



潤迅通信國際有限公司

China Motion Telecom International Limited

(Incorporated in Bermuda with limited liability)



Strengthening Our Bonds
Weaving A Bright Future Ahead

ANNUAL REPORT 2003

Corporate Profile

Established in 1990, China Motion Telecom International Limited ("China Motion" or the "Company", together with its subsidiaries collectively referred as the "Group") is a well regarded Hong Kong-based telecommunications company with a broad customer base in Hong Kong and China. It is listed on the stock exchanges of Hong Kong and Singapore. With consistency, innovation and commitment to market needs and customer satisfaction, the Group has transformed into a successful virtual telecommunications network operator and value-added telecommunications services provider specializing in cross-border telecom services. Its three main core businesses include telecommunications networks, mobile related services and, distribution and retail chain.

China Motion is currently operating in Mainland China, Hong Kong and North America. Recently, the Group has expanded its network coverage, obtained licenses and set up representative offices in new markets, including Singapore, Taiwan, New York, Vancouver and Toronto. Together with the launch of a series of value-added telecom products under the mobile related business and the retail network, the Group now enjoys synergy within its business divisions and achieves significant performance and value for its shareholders.

企業背景

潤迅通信國際有限公司(「潤迅通信」或「公司」；連同其附屬公司統稱「集團」)於一九九零年成立，乃一家以香港為基地的電信企業，於香港及中國電信市場擁有豐富的客戶資源和品牌信譽，並於香港交易所及新加坡交易所擁有上市地位。一直以來，集團本著努力不懈、創新求變以迎合市場及客戶需要的原則，成功將業務推展至跨境增值通信業務領域，現今主要業務包括網絡通信、移動電話相關服務、分銷及連鎖銷售業務三大方面，實現成為多元化的虛擬網絡運營商和高增值服務供應商。

潤迅通信業務範圍主要集中於香港、中國大陸及北美地區。近年，集團更積極開拓新網絡領域，包括在新加坡、台灣、紐約、溫哥華及多倫多等地取得經營牌照及設立辦事處。而移動電話相關服務亦開拓多元化電信增值產品，加上集團的強大分銷及連鎖銷售網絡，三者相互配合，為集團及股東創造出理想成績。

Advancing the Telecommunications Era Weaving a Comprehensive Cross-Border Network

Through precision, flexibility, innovation and excellence, a simple cable can be transformed into a fine intricate network generating infinite possibilities ...

Over the years, China Motion has consistently remained focused on its cross-border operations between Hong Kong and China to build its operational experience and strengths, expand its networks, and develop a unique position in the fast-growing cross-border telecommunications business. Today, China Motion has successfully woven a comprehensive telecommunications network that spans across Hong Kong and China. Together with a unique and unrivaled market proposition, China Motion is poised to further extend its reach into new geographical territories. It strives to become a genuine, cross-border value-added telecommunications service provider that sets a new definition for modern telecommunications business. This is the beginning of a brand new, expansive telecommunications network, leading the way to a promising and bright future.



Contents

2	Highlights of the Year	23	Report of the Directors
4	Financial Highlights	32	Report of the Auditors
6	Group Structure	33	Consolidated Profit and Loss Account
7	Corporate Information	34	Balance Sheets
9	Chairman's Statement	35	Statements of Changes in Equity
13	Management Discussion and Analysis	36	Consolidated Cash Flow Statement
19	Biographical Details of Directors and Senior Management	37	Notes to the Accounts
		82	Notice of Annual General Meeting

Highlights of the Year



1 June 2002

The Group announced the disposal of its paging operations.



18 September 2002

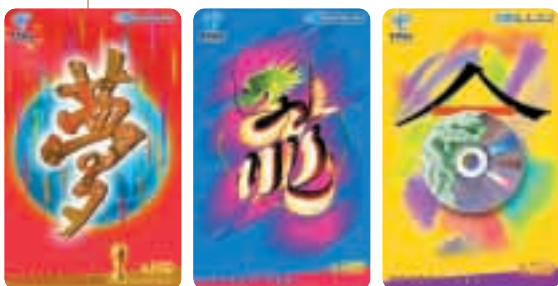
China Motion Netcom was granted a license to operate IDD services in Singapore and launched international voice services in Singapore.

2002



20 May 2002

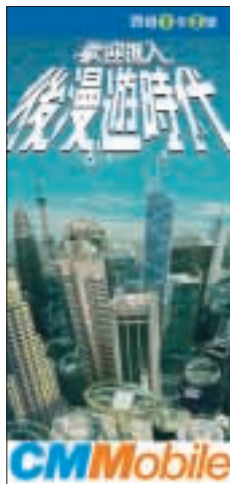
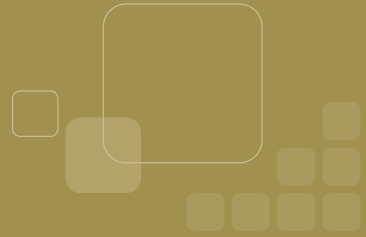
China Motion launched "China-Japan-Korea Prepaid Roaming Cards" in time for the World Cup. This is the first collaboration with China Telecom.



August 2002

CM Mobile launched its first MVNO service - "2-WAY" Stored Value SIM Card - the first product that combines prepaid mobile service with IDD function.





20 January 2003

CM Mobile launched "Dual SIM Mobile Services", a SIM card that offers distinctive cross-border mobile services for frequent travelers between Hong Kong and China.



18 February 2003

China Motion Netcom launched its first fixed line service under the brand name "ChinaOne 0050" - the IDD retail service for Hong Kong market. The service offers quality cross-border and worldwide telecommunications services to residential and business users in Hong Kong.

2003



20 January 2003

China Motion Netcom was awarded a license to offer fixed line services in Hong Kong. This is the first license approved by the Office of the Telecommunications Authority after its full liberalisation of the fixed line service market. It marked China Motion Netcom's entry as the seventh player in Hong Kong's fixed line service sector.



29 January 2003

CM Mobile launched the advanced "2-WAY" Stored Value SIM Card that offers prepaid mobile service with PRC secretarial number all in one card - an industry first in prepaid mobile services.



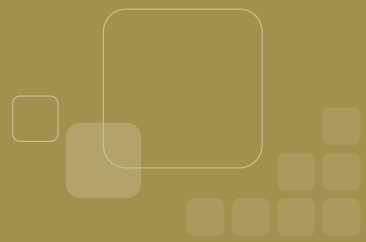
Financial Highlights

Financial Highlights

	2003	2002	2001	2000	1999
Turnover (HK\$ million)	735.6	722.0	768.4	891.2	863.6
Group profit/(loss) before tax and minority interests (HK\$ million)	25.6	(115.0)	(221.9)	62.6	71.8
Net profit/(loss) (HK\$ million)	10.2	(131.0)	(212.2)	40.0	2.1
Earnings/(loss) per share (HK¢)	2.0	(24.9)	(48.2)	12.3	0.7
Total assets (HK\$ million)	1,201.7	1,109.2	1,379.0	1,442.7	1,574.9
Total liabilities (HK\$ million)	446.5	364.2	503.0	648.3	1,037.8
Net assets (HK\$ million)	755.2	745.0	876.0	794.4	537.1
Net asset value per share (HK\$)	1.4	1.4	1.7	2.1	1.8
Working capital ratio	0.8	2.2	1.9	1.0	0.8
Long-term debt to equity	0.11	0.13	0.13	0.18	0.54

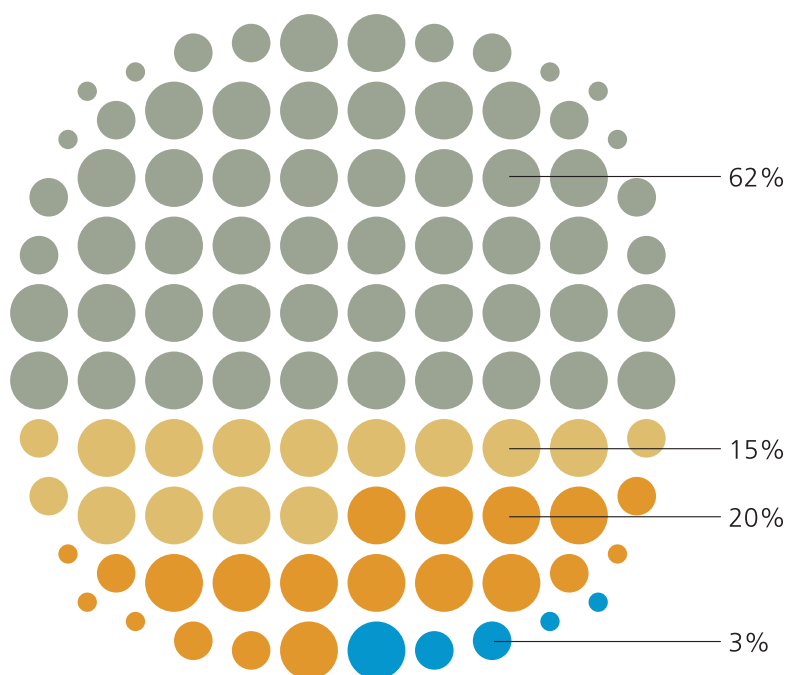
Notes: (1) The financial information for the year ended 31 March 2002 and 2003 have been prepared in accordance with Statements of Standard Accounting Practice issued by Hong Kong Society of Accountants while the financial information of the preceding financial years have been prepared in accordance with International Accounting Standards ("IAS"). There is no material impact to the Group's consolidated accounts as a result of the change in the adoption of accounting standards for the preparation of the accounts. Please refer to note 1(a) to the accounts for details.

(2) The financial information for the years ended 31 March 1999 and 2000 have not been adjusted for the effect arising from the adoption of IAS 38 and IAS 10 (revised 1999) which became effective for the financial year ended 31 March 2001 and onwards.

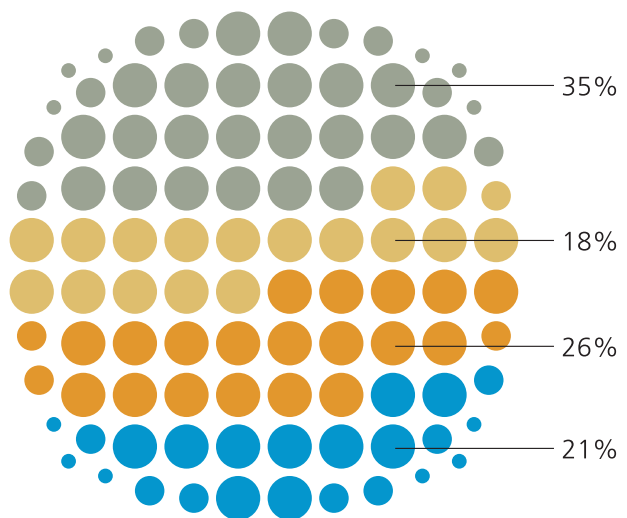


Turnover by Core Businesses

2003



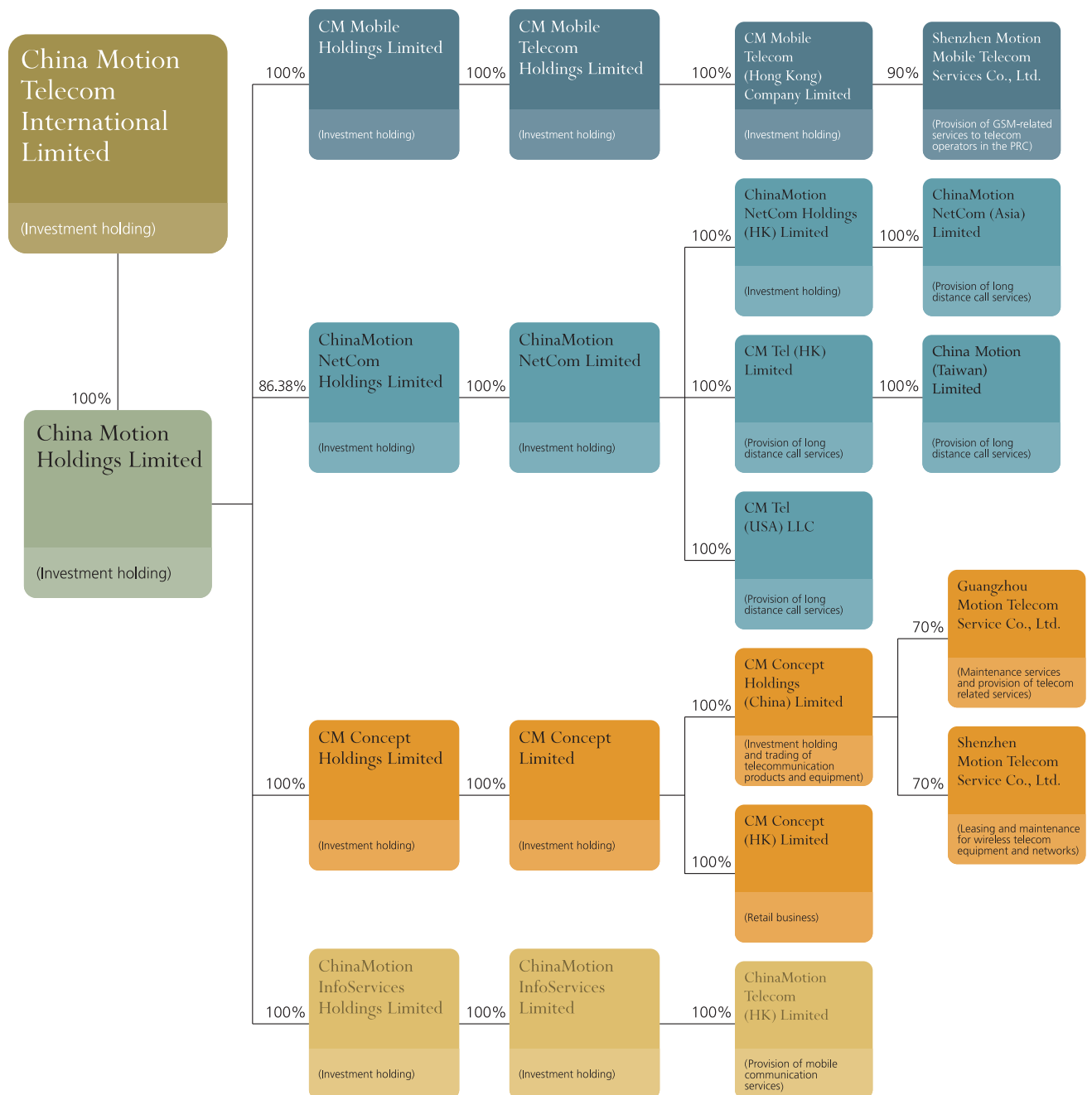
2002



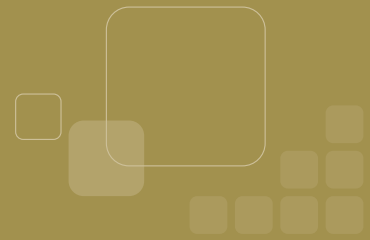
- Telecommunications Networks
- Mobile Related Services
- Distribution & Retail Chain
- Others and Discontinued Operations

Group Structure

The following chart shows the principal subsidiaries of the Group and their principal activities:



Corporate Information



Board of Directors

Executive Directors

HAU Tung Ying (Chairman)
SHUI Ming Hua
CHAN Wai Lun

Non-Executive Directors

YANG Jun (Vice-Chairman)
LI Yi Sheng
YUNG Yung Cheng, Frank*
HO Chung Tai, Raymond*
HU Tiejun (Alternate Director to LI Yi Sheng)

*Independent Non-Executive Directors

Head Office and Principal Place of Business

20th Floor, Tower II & III
Enterprise Square
9 Sheung Yuet Road
Kowloon Bay
Hong Kong
Tel: (852) 2209 2888
Fax: (852) 2827 9883
Homepage: <http://www.chinamotion.com>

Registered Office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Company Secretary

KWOK Mei Fan

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

Fortis Bank Asia HK
77-79 Gloucester Road
Hong Kong

Principal Share Registrar in Bermuda

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Hong Kong Branch Share Registrar

Abacus Share Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Singapore Share Transfer Agent

Barbinder & Co Pte Ltd
8 Cross Street
#11-00 PWC Building
Singapore 048424

Auditors

PricewaterhouseCoopers, Hong Kong
Certified Public Accountants
Audit Partner: IP Koon Wing, Ernest
22nd Floor, Prince's Building
Central
Hong Kong

CORPORATE POSITIONING

Throughout the years, China Motion embraces the belief of “*quality, innovativeness, value-creation*” for the exploration of new telecommunications service regime, with the aim to provide a vast variety of premium, value-adding cross-border telecommunications service.



Chairman's Statement

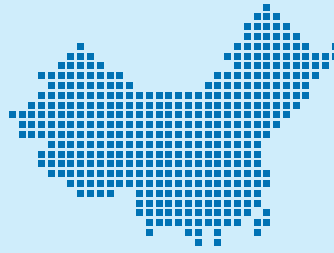
Dear Shareholders,

I am pleased to announce that China Motion Telecom International Limited ("China Motion" or "the Company"), together with its subsidiaries (collectively, "the Group"), has successfully achieved a turnaround and recorded impressive results for the year ended 31 March 2003. This is a validation of our prevailing business strategy. In the past year, the management and staff of China Motion demonstrated innovativeness and flexibility in maximising our competitive advantages to secure a strong path in business development, in the midst of a challenging market environment. Charting our progress as we gradually realised our goals and recorded encouraging results was immensely rewarding and reassuring.

Rallying around a clear business focus, further achieving economies of scale and reinforcing our capabilities have been the goals and driving forces behind China Motion in the past year. The rapid development of the telecommunications industry has intensified competition while creating new business opportunities. For a corporation to excel in existence of keen market competition, it is important to create more value to customers and seize promising business opportunities. Following the disposal of its paging operations, China Motion's business and development focus is more well-defined. The Group is committed to developing core businesses and increasing its competitiveness to establish a business model capable of providing cross-border telecommunications services between Hong Kong and the PRC and these services are supported by the strong networks in Europe, America and Asia. It is by this strategy that we believe we can prove our leadership in the market as a credible cross-border communications provider.

The Group's clear positioning and successful strategies have been lauded in the market, as evidenced by the significant growth in our core businesses during the year under review. Amidst the challenging economic environment in Hong Kong and increasing competition within the telecommunications industry, the disposal of the paging operations helped the Group realign its business and recover its business results and performance. During the year under review, our telecommunications networks business delivered an outstanding performance and recorded a surge in turnover to offset reduced revenue from the disposal of the paging business. During the year, total turnover for the Group amounted to HK\$735,573,000, representing an increase of 2% over the corresponding period last year. At the same time, prudent financial strategy and stringent cost control also contributed to a profit attributable to shareholders of HK\$10,225,000.





Operations Review

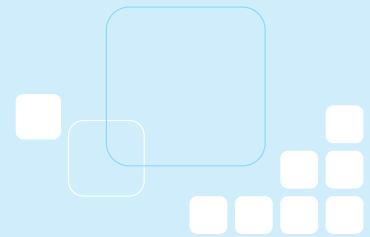
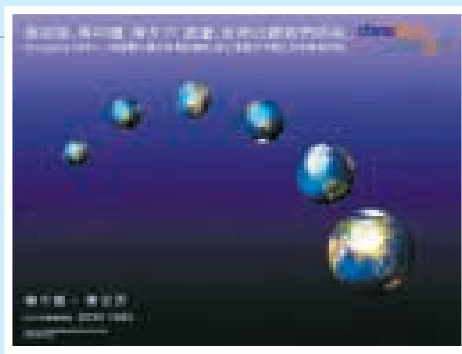
Aware of the rapid developments in the telecommunications industry, the Group disposed of its paging operations in June 2002 to focus on the development of its cross-border value-added telecommunications services. With its success in obtaining the license to provide fixed line services at the beginning of 2003, China Motion has now become a telecommunications group with businesses spanning telecommunications networks, mobile related business and distribution and retail chain. The three businesses are the firm foundations for the Group, each with clear structured business focus while complementary to one another. Thanks to the Group's business focus on cross-border telecommunications markets and the steady stream of new products, customers are increasingly aware of the advantages of cross-border telecommunications services, and demonstrating growing awareness and loyalty to the China Motion brand and its products and services.

While the Group's commitment to developing different markets was a key factor in its turnaround, its effective cost control measures also contributed to its profitability. The Group takes a cautious approach in technological developments that involve a huge network infrastructure and a long payback period. Under this approach, the Group, instead of constructing its own infrastructure, leases network capacity for its IDD business, fixed line and mobile related businesses. This will help minimise costs and risks resulted from the burden of network construction. With its well-established brand and enormous experiences in both telecommunications markets of Hong Kong and China, the Group prides itself in forming strategic alliances with overseas operators in a complementary but non-competitive manner. This co-operative relationship with overseas operators will enable China Motion to offer an efficient and value-added sales platform for multinational telecommunications companies and manufacturers to penetrate the China market.

Among the three businesses, the telecommunications networks business achieved the most outstanding results, contributing to a turnover of HK\$456,400,000 and becoming the major source of revenue for the Group. By aggressively developing the wholesale IDD services with focus on China-related usage, the Group saw rapid growth during the year and recorded usage exceeding 1,200 million minutes. During the year under review, the Group's telecommunications networks business expanded its business scope to the local fixed line market. Services launched include "ChinaOne" for the fixed line service and "ChinaOne 0050" for local retail IDD service in Hong Kong. With the increasing comprehensiveness of telecommunications networks business, China Motion is drawing a steady, loyal and ever-growing customer base.

In mobile related services, the Group recorded a turnover of HK\$109,841,000 during the year under review. After receiving the Public Non-exclusive Telecommunications Services (PNETS) License in 2001 issued by the Office of the Telecommunications Authority (OFTA), the Group was officially granted Mobile Virtual Network Operator (MVNO) status. The Group launched a range of mobile-related products in August 2002 to satisfy the communication needs of the local market and cross-border travelers. These products include the pre-paid "2-WAY" Stored Value SIM Card and the "Dual SIM Mobile Services", both of which received encouraging responses from the market.

"CM Mobile", the brand for the mobile-related business, has earned the Group a respectable market position. In future, the Group will extend its business to other markets and grow profitability by launching new products that are capable of meeting our customers communication needs.



CM Concept, the flagship business of our distribution and retail chain segment, is also one of the largest distributors of telecommunications products and services in Hong Kong. During the year under review, the business generated a turnover of HK\$146,140,000 for the Group. From experience and results, we believe that a comprehensive retail coverage by itself is the best and most direct means to attract customers. Leveraging its retail chain network, CM Concept, while providing an additional source of revenue from retail sales, serves as an ideal distribution channel for the Group's own services and products. This will also be the most efficient and effective channel for promoting the Group's proprietary products, services and philosophies to valuable customers.

Prospects

Against the backdrop of a global economic slowdown, China is able to maintain its rapid economic development. Even with the outbreak of SARS in various regions, the impact on China's economy was limited. Since China's accession into the WTO, the number of foreign enterprises in China is continuing to rise. China's own economic growth and direct investments from developed countries and major export are ballooning. With increasing economic activities and synergistic efforts between China and Hong Kong and the rest of the world, cross border telecommunications services will definitely be in high demand. China Motion will adopt appropriate strategies to enter the China market and the Chinese communities worldwide which are closely connected to China to provide value-add services and create greater value for customers. China Motion's management believes that the Group's future prospects will benefit immensely from China's robust development and its connection with overseas. This is the ideal time for the Group to explore the numerous market opportunities and to achieve impressive returns.

We will leverage our competitive advantages to further develop existing businesses. In the coming year, we will concentrate efforts on our existing business portfolio, including the expansion of our IDD wholesale business, the enhancement of the communications system and service platforms, and the full-fledged development of more proprietary products and services from ChinaOne and CM Mobile.

The Group believes that it is critical to strengthen its financial health, to reserve sufficient resources and funding for future business expansion, in order to maximise returns for shareholders. As such, the Board of Directors does not recommend the payment of a final dividend for the year ended 31 March 2003.

As highlighted above, our performance in the past year was highly rewarding and encouraging. While there will still be challenges ahead, the Board is confident that the Group is well on track to success.

On behalf of the Board of Directors, I would like to thank our management and staff for their excellent performance and their enormous contributions to the Group. We would also like to thank our business partners, customers and shareholders of China Motion for their unrelenting support. Let us work in concert to reach the road to success together.

HAU Tung Ying

Chairman

22 July 2003

BRAND POWER

The Group reflects its strong brand equity through originality and innovation. The core spirit and strength of China Motion are exemplified in ChinaOne 0050 - the first retail IDD service under the brand ChinaOne, and a range of value-added mobile related services under the brand CM Mobile.



Management Discussion and Analysis



Market Overview

In the past year, the global telecommunications market is still in the course of self-adjustment. Amidst the weak market sentiment while keen competition remains, it requires more creativity for telecommunications operators to explore new markets, to expand the customer base and to ensure business growth. Implementation of new technologies and innovative services is the only way to overcome the adverse situation. In view of this, the upsurge of telecommunications value-added services in the markets continues to stimulate customers' needs for new services. On the other hand, there has been an increasing tendency for telecommunications operators to establish strategic alliances to improve their capabilities and to reduce expenditure on fixed costs.

As for the telecommunications industry in Hong Kong, the full opening of the fixed line market and the increasingly competitive mobile market have forced voice communication further lower its rates ever. Together with the comprehensive telecommunications infrastructure and the pro-competition regulations stipulated by the government after the opening up of the market, a more favorable market environment targeting the mass market is provided for emerging operators. In the 2G mobile services market, service providers are prompted to develop more value-added services to maintain their competitiveness, as the market is close to saturation. These new services include data, multi-media short message services and information services.

With China's accession into the WTO, its telecommunications market is more ready for open competition. Further economic development in China has prompted more international business partners to enter into China's market which encourages more economic activities and foreign investments and this will create an enormous increase in demand for cross-border telecommunications services in and out of China. As a key gateway into China for the rest of the world, Hong Kong enjoys an unrivalled geographical advantage in the development of cross-border telecommunications.

As an experienced value-added telecommunications service provider, China Motion has established a cross-border distribution network and an experienced sales team. This has placed China Motion in a unique advantageous position as it possesses more in-depth experiences in the PRC market than other foreign players while it has accumulated more international business exposure than PRC enterprises. These are valuable advantages in order to secure further business opportunities in the cross-border and value-added telecommunications arena. China Motion targets to capture the vast business opportunities in world-wide the Chinese communities and following the successful restructuring of its cross-border and value-added business, the Group will continue to explore opportunities in all these fields to become one of the market leaders.

Business Overview

During the year under review, despite the turbulence in the global economy and the challenges faced by the overall telecommunications industry, the Group carved for itself a unique market positioning, providing cross-border telecommunications services between the PRC, Hong Kong and other major business hubs around the world. During the year, China Motion continued to provide comprehensive telecommunications value-added services. With consolidated resources and a strong business development roadmap, the Group achieved a turnaround in its business performance with profitable financial results. Mindful of the rapid developments within the telecommunications industry, the Group divested its paging business in June 2002 to focus on the development of its cross-border, value-added telecommunications services. With its successful bid for a license to provide fixed line services in Hong Kong at the beginning of 2003, China Motion evolved into three core businesses, namely telecommunications networks, mobile related services and distribution and retail chain.

During the year under review, while the disposal of the paging business had minimal impact on the Group's turnover, the Group saw substantial growth from the telecommunications networks business, which contributed to the improved results. Turnover was HK\$735,573,000,



representing a growth of 2% over the previous year, out of which turnover from telecommunications networks segment, when compared with the previous year, recorded an 80% increase to HK\$456,400,000. Turnover from telecommunications networks business contributed 62% of the total turnover and became the major revenue generator of the Group. The IDD operations of the business performed exceptionally well and became one of the significant players in the market.

In mobile related services, the Group officially launched its MVNO business in August 2002 with a series of services with cross-border capabilities, including the "2-WAY" Stored Value SIM Card and the "Dual SIM Mobile Services". This made China Motion one of the first tier MVNO players to launch services after acquiring the MVNO license. During the year under review, the MVNO business contributed HK\$20,578,000 to the Group's turnover.

By the second half of the year under review, the retail chain business achieved a turnaround and recorded a profit, as a result of stringent cost controls and closure of redundant retail stores. With the continuous launch of new products in the market, the distribution and retail chain serves as the ideal distribution channel for the Group's proprietary services and products.

During the year under review, the Group successfully divested its paging services unit, streamlining its businesses and sharpening its focus. The Group continues its commitments to developing its core businesses to generate higher profit margins, increasing revenue sources and developing business in accordance with the intended plans.

Performance of Core Businesses

Telecommunications Networks

Amidst the global economic downturn, China outperformed the world economy with robust economic development, impressive growth in export and direct foreign investments. All these positive developments have promised great prospects for the IDD market of China. During the year under review, telecommunications networks business, with focus on restructuring business strategies for its core IDD operations, performed exceptionally well and witnessed a rapid growth.

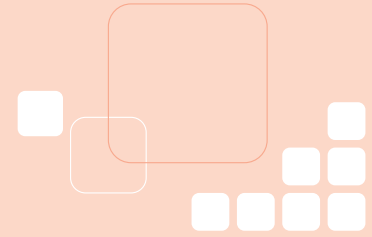
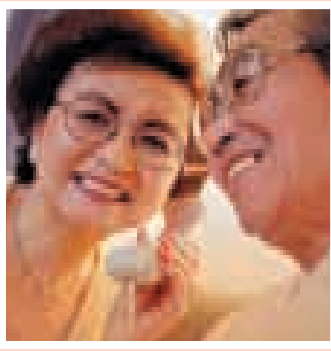
IDD traffic grew dramatically During the year under review, due to the increase in voice traffic, the IDD operations achieved a turnover of HK\$439,096,000, representing a 91% increase from the previous year. During the year, IDD voice traffic exceeded 1,200 million minutes, or approximately averaging 100 million minutes per month, representing a remarkable growth of 150% over the previous year.

IDD voice traffic between China and Hong Kong surged Due to changes in market conditions, the Group focused on developing China-related IDD services to expand its revenue base. Currently 90% of the Group's IDD voice traffic is attributable to usage related to China, totaling 140 million minutes – an increase of 133% over the last year.

Acquisition of licenses from around the world

Leveraging growth in China, with its robust exports and foreign investments, the Group continued to strengthen IDD services between Hong Kong, China and North America, by expanding into new markets and acquiring overseas licenses. China Motion Netcom, the subsidiary of the Group to operate its IDD business, has obtained licenses and set up representative offices in Singapore, Taiwan, New York, Vancouver, and Toronto. A few months from operation commencement, the Singapore and Taiwan offices have already recorded 47 million and 30 million minutes of voice traffic respectively at the end of March this year. China Motion Netcom has also signed a MOU with a major telecommunications player in Vietnam, further cementing the foundation for future business development.





IP Transit, a stepping stone to new market

opportunities IP transit is one of the critical stepping stones for the Group in expanding its geographical reach. During the year under review, connection points were set up in various parts of the world, including Hong Kong, Los Angeles, New York, Singapore, Taiwan and Japan. By connecting Hong Kong and Los Angeles through these connection points, the IP transit segment is poised to become one of the major growth drivers for the Group.

Develop broadband for connection with IDD service providers

China Motion Netcom developed new international broadband services with capacity exceeding 1,000M. It has also developed a number of specialised international broadband services in connection with various first-tier IDD service providers in different parts of the world.

Strong business growth led to further expansion in switching capacity

In order to satisfy growing demands in voice traffic and to provide quality services to customers, the Group upgraded its equipment several times during the year under review. For the year under review, capacity for both inter and intra switching equipment around the world was approximately 50,000 ports. New switching equipment has also been installed in Los Angeles, Singapore and Taiwan. The constructions of overseas connection points contributed to the growth of VOIP traffic volume overseas, leading to an overall expansion to over 1,500 ports.

Launch of local fixed line services to penetrate the retail market

At the beginning of 2003, the Group successfully obtained a license to provide fixed line services in Hong Kong, and launched its first local service under the brand "ChinaOne" in February 2003. After acquiring the license, the Group launched "ChinaOne 0050", a retail IDD service for commercial and household customers with enormous needs for communication between China and Hong Kong. At the same time, the Group also launched its ChinaOne prepaid calling cards in North America and achieved encouraging performance from the markets.

Mobile Related Services

During the year under review, mobile related services recorded a turnover of HK\$109,841,000, representing a decrease of 16% compared to the previous year. The drop was attributed to the fall in ARPU (Average Revenue Per User) in China. Following the recent introduction of new mobile related products and services, the business recorded a significant improvement during the second half of the year.

Launch of MVNO services maintains strong business growth

The Group launched its mobile related services under the brand name "CM Mobile" in Hong Kong in August 2002. Since then, the MVNO business has contributed a turnover of HK\$20,578,000. The management is confident that the business will continue to grow and become one of the major revenue streams for the Group.

"CM Mobile" achieves growing reputation and popularity

Leveraging on its strengths in cross-border communications and extensive retail chain network, and to cater for the communications needs of frequent travelers between China and Hong Kong, the Group released a series of products under the brand "CM Mobile". Products provided include prepaid cards, postpaid services and "Dual SIM Mobile Services", all of which have received favorable market responses.

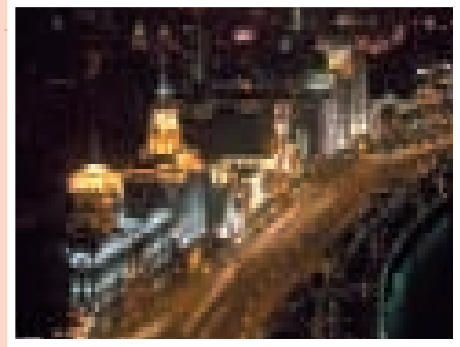
"Dual SIM Mobile Services" attract high-end users

Since development starting from the end of 2002, "Dual SIM Mobile Service" provides one single SIM card and

CM Mobile



Management Discussion and Analysis



comes with a combination of other value added services including voice mail, SMS and secretarial services. The product has appealed to frequent cross-border travelers and attracted a high ARPU customer segment for the Group. Leveraging its existing market base, the Group will continue to customise more value-added services and capture more high ARPU users.

Distribution and Retail Chain

Because of very high penetration rate and competition amongst mobile operators, the mobile phone market in Hong Kong remained weak, during the year under review, the business maintained a turnover of HK\$146,140,000, a drop of 21% when compared with last year. However, due to stringent and effective cost control measures, the business achieved a turnaround in the second half of the year and a profitability of HK\$5,554,000.

Successful turnaround in the fourth quarter Amidst competitive and aggressive marketing campaigns from various mobile service players in 2003, the Group's distribution and retail chain business continued its growth momentum and witnessed a return to profitability. Thanks to the steady growth in mobile service subscribers and revenue generated from products under the CM Mobile brandname, the business witnessed an increase in turnover by the second half of the year.

Stringent cost control in operations The Group adopted a series of cost control measures under the challenging local retail market. The number of retail chain stores was reduced from 33 at the beginning of the year to 26 at the end of the year. The cost control measures proved successful by the second half of the year, when the business saw a turnaround, despite unfavorable business and economic sentiment in the first half.

Synergies between branded products and retail chain create higher value In the past year, China Motion continued to diversify the product range and broaden geographical coverage for its mobile related business. The management believes that cost effective measures and

strategic locations of the distribution network will add to the successful appeal of the Group's mobile related products and services, strengthening the synergy between the two. In the long run, this synergy will continue to bring better performance for the Group.

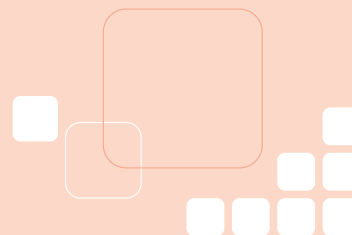
Global mobile phone market resumes growth

According to a research by Gartner in the US, mobile phone manufacturers have increasingly been launching new generation mobile phones. In the first quarter of 2003, 110 million mobile phones were already sold around the world, representing an increase of 18% as compared to last year. The 3G mobile phone was launched in Europe and stimulated sales of mobile phones. The Group's distribution and retail chain business is poised to benefit from such new business opportunities.

Long-Term Investments

On 30 January 2003, the Group signed a conditional agreement with China Motion Telecom Holdings Limited to acquire a total of 50% (by two stages of 25% each) of the registered capital of one of its subsidiaries, China Motion Netcom Services Co Ltd ("CM Netcom") – to develop VOIP-related business in China. CM Netcom currently provides VOIP-related services in Beijing and Shanghai. Completion of the acquisition agreement is conditional upon, inter alia, the conditions precedent to be fulfilled on or before 31 October 2003 with completion of the acquisition to take place by 31 December 2003 and 2004 for the stages one and two respectively. As of the date of this report, the relevant parties to the acquisition are still in the process of fulfilling the relevant conditions precedent.

The total consideration for this acquisition is HK\$258,000,000, of which HK\$46,729,000 has been paid as deposit, and the capital expenditure funding of HK\$80,159,000 paid last year will be applied as part of the consideration of the acquisition. The Group will leverage its expertise in IDD services and work with business partners in China to capture the huge market opportunities there and maximise value for shareholders.



Prospects

As China continues to experience robust economic growth, increase in foreign investments and high domestic consumption power and the holding of upcoming world, the Group is confident that the communication needs between China and Hong Kong, and China with the rest of the world, will continue to grow. The cross-border telecommunications market holds immense opportunities for further development and China Motion is poised to become one of the biggest beneficiary in this.

The Group will continue to leverage its competitiveness to achieve the following targets:

- Further expand its wholesale IDD business to other countries such as the United Kingdom and Australia where there is huge demand for communications services to China
- Expand the newly launched retail IDD services
- Enhance the communications systems and platforms to fully develop proprietary products, such as ChinaOne and CM Mobile, for individuals and SMEs
- Expand the retail market for brands and products developed by the Group
- Partnership with other major telecommunications operators to further develop the mobile services business

With streamlined businesses and sharpened focus, the Group has been able to apply stringent cost control measures and successfully turn its operations around to record profit. With such a strong base to work from, the management expects that China Motion will continue to see growth and will strive to improve profitability for the Group.

Financial Position

The Group has always maintained a prudent and stable financial strategy. As at 31 March 2003, the Group's cash and bank balances amounted to approximately HK\$86,013,000. Total bank borrowings were approximately HK\$135,419,000 of which HK\$132,362,000 is denominated in Hong Kong dollars and HK\$3,057,000 is

denominated in US dollars. The bank loans are repayable monthly and the last monthly installment will be in August 2013. The current total borrowings as a percentage of shareholders' funds were maintained at a healthy gearing ratio of 18%, which is similar to last year's level.

During the year, the Group financed its operations through internally generated funds, banking facilities and the proceeds of funds raised in the financial year ended 31 March 2001. Total net proceeds then raised amounted to HK\$303,000,000 and have been utilised in the current and previous years as proposed.

As at 31 March 2003, the Group had aggregate banking facilities of approximately HK\$73,520,000, of which HK\$45,313,000 was utilised. It is anticipated that the Group's cash and bank balance, as at the balance sheet date, together with the unused banking facilities, will be sufficient to discharge its debts and to fund its operations.

Exposures to Fluctuations in Exchange Rates

The Group is exposed to fluctuations in Renminbi and United States dollars as certain expenses payable and trade receivables from customers are settled in these currencies respectively.

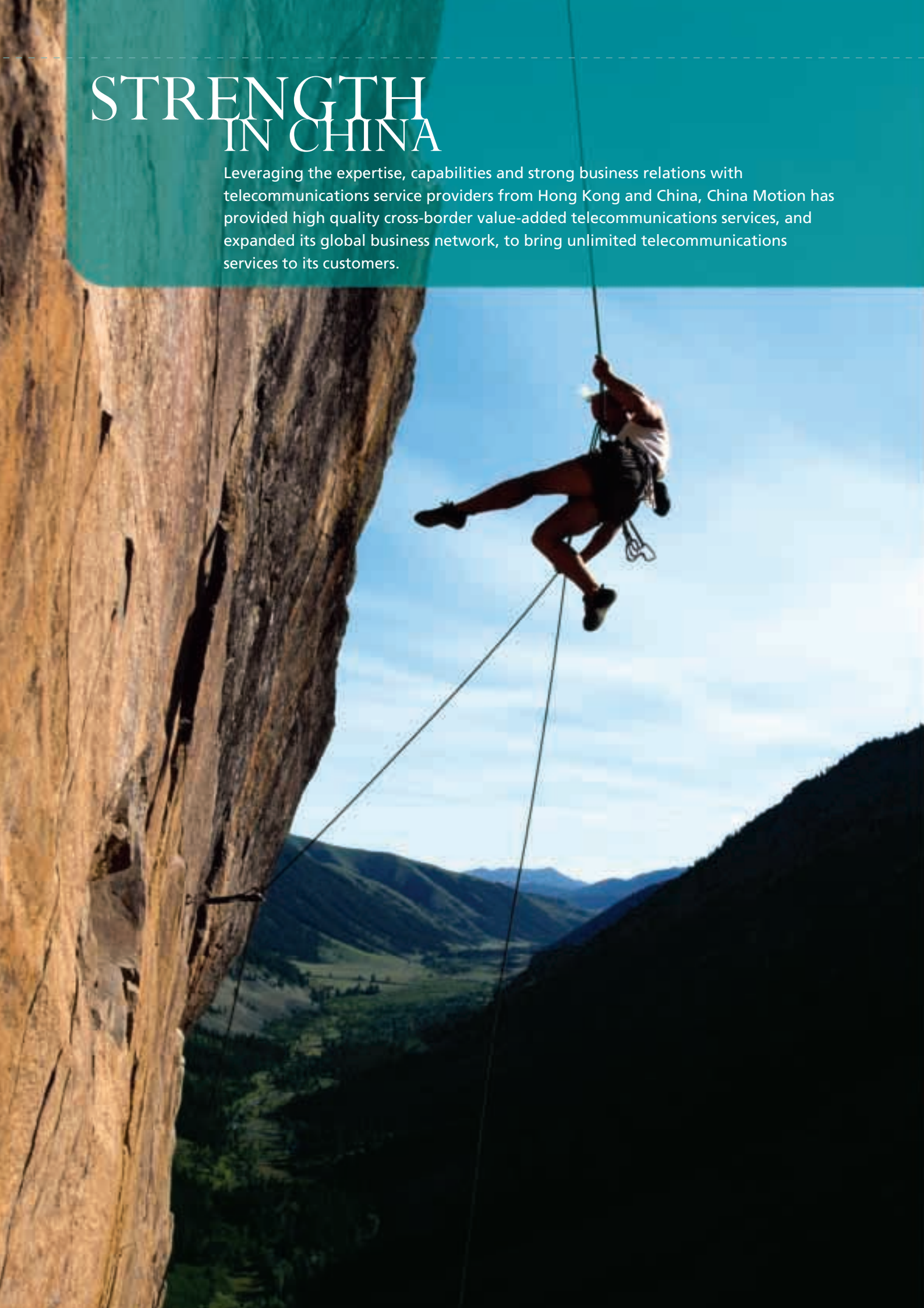
Staff and Remuneration Policies

As at 31 March 2003, the Group employed a workforce of approximately 523. Total staff costs excluding directors' emoluments incurred during the year amounted to HK\$119,455,000. The Group's remuneration policy has been in line with prevailing market practice and has remunerated its employees based on their performance and experience.

The Group also offers a staff benefits package to its employees, which includes training allowance, provident fund and medical insurance. In addition, the Group grants share options to certain directors of the Company and certain employees of the Group.

STRENGTH IN CHINA

Leveraging the expertise, capabilities and strong business relations with telecommunications service providers from Hong Kong and China, China Motion has provided high quality cross-border value-added telecommunications services, and expanded its global business network, to bring unlimited telecommunications services to its customers.



Biographical Details of Directors & Senior Management

Executive Director

HAU Tung Ying (Chairman)

HAU Tung Ying, aged 49, is the founder, Chairman and Co-CEO of the Group. He is currently the Chairman of the Internet & Telecom Association of Hong Kong. As the Chairman, he is mainly responsible for strategic planning and corporate policies as well as overseeing the Group's operations. Mr. Hau comes with more than 25 years of working experience in the telecommunications industry - including over 10 years in Guangzhou Telecommunications Bureau and, from 1985 to 1989, as the Director and General Manager of Shenda Telephone Company Limited, a joint venture between Cable & Wireless Plc, and the Shenzhen Municipal Government. Mr. Hau graduated from Zhong Shan University with a Bachelor degree in Physics.



SHUI Ming Hua

SHUI Ming Hua, aged 64, is the Executive Director of the Company. Mr. Shui has over 30 years of experience in accounting, finance and management in companies established in the PRC and has worked as a financial controller of a large Chinese enterprise in Hong Kong. He also holds directorships in various subsidiaries of the Company.



CHAN Wai Lun

CHAN Wai Lun, aged 51, is the Executive Director of the Company and Co-COO of the Group. Before joining the Group in 1997, Mr. Chan has over 24 years of experience in electronic industry and trading fields. Mr. Chan graduated from Zhong Shan University with a Bachelor degree in Physics.



From top to bottom:
HAU Tung Ying,
SHUI Ming Hua and
CHAN Wai Lun

Biographical Details of Directors & Senior Management

Non-Executive Director

YANG Jun (Vice-Chairman)

YANG Jun, aged 39, is the Vice-Chairman of the Company and the Co-CEO of China Motion Telecom Holdings Limited (formerly known as China Motion Telecom Development Company), which is the Company's major business partner of several joint venture companies in the PRC. Mr. Yang has over 10 years of experience in the telecommunications industry in the PRC.



LI Yi Sheng

LI Yi Sheng, aged 67, was formerly the head of Guangdong Posts and Telecommunications Administrative Bureau and held the position of Director and General Manager of Telpo Communications (Group) Limited. Mr. Li has over 40 years of experience in the telecommunications industry.

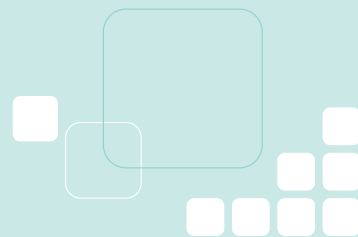


YUNG Yung Cheng, Frank

YUNG Yung Cheng, Frank, aged 69, is the Chairman of the Audit Committee of the Company. He was in senior management and the Chief Executive Officer of a number of listed companies in Singapore. He has also been active in public services in Singapore, having served as Chairman of the Telecommunications Authority of Singapore (1974-1986). He is currently an independent director of several listed companies in Singapore.



From top to bottom:
YANG Jun,
LI Yi Sheng and
YUNG Yung Cheng, Frank



HO Chung-Tai, Raymond

Dr. the Hon. Raymond HO Chung Tai, MBE, JP, aged 64, is a member of the Legislative Council (Engineering Functional Constituency) and Past President of Hong Kong Institution of Engineers, former Chairman of Transport Advisory Committee and Hong Kong Technology Committee of the ITDC, former Council Chairman of the City University of Hong Kong. Dr. Ho has had 40 years of wide-ranging, large magnitude and complex infrastructure projects and environmental work in Hong Kong and the United Kingdom.

Dr. Ho obtained his degrees at The University of Hong Kong, University of Manchester and the City University of London. He has also been awarded Hon. Doctor Degree in Business Administration by the City University of Hong Kong and Hon. Doctor Degree of Laws of Manchester University of UK.



Alternate Director

HU Tiejun

HU Tiejun, aged 52, joined the Group in 1993 and serves as the Chief Scientist of the Group. Currently, Mr. Hu is responsible for the Group's technology research and development, specialising in system design and global data network management. Mr. Hu brings to the Group more than 20 years of experience specialising in areas of computer systems and data communication networking.

Mr. Hu graduated from Zhong Shan University with a Bachelor degree in Physics.

From top to bottom:
HO Chung Tai, Raymond and
HU Tiejun

Biographical Details of Directors & Senior Management

Senior Management

CHEN Xiaodan

CHEN Xiaodan, aged 42, joined the Group in 1994. She is the Executive Vice President of Corporate Management Division. Holder of a Master degree from the University of Electronic Science and Technology of China, Ms. Chen is responsible for corporate development, business planning and analysis, resources planning, operational management and MIS of the Group. Ms. Chen has over 19 years of experience in the telecommunications field. Before joining the Group, she has been working in telecommunications college and government authority of telecommunications in the PRC.

HU Junan

HU Junan, aged 52, joined the Group in 2002. He is the Chief Operating Officer of Mobile Business Unit and is responsible for the Group's mobile related services as well as distribution and retail chain businesses. Mr. Hu holds a Master degree from Macau University of Science and Technology. He has over 27 years of experience in the telecommunications industry. Mr Hu had worked in the Guangzhou Branch of Guangdong Mobile Communication Co. Ltd as General Manager.

LI Bin

LI Bin, aged 35, joined the Group in 1998. He is the Chief Operating Officer of China Motion Netcom and is responsible for the Group's IDD business and fixed line business in Hong Kong. Mr. Li holds a Master of Philosophy Degree and is a PhD candidate in Electrical and Electronic Engineering of the Hong Kong University of Science and Technology. Mr. Li is a Senior Member of the Institute of Electrical and Electronics Engineers, Inc. (IEEE). Mr Li possesses over 12 years of experience in the telecommunications industry and before joining the Group, Mr. Li had worked in the Guangdong Post and Telecom Technology Research Center.

LI Kwok Ping

LI Kwok Ping, aged 46, joined the Group in 1998. He is the Chief Executive Officer of China Motion Netcom and is responsible for the overall management with focus on the development and implementation of the strategic and operational plans. Mr. Li holds a Master degree from the Nanjing University and has over 22 years of experience in telecommunications industry. Before joining the Group, Mr. Li had worked in Shenda Telephone Co. Ltd. as Deputy General Manager.

PAN Rubo

PAN Rubo, aged 43, joined the Group in 1996. He is the Executive Vice President of Business Relationship. Mr. Pan holds a Bachelor's degree and is responsible for the corporate relations, business coordination and development functions of the Group. He has 26 years of working experience in the telecommunication industry. Before joining the Group, Mr. Pan has 14 years experience in the Guangdong Posts and The Telecommunications Administrative Bureau.

WU Ying Keung

WU Ying Keung, aged 47, re-joined the Group in 2001. He is the Executive Vice President of Corporate Finance Division, responsible for the Group's overall corporate finance functions. Mr. Wu is a member of the professional accounting bodies in Hong Kong, the United Kingdom and Canada and possesses over 24 years of experience in the finance and corporate finance field. Before re-joining the Group, Mr. Wu held key positions in finance management in various companies and professional firms in Hong Kong and overseas.

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 March 2003.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 36 to the accounts.

An analysis of the performance of the Company and its subsidiaries (collectively referred to as the "Group") for the year by business and geographical segments is set out in note 3 to the accounts.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 33.

The directors do not recommend the payment of a final dividend.

Reserves

Movements in the reserves and accumulated losses of the Group and the Company during the year are set out in the statements of changes in equity on page 35.

Distributable reserves

In accordance with the Company Act 1981 of Bermuda (as amended) and the Company's Bye-laws, the Company has no distributable reserve as at 31 March 2003.

Fixed assets

Details of the movements in fixed assets of the Group are set out in note 15 to the accounts.

Share capital and warrants

Details of the movements in share capital and warrants of the Company are set out in note 28 to the accounts.

Five-year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4.

Report of the Directors

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights under the laws of Bermuda.

Purchase, sale and redemption of shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Directors

The directors who held office during the year and up to the date of this report were:

Mr. HAU Tung Ying

Mr. SHUI Ming Hua

Mr. CHAN Wai Lun

Mr. YANG Jun*

Mr. LI Yi Sheng*

Mr. YUNG Yung Cheng, Frank**

Dr. HO Chung Tai, Raymond**

Mr. HU Tiejun (Alternate director to Mr. LI Yi Sheng)

Mr. Timothy Allen BRIDGEWATER* (resigned on 23 July 2002)

* Non-executive directors

** Independent non-executive directors

In accordance with Bye-law 86(1) of the Bye-laws of the Company, Mr. HAU Tung Ying, Mr. SHUI Ming Hua and Mr. YANG Jun retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' service contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

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

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 19 to 22.

Directors' interests in equity or debt securities

As at 31 March 2003, the interests of the directors and chief executive in the shares and debt securities of the Company or any associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register required to be kept under Section 29 of the SDI Ordinance were as follows:

	Number of ordinary shares held			
	Personal Interests	Family Interests	Corporate Interests (Note)	Other Interests
HAU Tung Ying	–	–	270,247,500	–
SHUI Ming Hua	250,000	–	–	–
CHAN Wai Lun	267,000	–	–	–
HU Tiejun	292,000	–	–	–

Note: The 270,247,500 shares are legally and beneficially owned by Goldtop Holdings Limited ("Goldtop"). Mr. HAU Tung Ying and his wife, Madam TING Yat Shuk, are both directors of Goldtop in which they hold 30,000 and 20,000 ordinary shares respectively, representing 60% and 40% of the entire issued share capital of Goldtop.

Apart from the shares as disclosed above, options to subscribe for ordinary shares of the Company have been granted to Messrs. HAU Tung Ying, SHUI Ming Hua, CHAN Wai Lun, YANG Jun and HU Tiejun pursuant to the share option scheme adopted by the Company on 18 March 1998 ("1998 Share Option Scheme"). Information in relation to the movements of their share options during the year is shown in the following section under the heading "Information on share options".

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Report of the Directors

Information on share options

- 1 Movements of share options, which have been granted under the 1998 Share Option Scheme, during the year are listed below in accordance with Rule 17.07 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") :

Category	Date of grant	Exercise price HK\$	Exercise period	Vesting period	No. of	No. of	No. of
					outstanding options at 1 April 2002	options lapsed during the year	outstanding options at 31 March 2003
Directors:							
HAU Tung Ying	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	2,000,000
SHUI Ming Hua	25 February 2000	3.19	25/02/01 – 17/03/08	N/A	378,499	–	378,499
	17 October 2000	1.22	17/10/01 – 17/03/08	N/A	432,570	–	432,570
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	2,000,000
CHAN Wai Lun	25 February 2000	3.19	25/02/01 – 17/03/08	N/A	378,499	–	378,499
	17 October 2000	1.22	17/10/01 – 17/03/08	N/A	432,570	–	432,570
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	2,000,000
YANG Jun	29 June 1998	0.751	29/06/99 – 17/03/08	N/A	257,483	–	257,483
	25 February 2000	3.19	25/02/01 – 17/03/08	N/A	252,333	–	252,333
	17 October 2000	1.22	17/10/01 – 17/03/08	N/A	288,380	–	288,380
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	2,000,000
HU Tiejun	19 August 1999	2.00	19/08/00 – 17/03/08	N/A	252,333	–	252,333
	17 October 2000	1.22	17/10/01 – 17/03/08	N/A	288,380	–	288,380
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	2,000,000
Employees:							
	29 June 1998	0.751	29/06/99 – 17/03/08	N/A	226,583	(82,394)	144,189
	19 August 1999	2.00	19/08/00 – 17/03/08	N/A	1,220,465	(200,837)	1,019,628
	25 February 2000	3.19	25/02/01 – 17/03/08	N/A	82,394	–	82,394
	17 October 2000	1.22	17/10/01 – 17/03/08	N/A	2,085,605	(211,135)	1,874,470
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	16,200,000	(3,350,000)	12,850,000
	28 January 2002	0.75	28/01/03 – 27/01/12	28/01/03 – 28/01/05	1,850,000	(1,350,000)	500,000

Note: During the year, no share options were granted, exercised or cancelled.

Information on share options (continued)

- 2 In accordance with the 1998 Share Option Scheme, the directors of the Company may at their discretion invite eligible employees of the Group, including executive directors of the Company, to take up options to subscribe for shares in the Company under the terms and conditions stipulated therein.

The 1998 Share Option Scheme was subsequently terminated by the Company in a special general meeting held on 6 September 2002 but the share options granted and not yet exercised thereunder would however remain effective and are bound by the terms therein. A detailed summary of the 1998 Share Option Scheme has been disclosed in the 2002 annual report of the Company.

- 3 On 6 September 2002, the Company adopted a new share option scheme ("New Scheme"). No share option has ever been granted by the Company under the New Scheme since its adoption.

A summary of the New Scheme in accordance with the Listing Rules is set out as follows:

- (i) The purpose of the New Scheme is to recognise and acknowledge the contributions or potential contributions made or to be made by the Qualified Persons (as defined in the New Scheme) to the Group, to motivate the Qualified Persons to optimise their performance and efficiency for the benefit of the Group, and to maintain or attract business relationship with the Qualified Persons whose contributions are or may be beneficial to the growth of the Group;
- (ii) The participants of the New Scheme include any Employee (as defined in the New Scheme); director (including executive and non-executive) or chief executive of any member of the Group or of any Affiliate (as defined in the New Scheme); or any supplier, sales agent, customer, joint venture partner, accountant or legal adviser of, or business development and technological consultant to, any member of the Group; or any substantial shareholder of the Company or of the subsidiaries who, in the opinion of the Board, has made or will make contributions which are or may be beneficial to the Group as a whole;
- (iii) The total number of shares available for issue under the New Scheme is 52,547,557 which represents 10% of the existing issued share capital of the Company as at the date of this report;
- (iv) Unless approved by shareholders in general meeting, the total number of shares issued and to be issued upon exercise of options granted to each grantee in any 12-month period must not exceed 1% of the issued share capital of the Company from time to time. Any grant of options to a director, chief executive or substantial shareholder of the Company or their respective associates must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director who is the grantee of such options). Options granted to a substantial shareholder or an independent non-executive director of the Company or their respective associates in excess of 0.1% of the total issued shares for the time being and with a value in excess of HK\$5 million must be approved by, in addition to the independent non-executive directors of the Company, the Company's shareholders in general meeting;
- (v) An option may be exercised in accordance with the terms of the New Scheme at any time during the period set out in the relevant offer letter provided that such period must expire no later than the tenth anniversary of the date on which an option is offered to a Qualified Person;
- (vi) Unless otherwise determined by the Board at its absolute discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised;

Report of the Directors

Information on share options (continued)

- (vii) A non refundable remittance of HK\$1 by way of consideration for the grant of an option is required to be paid by each grantee within 21 days from the offer date;
- (viii) The exercise price of the option shall be the highest of:
 - (a) the closing price of the shares as stated in the daily quotations sheet issued by The Stock Exchange of Hong Kong Limited ("SEHK") on the offer date, which must be a business day;
 - (b) the average of the closing prices of the shares as stated in the daily quotations sheets issued by the SEHK for the five business days immediately preceding the offer date; and
 - (c) the nominal value of the shares;
- (ix) The life of the New Scheme is until the tenth anniversary of the adoption date of the New Scheme.

Substantial shareholders

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that, as at 31 March 2003, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the issued share capital of the Company.

Name of shareholder	Number of ordinary shares held	% of the issued share capital
Goldtop Holdings Limited (Note (1))	270,247,500	51.43
HAU Tung Ying (Note (2))	270,247,500	51.43
TING Yat Shuk (Note (3))	270,247,500	51.43

Notes:

- (1) Goldtop Holdings Limited ("Goldtop") is owned as to 60% by Mr. HAU Tung Ying and 40% by Madam TING Yat Shuk.
- (2) Mr. HAU Tung Ying is deemed to be interested in the 270,247,500 shares held by Goldtop due to his 60% direct interest in Goldtop.
- (3) Madam TING Yat Shuk is deemed to be interested in the 270,247,500 shares held by Goldtop due to her 40% direct interest in Goldtop.

Save as disclosed above, as at 31 March 2003, no other person or corporation had any interest in the share capital of the Company as recorded in the register kept pursuant to Section 16(1) of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company.

Management contracts

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

Connected transactions

The Group had the following transactions with connected parties which were carried out in the normal course of business and on terms arranged by or between the parties during the year ended 31 March 2003:

	2003 HK\$'000
Income/(expenses)	
ChinaMotion Telecare (HK) Limited, a company owned by a director	
Hotline service fee	(1,640)
PA center services fee	(427)
Significant transactions with minority shareholders of subsidiaries	
China Motion Telecom Holdings Limited ("CMTH")	
Recharge of paging and mobile service expenses	(2,208)
Call center services expenses	(3,037)
Shenzhen China Motion Telecom United Company Limited ("SCMTU")	
Sales of telecommunications equipment	3,234
China Motion Netcom Services Co. Ltd. ("CM Netcom")	
Provision of technical consultancy and maintenance services	92,007
Other advances (Note 1)	
Deposit paid to CMTH	46,729

Notes:

- (1) This represents a deposit paid for the acquisition of a 25% equity interest in CM Netcom. Details of the acquisition are set out in note 35(b)(iii) to the accounts.
- (2) On 9 July 2003, the Company entered into an agreement with CMTH, pursuant to which the Company conditionally agreed to reschedule the repayment dates for the debt due from CMTH and/or its subsidiaries ("CMTH Group"). Details of the transaction are set out in note 35(c)(ii) to the accounts.

The above transactions have also been disclosed as related party transactions in note 35 to the accounts.

All the above transactions are disclosed in accordance with Chapter 14 of the Listing Rules and in accordance with waivers previously granted by the SEHK and/or have been previously announced by the Company.

Report of the Directors

Connected transactions (continued)

The independent non-executive directors of the Company have also reviewed these transactions and confirmed that:

- (i) The transactions were entered into in the ordinary and usual course of business of the Group;
- (ii) The transactions were carried out in accordance with the terms of the agreements governing such transactions or where there is no such agreement on terms no less favourable to the Group than terms available to/from third parties;
- (iii) The transactions were carried out on normal commercial terms or on terms that are fair and reasonable so far as the members of the Company are concerned; and
- (iv) The respective aggregate values of transactions for each of the agreements with CMTH and CM Netcom did not exceed the respective percentage limit specified in the conditional waivers granted to the Company by the SEHK.

Major customers and suppliers

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

Sales

– the largest customer	12.51%
– five largest customers combined	33.23%

Purchases

– the largest supplier	23.42%
– five largest suppliers combined	48.72%

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

Audit committee

The Group has established an Audit Committee since 26 September 1996. At the date of this report, the Audit Committee comprises two independent non-executive directors, namely Mr. YUNG Yung Cheng, Frank and Dr. HO Chung Tai, Raymond and a non-executive director, Mr. LI Yi Sheng. During the year, 3 meetings were held.

The Audit Committee has discretion to convene meeting or hold discussion with the external auditors without the presence of executive directors. It is empowered to investigate activities within its terms of reference. It has discretion to seek information from any employee or obtain outside legal or other independent professional advice if it considers necessary.

Compliance with the Code of Best Practice of the Listing Rules

The directors are pleased to confirm that throughout the year ended 31 March 2003, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the non-executive directors are not appointed for a specific term as recommended therein. However, all the directors are subject to retirement by rotation and re-election at the annual general meeting of the Company.

Disclosure pursuant to Practice Note 19 of the Listing Rules

In accordance with the requirement under paragraph 3.2.1 of Practice Note 19 of the Listing Rules, the directors of the Company report the details of advances to CMTH and its subsidiaries as at 31 March 2003 as follows:

	Note	Total HK\$'000
Trade receivables from		
CMTH		32,016
CM Netcom		167,868
SCMTU		94,992
		<hr/>
	(a)	294,876
Deposit paid for the acquisition of a 25% equity interest in CM Netcom	(b)	46,729
		<hr/>
		341,605
		<hr/>

Notes:

- (a) The balance was trade receivables arising from the Group's normal and ordinary course of business and were unsecured, interest-free with credit term of 30 – 90 days. On 9 July 2003, the Company entered into an agreement with CMTH, pursuant to which the Company conditionally agreed to reschedule the repayment dates for the debt due from CMTH Group. Details of the transaction are set out in note 35(c)(ii) to the accounts.
- (b) Details of the transaction are set out in note 35(b)(iii) to the accounts.

Post balance sheet events

Details of the significant post balance sheet events are set out in note 39 to the accounts.

Auditors

The accounts have been audited by PricewaterhouseCoopers, Hong Kong who retire and being eligible, offer themselves for re-appointment.

On behalf of the Board

HAU Tung Ying

Director

Hong Kong, 22 July 2003

Report of the Auditors



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

**TO THE SHAREHOLDERS OF
CHINA MOTION TELECOM INTERNATIONAL LIMITED**
(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 33 to 81 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

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

Basis of opinion

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

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

Opinion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 July 2003

Consolidated Profit and Loss Account

For the year ended 31 March 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	2	735,573	721,988
Cost of sales and services		(480,485)	(377,750)
Gross profit		255,088	344,238
Other revenues	2	11,494	16,856
Distribution expenses		(17,022)	(20,013)
Administrative expenses		(228,367)	(258,070)
Other operating income/(expenses)			
Gain on disposal of business	4	12,943	–
Deficit on revaluation of investment properties		(5,190)	(13,842)
Impairment losses on fixed assets		–	(176,922)
Operating profit/(loss)	5	28,946	(107,753)
Finance costs	6	(5,381)	(7,515)
Share of profits of associated companies		2,038	216
Profit/(loss) before taxation		25,603	(115,052)
Taxation	7(a)	(9,874)	(14,170)
Profit/(loss) after taxation		15,729	(129,222)
Minority interests		(5,504)	(1,741)
Profit/(loss) attributable to shareholders		10,225	(130,963)
Dividend	9	–	–
Earnings/(loss) per share	10		
– Basic		1.95 HK cents	(24.92) HK cents
– Diluted		N/A	N/A

Balance Sheets

As at 31 March 2003

	Note	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Goodwill	14	1,246	10,298	–	–
Fixed assets	15	291,784	264,232	–	–
Investments in a subsidiary	16	–	–	621,191	622,552
Investments in associated companies	17	29,184	2,444	–	–
Other non-current assets	18	612,989	346,832	–	–
Current assets					
Inventories	19	6,091	8,248	–	–
Receivables and prepayments	20	174,146	357,898	2,903	2,903
Marketable securities	21	297	1,107	–	–
Pledged bank deposits		7,220	6,355	–	–
Bank and cash balances	22	78,793	111,804	199	106
		266,547	485,412	3,102	3,009
Current liabilities					
Trade and other payables	23	253,953	180,300	1,305	962
Taxation payables	7(b)	7,940	7,360	–	–
Borrowings	24	54,703	30,543	–	–
		316,596	218,203	1,305	962
Net current (liabilities)/assets		(50,049)	267,209	1,797	2,047
Total assets less current liabilities		885,154	891,015	622,988	624,599
Financed by:					
Share capital	28	394,107	394,107	394,107	394,107
Non-distributable capital reserves	29	531,894	530,951	456,023	456,023
Contributed surplus	30	–	–	52,854	52,854
Accumulated losses		(170,785)	(180,067)	(279,996)	(278,385)
Shareholders' funds		755,216	744,991	622,988	624,599
Minority interests		46,560	49,064	–	–
Non-current liabilities					
Borrowings	24	80,716	96,614	–	–
Trade payable	27	2,316	–	–	–
Deferred taxation		346	346	–	–
		83,378	96,960	–	–
		885,154	891,015	622,988	624,599

On behalf of the Board

HAU Tung Ying
Director

SHUI Ming Hua
Director

Statements of Changes in Equity

For the year ended 31 March 2003

	Share capital	Non- distributable capital reserves	Contributed surplus	Accumulated losses	Total
	HK\$'000 (note 28)	HK\$'000 (note 29)	HK\$'000	HK\$'000	HK\$'000
Group					
Balance at 1 April 2001	394,107	517,059	–	(35,212)	875,954
Transfer	–	13,892	–	(13,892)	–
Loss for the year	–	–	–	(130,963)	(130,963)
Balance at 31 March 2002	<u>394,107</u>	<u>530,951</u>	<u>–</u>	<u>(180,067)</u>	<u>744,991</u>
Balance at 1 April 2002	394,107	530,951	–	(180,067)	744,991
Transfer	–	943	–	(943)	–
Profit for the year	–	–	–	10,225	10,225
Balance at 31 March 2003	<u>394,107</u>	<u>531,894</u>	<u>–</u>	<u>(170,785)</u>	<u>755,216</u>
Company					
Balance at 1 April 2001	394,107	456,023	52,854	(1,280)	901,704
Loss for the year	–	–	–	(277,105)	(277,105)
Balance at 31 March 2002	<u>394,107</u>	<u>456,023</u>	<u>52,854</u>	<u>(278,385)</u>	<u>624,599</u>
Balance at 1 April 2002	394,107	456,023	52,854	(278,385)	624,599
Loss for the year	–	–	–	(1,611)	(1,611)
Balance at 31 March 2003	<u>394,107</u>	<u>456,023</u>	<u>52,854</u>	<u>(279,996)</u>	<u>622,988</u>

Consolidated Cash Flow Statement

For the year ended 31 March 2003

	Note	2003 HK\$'000	2002 HK\$'000
Cash inflow/(outflow) generated from operating activities	31(a)	64,573	(50,288)
Interest paid		(5,102)	(7,321)
Interest received		613	1,834
Interest element of finance leases		(279)	(194)
Income tax paid		(8,996)	(22,917)
		<u>64,573</u>	<u>(50,288)</u>
Net cash inflow/(outflow) from operating activities		50,809	(78,886)
Cash flows from investing activities			
Proceeds from disposal of fixed assets		1,478	63,626
Loan to an associated company		(25,000)	–
Disposal of subsidiaries	31(c)	–	13,939
Receipt from repayment of other long-term investment		40,187	–
Deposit for purchase of unlisted investment		(46,729)	–
Dividend from listed investments		5	–
Purchase of fixed assets		(51,662)	(48,199)
Contribution to other long-term investment		–	(24,299)
Purchase of marketable securities		–	(121)
Net proceeds from disposal of business	4	1,577	–
		<u>1,577</u>	<u>–</u>
Net cash (outflow)/inflow from investing activities		(80,144)	4,946
Cash flows from financing activities	31(b)		
Draw-down of bank loans		28,000	10,000
Repayment of bank loans		(28,051)	(22,741)
Payment of capital element of finance leases		(2,760)	(1,818)
Capital contributions from minority shareholders		–	773
(Increase)/decrease in pledged bank deposits		(865)	22
		<u>(865)</u>	<u>22</u>
Net cash outflow from financing activities		(3,676)	(13,764)
Net decrease in cash and cash equivalents		(33,011)	(87,704)
Cash and cash equivalents at the beginning of year		<u>111,804</u>	<u>199,508</u>
Cash and cash equivalents at the end of year	32	78,793	111,804

Notes to the Accounts

1 Principal accounting policies

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

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention as modified by the revaluation of investment properties and marketable securities as disclosed in the accounting policies below.

In the current year, the Group adopted the following new and revised Statements of Standard Accounting Practice ("SSAP") which are effective for accounting periods commencing on 1 January 2002:

SSAP 33:	"Discontinuing Operations"
SSAP 34 (revised):	"Employee Benefits"

The changes to the Group's accounting policies are set out below and the adoption of these new and revised SSAPs has no material effect on the Group's results.

(b) Group accounting

(i) Consolidation

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

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

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

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill which was not previously charged or recognised in the consolidated profit and loss account.

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

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

Notes to the Accounts

1 Principal accounting policies (continued)

(b) Group accounting (continued)

(ii) Associated companies

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

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(c) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associated company at the date of acquisition. Goodwill is amortised using the straight-line method over its estimated useful life of five years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

(e) Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Leasehold land is depreciated over the unexpired periods of leases. Depreciation of leasehold buildings and improvements is calculated to write off their cost on a straight-line basis over the unexpired periods of the leases or their estimated useful lives to the Group, whichever is shorter. The annual rates used for this purpose are 2% and 20% respectively.

Depreciation of other fixed assets is calculated to write off the cost on the straight-line method over their estimated useful lives. The annual rates are as follows:

Telecommunications equipment	20%
Furniture, fixtures and office equipment	20%
Motor vehicles	30%

Major costs incurred in restoring the telecommunications equipment components to their normal working condition to allow continued use of the overall asset are capitalised and depreciated over the remaining useful lives.

1 Principal accounting policies (continued)

(e) Fixed assets (continued)

Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss.

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

(f) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent professional valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(g) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

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

Notes to the Accounts

1 Principal accounting policies (continued)

(h) Investments

Investments held for long-term purposes other than those in subsidiaries and associated companies are stated at cost less provision for impairment losses.

Marketable securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of marketable securities are recognised in the profit and loss account. Profits and losses on disposal of marketable securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the first-in, first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds in the ordinary course of business, less estimated selling expenses.

(j) Trade receivables

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

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks net of bank overdrafts and trust receipts loans which have original maturities of three months or less at the date of acquisition.

(l) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(m) Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the profit and loss account when they are incurred.

(n) Revenue recognition

Revenue is recognised, net of discount and allowances given, when it is probable that the economic benefits will accrue to the Group and when the revenue can be measured reliably on the following bases:

(i) Revenue from the sales of telecommunications products is recognised on the transfer of ownership, which generally coincides with the time of delivery.

(ii) Maintenance and technical consultancy services income from service agreements is recognised on an accrual basis when the service is performed.

(iii) Trunking services income and roadshow sponsorship income are recognised when the services are rendered.

1 Principal accounting policies (continued)

- (n) Revenue recognition (continued)
- (iv) International communication, mobile communication and internet related services provided to customers are recognised upon the rendering of services.
 - (v) Commission income is recognised in accordance with the terms of agency agreements which is generally when the agency services are rendered.
 - (vi) Paging subscription fee income is recognised on a straight-line basis over the period of the paging service contracts. Revenue received in advance for the provision of paging services for an agreed period of time is deferred and amortised on a straight-line basis over the contract period.
 - (vii) Rental and leasing income is recognised on a straight-line basis over the period of the respective leases.
 - (viii) Interest income is recognised on a time proportion basis, taking into account the principals outstanding and interest rates applicable.
 - (ix) Dividend income is recognised when the right to receive payment is established.
 - (x) Management service fee income is recognised on an accrual basis in accordance with the terms of the agreements.
 - (xi) Airtime income is recognised on an accrual basis in accordance with the terms of the agreements.
- (o) Employee benefits
- (i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. The accounts for the prior periods have not been restated as the effect is not material.

Employee entitlements to sick leave and maternity are not recognised until the time of leave.
 - (ii) *Pension obligations*

The Group contributes to a Mandatory Provident Fund Scheme (“MPF”) for the eligible employees in Hong Kong. The Group’s contributions to the MPF are expensed as incurred.
 - (iii) *Equity compensation benefits*

Share options are granted to directors and to employees at a price determined pursuant to the Company’s share option scheme on the date of the grant and are exercisable at that price, no compensation cost is recognised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

Notes to the Accounts

1 Principal accounting policies (continued)

(p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Unallocated assets represent assets not dedicated to a particular segment, consist primarily of cash and bank balances, investments in securities, investment properties and other receivables. Segment liabilities comprise operating liabilities and corporate borrowings. Unallocated liabilities represent liabilities not dedicated to a particular segment, consist primarily of short-term and long-term loans and other payables. Capital expenditure comprises additions to fixed assets.

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

(q) Related parties

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

(r) Use of estimates

In preparing the accounts, management are required to make estimates and assumptions for the reporting period and as of the date of the accounts. These estimates and assumptions affect the reported amounts of assets and liabilities as well as the reported amounts of turnover and expenses. Actual results could differ from these estimates, and the differences could be significant.

2 Turnover and revenues

The Group is principally engaged in the provision of international communication services, mobile communication services, technical consultancy services, repair and maintenance services for telecommunications equipment, and trunking radio services. It is also engaged in the distribution and retail sales of telecommunications equipment and trading of telecommunications equipment and products. Revenues recognised during the year are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Turnover		
International communication services income	427,657	170,378
Sales of telecommunications products	116,813	112,165
Technical consultancy services income	92,007	131,607
Commission income	29,951	64,666
Paging subscription fee and related services income	22,768	138,897
Mobile communication services income	20,578	–
Leasing income	13,255	68,205
Trunking services income	9,259	16,322
Maintenance services income	3,285	19,075
Internet related services income	–	673
	735,573	721,988
Other revenues		
Rental income	5,154	8,135
Advertising income	–	3,518
Airtime income	–	2,640
Interest income	1,394	1,834
Dividend income from listed investments	5	–
Others	4,941	729
	11,494	16,856
Total revenues	747,067	738,844

Notes to the Accounts

3 Segment information

The Group's principal activities can be categorised into five business segments:

	Business segments	Nature of business activities	Places of operation
1	Telecommunications Networks	Provision of trunking radio services, sales of trunking related equipment, international communication services and income from lease line rental	Hong Kong/Canada/United States of America ("USA")/Singapore/Taiwan/Japan
2	Distribution and Retail Chain	Retail sales of telecommunications related equipment and products, provision of maintenance and repair services and commission income	Hong Kong/People's Republic of China ("PRC")
3	Mobile Related Services	Provision of mobile communication services, provision of technical advisory, maintenance and accounts management services to telecommunications operators	Hong Kong/PRC
4	Other Operations	Leasing and trading of telecommunications equipment and products	PRC
5	Discontinued Operations (note 4)	Provision of paging services and sales of pagers and accessories	Hong Kong/PRC

Transactions between the business segments and geographical segments have been eliminated.

3 Segment information (continued)

(a) Primary reporting format – business segments

	Telecommunications Networks HK\$'000	Distribution and Retail Chain HK\$'000	Mobile Related Services HK\$'000	Other Operations HK\$'000	Discontinued Operations HK\$'000	Unallocated Items HK\$'000	Group HK\$'000
2003							
Turnover	456,400	146,140	109,841	127	23,065	–	735,573
Segmental profit/(loss)	34,815	1,359	40,373	(375)	26,967	(75,587)	27,552
Net finance costs							(3,987)
Share of profits of associated companies							2,038
Profit before taxation							25,603
Taxation							(9,874)
Profit after taxation							15,729
Minority interests							(5,504)
Profit attributable to the shareholders							10,225
Segment assets	400,379	185,065	266,874	54,240	3,771	262,237	1,172,566
Investments in associated companies							29,184
Consolidated total assets							1,201,750
Segment liabilities	184,436	14,421	92,244	11,112	2,038	142,283	446,534
Capital expenditure	55,144	381	11,086	–	–	293	66,904
Depreciation	14,726	2,288	3,273	–	1,359	9,835	31,481
Amortisation	–	–	8,843	–	–	209	9,052
Other non-cash expenses/(income), net	7,915	443	651	–	(1,165)	7,275	15,119

Notes to the Accounts

3 Segment information (continued)

(a) Primary reporting format – business segments (continued)

	Telecommunications Networks	Distribution and Retail Chain	Mobile Related Services	Other Operations	Discontinued Operations	Unallocated Items	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2002							
Turnover	254,244	184,712	131,070	9,579	142,383	–	721,988
Segmental profit/(loss)	4,857	12,550	93,222	(42,395)	6,131	(183,952)	(109,587)
Net finance costs							(5,681)
Share of profits of associated companies							216
Loss before taxation							(115,052)
Taxation							(14,170)
Loss after taxation							(129,222)
Minority interests							(1,741)
Loss attributable to the shareholders							(130,963)
Segment assets	266,868	182,114	368,993	57,709	15,847	215,243	1,106,774
Investments in associated companies							2,444
Consolidated total assets							1,109,218
Segment liabilities	82,007	23,492	66,894	15,540	37,083	139,211	364,227
Capital expenditure	38,118	1,843	1,029	–	1,206	6,003	48,199
Depreciation	4,285	4,735	1,913	78	8,578	12,037	31,626
Amortisation	–	–	8,843	–	–	209	9,052
Impairment losses on fixed assets	26,092	–	–	47,315	4,616	98,899	176,922
Other non-cash expenses/(income), net	(44)	(1,036)	–	678	(1,254)	15,331	13,675

3 Segment information (continued)

(b) Secondary reporting format – geographical segments

	Turnover		Segmental profit/(loss)		Total assets		Capital expenditure	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
PRC	108,408	220,725	49,232	96,858	595,586	691,525	344	2,090
Hong Kong	459,138	474,013	48,902	(24,784)	537,109	392,901	49,480	29,273
Canada and USA	143,639	27,250	2,096	2,291	51,442	24,792	12,171	16,836
Other regions	24,388	–	2,909	–	17,613	–	4,909	–
	735,573	721,988	103,139	74,365	1,201,750	1,109,218	66,904	48,199
Unallocated items	–	–	(75,587)	(183,952)	–	–	–	–
	735,573	721,988	27,552	(109,587)	1,201,750	1,109,218	66,904	48,199

4 Discontinued operation

On 28 May 2002, a sale and purchase agreement (the "Agreement") was entered into between China Motion Telecom (HK) Limited, a wholly-owned subsidiary of the Company and Telecom Digital Data Limited (the "Purchaser"), under which the Group disposed of its business of operating paging networks and providing paging services in Hong Kong and, where the context permits, included the business assets (the "Business") to the Purchaser. Under the terms of the Agreement, the Business included the licences, the equipment and other benefits of the subscriber contracts and transmission sites contracts related to its business of operating paging networks and providing paging services in Hong Kong.

The consideration for the disposal of the Business equals to the total gross revenues of the Business that are actually received by the Purchaser from the subscribers for the paging services provided to the subscribers for the months of June, August and October 2002.

Notes to the Accounts

4 Discontinued operation (continued)

The operation was sold and discontinued with effect from 1 June 2002. The sales, results, cash flows and net assets of the paging operation are as follows:

	Year ended	
	2003 HK\$'000	2002 HK\$'000
Turnover	23,065	136,901
Other revenues	251	3,200
Operating costs	(9,292)	(121,269)
Impairment of fixed assets	–	(4,616)
Operating profit	14,024	14,216
Net finance income	4	121
Profit before taxation	14,028	14,337
Taxation	1,779	(27)
Profit after taxation	15,807	14,310
Cash inflow in respect of:		
Operating activities	2,081	12,903
Investing activities	(106)	(1,374)
Financing activities	4	130
Total cash inflow	1,979	11,659
	1 June 2002 HK\$'000	31 March 2002 HK\$'000
Fixed assets	1,001	1,117
Current assets	942	1,121
Total assets	1,943	2,238
Total liabilities	–	–
Net assets	1,943	2,238

4 Discontinued operation (continued)

The gain on disposal recognised for the year ended 31 March 2003 is determined as follows:

	HK\$'000
Proceeds from disposal	19,193
Less: Net assets disposed	(1,943)
Severance payment	(4,307)
	<hr/>
Gain on disposal of business	12,943
	<hr/>

The net cash inflow on disposal is determined as follows:

	HK\$'000
Proceeds from disposal	19,193
Less: accounts receivable	(5,910)
advance subscription income received	(7,399)
severance payment	(4,307)
	<hr/>
Net cash inflow on disposal	1,577
	<hr/>

Notes to the Accounts

5 Operating profit/(loss)

Operating profit/(loss) is stated after crediting and charging the following:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Crediting		
Net gain on disposal of fixed assets	–	33,999
Net exchange gains	293	–
Dividend income from listed investments	5	–
Gain on disposal of business	12,943	–
Gross rental income	5,154	8,135
Less: outgoings	(645)	(703)
	4,509	7,432
Charging		
Auditors' remuneration	1,500	1,500
Staff costs excluding directors' emoluments (Note 12)	119,455	148,704
Depreciation of fixed assets		
– owned assets	30,001	26,054
– owned assets (telecommunications equipment) leased out under operating leases	–	5,102
– assets under finance leases	1,480	470
Operating lease charges for land and buildings	28,277	63,753
Operating lease charges for telecommunications equipment	84,863	88,663
Amortisation of goodwill (included in administrative expenses)	9,052	9,052
Loss on disposal of subsidiaries	–	26,328
Cost of inventories sold	101,490	94,118
Provision for inventories/(written back of provision for inventories)	2,314	(708)
Provision for doubtful debts	7,615	541
Impairment losses on fixed assets	–	176,922
Deficit on revaluation of investment properties	5,190	13,842
Diminution in value of marketable securities	810	1,954

5 Operating profit/(loss) (continued)

The future minimum lease income receivable under non-cancellable operating leases are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	844	6,276
Between two and five years	–	585
	<hr/> 844	<hr/> 6,861

6 Finance costs

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts		
– wholly repayable within five years	2,573	2,449
– not wholly repayable within five years	2,529	4,231
Interest on other loans wholly repayable within five years	–	641
Interest element of finance leases	279	194
	<hr/> 5,381	<hr/> 7,515

Notes to the Accounts

7 Taxation

(a) The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong profits tax		
– underprovision in previous years	24	442
Overseas taxation		
– current year	2,082	–
PRC taxation		
– current year	9,249	13,728
– overprovision in previous years	(1,779)	–
	<u>9,576</u>	<u>14,170</u>
Share of taxation attributable to associated companies	298	–
	<u>9,874</u>	<u>14,170</u>

Hong Kong profits tax is calculated at a rate of 16% (2002: 16%) on the estimated assessable profit for the year. The provision for Hong Kong profits tax has been reduced by the availability of tax losses to set off against assessable profit for the year and the tax savings from the utilisation of such losses amounted to HK\$1,036,000 for the year ended 31 March 2003 (2002: HK\$5,502,000).

PRC taxation represents income tax payable by the subsidiaries operating in the PRC at the applicable rates ranging from 15% to 33%. Overseas taxation has been provided for at the applicable rate on the estimated assessable profit for the year.

(b) The amount of taxation in the consolidated balance sheet represents:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong profits tax payable	76	–
PRC income tax payable	7,864	7,360
	<u>7,940</u>	<u>7,360</u>

(c) The aggregate potential deferred tax asset of HK\$94,535,000 (2002: HK\$87,551,000) relating to tax losses available to be carried forward and other timing differences including accelerated depreciation allowance as at 31 March 2003 has not been recognised as the crystallisation of the asset in the foreseeable future is uncertain.

8 Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$1,611,000 (2002: HK\$277,105,000).

9 Dividend

The directors do not recommend the payment of a final dividend for the year ended 31 March 2003 (2002: Nil).

10 Earnings/(loss) per share

	Group	
	2003	2002
	HK\$'000	HK\$'000
Profit/(loss) attributable to shareholders	10,225	(130,963)
Earnings/(loss) per share		
– Basic	1.95 HK cents	(24.92) HK cents
– Diluted (note (b))	N/A	N/A

Notes:

- (a) Basic earnings/(loss) per share is calculated based on weighted average number of issued ordinary shares of 525,475,573 shares (2002: 525,475,473 shares). The diluted earnings/(loss) per share is calculated based on the weighted average number of issued ordinary shares plus the weighted average of all potential ordinary shares deemed to be issued at no consideration if all outstanding options and warrants had been exercised.
- (b) Diluted earnings/(loss) per share for the years ended 31 March 2003 and 2002 has not been presented as the conversion of potential ordinary shares to ordinary shares would have an anti-dilutive effect to the basic earnings/(loss) per share.

11 Retirement benefit costs

The Group's contributions to the MPF are at 5% of employees' basic salaries up to a maximum of HK\$1,000 per employee per month. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

The Group has contributed HK\$2,501,000 to the MPF for the year ended 31 March 2003 (2002: HK\$3,992,000).

The assets of MPF are held separately from those of the Group in independent administered funds.

Notes to the Accounts

12 Staff costs

	Group	
	2003	2002
	HK\$'000	HK\$'000
Wages and salaries	107,753	132,743
Unutilised annual leave	2,651	5,326
Long service payment	2,143	–
Termination benefits	4,407	6,643
Retirement benefit costs contribution to the MPF	2,501	3,992
	<u>119,455</u>	<u>148,704</u>

Details of the China Motion's Employees Share Option Scheme are set out in note 28(a).

13 Directors' and senior management's emoluments

(a) Directors' emoluments

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees	1,370	1,535
Basic salaries, housing allowances, other allowances and benefits in kind	13,607	13,767
Retirement benefit costs	48	48
	<u>15,025</u>	<u>15,350</u>

Directors' fees disclosed above included HK\$360,000 (2002: HK\$351,666) paid to independent non-executive directors.

During the year, one director waived emoluments of HK\$25,000 (2002: Nil). During the year, no amounts have been paid by the Group to the directors as an inducement to join the Group or as compensation for loss of office (2002: Nil).

13 Directors' and senior management's emoluments (continued)

(a) Directors' emoluments (continued)

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2003	2002
HK\$Nil – HK\$1,000,000	4	6
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	1	2
HK\$3,000,001 – HK\$3,500,000	1	1
HK\$6,500,001 – HK\$7,000,000	–	1
HK\$7,000,001 – HK\$7,500,000	1	–
	<u>8</u>	<u>10</u>

(b) Five highest paid individuals

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

	2003	2002
	HK\$'000	HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	3,312	5,004
Bonuses	620	31
Retirement benefit costs	24	23
	<u>3,956</u>	<u>5,058</u>

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2003	2002
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	–	1
	<u>2</u>	<u>2</u>

(c) The share options held by the directors (including non-executive directors of the Company) under the China Motion Employees' Share Option Scheme are set out in the report of the directors on pages 26 to 28.

Notes to the Accounts

14 Goodwill

	Group	
	2003	2002
	HK\$'000	HK\$'000
Cost		
At 1 April and 31 March	<u>47,940</u>	<u>47,940</u>
Accumulated amortisation		
At 1 April	37,642	28,590
Amortisation charge	<u>9,052</u>	<u>9,052</u>
At 31 March	<u>46,694</u>	<u>37,642</u>
Net book value	<u>1,246</u>	<u>10,298</u>

15 Fixed assets – Group

	Investment properties	Leasehold land and buildings	Furniture, fixtures and office equipment	Telecom- munications equipment	Leasehold improve- ments	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation							
At 1 April 2002	86,280	195,147	44,359	390,941	52,622	8,250	777,599
Additions	–	–	2,744	63,155	783	222	66,904
Disposal of business	–	–	–	(3,504)	–	–	(3,504)
Transfers	(15,000)	15,000	–	–	–	–	–
Revaluation (note (b))	(5,190)	–	–	–	–	–	(5,190)
Disposals/write-off	–	–	(266)	(1,742)	(1,361)	(683)	(4,052)
At 31 March 2003	66,090	210,147	46,837	448,850	52,044	7,789	831,757
Accumulated depreciation and impairment							
At 1 April 2002	–	98,195	25,733	348,291	33,551	7,597	513,367
Charge for the year	–	2,305	5,987	16,070	6,446	673	31,481
Disposal of business	–	–	–	(2,503)	–	–	(2,503)
Disposals/write-off	–	–	(143)	(293)	(1,229)	(707)	(2,372)
At 31 March 2003	–	100,500	31,577	361,565	38,768	7,563	539,973
Net book value or valuation							
At 31 March 2003	66,090	109,647	15,260	87,285	13,276	226	291,784
At 31 March 2002	86,280	96,952	18,626	42,650	19,071	653	264,232

Notes:

- (a) As at 31 March 2003, the net book value of fixed assets pledged as security for banking facilities of the Group amounted to approximately HK\$160,737,000. (2002: HK\$183,232,000).
- (b) The investment properties are valued at open market value by DTZ Debenham Tie Leung Limited, independent professional valuers, as at 31 March 2003. The revaluation deficit is charged to the profit and loss account.

The investment properties of the Group are pledged as security for banking facilities granted to the Group.

Notes to the Accounts

15 Fixed assets – Group (continued)

- (c) The analysis of the net book value of the Group's leasehold land and buildings and valuation of the Group's investment properties as at 31 March 2003 is as follows:

	Group			
	Leasehold land and buildings in Hong Kong HK\$'000	Investment properties		Total HK\$'000
		Hong Kong HK\$'000	PRC HK\$'000	
Period unexpired				
Leases between 10 to 50 years				
At net book value	78,985	–	–	–
At valuation	–	18,400	5,000	23,400
Leases not less than 50 years				
At net book value	30,662	–	–	–
At valuation	–	42,690	–	42,690
	<u>109,647</u>	<u>61,090</u>	<u>5,000</u>	<u>66,090</u>

- (d) As at 31 March 2003, the net book values of fixed assets held under finance leases are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Telecommunications equipment	9,593	–
Motor vehicles	–	424
	<u>9,593</u>	<u>424</u>

16 Investments in a subsidiary

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted investment, at cost (note (a))	113,115	113,115
Amount due from a subsidiary (note (b))	783,076	784,437
Provision for amount due from a subsidiary	(275,000)	(275,000)
	<u>621,191</u>	<u>622,552</u>

Notes:

- (a) Particulars of principal subsidiaries are set out in note 36 to the accounts.
- (b) The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment but repayment is not expected to be within twelve months from the balance sheet date.

17 Investments in associated companies

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets (note (a))	4,184	2,444
Loan to an associated company (note (b))	25,000	–
	29,184	2,444

Notes:

- (a) Particulars of principal associated companies are set out in note 37 to the accounts.
- (b) The loan to an associated company is unsecured, interest bearing at 3 months Hong Kong Interbank Offer Rate plus 2% and is repayable on 28 May 2004.

18 Other non-current assets

	Group	
	2003	2002
	HK\$'000	HK\$'000
Long-term investments		
Unlisted investments	7,168	14,178
Club debentures	4,762	4,762
Others, unlisted (note 35(b))	287,705	327,892
Deposit for purchase of unlisted investment (note 35(b))	46,729	–
	346,364	346,832
Non-current trade receivables (note 35(c))	266,625	–
	612,989	346,832

Notes to the Accounts

19 Inventories

	Group	
	2003	2002
	HK\$'000	HK\$'000
Finished goods	6,091	8,248

At 31 March 2003, the carrying amount of inventories that are carried at net realisable value amounted to HK\$99,000 (2002: HK\$7,972,000).

20 Receivables and prepayments

		Group		Company	
		2003	2002	2003	2002
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade					
Trade receivables, net of provision	20(a), 35(c)	133,349	316,419	–	–
Non-trade					
Due from:					
Subsidiaries	20(b)	–	–	2,865	2,903
Associated companies	20(b)	10,827	16,503	–	–
Related companies	20(b)	3,262	1,717	–	–
Other receivables and prepayments		26,708	23,259	38	–
		174,146	357,898	2,903	2,903

20 Receivables and prepayments (continued)

(a) The ageing analysis of the trade receivables as at 31 March 2003 is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0–30 days	33,139	36,600
31–60 days	22,318	26,177
61–90 days	18,266	15,722
Over 90 days	59,626	237,920
Total	133,349	316,419

The Group has a defined credit policy. The general credit term is 30-60 days. As at 31 March 2003 the trade receivable with ageing over 61 days comprised amounts due from China Motion Telecom Holdings Limited (“CMTH”) and its subsidiaries totalling HK\$28,251,000 (2002: HK\$243,441,000). Subsequent to 31 March 2003, the Company and CMTH entered into an agreement to reschedule the repayment date for trade receivables due from CMTH and its subsidiaries outstanding as at 31 March 2003 (see note 35(c)(ii)). The information in respect of the total outstanding trade receivables due from CMTH and its subsidiaries as at 31 March 2003 and 2002 has been disclosed in note 35(c).

(b) As at 31 March 2003, the amounts due are unsecured, interest-free, and have no fixed terms of repayment.

21 Marketable securities

	Group	
	2003 HK\$'000	2002 HK\$'000
Equity securities, listed in Hong Kong at market value	297	1,107

22 Bank and cash balances – Group

Included in bank and cash balances of the Group is HK\$41,481,000 (2002: HK\$70,511,000) which represents bank balances denominated in Renminbi (“RMB”) placed with banks in the PRC. RMB is not a freely convertible currency.

Notes to the Accounts

23 Trade and other payables

	Note	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade					
Bills payable		–	1,999	–	–
Trade payables	23(a)	156,239	59,943	–	–
Advance subscription fees received		4,513	14,969	–	–
Non-trade					
Due to:					
Subsidiaries		–	–	62	–
Associated companies	23(b)	650	7,859	–	–
An investee company		–	5,272	–	–
A director		132	97	–	–
Deposits received		11,308	15,297	–	–
Other payables and accrued liabilities	35(d)	81,111	74,864	1,243	962
		253,953	180,300	1,305	962

(a) Trade payables

	Group	
	2003 HK\$'000	2002 HK\$'000
Trade payables	158,555	59,943
Less: amounts payable within one year included in current liabilities	(156,239)	(59,943)
Amounts payable after one year (note 27)	2,316	–

The ageing analysis of trade payables as at 31 March 2003 is as follows:

	2003 HK\$'000	2002 HK\$'000
0–30 days	54,844	24,795
31–60 days	31,688	8,506
61–90 days	10,853	6,431
Over 90 days	58,854	20,211
Total	156,239	59,943

(b) As at 31 March 2003, amounts due to associated companies are unsecured, interest-free and have no fixed terms of repayment.

24 Borrowings

		Group	
	Note	2003 HK\$'000	2002 HK\$'000
Current			
Bank loans – secured	25	50,132	30,335
Obligations under finance leases	26	4,571	208
		54,703	30,543
Non-current			
Bank loans – secured	25	76,629	96,476
Obligations under finance leases	26	4,087	138
		80,716	96,614
Total borrowings		135,419	127,157

25 Bank loans – secured

	Group	
	2003 HK\$'000	2002 HK\$'000
Secured bank loans are repayable:		
– within one year (included in current liabilities)	50,132	30,335
– between one and two years	15,491	19,578
– between two and five years	27,048	34,746
– over five years	34,090	42,152
	76,629	96,476
	126,761	126,811

Notes to the Accounts

2.5 Bank loans – secured (continued)

The bank loans are secured by the Group's investment properties, leasehold land and buildings and certain bank deposits, and are repayable by monthly instalment. The maturity date for the last instalment is August 2013. The weighted average effective interest rate for the year ended 31 March 2003 was 3.90% per annum (2002: 5.08% per annum) and the interest rate exposure of the bank loans of the Group is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
At floating rates		
– Hong Kong dollar denominated loans	123,704	123,249
– US dollar denominated loans	3,057	3,562
	<u>126,761</u>	<u>126,811</u>

2.6 Obligations under finance leases

As at 31 March 2003, the Group's finance leases liabilities are repayable as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	4,791	257
In the second year	3,338	172
In the third to the fifth year	834	–
	<u>8,963</u>	<u>429</u>
Future finance charges on finance leases	(305)	(83)
	<u>8,658</u>	<u>346</u>

26 Obligations under finance leases (continued)

The present value of finance lease liabilities is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year (included in current liabilities)	<u>4,571</u>	<u>208</u>
In the second year	3,260	138
In the third to the fifth year	827	–
	<u>4,087</u>	<u>138</u>
	<u>8,658</u>	<u>346</u>

27 Trade payable – non current

The amount is non-interest bearing, guaranteed by a bank and not repayable within twelve months from the balance sheet date.

28 Share capital

	Company			
	2003 HK\$'000		2002 HK\$'000	
Authorised:				
1,040,000,000 ordinary shares of HK\$0.75 each		<u>780,000</u>		<u>780,000</u>
	2003		2002	
	Number	Issued and	Number	Issued and
	of shares	fully paid	of shares	fully paid
		HK\$'000		HK\$'000
Ordinary shares of HK\$0.75 each				
At 1 April and 31 March	<u>525,475,573</u>	<u>394,107</u>	<u>525,475,573</u>	<u>394,107</u>

Notes to the Accounts

28 Share capital (continued)

(a) Share option schemes

The Company adopted a share option scheme on 18 March 1998 ("1998 Share Option Scheme") as incentive to grant options to eligible employees including executive directors to subscribe for the shares of the Company. The 1998 Share Option Scheme was subsequently modified with shareholders' approval on 19 February 2000 and 2 February 2001 respectively. On 6 September 2002, the 1998 Share Option Scheme was terminated. However, the share options granted and not yet exercised thereunder would remain effective and are bound by the terms therein.

The Company adopted a new share option scheme ("New Scheme") on 6 September 2002. As at 31 March 2003, no share options were granted under the New Scheme. A summary of the terms of the New Scheme is disclosed in the report of the directors.

The movements in the share options granted under the 1998 Share Option Scheme during the year were as follows:

Date of grant	Exercise price HK\$	No. of outstanding options at 1 April 2002	No. of options granted during the year	No. of options exercised during the year	No. of options lapsed during the year	No. of outstanding options at 31 March 2003
29 June 1998	0.751	484,066	–	–	(82,394)	401,672
19 August 1999	2.00	1,472,798	–	–	(200,837)	1,271,961
25 February 2000	3.19	1,091,725	–	–	–	1,091,725
17 October 2000	1.22	3,527,505	–	–	(211,135)	3,316,370
20 March 2001	0.75	26,200,000	–	–	(3,350,000)	22,850,000
28 January 2002	0.75	1,850,000	–	–	(1,350,000)	500,000
		<u>34,626,094</u>	<u>–</u>	<u>–</u>	<u>(5,194,366)</u>	<u>29,431,728</u>

For the above mentioned options granted before 20 March 2001, they are exercisable after the first anniversary of the date of grant and before the tenth anniversary of the date of grant or the expiry of the 1998 Share Option Scheme, whichever is earlier.

For options granted on or after 20 March 2001, they are subject to the following vesting periods:

- After the first anniversary of the date of grant, 33% of the options are exercisable.
- After the second anniversary of the date of grant, 33% of the options are exercisable.
- After the third anniversary of the date of grant, 34% of the options are exercisable.

Exercise in full of all outstanding share options would result in the issue of 29,431,728 ordinary shares with estimated proceeds of HK\$27,887,000.

28 Share capital (continued)

(b) Warrants

On 1 April 2000, 54,182,608 (subsequently adjusted to 55,804,270) units of unlisted warrants were issued to certain third parties as part of the consideration for the acquisition of additional interests in CM Mobile Telecom Holdings Limited, a wholly-owned subsidiary of the Company. The warrants confer the holders the right to subscribe for 55,804,270 new fully paid shares in the Company at an initial subscription price of HK\$2.184 per share (subsequently adjusted to HK\$2.12 per share on 23 January 2001) at any time from 1 April 2000 up to and including 31 March 2004. Exercise in full of all outstanding warrants would result in the issue of an additional 55,804,270 ordinary shares with estimated proceeds of HK\$118,305,000. No warrants were exercised during the year.

29 Non-distributable capital reserves

	Group											
	2003					Total	2002					Total
	Share premium	Reserves on consolidation	Exchange reserve	Capital redemption reserve	Enterprise expansion reserve		Share premium	Reserves on consolidation	Exchange reserve	Capital redemption reserve	Enterprise expansion reserve	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	455,573	4,900	1,697	450	68,331	530,951	455,573	4,900	1,697	450	54,439	517,059
Transfer from retained profits of subsidiaries	-	-	-	-	943	943	-	-	-	-	13,892	13,892
At 31 March	455,573	4,900	1,697	450	69,274	531,894	455,573	4,900	1,697	450	68,331	530,951

	Company						
	2003			Total	2002		Total
	Share premium	Capital redemption reserve	Enterprise expansion reserve		Share premium	Capital redemption reserve	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April and 31 March	455,573	450	456,023	455,573	450	456,023	

Enterprise expansion reserve represents a PRC statutory reserve set up by the operating subsidiaries in PRC. Upon approval by the relevant PRC authorities, the enterprise expansion reserve may be used for increasing the registered capital.

Notes to the Accounts

30 Contributed surplus

	Company	
	2003	2002
	HK\$'000	HK\$'000
At 1 April and 31 March	52,854	52,854

The contributed surplus of the Company, which arose from a corporate reorganisation in March 1995 represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of China Motion Holdings Limited ("CMH") and the value of net assets of the underlying subsidiaries acquired as at 31 March 1995. Under the Companies Act 1981 of Bermuda (as amended), a company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account. On 6 September 1996, HK\$9,344,832 was transferred to share capital upon a special bonus issue. At Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.

31 Notes to the consolidated cash flow statement

(a) Reconciliation of profit/(loss) before taxation to cash inflow/(outflow) generated from operating activities:

	2003	2002
	HK\$'000	HK\$'000
Profit/(loss) before taxation	25,603	(115,052)
Depreciation of owned fixed assets	30,001	31,156
Depreciation of fixed assets held under finance leases	1,480	470
Impairment losses on fixed assets	–	176,922
Amortisation of goodwill	9,052	9,052
Deficit on revaluation of investment properties	5,190	13,842
Share of profits of associated companies	(2,038)	(216)
Net loss/(gain) on disposal of fixed assets	202	(33,999)
Gain on disposal of business	(12,943)	–
Dividend received from listed investments	(5)	–
Loss on disposal of subsidiaries	–	26,328
Interest expense	5,102	7,321
Interest element of finance leases	279	194
Interest income	(1,394)	(1,834)
Changes in working capital		
Decrease/(increase) in inventories	1,215	(1,185)
Increase in trade receivables, other receivables and prepayment, marketable securities including amounts due from associated companies, related companies and an investee company	(76,371)	(60,004)
Increase/(decrease) in trade payables, other payables and accrued liabilities, bills payable, advance subscription fee received including amounts due to associated companies, an investee company and a director	79,200	(103,283)
Cash inflow/(outflow) generated from operating activities	64,573	(50,288)

Notes to the Accounts

31 Notes to the consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	Share capital		Minority interests		Loans and obligations under finance leases	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	394,107	394,107	49,064	57,506	127,157	141,716
Share of profits by minority shareholders	–	–	5,504	1,741	–	–
New finance leases	–	–	–	–	11,073	–
Cash outflows from financing	–	–	–	–	(2,811)	(14,559)
Capital contributions from minority shareholders	–	–	–	773	–	–
Disposal of subsidiaries	–	–	–	727	–	–
Dividends paid to minority shareholders (note 31(d))	–	–	(8,008)	(11,683)	–	–
At 31 March	394,107	394,107	46,560	49,064	135,419	127,157

(c) Disposal of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Fixed assets	–	13,761
Trade and other receivables	–	26,630
Cash and bank balances	–	1,061
Other payables and accruals	–	(851)
Minority interests	–	727
Loss on disposal	–	41,328
Satisfied by cash	–	15,000
Net inflow of cash and cash equivalents	–	13,939

31 Notes to the consolidated cash flow statement (continued)

(d) Major non-cash transactions

During the year, Shenzhen Motion Mobile Telecom Services Co Ltd (“SMMT”) declared dividends amounting to HK\$78,326,000 of which HK\$8,008,000 was declared to CMTH, a minority shareholder of SMMT. The amount was settled through a current account with CMTH.

32 Cash and cash equivalents

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bank and cash balances	78,793	111,804

33 Contingent liabilities

As at 31 March 2003, the Group and the Company had contingent liabilities not provided for in the books as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees in respect of banking facilities of subsidiaries	–	–	282,831	275,131
Guarantees given to third parties against non-performance of contractual obligations by subsidiaries	33,874	35,474	31,874	31,474

Notes to the Accounts

34 Commitments

As at 31 March 2003, the Group has the following commitments:

(a) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
In respect of land and buildings, including transmission sites:		
Within one year	14,571	23,014
Between two and five years	12,739	17,237
More than five years	321	1,635
	27,631	41,886

In respect of leased lines:

Within one year	18,104	27,110
Between two and five years	1,207	10,419
	19,311	37,529

(b) Capital commitments for purchase of fixed assets

	Group	
	2003	2002
	HK\$'000	HK\$'000
Contracted but not provided for	–	17,354
Authorised but not contracted for	–	36,955
	–	54,309

35 Related party transactions

- (a) The Group has the following transactions with related parties, including minority shareholders of subsidiaries, which were carried out in the normal course of business and terms arranged by or between the parties during the year.

	Group	
	2003	2002
	HK\$'000	HK\$'000
Income/(expenses)		
Liking Industrial Ltd., a company owned by a director		
Rental expenses	–	(316)
First Active Investments Limited, a company owned by a director		
Disposal of subsidiaries	–	15,000
ChinaMotion Telecare (HK) Limited, a company owned by a director		
Hotline service fee	(1,640)	(429)
PA center services fee	(427)	(327)
Significant transactions with minority shareholders of subsidiaries		
CMTH		
Disposal of microwave telecommunications equipment	–	61,495
Maintenance service income	–	14,332
Leasing income	–	9,342
Airtime income	–	2,640
Recharge of paging and mobile service expenses	(2,208)	(6,902)
Dataline expenses	–	(1,101)
Call center services expenses	(3,037)	(836)
Shenzhen China Motion Telecom United Company Ltd (“SCMTU”)		
Sales of telecommunications equipment	3,234	5,073
China Motion Netcom Services Co. Ltd. (“CM Netcom”)		
Provision of technical consultancy and maintenance services	92,007	131,070
Wanbao Telecom Investment Limited, an associated company		
Interest income	781	–
Network fee charges	(137)	(1,736)

Notes to the Accounts

35 Related party transactions (continued)

- (b) As at 31 March 2003, included in long-term investments are the following amounts which are related to CMTH and its subsidiaries:

	2003 HK\$'000	2002 HK\$'000
Others, unlisted		
– Trust investment in a telecommunications project (note (i))	207,546	247,733
– Capital expenditure funding (note (ii))	80,159	80,159
	287,705	327,892
Deposit for purchase of unlisted investment (note (iii))	46,729	–

Notes:

- (i) This represents the remaining balance of funding in an amount of HK\$341,192,000 originally provided by the Group to a telecommunications project in Guangdong province in the PRC in 1997. This project was entered into on behalf of the Group by CM Netcom, a subsidiary of CMTH. The amount is to be returned by CM Netcom to a subsidiary of the Company before or upon expiry of a service agreement between that subsidiary and CM Netcom in March 2004. It is expected that HK\$129,000,000 of the balance will offset against the consideration payable for the proposed stage 2 acquisition by the Group of equity interest in CM Netcom (see note 35(b)(iii)). The remaining balance of HK\$78,546,000 will be returned according to a rescheduling agreement entered into between CMTH and the Company on 9 July 2003 (see note 35(c)(ii)).
- (ii) The amount represents capital expenditure funding provided by the Group to CM Netcom for developing CM Netcom's voice over Internet protocol ("VOIP") long distance call services business pursuant to an agreement entered into between the Group, SMMT, a subsidiary of the Company, and CM Netcom. The amount will be utilised in partial settlement of the consideration payable for the stage 1 acquisition by the Group of a 25% equity interest in CM Netcom on or before 31 December 2003. Details of this proposed transaction are set out in note 35(b)(iii).
- (iii) This represents a deposit paid for the acquisition of a 25% equity interest in CM Netcom.

On 30 January 2003, SMMT, CM Netcom and CMTH entered into an acquisition agreement, pursuant to which SMMT conditionally agreed to purchase in two equal stages, a 50% of the registered capital of CM Netcom for total consideration of RMB276,000,000 (equivalent to HK\$258,000,000). The aggregate consideration is to be satisfied by (i) the assignment of the capital expenditure funding of HK\$80,159,000 as mentioned in note 35(b)(ii) above; and (ii) by cash payments of HK\$49,000,000 and (iii) by way of setting off of amounts due from CMTH and/or its subsidiaries ("CMTH Group") to the Group of HK\$129,000,000. Completion of the acquisition agreement is conditional upon, inter alia, the conditions precedent which have been set out in the circular to shareholders dated 6 March 2003 being fulfilled on or before 31 October 2003 (unless such conditions are waived by SMMT). These conditions include but are not limited to the following:

- (1) the due division of CM Netcom into two companies with a "new" company assuming the assets, liabilities and operations of the GSM related business and all non VOIP related business and the continued CM Netcom ("Continued CM Netcom") retaining all the assets, liabilities and operations of the VOIP related business after the division of CM Netcom; and
- (2) the Continued CM Netcom having obtained the necessary authority to operate the VOIP related business in not less than ten cities in the PRC.

35 Related party transactions (continued)

(b) (iii) (continued)

The consideration of RMB276,000,000 has been determined by reference to an independent valuation of the VOIP related business of the Continued CM Netcom prepared by American Appraisal Hongkong Limited, a third party international valuer as at 31 October 2002. The fair market value of the VOIP related business as a going concern has been determined through the application of the income approach commonly known as the discounted cash flow method and was valued at approximately RMB552,000,000 (equivalent to HK\$516,000,000) for the entire VOIP related business as at 31 October 2002. On this basis, a 50% interest of the VOIP related business was valued at approximately RMB276,000,000 (equivalent to approximately HK\$258,000,000).

Pursuant to the acquisition, the consideration payable for the stage 1 25% registered capital of RMB138,000,000 (equivalent to approximately HK\$129,000,000) shall be settled as follows:

- (1) Upon signing of the acquisition agreement, RMB50,000,000 (equivalent to approximately HK\$47,000,000) was paid as a deposit and shall be applied towards payment of the consideration upon completion of stage 1 of the acquisition on or before 31 December 2003; and
- (2) The remaining balance of RMB88,000,000 (equivalent to approximately HK\$82,000,000) will be paid by way of the assignment of the capital expenditure funding of approximately RMB86,000,000 (equivalent to HK\$80,159,000) (note 35(b)(ii)) and a cash payment of RMB2,000,000 (equivalent to approximately HK\$2,000,000).

As of the date of this report, the relevant parties to the acquisition are still in the process of fulfilling the relevant conditions precedent.

The consideration payable upon the completion of stage 2 of RMB138,000,000 (equivalent to approximately HK\$129,000,000) is to be satisfied by SMMT firstly setting off of sums owing by CMTH to SMMT and/or assignment to CMTH of any sums owing by any of the subsidiaries of CMTH (including CM Netcom) to SMMT, and the remaining balance of the consideration (if any) shall be paid in cash. It is the present intention of the Group to set off the whole amount of the consideration payable against the remaining balance of the trust investment in a telecommunications project which is to be returned to the Group as set out in note 35(b)(i) above.

Further details of the proposed transactions are set out in the circular to the shareholders dated 6 March 2003.

(c) As at 31 March 2003 outstanding trade receivables due from CMTH and its subsidiaries are as follows:

	2003	Group
	HK\$'000	2002 HK\$'000
CMTH	32,016	32,401
CM Netcom	167,868	166,721
SCMTU	94,992	68,756
	294,876	267,878
Less: amounts receivable within 2 to 5 years (note (i))	(266,625)	–
Amounts receivable within one year included in current assets	28,251	267,878

- (i) The amounts are unsecured and interest-free with credit terms ranging from 30–90 days. As at 31 March 2003, most of these trade receivables are overdue. Subsequent to the year end, on 9 July 2003, the Company and CMTH entered into an agreement to reschedule the repayment dates for the receivables.

Notes to the Accounts

35 Related party transactions (continued)

(c) (continued)

- (ii) Under the agreement, an aggregate amount of HK\$373,422,000 (the "Debt") as at 31 March 2003, comprising an amount of trade receivables of HK\$294,876,000 and part of the trust investment in a telecommunications project of HK\$78,546,000 to be returned to the Group (see note 35(b)(i) above) will be repayable over a period of five years in accordance with the following schedule:

Date of repayment	Repayment amount
	HK\$'000
On or before the last day of the first year commencing from the date upon which all the conditions precedent to which the agreement is subject to have been fulfilled ("Effective Date")	40,000
On or before the last day of the second year commencing from the Effective Date	50,000
On or before the last day of the third year commencing from the Effective Date	80,000
On or before the last day of the fourth year commencing from the Effective Date	100,000
On or before the last day of the fifth year commencing from the Effective Date	103,422
	<hr/>
Total:	373,422
	<hr/>

Interest

The entire amount of the Debt will bear interest at the rate of 2.25% per annum. Interest payment for the first three years will be payable on or before the last day of the third year commencing from the Effective Date whilst interest payment for the fourth year and fifth year will be payable on or before the last day of the fourth year and the fifth year commencing from the Effective Date respectively.

First right of refusal

In the event that any member of the CMTH Group offers to sell, transfer, assign or dispose of any of its assets, properties, investment, business or offers to enter into any form of co-operation with any party CMTH shall grant and shall procure other relevant member(s) of the CMTH Group to grant the Group a first right of refusal for such investment opportunities to the extent permitted under the applicable laws in Hong Kong and China.

Subject to mutually agreed terms and applicable laws in both Hong Kong and China, in the event that the Group decides to pursue any of the investment opportunities presented by CMTH Group, the Group may at its sole discretion, if it thought fit, set-off its contribution obligations or consideration for such investment opportunities against the then remaining balance of the Debt due from CMTH Group provided that the value of such investments shall be subject to an independent valuation prepared by an independent professional valuer to be mutually agreed. Upon such set-off, the remaining balance of the Debt due from CMTH Group shall be reduced accordingly.

Details of this transaction are summarised in the circular to the shareholders of the Company dated 22 July 2003.

Accordingly, the Debt has been substantially classified as non-current assets as at 31 March 2003.

35 Related party transactions (continued)

(c) (ii) (continued)

As at 31 March 2003, the amounts to be returned and repaid by CMTH and its subsidiaries totalled approximately HK\$629,310,000 (2002: HK\$595,770,000) as detailed in notes 35(b) and 35(c)(i) above. As mentioned above, while HK\$373,422,000 is expected to be received through the reschedule debt payments and the remaining balance of HK\$255,888,000 is expected to be set off against the consideration payable for the acquisition of 50% equity interest in the Continued CM Netcom (note 35(b)).

The determination of whether or not a decline in value of the trust investment in the telecommunications project has occurred, and if so, whether it is other than temporary, and the recoverability of the amounts due from CMTH requires the exercise of significant judgement by management. It also depends on the success of the telecommunications projects undertaken by CMTH including but not limited to CM Netcom's VOIP related business (see note 35(b)(iii)). Given the inherent risk associated with CMTH and the telecommunications projects, management believes that it has made reasonable judgements based on all relevant and available facts and information about CMTH and the telecommunications projects (including the financing facilities available for these projects) that the trade receivables due from CMTH and the trust investment in the telecommunications project can be or will be realised at an amount equal to or in excess of their carrying value. Adjustments to management's estimates will be made as the Group receives updated information about the business performance of CMTH and the telecommunications projects.

(d) As at 31 March 2003, outstanding non-trade payables included payables to minority shareholders of subsidiaries are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Guangdong Mobile Communication Company Limited	827	827

Notes to the Accounts

36 Principal subsidiaries

The principal subsidiaries as at 31 March 2003 are as follows:

Name	Country/ place of incorporation/ operation and kind of legal entity in the PRC	Particulars of issued share capital/ registered capital	Percentage of effective equity held*	Principal activities
Best Class International Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion Data System Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion Holdings Limited	British Virgin Islands	100 ordinary shares of US\$1.00 each	100%	Investment holding
ChinaMotion NetCom (Asia) Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Provision of long distance call services
ChinaMotion NetCom (Canada) Ltd.	Canada	1 ordinary share of C\$1.00 each	100%	Provision of long distance call services
China Motion Properties Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion (Japan) Limited	Japan	200 shares of ¥50,000.00 each	100%	Provision of long distance call services
China Motion (Singapore) Pte. Ltd.	Singapore	2 shares of S\$1.00 each	100%	Provision of long distance call services
China Motion (Taiwan) Limited	Taiwan	NT\$5,000,000	100%	Provision of long distance call services
China Motion Telecom (HK) Limited	Hong Kong	1 million ordinary shares of HK\$1.00 each	100%	Provision of mobile communications services
China Motion United Telecom Limited	Hong Kong	66.8 million ordinary shares of HK\$1.00 each	70%	Investment holding and provision of roaming trunked radio services

36 Principal subsidiaries (continued)

Name	Country/ place of incorporation/ operation and kind of legal entity in the PRC	Particulars of issued share capital/ registered capital	Percentage of effective equity held*	Principal activities
CM Concept Holdings (China) Limited	Hong Kong	100 ordinary shares of HK\$1.00 each and 500 non-voting deferred shares of HK\$10,000.00 each	100%	Investment holding
CM Concept (HK) Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Retail business
CM Tel (HK) Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Provision of long distance call services
CM Tel (USA) LLC	USA	US\$10,000	100%	Provision of long distance call services
Eagle Heights Limited	British Virgin Islands	1 ordinary share of US\$1.00 each	100%	Provision of long distance call services
Express Lane Investment Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
Guangzhou Motion Telecom Service Co., Ltd.	PRC, equity joint venture	HK\$2,660,000	70%	Maintenance services and provision of telecom related services
Jackie Industries Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
Sheen Metro Investment Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
Sheen Sino Investment Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding

Notes to the Accounts

36 Principal subsidiaries (continued)

Name	Country/ place of incorporation/ operation and kind of legal entity in the PRC	Particulars of issued share capital/ registered capital	Percentage of effective equity held*	Principal activities
Shenzhen Motion Mobile Telecom Services Co., Ltd.	PRC, equity joint venture	US\$12,000,000	90%	Provision of GSM- related services to telecom operator in the PRC
Shenzhen Motion Telecom Service Co., Ltd.	PRC, equity joint venture	RMB25,000,000	70%	Maintenance for telecommunication equipment
Shenzhen Motion Trunked Radio Co., Ltd.	PRC, equity joint venture	Paid-up capital US\$5,000,000 Registered capital US\$9,000,000	49%	Provision of telecommunication equipment leasing
Townlink Limited	Hong Kong	2 million ordinary shares of HK\$1.00 each	70%	Provision of telecommunication services and the sale of mobile transceivers and related accessories
World Sheen Properties Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding

* All interests are held indirectly by the Company except for China Motion Holdings Limited which is directly owned by the Company.

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

37 Principal associated companies

The principal associated companies as at 31 March 2003 are as follows:

Name	Country/place of establishment/ operation	Particulars of issued shares held	Percentage of effective equity interest indirectly held	Principal activities
Goodfine Holdings Limited	Hong Kong	Ordinary shares HK\$1.00 each	48%	Investment holding
Thinker Communications Technology (HK) Co., Limited	Hong Kong	Ordinary shares HK\$1.00 each	48%	Agency services
Wanbao Telecom Investment Limited	Hong Kong	Ordinary shares HK\$1.00 each	48%	Telecommunication and agency services

The above table includes the associated companies of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other associated companies would, in the opinion of the directors, result in particulars of excessive length.

38 Ultimate holding company

The Company is a subsidiary of Goldtop Holdings Limited, a company incorporated in the British Virgin Islands, which is also regarded by the directors as being the ultimate holding company.

39 Post balance sheet events

- (a) Details of the connected transaction entered into between the Company and CMTH on 9 July 2003 are set out in note 35(c)(ii) to the accounts.
- (b) As of the date of this report, CMH, a wholly-owned subsidiary of the Company, transferred 1,362,000 shares of ChinaMotion NetCom Holdings Limited ("CM NetCom Holdings") to certain employees of the Group. Accordingly, the shareholding of CMH in CM NetCom Holdings was reduced to 86.38%.

40 Approval of accounts

The accounts were approved by the board of directors on 22 July 2003.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of China Motion Telecom International Limited will be held at Fung Shui Room, 6/F., The Marco Polo HongKong Hotel, Harbour City, Kowloon, Hong Kong on Thursday, 28 August 2003 at 10:00 a.m. for the following purposes:

As Ordinary Business

- (Resolution 1) 1. To receive and adopt the Directors' Report and the Audited Accounts for the year ended 31 March 2003, together with the Auditors' Report thereon.
2. To re-elect the following Directors retiring by rotation under Bye-law 86(1):
- (Resolution 2) (i) Mr. HAU Tung Ying
- (Resolution 3) (ii) Mr. SHUI Ming Hua
- (Resolution 4) (iii) Mr. YANG Jun
- (Resolution 5) 3. To authorise the Directors to fix the Directors' remuneration for the ensuing year.
- (Resolution 6) 4. To re-appoint Messrs. PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration.
5. To transact any other ordinary business.

As Special Business

To consider and, if thought fit, to pass the following as Ordinary Resolutions:

- (Resolution 7) 6. **"THAT** the maximum number of Directors be fixed at twenty (20) and that the Directors be authorised to appoint additional Directors (including alternate Directors) up to such maximum number or such other maximum number as may be determined from time to time by shareholders of the Company (the "Shareholders") in general meeting."
- (Resolution 8) 7. **"THAT:**
- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors pursuant to Bye-law 3(2) of the Bye-laws of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase its own issued ordinary shares of HK\$0.75 each in the capital of the Company (the "Shares") on The Stock Exchange of Hong Kong Limited and the Singapore Exchange Securities Trading Limited or any other stock exchange on which the Shares are listed at any time, upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, and subject to and in accordance with all applicable laws and regulations for the repurchase of the Shares, be and is hereby generally and unconditionally approved;
- (b) the aggregate amount of the Shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed ten per cent. (10%) of the aggregate amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

- (c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:
 - (i) the conclusion of the next Annual General Meeting of the Company;
 - (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; or
 - (iii) the time upon which the authority set out in this Resolution is revoked or varied by ordinary resolution of the Shareholders in general meeting."

(Resolution 9) 8. **"THAT:**

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors pursuant to Bye-law 12 of the Bye-laws of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to issue and allot additional Shares be and is hereby generally and unconditionally approved;
- (b) the aggregate amount of share capital to be issued and allotted or agreed conditionally or unconditionally to be issued and allotted by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a bonus issue; (ii) an issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrant; or (iii) an issue of Shares under any option scheme or similar arrangement for the grant or issue to Directors or employees of the Company and/or any of its subsidiaries and/or any of its associated companies of Shares or rights to acquire Shares, shall not exceed twenty per cent. (20%) of the aggregate amount of the issued share capital of the Company as at the date of the passing of this Resolution, and the said approval shall be limited accordingly; and
- (c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:
 - (i) the conclusion of the next Annual General Meeting of the Company;
 - (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; or
 - (iii) the time upon which the authority set out in this Resolution is revoked or varied by ordinary resolution of the Shareholders in general meeting."

- (Resolution 10) 9. **"THAT** conditional upon the passing of Resolutions 8 and 9 of the notice convening this meeting, the general mandate granted to the Directors to exercise the powers of the Company to allot and issue additional Shares pursuant to the resolution set out in Resolution 9 of the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate amount of Shares which has been purchased by the Company pursuant to the exercise by the Directors of the powers of the Company to purchase such Shares, provided that such amount shall not exceed ten per cent. (10%) of the aggregate amount of the share capital of the Company in issue as at the date of the passing of this Resolution."

By Order of the Board

KWOK Mei Fan
Company Secretary

Hong Kong, 31 July 2003

Notice of Annual General Meeting

Notes:

1. With the exception of The Central Depository (Pte) Limited and Hong Kong Securities Clearing Company Limited (who may appoint more than two proxies), a member of the Company entitled to attend and vote at the above meeting is entitled to appoint no more than two proxies to attend and vote on his behalf and such proxy need not be a member of the Company.
2. To be valid, the instrument appointing the proxy or proxies together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be deposited with the Company's share transfer agent/ registrar as follows:
 - (i) in the case of those members registered on the principal register: at the office of the Company's Singapore share transfer agent, Barbinder & Co Pte Ltd at 8 Cross Street, #11-00 PWC Building, Singapore 048424; and
 - (ii) in the case of those members registered on the Hong Kong branch register: at the office of the Hong Kong branch share registrar, Abacus Share Registrars Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong,

in both cases, not less than 48 hours before the meeting or at any adjournment thereof.

3. The Ordinary Resolution proposed in item 6 above, if passed, will empower the Directors to appoint additional Directors to the existing Board of Directors provided that the total number of Directors does not exceed 20.
4. The Ordinary Resolution proposed in item 7 above, if passed, will, subject to any applicable laws and regulations, empower the Directors from the date of the above meeting until the next Annual General Meeting to exercise the power of the Company to purchase the Shares up to 10 per cent. (10%) of the issued share capital of the Company as at the date of the passing of the said Ordinary Resolution for such purposes as they consider would be in the interests of the Company. This authority will continue in force until the conclusion of the next Annual General Meeting of the Company, unless previously revoked or varied at a general meeting of the Company.
5. The Ordinary Resolutions proposed in items 8 and 9 above, if passed, will empower the Directors from the date of the above meeting until the next Annual General Meeting to issue and allot Shares up to the aggregate of (i) 20 per cent. (20%) of the issued share capital of the Company as at the date of the passing of the said Ordinary Resolution and (ii) the total number of Shares repurchased by the Company pursuant to the authority granted to the Directors under the Ordinary Resolution proposed in item 7 above for such purposes as they consider would be in the interests of the Company. This authority will continue in force until the conclusion of the next Annual General Meeting of the Company, unless previously revoked or varied at a general meeting of the Company.
6. An explanatory statement containing information with respect to matters set out in Ordinary Resolutions 8 to 10 of the notice of the above meeting will be sent to all the Shareholders of the Company together with the 2003 Annual Report of the Company.