20 | 288,269 | 299,501 | 151,436 | 1,000 |
| Amount owing by subsidiaries | 17 | — | — | 3,751,685 | 2,404,446 |
| Deposits, bank and cash balances | 21 | 4,616,355 | 7,945,042 | 2,422,913 | 5,859,146 |
| | | 7,404,385 | 10,173,615 | 6,326,034 | 8,264,592 |
| **CURRENT LIABILITIES** | | | | | |
| Trade payables | 22 | 390,755 | 270,842 | — | — |
| Non-trade payables and accrued liabilities | 23 | 398,478 | 1,002,011 | 58,306 | 221,286 |
| Amount owing to a related company | 24 | 2,000 | 2,000 | — | — |
| Hire purchase payables | 25 | 32,160 | 92,940 | — | — |
| Taxation payable | | 5,705 | — | — | — |
| | | 829,098 | 1,367,793 | 58,306 | 221,286 |
| **NET CURRENT ASSETS** | | 6,575,287 | 8,805,822 | 6,267,728 | 8,043,306 |
| | | 15,163,082 | 15,817,523 | 13,583,143 | 14,112,286 |
| ***Financed by:*** | | | | | |
| **CAPITAL AND RESERVES** | | | | | |
| Share capital | 26 | 8,173,300 | 8,173,300 | 8,173,300 | 8,173,300 |
| Reserves | 27 | 6,856,999 | 7,509,583 | 5,409,843 | 5,938,986 |
| | | 15,030,299 | 15,682,883 | 13,583,143 | 14,112,286 |
| Minority interests | | 130,143 | — | — | — |
| | | 15,160,442 | 15,682,883 | 13,583,143 | 14,112,286 |
| **NON-CURRENT LIABILITY** | | | | | |
| Hire purchase payables | 25 | 2,640 | 134,640 | — | — |
| | | 15,163,082 | 15,817,523 | 13,583,143 | 14,112,286 |

The accompanying Notes form an integral part of the financial statement

| | | Non-distributable | | | Distributable | |
|---|---|---|---|---|---|---|
| | Note | Share capital | Share premium (Note 27) | Other reserves | Retained earnings | Total |
| | | RM | RM | RM | RM | RM |
| At 2 December 2003 (Date of incorporation) | | 2 | — | — | — | 2 |
| Net profit for the period | | — | — | — | — | — |
| As previously stated | | — | — | — | 1,326,194 | 1,326,194 |
| Prior year adjustment | | — | — | — | 184,973 | 184,973 |
| At 2 December 2003 (restated) | | 2 | — | — | 1,511,167 | 1,511,169 |
| Issue of shares | | | | | | |
| - acquisition of subsidiaries | | 6,050,000 | — | — | — | 6,050,000 |
| - to Director | | 79,998 | — | — | — | 79,998 |
| - public issue | | 2,043,300 | 7,151,550 | — | — | 9,194,850 |
| - share issue costs | | — | (1,153,134) | — | — | (1,153,134) |
| At 31 December 2004 | | 8,173,300 | 5,998,416 | — | 1,511,167 | 15,682,883 |
| At 1 January 2005 | | — | — | — | — | — |
| As previously stated | | 8,173,300 | 5,998,416 | — | 1,326,194 | 15,497,910 |
| Prior year adjustment | | — | — | — | 184,973 | 184,973 |
| At 1 January 2005 (restated) | | 8,173,300 | 5,998,416 | — | 1,511,167 | 15,682,883 |
| Net loss for the year | | — | — | — | (807,781) | (807,781) |
| Share based transaction | | — | — | 142,188 | — | 142,188 |
| Foreign exchange reserve: | | | | | | |
| - arising during the year | | — | — | 13,009 | — | 13,009 |
| At 31 December 2005 | | 8,173,300 | 5,998,416 | 155,197 | 703,386 | 15,030,299 |

The accompanying Notes form an integral part of the financial statements

| | Note | Share capital | Non-distributable<br>Share premium (Note 27) | Other reserves | Distributable<br>Retained earnings | Total |
|---|---|---|---|---|---|---|
| | | RM | RM | RM | RM | RM |
| At 2 December 2003 (Date of incorporation) | | 2 | — | — | — | 2 |
| Net loss for the period | | — | — | — | (59,430) | (59,430) |
| Issue of shares | | | | | | |
| - acquisition of subsidiaries | | 6,050,000 | — | — | — | 6,050,000 |
| - to Director | | 79,998 | — | — | — | 79,998 |
| - public issue | | 2,043,300 | 7,151,550 | — | — | 9,194,850 |
| - share issue costs | | — | (1,153,134) | — | — | (1,153,134) |
| At 31 December 2004 | | 8,173,300 | 5,998,416 | — | (59,430) | 14,112,286 |
| At 1 January 2005 | | 8,173,300 | 5,998,416 | — | (59,430) | 14,112,286 |
| Share based transaction | | — | — | 142,188 | — | 142,188 |
| Net loss for the year | | — | — | — | (671,331) | (671,331) |
| At 31 December 2005 | | 8,173,300 | 5,998,416 | 142,188 | (730,761) | 13,583,143 |

The accompanying Notes form an integral part of the financial statements

# CASH FLOW STATEMENTS

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005**

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | RM | RM | RM | RM |
| | | | (As restated) | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Net (loss)/profit before taxation | | (1,036,665) | 1,491,147 | (872,031) | (78,410) |
| Adjustments for: | | | | | |
| Depreciation of property, plant & equipment | | 819,701 | 560,281 | 1,460 | — |
| Amortisation of intangible assets | | 376,882 | 260,052 | — | — |
| Hire purchase interests | | — | 10,813 | — | — |
| Gain on disposal | | (87,399) | — | — | — |
| Other non-cash movement | | 155,291 | — | 142,188 | — |
| Operating profit / (loss) before working capital changes | | 227,810 | 2,322,293 | (728,383) | (78,410) |
| Trade receivables | | (570,689) | (860,112) | — | — |
| Non-trade receivables, deposits and prepayments | | 11,232 | (100,926) | (150,436) | (1,000) |
| Inter-company balances | | — | — | (1,347,239) | (2,404,446) |
| Trade payables | | 119,913 | 102,946 | — | — |
| Non-trade payables and accrued liabilities | | (603,533) | 650,639 | (162,980) | 221,286 |
| Amount due to Directors | | — | (299,317) | — | — |
| Cash generated from / (used in) operations | | (815,267) | 1,815,523 | (2,389,038) | (2,262,570) |
| Taxation paid | | — | (18,960) | - | - |
| Net cash generated from / (used in) operating activities | | (815,267) | 1,796,563 | (2,389,038) | (2,262,570) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Investment | | — | — | (1,039,895) | — |
| Acquisition of subsidiaries | 6 | — | 201,164 | — | — |
| Purchase of property, plant and equipment | | (2,115,404) | (1,543,831) | (7,300) | — |
| Development costs incurred | | (506,467) | (535,622) | — | — |
| Proceeds from sale of property, plant and equipment | | 301,231 | — | — | — |
| Net cash used in investing activities | | (2,320,640) | (1,878,289) | (1,047,195) | — |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Proceeds from issue of shares | | — | 9,274,850 | — | 9,274,850 |
| Share issue costs | | — | (1,153,134) | — | (1,153,134) |
| Repayment of hire-purchase payables | | (192,780) | (84,135) | — | — |
| Hire purchase interest paid | | — | (10,813) | — | — |
| Net cash generated from / (used in) financing activities | | (192,780) | 8,026,768 | — | 8,121,716 |
| Net increase / (decrease) in cash and cash equivalents | | (3,328,687) | 7,945,042 | (3,436,233) | 5,859,146 |
| Cash and cash equivalents at beginning of the year | | 7,945,042 | - | 5,859,146 | — |
| Cash and cash equivalents at end of the year | | 4,616,355 | 7,945,042 | 2,422,913 | 5,859,146 |

The accompanying Notes form an integral part of the financial statements

## 1. *General information*

The principal activity of the Company is investment holding. The principal activities of the Group are the provision of mobile contents and data application services.

The number of employees at the end of the financial year is 42 in the Group and 12 in the Company.

## 2. *Basis of preparation of the financial statements*

The financial statements of the Group and of the Company comply with the applicable approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965.

The preparation of financial statements in conformity with the applicable approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported year. Although these estimates are based on the Directors' best knowledge and of current events and actions, actual results could differ from those estimates.

The Company and the Group has elected to adopt the approved Financial Reporting Standard 2 (FRS2) Share-based Payment in preparation of the current financial statements although the effective date of compliance is on or after 1 January 2006.

## 3. *Summary of significant accounting policies*

### (a) Group accounting

Subsidiaries are those corporations in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

The subsidiary companies are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, subsidiaries are consolidated from the date on which control is transferred to the Group and no longer consolidated from the date that control ceases. The cost of an acquisition is the amount of cash paid and the fair value at the date of acquisition of other purchase consideration given by the acquirer, together with directly attributable expenses of the acquisition (other than costs of issuing shares and other capital instruments). At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The difference between the cost of acquisition over the Group's share of the fair value of the identifiable net assets of the subsidiary acquired at the date of acquisition is reflected as goodwill or negative goodwill.

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and liabilities of the acquiree. Separate disclosure is made of minority interest.

## 3. *Summary of significant accounting policies (continued)*

### (a) Group accounting (continued)

Intragroup transactions, balances and unrealised gains on transactions are eliminated, unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

### (b) Goodwill on consolidation

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the subsidiary at the date of acquisition.

Goodwill is stated at cost less accumulated amortisation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3(f). Goodwill arising on acquisition of subsidiaries is included under intangible assets in the balance sheet.

Goodwill is amortised on a straight line basis over its estimated useful life of 20 years.

### (c) Investments

Investments in subsidiaries are shown at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

Investments in other non-current investments are shown at cost and an allowance for diminution in value is made where, in the opinion of the Directors, there is a decline other than temporary in the value of such investments. Where there has been a decline other than temporary in the value of an investment such a decline is recognised as an expense in the period in which the decline is identified.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged/credited to the income statement.

### (d) Property, plant and equipment

Property, plant and equipment comprise their purchase cost and any incidental cost of acquisition less accumulated depreciation and impairment losses.

Depreciation on property, plant and equipment is calculated on a straight line basis to write off the cost of each asset to its residual value over its estimated useful life at the following annual rates:

## 3. *Summary of significant accounting policies (continued)*

### (d) Property, plant and equipment (continued)

| | % |
|---|---|
| Computer equipment | 20 |
| Renovation | 10 |
| Motor vehicles | 20 |
| Office equipment and furniture fittings | 10 |
| Research and development equipment | 10 – 20 |
| Content library | 50 |

Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the income statement. On disposal of revalued assets, amounts in revaluation reserve relating to those assets are transferred to the income statement.

### (e) Development costs

Development costs comprise internally generated expenditure on development of mobile contents where it is reasonably anticipated that the cost will be recovered through future commercial activity.

Development costs that have been capitalised are amortised using the straight line method over the period of their expected benefit, not exceeding a period of 10 years.

### (f) Impairment of assets

Property, plant and equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows.

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

### (g) Receivables

Receivables are carried at anticipated realisable values. Known bad debts are written off and specific allowance is made for any considered to be doubtful of collection.

### *3. Summary of significant accounting policies (continued)*

**(h) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents consist of cash on hand, bank balances and short term fixed deposits, whish are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

**(i) Income taxes**

Current tax expense is determined according to the tax laws in the jurisdiction in which the Group operates and include taxes based upon the taxable profits.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

**(j) Financial instruments**

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or any equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

(i) Financial instruments recognised on the balance sheet
The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual policy statement associated with each item.

(ii) Fair value estimation for disclosure purposes
The face values, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The face value of financial liabilities with a maturity of more than one year is estimated by discounting the future contracting cash flows at the current market interest rate available to the Group for similar financial instruments.

## 3. *Summary of significant accounting policies (continued)*

### (k) Employee benefits

(i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the financial year in which the associated services are rendered by the employees of the Group.

(ii) Post-employment benefits

The benefit plan is the defined contribution plan.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees' benefits relating to employee service in the current and previous financial year.

The Group's contributions to defined contribution plans are charged to the income statement in the financial year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(iii) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(iv) Equity compensation benefits

The Company Employee Share Options Scheme (ESOS) allows the Group's employees to acquire ordinary shares of the Company.The fair value of the share option has been charged to income statement in the current financial year.

### (l) Revenue recognition

Revenue comprises the invoiced value for the sale of goods and services, net of discounts, and after eliminating sales within the Group.

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

The revenue from provision of mobile contents and data application services is recognised in the income statement upon access of the mobile users to their mobile content through telcos and telcos confirmation report.

### 3. *Summary of significant accounting policies (continued)*

**(m) Hire purchase**

Assets held under hire purchase are treated as if they had been purchased at cost at the commencement of the hire purchase agreements. These costs are included under property, plant and equipment and depreciation is provided accordingly. The corresponding obligations under hire purchase are included under liabilities. The finance charges of installments payable are charged to the income statement over the period of the hire purchase agreement.

**(n) Foreign currencies**

(i) Foreign currency transaction

Transaction in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined. All exchange rate differences are taken to the income statement.

(ii) Foreign operations

Where the operations of a foreign company are integral to the operations of the Company, the translation principles described above are applied as if the transactions of the foreign operation had been those of the Company.

(iii) Foreign entities

Financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the assets and liabilities, and at average exchange rates for the financial year with respect to the income statement. All resulting transaction differences are recognised in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the Company and translated at the exchange ruling at the date of the transaction.

### 4. *Financial risk management objectives and policies*

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the growth of the Group's business activities. Financial risk management is carried out through risk reviews, internal control systems, standard operating procedures, investment strategies and adherence to the rules and regulations as stipulated by the Board of Directors. The Group regularly reviews these risks and approves policies for managing each of these risks.

The Group does not trade in derivative financial instruments.

## 4. *Financial risk management objectives and policies (continued)*

### (a) Market risk

For key product purchases, the Group establishes floating and fixed price levels that the Group considers acceptable before entering into short or medium term arrangement with suppliers. The Group does not use derivative financial instruments to manage this risk.

### (b) Credit risk

Credit risk arises when sales are made on deferred credit terms. The Group seeks to control credit risk by application of the credit control procedures that ensure sales are made to customers with an appropriate credit history, credit approvals and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an on-going basis via the Group's management reporting procedures.

### (c) Liquidity and cash flow risks

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet the Group's working capital requirements.

The Group monitors the outstanding known obligations to ensure that the repayment and funding needs are met. The Group aims at maintaining flexibility in funding by keeping committed credit lines available.

### (d) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rate. However, the Group is only exposed on the interest income from fixed deposits placements.

### (e) Foreign currency risk

The Group's current exposure to currency risk as a result of the foreign currency transactions entered into by the Group in currencies other than their functional currency is minimal.

## 5. *Segmental information*

Segmental information is not presented as the Group is involved in the provision of mobile contents and data application services only. The Group is not involved in any other activities to warrant separate reporting.

The contribution from operation in foreign country is not significant compared to the Group's operation to warrant geographical segment reporting.

## 6. *Significant acquisitions*

Acquisition of subsidiaries

(a) On 16 August 2005, the Group acquired 65% equity interest in Dalian MMode Dreamfun Technology Ltd., a company incorporated in People's Republic of China, for a total cash consideration of RM468,395.

(b) On 2 March 2005, the Group incorporated a wholly owned subsidiary, Beijing M-Mode Network Technology Ltd., in People's Republic of China for a total cash consideration of RM571,500. The shares were acquired at par value.

The acquisition had the following effects on the Group's financial results for the year:

| | **2005** **RM** |
|---|---|
| Revenue | 16,386 |
| Loss from operations | (62,936) |
| Net loss for the year | (62,936) |

Details of assets acquired, goodwill and cash flow arising from the acquisition were as follows:

| | **At date of acquisition** |
|---|---|
| Cash of acquisition | 1,039,895 |
| Deposits, bank and cash balance | (875,957) |
| Goodwill | 163,938 |

Goodwill arising on the above acquisition is amortised on a straight line basis over its estimated useful life of 20 years.

## 7. *Revenue*

| | **2005** **RM** | **2004** **RM** |
|---|---|---|
| **Group** | | |
| Rendering of services | 8,836,461 | 11,148,290 |
| **Company** | | |
| Management fees | 88,398 | 94,663 |
| Technical advisory fees | 58,583 | 75,491 |
| | 146,981 | 170,154 |

## 8. *Direct costs*

Direct costs consists mainly of copyright fees, infrastructure costs, leased-line charges, script fees, licensing fees and revenue sharing with technical partner and telcos and other incidental costs incurred for the provision of mobile contents and data application services.

## 9. *Profit / (Loss) from operations*

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

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | Note | RM | RM | RM | RM |
| | | | (As restated) | | |
| Depreciation | | 819,701 | 560,281 | 1,460 | — |
| Directors' remuneration | 10 | 328,174 | 105,727 | 300,114 | 69,579 |
| Auditors' remuneration | | | | | |
| - current | | 14,000 | 26,000 | 5,000 | 5,000 |
| - overprovision in prior year | | (16,030) | — | — | — |
| Preliminary expenses written-off | | — | 9,000 | 500 | 9,000 |
| Rental of premises | | 175,153 | 146,720 | 54,919 | — |
| Staff costs | 11 | 981,932 | 551,295 | 422,792 | 123,020 |
| Amortisation of development costs | | 122,477 | 13,843 | — | — |
| and crediting: | | | | | |
| Interest income | | 113,935 | 4,304 | 75,662 | 3,055 |
| Gain on disposal of property, plant and equipment | | 87,399 | — | — | — |

## 10. *Directors' remuneration*

The Directors of the Company holding office at the end of the financial year were as follows:

**Independent Non-executive Directors**
Fam Lee Ee
Mohd Zaini Bin Noordin

**Executive Directors**
Lim Thean Keong
Aminuddin Yusof Lana
Tung Wai Fun (resigned on 18 May 2005)
Lim Bee Tat (resigned on 28 March 2005)
Thong Kooi Pin (appointed on 21 September 2005)

The aggregate amount of emoluments received and receivable by Directors of the Group and of the Company during the year were as follows:

## 10. *Directors' remuneration (continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | **RM** | **RM** | **RM** | **RM** |
| Executive Directors: | | | | |
| - salaries | 183,016 | 91,000 | 157,516 | 59,000 |
| - estimated money value of benefits-in-kind | 55,882 | 3,150 | 55,882 | 3,150 |
| - defined contribution plan | 20,623 | 10,928 | 18,063 | 7,088 |
| - other employee benefits | 59,553 | 649 | 59,553 | 341 |
| | 319,074 | 105,727 | 291,014 | 69,579 |
| Non-executive Directors: | | | | |
| - fee | 9,100 | — | 9,100 | — |
| | 328,174 | 105,727 | 300,114 | 69,579 |

Included in the other employee benefit is RM58,815, being the fair value of the share option computed on the measurement date in accordance with FRS 2.

## 11. *Staff costs*

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | **RM** | **RM** | **RM** | **RM** |
| Salaries and wages | 800,028 | 474,417 | 297,528 | 109,539 |
| Defined contribution plan | 90,870 | 50,471 | 34,230 | 12,448 |
| Other employee benefits | 91,034 | 26,407 | 91,034 | 1,033 |
| | 981,932 | 551,295 | 422,792 | 123,020 |

Included in the other employee benefit is RM83,373, being the fair value of the share option computed on the measurement date in accordance with FRS 2.

## 12. *Finance costs*

| | Group | Company | | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | **RM** | **RM** | **RM** | **RM** |
| Hire purchase interests | 6,965 | 10,813 | — | — |
| Bank interest | — | 1,756 | — | — |
| | 6,965 | 12,569 | — | — |

## 13. *Taxation*

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | **RM** | **RM** | **RM** | **RM** |
| Current tax | (5,705) | 1,040 | — | — |
| Deferred tax | 200,700 | 18,980 | 200,700 | 18,980 |
| | 194,995 | 20,020 | 200,700 | 18,980 |
| **Current tax** | | | | |
| Prior year | — | 1,040 | — | — |
| Current | 5,705 | — | — | — |
| **Deferred tax** | | | | |
| Origination and reversal of temporary differences | 200,700 | 18,980 | 200,700 | 18,980 |

The explanation of the relationship between tax expense and profit / (loss) before tax is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | **RM** | **RM** | **RM** | **RM** |
| | | **(As restated)** | | |
| (Loss)/profit before tax | (1,036,665) | 1,491,147 | (872,031) | (78,410) |
| Tax calculated at the Malaysian tax rate of – | | | | |
| 28% | (283,773) | 417,521 | (244,169) | (21,955) |
| 20% | 4,638 | — | — | — |
| Tax effects of: | | | | |
| - different tax rates in other countries | (27,817) | — | — | — |
| - expenses not deductible for tax purposes | 173,840 | 70,873 | 43,469 | 2,975 |
| - income not subject to tax | (61,883) | (627,498) | — | — |
| - temporary differences not recognized | — | 120,124 | — | — |
| - over accrual in prior year | - | (1,040) | - | - |
| | (194,995) | (20,020) | (200,700) | (18,980) |

## 14. *Earnings per share - basic*

(a) Basic earnings per share of the Group is calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the year.

| | **2005** | **2004** |
|---|---|---|
| Net (loss) / profit for the year / period | (RM807,781) | RM1,511,167 |
| Weighted average number of ordinary shares in issue | 81,733,000 | 58,179,019 |
| Basic earnings per share (sen) | (0.99) | 2.60 |

### 14. *Earnings per share - basic (continued)*

The comparative basic earnings per share has been restated to take into account the effect of the change in accounting policy on the net profit for that period.

(b) Diluted
For the purpose of calculating diluted earnings per share, the net profit for the year and the weighted average number of ordinary shares in issue during the financial year have been adjusted for the dilutive effects of all potential ordinary shares on the share options granted to the employees.

The diluted earnings per shares is not shown as the effect is anti-dilutive.

### 15. *Property, plant and equipment*

| | Computer equipment RM | Renovation RM | Motor vehicles RM | Office equipment RM | Research & development equipment RM | Content library RM | Total RM |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **2005** | | | | | | | |
| **Cost** | | | | | | | |
| At 01.01.2005 | 33,046 | 18,740 | 660,347 | 63,594 | 1,210,549 | — | 1,986,276 |
| Prior year adjustment | — | — | — | — | — | 477,765 | 477,765 |
| As restated | 33,046 | 18,740 | 660,347 | 63,594 | 1,210,549 | 477,765 | 2,464,041 |
| Additions | 15,425 | 29,045 | - | 85,584 | 476,481 | 1,653,526 | 2,260,061 |
| Disposals | - | - | (518,644) | - | - | - | (518,644) |
| At 31.12.2005 | 48,471 | 47,785 | 141,703 | 149,178 | 1,687,030 | 2,131,291 | 4,205,458 |
| **Accumulated depreciation** | | | | | | | |
| At 01.01.2005 | 16,557 | 4,132 | 300,362 | 12,603 | 251,943 | - | 585,597 |
| Prior year adjustment | - | - | - | - | - | 210,036 | 210,036 |
| As restated | 16,557 | 4,132 | 300,362 | 12,603 | 251,943 | 210,036 | 795,633 |
| Charge for the year | 9,694 | 4,779 | 89,472 | 10,520 | 333,522 | 652,803 | 1,100,790 |
| Disposals | - | - | (304,812) | - | - | — | (304,812) |
| At 31.12.2005 | 26,251 | 8,911 | 85,022 | 23,123 | 585,465 | 862,839 | 1,591,611 |
| **Net book value** | | | | | | | |
| At 31.12.2005 | 22,220 | 38,874 | 56,681 | 126,055 | 1,101,565 | 1,268,452 | 2,613,847 |

### *15. Property, plant and equipment (continued)*

| | Computer equipment RM | Renovation RM | Motor vehicles RM | Office equipment RM | Research & development equipment RM | Content library RM | Total RM |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **2004** | | | | | | | |
| **Cost** | | | | | | | |
| At 02.12.2003 | — | — | — | — | — | — | — |
| Acquisition of subsidiaries | 29,296 | 11,290 | 563,463 | 40,512 | 68,047 | — | 712,608 |
| Additions | 3,750 | 7,450 | 96,884 | 23,082 | 1,142,502 | — | 1,273,668 |
| At 31.12.2004 | 33,046 | 18,740 | 660,347 | 63,594 | 1,210,549 | — | 1,986,276 |
| Prior year adjustment | — | — | — | — | — | 477,765 | 477,765 |
| At 31.12.2004 (restated) | 33,046 | 18,740 | 660,347 | 63,594 | 1,210,549 | 477,765 | 2,464,041 |
| **Accumulated depreciation** | | | | | | | |
| At 02.12.2003 | — | — | — | — | — | — | — |
| Acquisition of subsidiaries | 9,947 | 2,258 | 168,293 | 6,244 | 12,919 | — | 199,661 |
| Charge for the year | 6,610 | 1,847 | 132,069 | 6,359 | 239,024 | — | 385,936 |
| At 31.12.2004 | 16,557 | 4,132 | 300,362 | 12,603 | 251,943 | — | 585,597 |
| Prior year adjustment | — | — | — | — | — | 210,036 | 210,036 |
| At 31.12.2004 (restated) | 16,557 | 4,132 | 300,362 | 12,603 | 251,943 | 210,036 | 795,633 |
| **Net book value** | | | | | | | |
| At 31.12.2004 | 16,489 | 14,608 | 359,985 | 50,991 | 958,606 | - | 1,400,679 |
| At 31.12.2004 (restated) | 16,489 | 14,608 | 359,985 | 50,991 | 958,606 | 267,729 | 1,668,408 |

### 15. Property, plant and equipment (continued)

**Company**

| **2005** | **Computer equipment RM** | **Renovation RM** | **Motor vehicles RM** | **Office equipment RM** | **Research & development equipment RM** | **Content library RM** | **Total RM** |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 01.01.2005 | — | — | — | — | — | — | — |
| Additions | 7,300 | — | — | — | — | — | 7,300 |
| At 31.12.2005 | 7,300 | — | — | — | — | — | 7,300 |
| **Accumulated depreciation** | | | | | | | |
| At 01.01.2005 | — | — | — | — | — | — | — |
| Charge for the year | 1,460 | — | — | — | — | — | 1,460 |
| At 31.12.2005 | 1,460 | — | — | — | — | — | 1,460 |
| **Net Book Value** | | | | | | | |
| At 31.12.2005 | 5,840 | — | — | — | — | — | 5,840 |

### 16. Intangible assets

| | **Goodwill RM** | **Development costs RM** | **Total RM** |
|---|---|---|---|
| **Group** | | | |
| **2005** | | | |
| At 1 January 2005 | 4,677,948 | 646,365 | 5,324,313 |
| Acquisition of subsidiaries (Note 6) | 163,938 | 106,881 | 270,819 |
| Additions | - | 536,018 | 536,018 |
| Amortisation charges | (254,405) | (122,477) | (376,882) |
| At 31 December 2005 | 4,587,481 | 1,166,787 | 5,754,268 |
| Cost | 5,088,095 | 1,303,107 | 6,391,202 |
| Accumulated amortisation | (500,614) | (136,320) | (636,934) |
| Net book value | 4,587,481 | 1,166,787 | 5,754,268 |

### *16. Intangible assets (continued)*

| | Goodwill RM | Development costs RM | Total RM |
|---|---|---|---|
| **Group** | | | |
| **2004** | — | — | — |
| At 2 December 2003 | | | |
| Acquisition of subsidiaries (Note 6) | 5,011,268 | 124,586 | 5,135,854 |
| Additions | - 535,622 | 535,622 | |
| Change in accounting policy | (87,111) | — | (87,111) |
| Amortisation charges | (246,209) | (13,843) | (260,052) |
| At 31 December 2004 | 4,677,948 | 646,365 | 5,324,313 |
| Cost | 5,011,268 | 660,208 | 5,671,476 |
| Change in accounting policy | (87,111) | — | (87,111) |
| Accumulated amortisation | (246,209) | (13,843) | (260,052) |
| Net book value | 4,677,948 | 646,365 | 5,324,313 |

Development costs principally comprise internally generated expenditure on development of mobile contents where it is reasonably anticipated that the costs will be recovered through future commercial activity.

Intangible assets are amortised on the straight line basis over their estimated useful lives, summarised as follows:

- Goodwill — 20 years
- Development costs — 5 - 10 years

### *17. Investment in subsidiaries*

| | Company 2005 RM | Company 2004 RM |
|---|---|---|
| **Non-current assets** | | |
| Unquoted shares, at cost | 7,089,895 | 6,050,000 |
| **Current assets** | | |
| Amount owing by subsidiaries | 3,751,685 | 2,404,446 |

### 17. *Investment in subsidiaries (continued)*

Amount owing by subsidiaries is denominated in Ringgit Malaysia, unsecured and interest free with no fixed terms of repayment.

The shares of the subsidiaries are held directly by the Company. Details of the subsidiaries are as follows:

| Name | Group's effective interest % | Principal activities |
|---|---|---|
| eCentury Sdn. Bhd.* | 100 | Provision of mobile contents and data application services |
| Mobile Multimedia Sdn. Bhd.* | 100 | Provision of mobile contents and data application services |
| Dalian M-Mode Dreamfun Technology Ltd.* | 65 | Provision of mobile contents and data application services |
| Beijing M-Mode Network Technology Co. Ltd.* | 100 | Provision of mobile contents and data application services |

* Audited by firm other than Chanthiran & Co.

### 18. *Deferred tax*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet.

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 RM | 2004 RM | 2005 RM | 2004 RM |
| At start of year | 18,980 | — | 18,980 | 18,980 |
| Credited to income statement (Note 13): | | | | |
| - tax losses | 200,700 | 18,980 | 200,700 | 18,980 |
| At end of year | 219,680 | 18,980 | 219,680 | 18,980 |

## 19. *Trade receivables*

Trade receivables are denominated in Ringgit Malaysia. Credit terms of trade receivables range from 30 days to 60 days.

## 20. *Non-trade receivables, deposits and prepayments*

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | RM | RM | RM | RM |
| Non-trade receivables | 189,435 | 1,226 | 28,956 | — |
| Deposits | 77,390 | 47,197 | — | 1,000 |
| Prepayments | 21,444 | 251,078 | 122,480 | — |
| | 288,269 | 299,501 | 151,436 | 1,000 |

Non-trade receivables, deposits and prepayments are denominated in Ringgit Malaysia.

## 21. *Deposits, bank and cash balances*

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | RM | RM | RM | RM |
| Deposits with licensed banks | 3,391,007 | 6,003,682 | 2,364,523 | 4,002,433 |
| Bank and cash balances | 1,225,348 | 1,941,360 | 58,390 | 1,856,713 |
| | 4,616,355 | 7,945,042 | 2,422,913 | 5,859,146 |

Cash and cash equivalents are denominated in Ringgit Malaysia.

The interest rate per annum of deposits that was effective at balance sheet date were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | % | % | % | % |
| Deposits with licensed banks | 2.50 | 2.85 | 2.50 | 2.70 |

Deposits of the Group and of the Company have an average maturity period of 30 days.

Bank balances are deposits held at call with banks and are non-interest bearing.

## 22. *Trade payables*

Trade payables are denominated in Ringgit Malaysia. Credit terms of trade payables range from 30 days to 60 days.

## 23. *Non-trade payables and accrued liabilities*

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | **RM** | **RM** | **RM** | **RM** |
| Non-trade payables | 57,767 | 735,587 | — | — |
| Accrued liabilities | 340,711 | 266,424 | 58,306 | 221,286 |
| | 398,478 | 1,002,011 | 58,306 | 221,286 |

Non-trade payables and accrued liabilities are denominated in Ringgit Malaysia.

## 24. *Amount owing to a related company*

The amount owing to a related company is denominated in Ringgit Malaysia, unsecured, interest free and has no fixed terms of repayment.

## 25. *Hire purchase payables*

The minimum lease payments of the Group are as follows:

| | **Group** | **Group** |
|---|---|---|
| | **2005** | **2004** |
| | **RM** | **RM** |
| Not later than 1 year | 38,981 | 103,788 |
| Later than 1 year and not later than 5 years | — | 150,446 |
| | 38,981 | 254,234 |
| Future finance charges | (4,181) | (26,654) |
| Present value | 34,800 | 227,580 |
| Disclosed as: | | |
| Current | 32,160 | 92,940 |
| Non-current | 2,640 | 134,640 |
| | 34,800 | 227,580 |

The hire purchase payables bear interests at the rate of 2.99% to 3.50% per annum.

## 26. Share capital

| | 2005 RM | 2004 RM |
|---|---|---|
| Ordinary shares of RM0.10 each | | |
| **Authorised:** | | |
| At 1 January | 10,000,000 | 100,000 |
| Created during the financial period | 15,000,000 | 9,900,000 |
| At 31 December | 25,000,000 | 10,000,000 |
| **Issued and paid up:** | | |
| At 1 January | 8,173,300 | 2 |
| Issued during the financial period | — | 8,173,298 |
| At 31 December | 8,173,300 | 8,173,300 |

On 18 May 2005, the authorised share capital of the Company was increased from RM10,000,000 to RM25,000,000 by the creation of 150,000,000 new ordinary shares of RM0.10.

(a) Employee Share Options Scheme (ESOS)

The Company's Employee Share Options Scheme is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 18 May 2005 and vested upon being granted. The ESOS is to be in force for a period of 10 years from the date of implementation.

The salient features of the ESOS are as follows:

(i) The Options Committee appointed by the Board of Directors to administer the ESOS, may from time to time grant options to eligible employees of the Group to subscribe for new ordinary shares of RM0.10 each in the Company.

(ii) Subject to the discretion of the Options Committee, any employee whose employment has been confirmed and any executive directors holding office in a full time executive capacity of the Group, shall be eligible to participate in the ESOS.

(iii) The total number of shares to be issued under the ESOS shall not exceed in aggregate 10% of the issued share capital of the Company at any point of time during the tenure of the ESOS and out of which not more than 50% of the shares shall be allocated, in aggregate, to directors and senior management. In addition, not more than 10% of the shares available under the ESOS shall be allocated to any individual director or employee who, either singly or collectively through his/her associates, holds 20% or more in the issued and paid-up capital of the Company.

(iv) The options price for each share shall be the price at which the Grantee is entitled to subscribe for an Option shall be the higher of the par value of the Company Shares and a price set at the five (5) days weighted average market price of the Company Shares prior to the date of the Offer.

### *26. Share capital (continued)*

(a) Employee Share Options Scheme (ESOS) (continued)

v) All new ordinary shares issued upon exercise of the options granted under the ESOS will rank pari passu in all respects with the existing ordinary shares of the Company other than as may be specified in a resolution approving the distribution of dividends prior to their exercise dates.

### *27. Reserves*

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | **RM** | **RM** | **RM** | **RM** |
| | | **(As restated)** | | |
| Share premium | 5,998,416 | 5,998,416 | 5,998,416 | 5,998,416 |
| Retained profits/(loss) | 703,386 | 1,511,167 | (730,761) | (59,430) |
| Share based equity reserve | 142,188 | — | 142,188 | — |
| Foreign exchange reserve | 13,009 | — | — | — |
| | 6,856,999 | 7,509,583 | 5,409,843 | 5,938,986 |

The share based equity reserve is in regard to the ESOS as mentioned in Note 26 to the accounts.

The effect of the share option granted to the employees are computed by reference to the fair value of the options in accordance to the Black-Scholes-Merton option pricing model taking into consideration the following factors:

(i) the exercise price of the option;
(ii) the life of the option;
(iii) the current price of the underlying shares;
(iv) the expected volatility of the share price;
(v) the dividends expected on the shares; and
(vi) the risk-free interest rate for the life of the option

The number and weighted average exercise prices per share of the share options are as follows:

| | Number of options | Weighted average exercise price per share |
|---|---|---|
| | | RM |
| Outstanding at the beginning of the year | Nil | — |
| Granted during the year | 6,936,000 | 0.11 |
| Forfeited during the year | 1,215,000 | 0.11 |
| Exercised during the year | Nil | — |
| Expired during the year | Nil | — |

## 27. Reserves (continued)

| | Number of options | Weighted average exercise price per share |
|---|---|---|
| | | RM |
| Outstanding at the end of the year * | 5,721,000 | 0.11 |
| Exercisable at the end of the year | 5,721,000 | 0.11 |

*The weighted average remaining contractual life is approximately 3 years.

The fair value of employee services received as consideration for the share options of the Company indirectly, by reference to the fair value of the share options granted. The weighted average fair value of those options at the measurement date and value of the variables applied in the Black-Scholes-Merton option pricing model are as follows:

| | |
|---|---|
| Weighted average share price at measurement date | RM0.12 |
| Weighted average exercise price | RM0.11 |
| Expected volatility (annualized standard deviation on share price) | 7.861% |
| Weighted average remaining options life | 3 years |
| Expected dividend | Nil |
| Risk-free interest rate | 3.12% |

The expected volatility is a measure of the amount by which the share price is expected to fluctuate during a period based on the historical share price movement of the Company since floatation of the shares of the Company in Mesdaq market of Bursa Malaysia until the end of the current financial year. The measure of volatility used in this option pricing model is the annualized standard deviation of the continuously compounded rates of return on the historical share price of the Company.

There is no other feature incorporated in the measurement of fair value.

## 28. Prior year adjustments

During the financial year, the Company changed its accounting policy with respect to the treatment of digital content costs. These costs are now capitalised and depreciated on a straight line basis over its economic benefit life expected to flow to the Company instead of charging these costs directly to the income statement as they are incurred as in previous years. The change in accounting policy was made to reflect a more appropriate presentation of transactions in the financial statements of the Company.

The change has been applied retrospectively, and the effects on prior financial years have been taken up as prior year adjustments in the financial statements. Accordingly, the following accounts in prior years have been restated to reflect the effects of the accounting change:

## 28. *Prior year adjustments (continued)*

| | As previously reported RM | Adjustments RM | As restated RM |
|---|---|---|---|
| As at 31.12.2004 | | | |
| Property, plant and equipment | | | |
| - Cost | 1,986,276 | 477,765 | 2,464,041 |
| - Accumulated depreciation | (585,597) | (210,036) | (795,633) |
| - Net book value | 1,400,679 | 267,729 | 1,668,408 |
| Depreciation of property, plant and equipment | 385,936 | (174,345) | 560,281 |
| Unappropriated profit at end of the year | 1,326,194 | 184,973 | 1,511,167 |

## 29. *Significant related party disclosures*

| | 2005 RM | 2004 RM |
|---|---|---|
| **Group** | | |
| Purchases of advertisement space from Cede Communications Sdn Bhd, a company in which a director and substantial shareholder, Lim Thean Keong has interest | 33,800 | — |

The directors are of the opinion that the above transaction has been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

## 30. *Subsequent events*

The Group has liquidated its wholly owned subsidiary, Beijing M-Mode Network Technology Co. Ltd., subsequent to entering into a joint venture company in Dalian known as Dalian M-Mode Dreamfun Technology Ltd.

## 31. *Approval of financial statements*

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 10 April 2006.

### *Analysis of Shareholders by Range Group*

| Size Holding | No. of Holder | % | No. of Shares | % |
|---|---|---|---|---|
| 1 – 99 | 5 | 0.312 | 150 | 0.000 |
| 100 – 999 | 76 | 4.741 | 13,100 | 0.014 |
| 1,000 – 4,999 | 345 | 21.522 | 729,850 | 0.758 |
| 5,000 – 10,000 | 515 | 32.127 | 4,010,900 | 4.166 |
| 10,001 – 100,000 | 573 | 35.496 | 19,649,900 | 20.412 |
| 100,001 – 1,000,000 | 84 | 5.303 | 22,740,100 | 23.622 |
| Above 1,000,000 | 8 | 0.499 | 49,123,000 | 51.028 |
| | 1,603 | 100.000 | 96,267,000 | 100.000 |

### *Twenty Largest Shareholders*

| No. | Name of Investors | No. of Shares | % |
|---|---|---|---|
| 1 | Lim Thean Keong | 35,780,000 | 37.167 |
| 2 | Chan Yoke Chan | 3,100,000 | 3.220 |
| 3 | Mohammad Azril Bin Abdul Razak | 3,025,300 | 3.143 |
| 4 | Tung Wai Fun | 2,187,000 | 2.272 |
| 5 | Ching Wai Teng | 1,637,000 | 1.700 |
| 6 | Ahmad Razali Bin Mustaffa | 1,250,000 | 1.298 |
| 7 | Ng Geok Hwa | 1,094,300 | 1.137 |
| 8 | Lee Chai Eng | 1,049,400 | 1.090 |
| 9 | Chan Yoke Peng | 1,000,000 | 1.039 |
| 10 | Citigroup Nominees (Tempatan) Sdn Bhd<br>UBS AG Singapore For Tan Swee Yeong | 1,000,000 | 1.039 |
| 11 | TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account<br>For Pau Kiew Hiong | 815,600 | 0.847 |
| 12 | Chua Kin Houee | 800,000 | 0.831 |
| 13 | Raja Abdullah Bin Raja Baharuddin | 792,700 | 0.823 |
| 14 | JF Apex Nominees (Tempatan) Sdn Bhd Pledged Securities Account<br>For Chin Siew Yoong | 610,000<br>750,000 | 0.634<br>0.779 |
| 15 | Syed Sirajuddin Putra Jamalullail | 560,000 | 0.582 |
| 16 | Lim Bee Tat | 525,000 | 0.545 |
| 17 | Sieh Joo Chyn | 510,000 | 0.530 |
| 18 | Affin Nominees (Tempatan) Sdn Bhd Pledged Securities Account<br>For Tan Chin Teong | 500,000 | 0.519 |
| 19 | Lai Hong Mun | 500,000 | 0.519 |
| 20 | Teoh Beng Keong | 500,000 | 0.519 |

### *Substantial Shareholders*

| | | Direct Interest | | Indirect Interest | |
|---|---|---|---|---|---|
| No. | Name of Shareholders | No. of Shares | % | No. of Shares | % |
| 1 | Lim Thean Keong | 36,104,200 | 37.507 | 0 | 0.00 |

### *Directors' Shareholding*

| | | Direct Interest | | Indirect Interest | |
|---|---|---|---|---|---|
| No. | Name of Shareholders | No. of Shares | % | No. of Shares | % |
| 1 | Lim Thean Keong | 36,104,200 | 37.507 | 0 | 0.000 |
| 2 | Thong Kooi Pin | 87,000 | 0.090 | 0 | 0.000 |
| 3 | Aminuddin Yusof Lana | 0 | 0.000 | 0 | 0.000 |
| 4 | Fam Lee Ee | 0 | 0.000 | 0 | 0.000 |
| 5 | Mohd Zaini Bin Noordin | 0 | 0.000 | 0 | 0.000 |
| 6 | Lee Kok Chiang | 20,000 | 0.021 | 0 | 0.000 |

# NOTICE OF SECOND ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Second Annual General Meeting of the Company will be held at Crystal Crown Hotel, 12 Lorong Utara A, 46200 Petaling Jaya, Selangor on Tuesday, 13 June 2006 at 2.30 p.m. to transact the following business:-

**A G E N D A**

**Ordinary Business**

1. To receive the Audited Financial Statements for the financial year ended 31 December 2005 together with the Reports of the Directors and Auditors thereon. (Resolution 1)

2. To re-elect the following Directors of the Company who retire pursuant to Article 132 of the Company's Articles of Association.
   (a) Mr Thong Kooi Pin (Resolution 2)
   (b) Mr Lee Kok Chiang (Resolution 3)

3. To re-elect Encik Aminuddin Yusof Lana who retire pursant to Article 127 of the Company's Articles of Association. (Resolution 4)

4. To approve Directors' Remuneration for the financial year ended 31 December 2005. (Resolution 5)

5. To re-appoint Messrs Chanthiran & Co. as Auditors of the Company and to authorise the Directors to fix their remuneration. (Resolution 6)

**Special Business**

6. ***Authority To Allot And Issue Shares*** (Resolution 7)

   To consider and, if thought fit, to pass, with or without modifications, the following Ordinary Resolutions:-

   "THAT pursuant to Section 132D of the Companies Act, 1965, the Directors of the Company be and are hereby empowered to allot and issue shares in the Company at any time and upon such terms and conditions for such purposes as the Directors may in their absolute discretion deem fit provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company unless revoked or varied by the Company at a general meeting."

7. ***Proposed Revised Bonus Issue Of Up To 51,809,350 New Ordinary Shares Of RM0.10 Each ("Bonus Shares") On The Basis Of One (1) New Ordinary Share Of RM0.10 Each For Every Two (2) Existing Ordinary Shares of RM0.10 Each Held in M-Mode Berhad ("M-Mode") ["Proposed Revised Bonus Issue"]*** (Resolution 8)

"THAT subject to the approvals of all relevant authorities, including the approval-in-principle of Bursa Malaysia Securities Berhad ("Bursa Securities"), for the listing of and quotation for the Company's additional 4,813,350 ordinary shares of RM0.10 each to be issued, approval be and is hereby given to the Company to revise the sum to be capitalized of up to RM5,180,935 from the original of RM4,699,600 from the Share Premium Account of the Company, in making payment in full and at par of up to 51,809,350 Bonus Shares and to allot and distribute the Bonus Shares as fully paid amongst persons who are registered as shareholders of the Company on a date to be determined by the Directors in the proportion of one (1) Bonus Share for every two (2) existing M-Mode Shares held.

AND THAT, the Bonus Shares shall, on allotment and issue, rank pari passu in all respects with the existing M-Mode Shares except that they shall not be entitled to any dividends, rights, allotments and/or distributions, the entitlement date of which is prior to the date of allotment of the Bonus Shares.

AND THAT the Directors of the Company be and are hereby authorized to give effect to and implement the Proposed Amended Bonus Issue with full power to assent to any conditions, modifications, variations, amendments and to do all acts and things in any manner as may be required and/or approved by the relevant authorities."

***8. To transact any other business of which due notice shall have been given in accordance with the Companies Act, 1965.***

By Order of the Board

**NG YEN HOONG [LS 008016]**
**JOANNE TOH JOO ANN [LS 0008574]**
Company Secretaries

Kuala Lumpur
Date : 22 May 2006

***NOTES:-***

*(i) A member entitled to attend and vote at the meeting is entitled to appoint a proxy/proxies and vote in his/her stead. A proxy need not be a member of the Company and the provisions of Section 149(1)(b) shall not apply to the company.*

*(ii) Where a member is an authorised nominee as defined under the Security Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*

*(iii) Where a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.*

*(iv) If the appointer is a corporation, the Form of Proxy must be executed under its Common Seal or under the hand of its attorney duly authorized.*

*(v) The Form of Proxy must be deposited at the Registered Office of the Company at Level 14, Uptown 1, No. 1, Jalan SS21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time appointed for holding the meeting.*

**EXPLANATORY NOTE ON SPECIAL BUSINESS**

1. *Ordinary Resolution 7:* ***Authority to Directors to Allot and Issue Shares***

   The Proposed Resolution 7, if passed, will give the Directors the authority to allot and issue new ordinary shares up to an amount not exceeding 10% of the issued share capital of the Company for such purposes as the Directors consider would be in the interest of the Company. This authority will commence from the date of this Annual General Meeting and unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting.

2. *Ordinary Resolution 8:* ***Proposed Revised Bonus Issue***

   The relevant information on the Proposed Revised Bonus Issue is set out in the Circular to Shareholders dated 22 May 2006 which is dispatched together with the Company's 2005 Annual Report.

**M-MODE BERHAD**
(Company No. 635759 U)
(Incorporated in Malaysia)

# FORM OF PROXY

| No. of shares held |
|---|
| |

I/We.........................................................................................................................
(Full Name in Capital Letters)
of.........................................................................................................................
(Full Address)
being a member(s) of **M-MODE BERHAD** ("Company") hereby appoint........................................

.........................................................................................................................
(Full Name in Capital Letters)
of.........................................................................................................................

or failing him/her, the Chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the Second Annual General Meeting of the Company to be held at Crystal Crown Hotel, 12 Lorong Utara A, Off Jalan Utara, 46200 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 13 June 2006 at 2.30 p.m. and at any adjournment thereof.

| | **RESOLUTIONS** | ***FOR** | ***AGAINST** |
|---|---|---|---|
| | ***ORDINARY BUSINESS*** | | |
| 1. | To receive the Audited Financial Statements for the financial year ended 31 December 2005. | | |
| 2. | Re-election of Thong Kooi Pin as Director pursuant to Article 132 of the Company's Articles of Association. | | |
| 3. | Re-election of Lee Kok Chiang as Director pursuant to Article 132 of the Company's Articles of Association. | | |
| 4. | Re-election of Aminuddin Yusof Lana as Director pursuant to Article 127 of the Company's Articles of Association. | | |
| 5. | To approve Directors' Remuneration for the financial year ended 31 December 2005. | | |
| 6. | To appoint Chanthiran & Co. as Auditor and to authorize the Directors to fix their remuneration. | | |
| | ***SPECIAL BUSINESS*** | | |
| 7. | Authority to the Directors to allot and issue shares pursuant to Section 132D of the Companies Act, 1965. | | |
| 8. | Proposed Revised Bonus Issue. | | |

*(Please indicate with an "X" in the space provided above how you wish your vote to be cast. If no instruction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.)*

_______________________________
Signature of
Shareholder(s) or Common Seal

Signed this ..........day of ................. 2006.

***NOTES:-***

*(i)* *A member entitled to attend and vote at the meeting is entitled to appoint a proxy/proxies and vote in his/her stead. A proxy need not be a member of the Company.*

*(ii)* *Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*

*(iii)* *Where a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.*

*(iv)* *If the appointer is a corporation, the Form of Proxy must be executed under its Common Seal or under the hand of its attorney duly authorised.*

*(v)* *The Form of Proxy must be deposited at the Registered Office of the Company at Level 14, Uptown 1, No. 1, Jalan SS21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time appointed for holding the meeting.*