



潤迅通信國際有限公司

China Motion Telecom International Limited

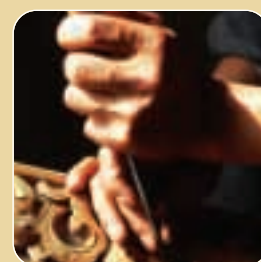
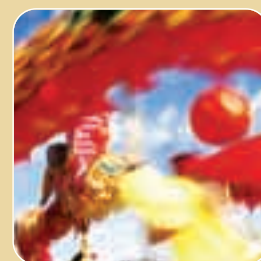
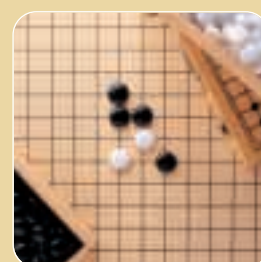
(Incorporated in Bermuda with limited liability)

Annual Report 2004



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Milestones

China Motion was granted a licence to operate IDD retail services in Taiwan and another licence to operate IDD calling card services in Singapore – a significant opportunity to penetrate into these two major consumer markets.



“ChinaOne 0050” launched the “True Price” Campaign, signing up over 100,000 customers.



China Motion completed the stage one acquisition of 25% shareholding in CM NetCom, which currently provides VOIP related services in China, and obtained 3 trial operating licences (including the Domestic Multi-party Communications Services Business Licence) issued by China's Ministry of Information Industry, enhancing the Group's China businesses.

2003

April

July

August

September

China Motion launched international voice services in the United Kingdom – one of the major gateways between Europe and North America.

China Motion launched the “Individual Visit” IDD calling card, targeting visitors of the “Individual Visit Scheme”.



The Group cooperated with China Telecommunications Corporation to establish a new cross-border telecommunications optic-fibre network by utilising network resources of both parties, enhancing the Group's diversified value-added telecommunications services in both China and Hong Kong.



November

2004 January

China Motion launched "Let's Talk" prepaid SIM card, targeting Hong Kong's consumer market.



May

June

China Motion was awarded a licence to operate Internet Protocol Leased Circuit (IPLC) services in Singapore, enabling the business to operate direct data transmission services between Singapore and the rest of the world.



"CM Mobile" launched the "Dual-Network Mobile Service" – pioneering Hong Kong's mobile market.



"CM Concept" opened a new flagship store to provide quality and diversified digital and telecommunications products together with one-stop-shop services to customers.



Financial Highlights

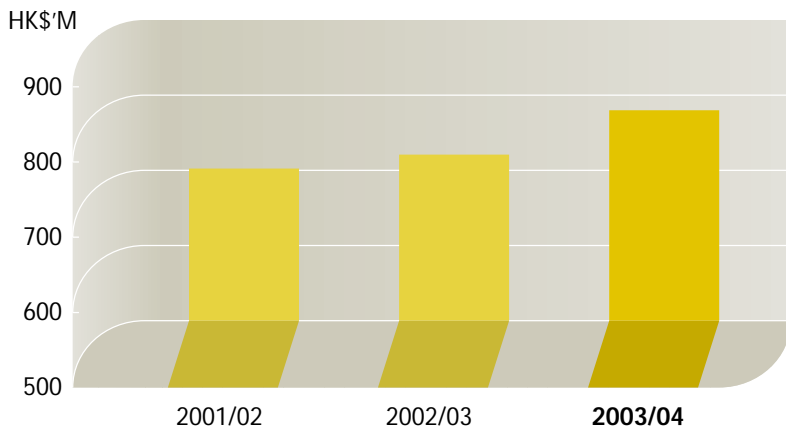
Financial Highlights

	2004	2003 (Restated)	2002	2001	2000
Turnover (HK\$ million)	801.4	735.6	722.0	768.4	891.2
Group (loss)/profit before tax and minority interests (HK\$million)	(38.6)	25.6	(115.0)	(221.9)	62.6
Net (loss)/profit (HK\$million)	(47.5)	7.3	(131.0)	(212.2)	40.0
(Loss)/earnings per share (HK\$)	(9.0)	1.4	(24.9)	(48.2)	12.3
Total assets (HK\$ million)	1,223.9	1,204.1	1,109.2	1,379.0	1,442.7
Total liabilities (HK\$ million)	518.3	451.1	364.2	503.0	648.3
Net assets (HK\$ million)	705.6	753.0	745.0	876.0	794.4
Net assets value per share (HK\$)	1.3	1.4	1.4	1.7	2.1
Working capital ratio	0.8	0.8	2.2	1.9	1.0
Long-term debt to equity	0.10	0.12	0.13	0.13	0.18

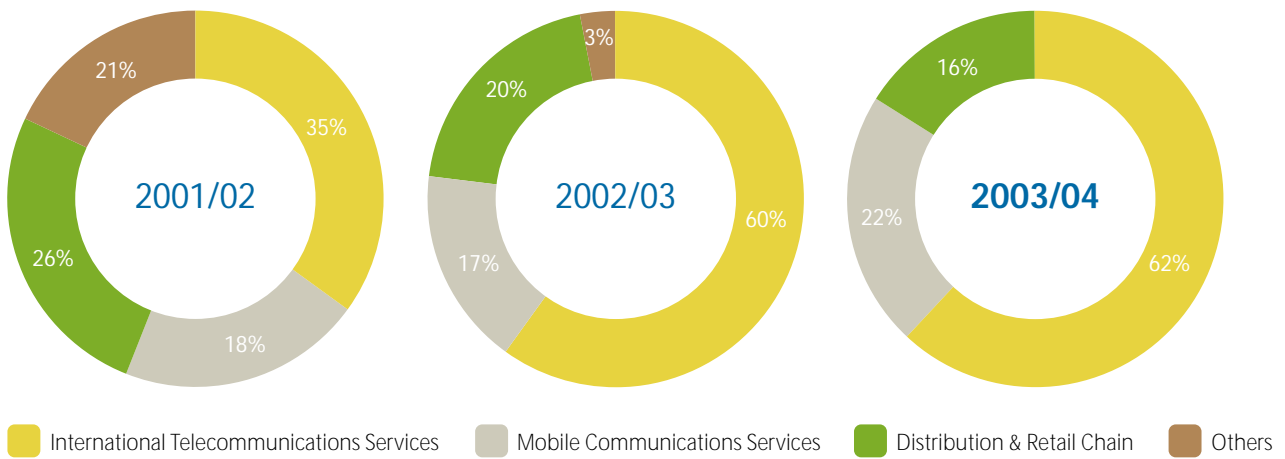
Note: (1) The financial information for the years ended 31 March 2002, 2003 and 2004 have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants while the financial information of the preceding financial years have been prepared in accordance 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.

(2) The financial information for the year ended 31 March 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.

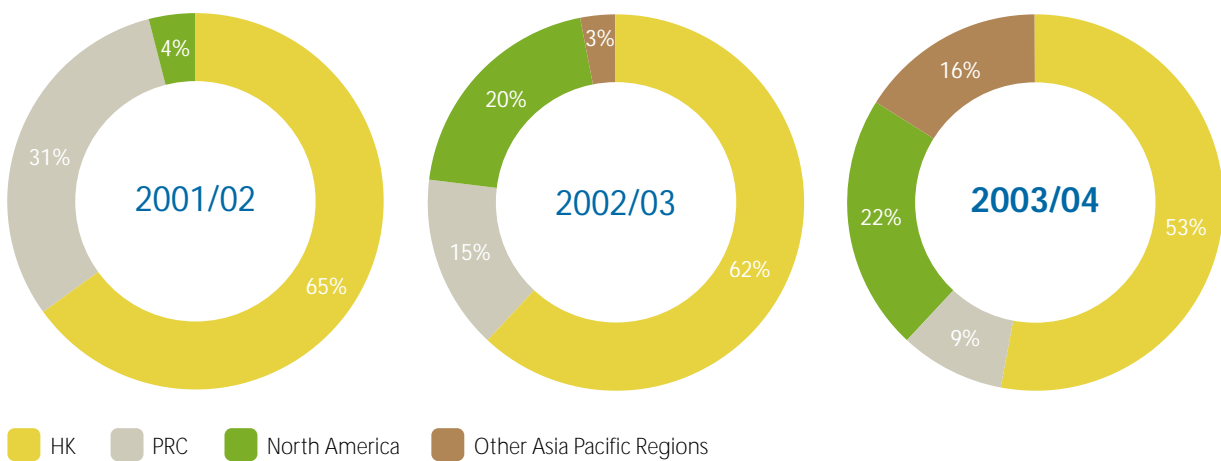
Turnover



Turnover by Business Segment

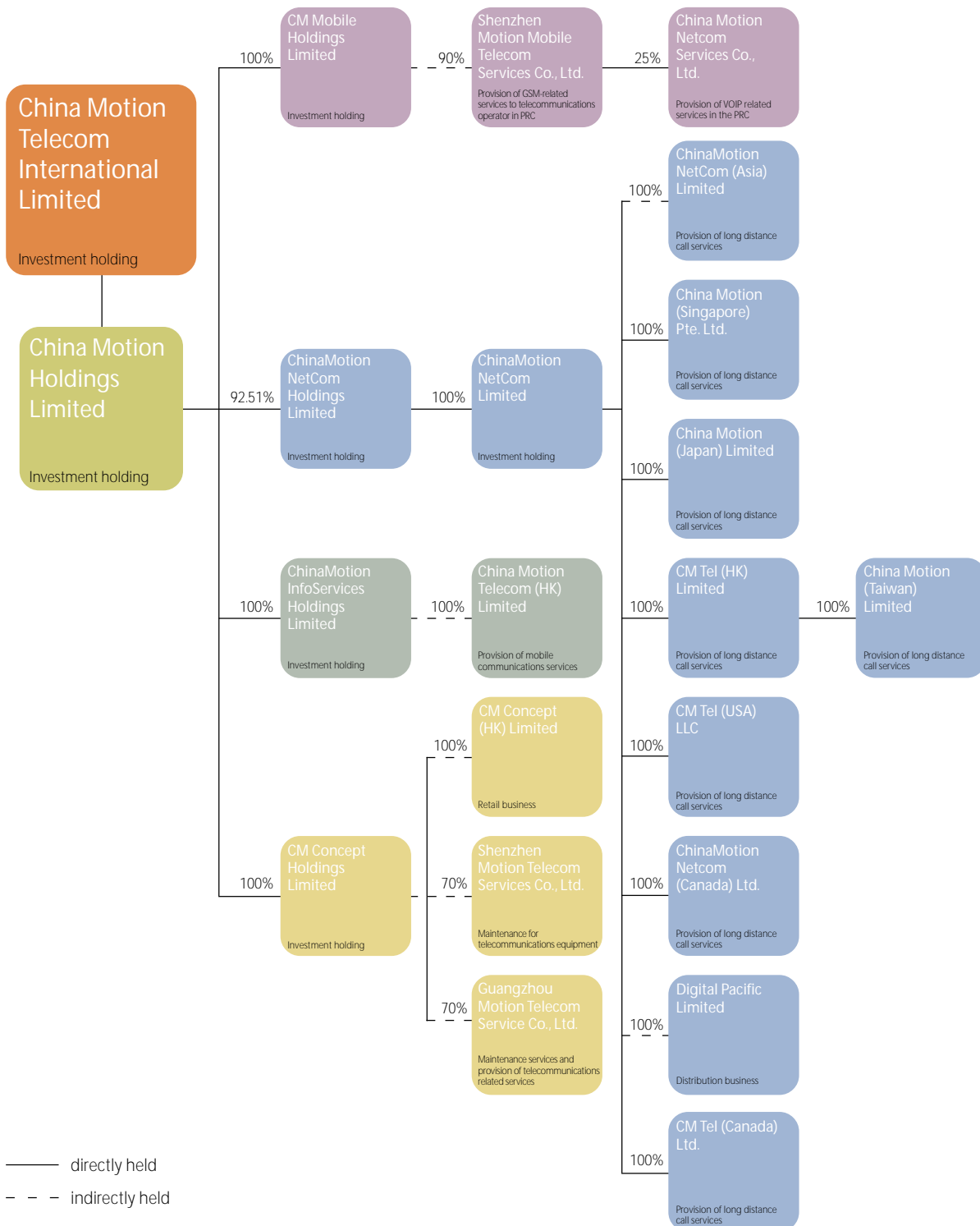


Turnover by Geographical Location



Group Structure

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



Corporate Information

Board of Directors

Executive Director

HAU Tung Ying (Chairman)
SHUI Ming Hua
LI Bin

Non-executive Director

LI Yi Sheng (Deputy Chairman)
LI Kwok Ping
YUNG Yung Cheng, Frank*
HO Chung Tai, Raymond*
HU Tiejun (Alternate Director to LI Yi Sheng)

*Independent Non-executive Director

Company Secretary

CHAN Siu Mei

Registered Office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

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
Website: <http://www.chinamotion.com>

Stock Code

SEHK Code: 0989

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

Belgian Bank
77-79 Gloucester Road
Hong Kong

Principal Share Registrar

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
Certified Public Accountants
33rd Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong



Corporate Positioning

As a well-established integrated telecommunications services provider, China Motion will continue to develop its three core businesses, expand overseas markets and provide a vast variety of premium, value-added telecommunications services to all Chinese communities over the globe.

Chairman's Statement



The Group remains cautiously optimistic about the market outlook. Focus will be placed on the strengthening of China Motion's product and service portfolio.

Dear Shareholders,

In the year under review, China Motion Telecom International Limited ("China Motion" or "the Company"), together with its subsidiaries (collectively, "the Group"), demonstrated remarkable resilience amidst global economic downturn and fierce market competition in the telecommunications industry.

Notwithstanding the unfavourable market conditions, the Group continued to strengthen its three core businesses and posted a turnover of HK\$801 million, representing an increase of 9% over the previous year.

The Group made good progress in the development of overseas markets. Turnover from overseas markets increased by 78% as compared to last year. Wholesale IDD business has been further expanded to Japan, Vietnam and the United Kingdom. In Taiwan, a trial operating licence for the provision of MVNO (Mobile Virtual Network Operator) services was obtained in April 2004.

The wholesale IDD business accounted for a significant portion of the Group's turnover and profit. The retail IDD product - "ChinaOne 0050", launched in May 2003, boosted the retail IDD business. Meanwhile, the Group's MVNO business, launched in 2002, continued to build its market share. Our distribution network, comprising of 27 "CM Concept" shops and over 1,500 dealers in Hong Kong, remains as one of the leading distribution and retail chains for telecommunications products and services.

Chairman's Statement



Financial Performance

The Group's performance improved in the second half of the year under review as a result of the steady development of its businesses, strict cost control and the gradual recovery of the economies after the Severe Acute Respiratory Syndrome (SARS) outbreak. A loss attributable to shareholders of HK\$47 million was recorded.

In order to ensure continuous and healthy growth of our businesses, the Group must stay financially sound. Against this background, the Board of Directors does not recommend the payment of a final dividend for the year ended 31 March 2004.

Key Developments

The Group provides a host of telecommunications services with its three core businesses - international telecommunications services, mobile communications services and distribution and retail chain. Its services have expanded beyond Hong Kong to overseas markets.

Turnover of the international telecommunications services business grew 14% to HK\$501 million. The new overseas markets contributed towards the doubling of the Group's total IDD voice traffic to 2,400 million minutes for the financial year under review.

On the retail IDD front, the number of subscribers increased to 120,000 as at the end of March 2004 with the launch of "ChinaOne 0050". Retail IDD, in its early development stage, is yet to achieve break-even. The loss incurred by the retail IDD business was partly offset by the profit from wholesale IDD business.

The mobile communications services business posted a turnover of HK\$172 million, up 38% over the previous year, despite of the service contract expiry of 30,000 mobile subscribers in September 2003 (remaining 70,000 service contracts have expired in March 2004). The increase in turnover was attributable to the Group's continuous focus on market share expansion through service and product enhancement. "CM Mobile" launched a host of new products including prepaid and postpaid local mobile services and expansion of "Dual-Number Single SIM Mobile Service" beyond Guangdong province to include Shanghai. "CM Mobile" also pioneered the provision of "Dual-Network Mobile Service" in the local mobile market in January 2004.

The Group's distribution and retail chain business was hit amid last year's depressed retail market. This was aggravated by the outbreak of SARS. Turnover of the distribution and retail chain business decreased by 14% to HK\$129 million. In early 2003, as



soon as the market showed signs of further weakness, proactive steps were taken to rationalise the "CM Concept" network and strengthen its profitability. These include the relocation of "CM Concept" shops to high traffic areas and an adjustment in the mix of revenue from "CM Concept" shops. To date, "CM Concept" focuses on the retailing of China Motion's proprietary products and services, sales of mobile phone handsets and digital products, and distribution of other mobile network operators' products.

Prospects

The gradual economic turnaround, the trend for Hong Kong's corporations to set up operations in the mainland and the increase in mainland tourist arrivals will present the Group with new business opportunities. The Group remains cautiously optimistic about the market outlook. Focus will be placed on the strengthening of our product and service portfolio.

Our development in overseas market will continue in the coming years. Since 2000, the Group has established IDD network coverage from Hong Kong to China, the United States, Canada, Singapore, Taiwan, Japan, Vietnam and the United Kingdom. The Group's technical expertise and experience in the operation of cross-border telecommunications services were proven an invaluable asset to its ability to secure our overseas partners. Strong management teams have also been

put in place in those markets in order to develop and execute market entry and expansion strategies.

The Group intends to focus on the development of its overseas markets by leveraging its experience with operating cross-border telecommunications services and the strategic relationships it has with the four main telecommunications operators in China. Emphasis will be placed on the acquisition of market share in the overseas markets. Meanwhile, in Hong Kong, China Motion will continue to grow the three core businesses.

On behalf of the Board of Directors, I would like to thank our staff for their dedication and hardwork. I would also like to put on record the tremendous contribution of Mr. YANG Jun and Mr. CHAN Wai Lun who resigned from the Board of Directors in April 2004. Mr. LI Yi Sheng is now Deputy Chairman of the Company. Dr. LI Bin is appointed as an Executive Director of the Company and the Chief Operating Officer of the Group. Mr. LI Kwok Ping is appointed as Non-executive Director of the Company.

HAU Tung Ying

Chairman

23 June 2004



合作共赢



Partnership

Our cross-border telecommunications operating experience and strategic relationships with various network operators position China Motion well to expand our telecommunications services to overseas markets.

Management Discussion and Analysis

Market Overview

2003/04 was a challenging year for the telecommunications industry. The continued weak economic conditions in Hong Kong and fierce market competition resulted in downward price pressure. The situation was compounded by the outbreak of SARS in Hong Kong and the region.

Notwithstanding the weakness in the markets around the region, China continued to go from strength to strength, posting a GDP growth rate of 9.1%. Steady inflows of foreign direct investment, coupled with increases in domestic spending power, fuelled demand for IDD and mobile services. According to China's Ministry of Information Industry, total telecommunications industry revenue will reach US\$69 billion in 2004, up 12% from 2003.

With the deregulation of the telecommunications industry in China, the market will soon see the emergence of telecommunications operators offering services that ride on the telecommunications infrastructure developed by the four main network operators. Leveraging on our extensive experience in providing telecommunications services, China Motion is well positioned to cater to the increasingly sophisticated needs of consumers in China. The Group intends to capitalise on its solid relationships with the main network operators to negotiate an advantageous strategic partnership to enter the market.

The Closer Economic Partnership Arrangement (CEPA) between Hong Kong and the mainland has also fuelled demand for cross-border telecommunications services. The cross-border telecommunications service sector will grow in the years ahead. To ensure that the Group has the necessary capacity to meet the growing demand, in November 2003, China Motion entered into a co-operative agreement with China Telecommunications Corporation for the development of a cross-border telecommunications optic-fibre network.

Introduced in mid 2003, the "Individual Visit Scheme", which allows mainland residents to visit Hong Kong in their individual capacity, has brought myriad opportunities to Hong Kong's tourism and retail sectors. The strong spending power of visitors from cities in South China, the wide variety of telecom products and services available at our "CM Concept" stores as well as the widespread recognition of the "CM Concept" brand among these customers have all enabled China Motion to benefit from the scheme. The Group has formulated plans to strengthen the position of "CM Concept" and make it a preferred brand among mainland visitors.

In late 2003, a new chapter in Hong Kong's telecommunications industry commenced with the launch of the territory's first third generation (3G) telecommunications network. Other 3G network operators are expected to follow suit in late 2004. China Motion is the first company to have won a 3G dealership, a testament to the strength of its distribution network. The dealership has added to the already comprehensive range of products and services available at "CM Concept" shops, allowing it to keep pace with the latest market developments.

Business Overview

During the year under review, the Group has successfully established itself as a multi-faceted telecommunications services provider with strong networks in key markets. We have a well-defined business model with three core businesses: international telecommunications services, mobile communications services and distribution and retail chain.

The Group has expanded its services in other major overseas markets with identified needs for telecommunications connections with China. The Group's overseas operations achieved 78% growth in turnover over last year.

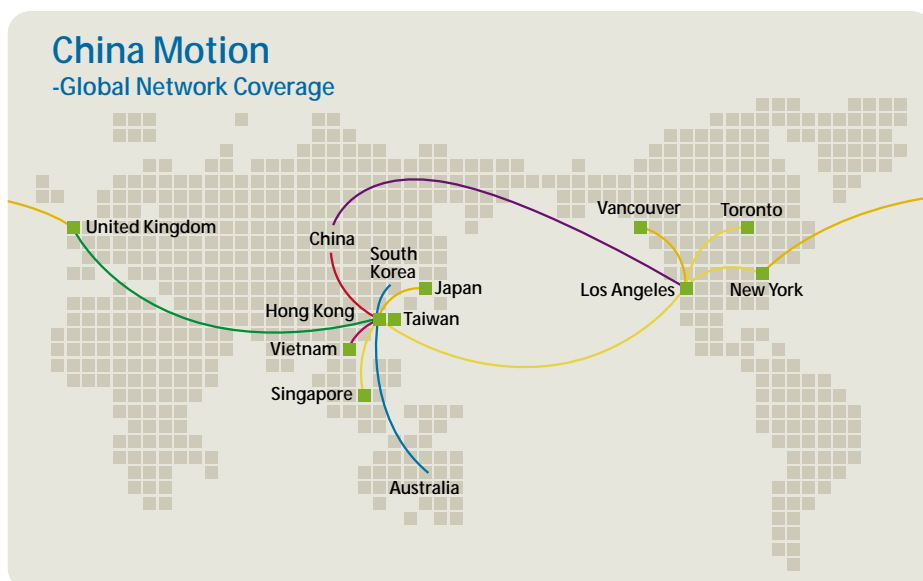
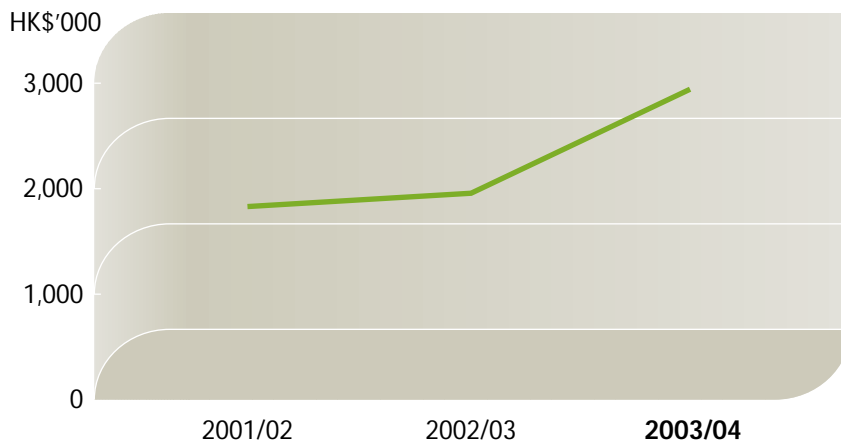
Management Discussion and Analysis

The Group embarked on business streamlining initiatives with a view to improving its cost effectiveness. Back office functions have been centralised to provide support to different business units and functions, enhancing the flexibility of our operations and allowing us to respond speedily to market demands.

International Telecommunications Services

Turnover of the Group's international telecommunications services business, mainly comprising wholesale and retail IDD services, increased by 14% over the previous year to HK\$501 million. Our wholesale IDD business contributed outstanding growth levels to the international telecommunications services business while the start-up retail IDD business showed promise.

Staff Productivity (Annual turnover per staff)

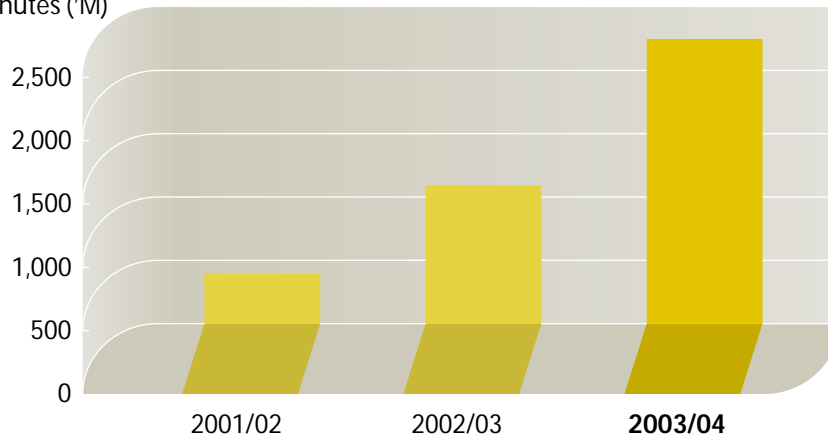






IDD Voice Traffic

Minutes ('M)



In the financial year under review, the Group entered Vietnam, Japan and the United Kingdom, offering wholesale IDD services. The success of the overseas expansion strategy is evident in the significant contributions by the new overseas markets. The new overseas markets contributed towards the doubling of the Group's total IDD voice traffic to 2,400 million minutes for the financial year under review.

On the product front, the Group launched "ChinaOne 0050" in Hong Kong in May 2003. Subsequent to the launches, we also obtained retail licences in Singapore, Taiwan and ten states in the United States of America. As at the end of March 2004, the number of subscribers was approximately 120,000, and is expected to grow in the coming year. Responding to the "Individual Visit Scheme", we have also introduced a number of IDD calling cards for cross-border travellers.

Mobile Communications Services

Turnover of the Group's mobile communications services business totalled HK\$172 million, up 38% when compared with last year. The increase was attributable to promising growth in the Mobile Virtual Network Operator (MVNO) business, which

outweighed the revenue loss resulting from the service contract expiry of 30,000 mobile subscribers in China in September 2003. The business relating to the Group's remaining 70,000 subscribers in China has expired at end of March 2004.

"CM Mobile" is the brand under which the Group offers MVNO services. It continued to enhance service quality and expand product offerings to satisfy various customers' needs. The coverage of the popular "Dual-Number Single SIM Mobile Service" was expanded beyond Guangdong province to include Shanghai. The Group launched prepaid stored value SIM cards targeting mainland visitors. "CM Mobile" also pioneered the introduction of "Dual-Network Mobile Service" in Hong Kong.

Leveraging on the Group's strengths in cross-border telecommunications, its extensive distribution and retail network and its experience in customer services, "CM Mobile" has been aggressively acquiring subscribers from among frequent cross-border travellers. The number of subscribers to the Group's mobile communications services business was 60,000 on 31 March 2004. The majority of "CM Mobile" services subscribers were acquired through "CM Concept" stores.

Management Discussion and Analysis



The Group's mobile communications services business has begun to develop overseas markets. In April 2004, it was awarded a trial operating licence in Taiwan with commercial launch scheduled for later in the year. We are also actively looking for opportunities to introduce the "Dual-Number Single SIM Mobile Service" in Southeast Asian countries, key travel destinations for mainland travellers.

With efforts to expand market presence in Hong Kong and overseas markets, the Group believes the MVNO business will progress to break-even towards the end of the current financial year.

Distribution and Retail Chain

Market sentiment in Hong Kong deteriorated during the financial year under review amid the outbreak of SARS and the economic downturn which affected the retail industry at large. "CM Concept" as a one-stop-shop of telecommunications and digital consumer electronics products was inevitably affected by the market situation. Turnover of the distribution and retail chain business decreased by 14% to HK\$129 million.

However, at the end of 2003, business and marketing plans were put in place to capture the opportunities arising from the introduction of the "Individual Visit Scheme". Responding to this huge business opportunity, the Group has set out to reposition "CM Concept". In addition to introducing new products and services, we have begun to strengthen our retail chain network by relocating the retail outlets to areas that are convenient to both local customers and mainland tourists. As at 31 March 2004, our chain consisted of 27 shops in strategically chosen

locations in Hong Kong. The new flagship store, which was opened in June 2004, will provide a comprehensive range of pre- and after-sales services to customers.

In the coming year, the dealership of Hutchison's 3G services in Hong Kong obtained in early 2004 and the expansion of the "Individual Visit Scheme" to the whole of Guangdong province and other provinces in China will be a positive driver of our distribution and retail chain business.

Voice Over Internet Protocol (VOIP) Related Business

Stage one of the acquisition of 25% shareholding in China Motion Netcom Services Co., Ltd. which currently provides VOIP related services in China has been completed in line with schedule. The total purchase consideration for this stage amounted to HK\$129 million and the corresponding amortisation of goodwill has been included under the item "Share of (losses)/profits of associated companies" in the consolidated profit and loss account.

Prospects and Conclusion

The Group anticipates improvements in the overall business environment in Hong Kong as the government's economic enhancement packages begin to take effect. Furthermore, economic recovery around the rest of the world will likely create a more favourable market environment. Against this backdrop, the Group will persist with its global development strategy.

The Group will continue to expand to overseas markets where there are attractive entry conditions, taking into consideration



the size of the market for China-bound traffic and the availability of appropriate local partners. In the current year, IDD traffic is anticipated to maintain steady growth, however the highly competitive conditions of last year will persist. Further, the Group is considering additional overseas markets such as Australia, and key European and Southeast Asian countries for expansion.

The Group will combine the strengths of its three core businesses for sales and marketing purposes. The international telecommunications and mobile communications services businesses, supported by the distribution and retail chain business, will work in tandem to identify and capture cross-selling opportunities. The directors expect positive developments in MVNO and distribution and retail chain operations. Nonetheless the current year will remain highly challenging.

The work we have done in the year under review has laid a solid foundation for growth in the future. The Group has reason to anticipate narrowing its losses in the current financial year.

Financial Position

As at 31 March 2004, the Group's cash and bank balances amounted to approximately HK\$53 million. Total bank borrowings were approximately HK\$126 million of which HK\$124 million is denominated in Hong Kong dollars and HK\$2 million is denominated in United States dollars. The Group's 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.

As at 31 March 2004, the Group had aggregated banking facilities of approximately HK\$91 million (excluding property mortgage loans), of which HK\$64 million was utilised. It is anticipated that the Group's cash and bank balances, 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.

Employee and Remuneration Policies

As at 31 March 2004, the Group had 352 full-time staff. Total staff costs (including directors' emoluments) incurred during the year amounted to HK\$122 million. The Group's remuneration policy is in line with prevailing market practice and its employees are remunerated based on performance and experience.

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



經驗



Corporate Experience

The people, and their expertise, are the fundamentals of a corporation's success. With our advantages of wide-ranging experience in operating telecommunications services, a committed, dynamic management team, and a team of enthusiastic staff, we are dedicated in our endeavours to revolutionise telecommunications services to meet customers' needs.

Biographical Details of Directors



Front row (from left) : Mr. HAU Tung Ying (Chairman), Dr. LI Bin, Mr. SHUI Ming Hua and Mr. LI Yi Sheng (Deputy Chairman)
Back row (from right) : Mr. HU Tiejun, Dr. HO Chung Tai, Raymond, Mr. LI Kwok Ping and Mr. YUNG Yung Cheng, Frank

Executive Director

Mr. HAU Tung Ying (Chairman)

Mr. HAU Tung Ying, aged 50, is the founder of the Group and has been an executive director and the Chairman of the Company since 1994. Mr. Hau is also the Chief Executive Officer of the Group. As the Chairman, Mr. Hau is mainly responsible for strategic planning and corporate policies as well as overseeing the Group's operations. He comes with more than 30 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 and holds an International Executive Master Degree in Business Administration (IEMBA) from The Hong Kong University of Science & Technology. He is currently the Chairman of the Internet & Telecom Association of Hong Kong.

Mr. SHUI Ming Hua

Mr. SHUI Ming Hua, aged 65, joined the Group in 1998 and has been an executive director of the Company since 2000. 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.

Dr. LI Bin

Dr. LI Bin, aged 36, joined the Group in 1998 and has been an executive director of the Company and the Chief Operating Officer of the Group in April 2004. Dr. Li was previously the Chief Operating Officer of ChinaMotion Netcom Limited, a subsidiary of the Company. Before joining the Group, he had worked in the Guangdong Post and Telecom Technology Research Centre. Dr. Li possesses over 13 years of experience in the telecommunications industry. Dr. Li graduated from Hua Zhong University of Science and Technology with a Bachelor Degree in Engineering and holds a Master of Philosophy Degree and a PhD Degree in Electrical and Electronic Engineering from the Hong Kong University of Science and Technology. He is a Senior Member of the Institute of Electrical and Electronics Engineers, Inc. (IEEE).

Biographical Details of Directors

Non-executive Director

Mr. LI Yi Sheng (Deputy Chairman)

Mr. LI Yi Sheng, aged 68, has been a non-executive director of the Company since 1994 and was appointed as Deputy Chairman in April 2004. Mr. Li 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. He has over 40 years of experience in the telecommunications industry.

Mr. LI Kwok Ping

Mr. LI Kwok Ping, aged 47, has been a non-executive director of the Company since April 2004. Mr. Li is the Chief Operating Officer of China Motion Telecom Holdings Limited which is the Company's major business partner of certain joint venture companies in PRC. He had also been the Deputy General Manager of Shenda Telephone Co. Ltd. He has over 23 years of experience in the telecommunications industry and holds a Master Degree from the Nanjing University.

Mr. YUNG Yung Cheng, Frank

Mr. YUNG Yung Cheng, Frank, aged 70, has been an independent non-executive director of the Company since 1997 and is the Chairman of the Audit Committee of the Company. Mr. Yung 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.

Dr. HO Chung Tai, Raymond

Dr. the Hon. Raymond HO Chung Tai, MBE, JP, aged 65, has been an independent non-executive director of the Company since 2001. Dr. Ho 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. He has had 41 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

Mr. HU Tiejun

Mr. HU Tiejun, aged 53, joined the Group in 1993 and has been an alternate director to Mr. LI Yi Sheng, a non-executive director of the Company, since 2000. Mr. Hu serves as the Chief Scientist of the Group and is currently responsible for the Group's technology research and development, specialist in system design and global data network management. He 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.

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 March 2004.

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.

Details of the analysis of the performance of the Company and its subsidiaries (collectively referred to as the "Group") for the year by business and geographical segments are 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 37.

The directors do not recommend the payment of a final dividend for the year ended 31 March 2004.

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 39.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$20,000.

Distributable reserves

In accordance with the Companies Act 1981 of Bermuda (as amended) and the Company's Bye-laws, the Company has no distributable reserve as at 31 March 2004.

Fixed assets

Details of the movements in fixed assets of the Group are set out in note 14 to the accounts.

Report of the Directors

Share capital and warrants

Details of the movements in share capital and warrants of the Company are set out in note 27 to the accounts.

Five-year financial summary

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

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

Executive Director

Mr. HAU Tung Ying, *Chairman*

Mr. SHUI Ming Hua

Dr. LI Bin (appointed on 1 April 2004)

Mr. CHAN Wai Lun (resigned on 1 April 2004)

Non-executive Director

Mr. LI Yi Sheng, *Deputy Chairman* (appointed as Deputy Chairman on 1 April 2004)

Mr. LI Kwok Ping (appointed on 1 April 2004)

Mr. YUNG Yung Cheng, Frank*

Dr. HO Chung Tai, Raymond*

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

Mr. YANG Jun, *Deputy Chairman* (resigned on 1 April 2004)

* *Independent Non-executive Director*

Directors (continued)

In accordance with bye-law 86(1) of the Bye-laws of the Company, Mr. LI Yi Sheng and Mr. YUNG Yung Cheng, Frank shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, Mr. Li offers himself for re-election while Mr. Yung has indicated with the Company that he will not stand for re-election.

In accordance with bye-law 85(2) of the Bye-laws of the Company, Dr. LI Bin and Mr. LI Kwok Ping, being directors appointed by the board of directors subsequent to the previous annual general meeting, shall hold office only until the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

Biographical details of directors

Biographical details of directors are set out on pages 19 and 20.

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 other 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.

Report of the Directors

Directors' interests in shares

As at 31 March 2004, the interests and short positions of the directors and chief executive of the Company or their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning the Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(a) Interests in shares of the Company

Name of director	Number of ordinary shares of HK\$0.75 each held			Total interests	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. HAU Tung Ying	–	–	270,247,500 (Notes 1 & 2)	270,247,500	51.43%
Mr. SHUI Ming Hua	250,000	–	–	250,000	0.05%
Mr. CHAN Wai Lun*	267,000	–	–	267,000	0.05%
Mr. HU Tiejun	292,000	–	–	292,000	0.06%

* resigned on 1 April 2004

All interests disclosed above represent long positions in the shares of the Company.

Notes:

- (1) The 270,247,500 shares were held by Goldtop Holdings Limited ("Goldtop"), a company of which was beneficially owned as to 60% by Mr. HAU Tung Ying and as to 40% by his spouse, Madam TING Yat Shuk. Mr. Hau was therefore deemed to be interested in the said shares held by Goldtop.
- (2) On 17 May 2004, Goldtop sold 54,049,500 shares in the Company to a company owned by an ex-director of the Company pursuant to a sale and purchase agreement dated 10 May 2004. Upon completion of the sale, Goldtop therefore held 216,198,000 shares in the Company, representing 41.14% of the issued share capital of the Company.

Directors' interests in shares (continued)

(b) Interests in share options of the Company

As at 31 March 2004, details of share options granted to the directors of the Company and the employees of the Group under the 1998 Share Option Scheme (as described under the heading of "Share option schemes" below), were as follows:

Grantee	Date of grant	Exercise price HK\$	Exercise period	Vesting period	Number of share options		
					Outstanding as at 1 April 2003	Lapsed during the year	Outstanding as at 31 March 2004
Directors:							
HAU Tung Ying	20/03/2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	2,000,000
SHUI Ming Hua	25/02/2000	3.19	25/02/01 – 17/03/08	N/A	378,499	–	378,499
	17/10/2000	1.22	17/10/01 – 17/03/08	N/A	432,570	–	432,570
	20/03/2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	2,000,000
							2,811,069
CHAN Wai Lun*	25/02/2000	3.19	25/02/01 – 17/03/08	N/A	378,499	–	378,499
	17/10/2000	1.22	17/10/01 – 17/03/08	N/A	432,570	–	432,570
	20/03/2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	2,000,000
							2,811,069
YANG Jun*	29/06/1998	0.751	29/06/99 – 17/03/08	N/A	257,483	–	257,483
	25/02/2000	3.19	25/02/01 – 17/03/08	N/A	252,333	–	252,333
	17/10/2000	1.22	17/10/01 – 17/03/08	N/A	288,380	–	288,380
	20/03/2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	2,000,000
							2,798,196
HU Tiejun	19/08/1999	2.00	19/08/00 – 17/03/08	N/A	252,333	–	252,333
	17/10/2000	1.22	17/10/01 – 17/03/08	N/A	288,380	–	288,380
	20/03/2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	2,000,000
							2,540,713
Employees:							
	29/06/1998	0.751	29/06/99 – 17/03/08	N/A	144,189	–	144,189
	19/08/1999	2.00	19/08/00 – 17/03/08	N/A	1,019,628	(180,237)	839,391
	25/02/2000	3.19	25/02/01 – 17/03/08	N/A	82,394	–	82,394
	17/10/2000	1.22	17/10/01 – 17/03/08	N/A	1,874,470	(540,710)	1,333,760
	20/03/2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	12,850,000	(2,750,000)	10,100,000
	28/01/2002	0.75	28/01/03 – 27/01/12	28/01/03 – 28/01/05	500,000	(100,000)	400,000
							12,899,734
					29,431,728	(3,570,947)	25,860,781

* resigned on 1 April 2004

All interests disclosed above represent long positions.

During the year, there were no share options granted, exercised or cancelled under 1998 Share Option Scheme.

Report of the Directors

Directors' interests in shares (continued)

Save as disclosed above, as at 31 March 2004, none of the directors and chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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, and neither the directors, nor chief executive of the Company, or any of their spouses or children under the age of 18 had any interests in, or had been granted, any right to subscribe for the shares in or debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO), or had exercised any such right during the year.

Substantial shareholders

As at 31 March 2004, the following parties (other than the directors or chief executive of the Company) had or were deemed to have interests or share positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Note	Number of ordinary shares held	Percentage of issued share capital
Goldtop	1, 3, 4	270,247,500	51.43%
Madam TING Yat Shuk	2, 3, 4	270,247,500	51.43%

All interests disclosed above represent long positions in the shares of the Company.

Substantial shareholders (continued)

Notes:

- (1) Goldtop was a company beneficially owned as to 60% by Mr. HAU Tung Ying, a director of the Company, and as to 40% by his spouse, Madam TING Yat Shuk.
- (2) Madam TING Yat Shuk was deemed to be interested in the 270,247,500 shares held by Goldtop due to her 40% direct interest and 60% direct interest held by her spouse, Mr. HAU Tung Ying, in Goldtop.
- (3) The interests disclosed represent the same interests as the corporate interests of Mr. HAU Tung Ying as disclosed under the heading of "Directors' interests in shares" above.
- (4) On 17 May 2004, Goldtop sold 54,049,500 shares in the Company to a company owned by an ex-director of the Company pursuant to a sale and purchase agreement dated 10 May 2004. Upon completion of the sale, Goldtop therefore held 216,198,000 shares in the Company, representing 41.14% of the issued share capital of the Company.

Save as disclosed above, there was no person known to the directors or chief executive, other than the directors or chief executive, who, as at 31 March 2004, had any interests or short positions in the shares or underlying shares of the Company which had been recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Share option schemes

- (a) Pursuant to the share option scheme of the Company adopted on 18 March 1998 and subsequently amended on 19 February 2000 and 2 February 2001 (the "1998 Share Option Scheme"), the directors of the Company might 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. Details of share options granted under the 1998 Share Option Scheme were disclosed under the heading of "Directors' interests in shares" above.
- (b) On 6 September 2002, the Company adopted a new share option scheme (the "New Share Option Scheme"). No share options have ever been granted by the Company under the New Share Option Scheme since its adoption.

Report of the Directors

Share option schemes (continued)

Summary of each of the 1998 Share Option Scheme and the New Share Option Scheme disclosed in accordance with the Listing Rules is set out as follows:

	1998 Share Option Scheme	New Share Option Scheme
(1) Purpose	As incentive to employees	To recognise and acknowledge the contributions or potential contributions made or to be made by the Participants to the Group, to motivate the Participants to optimize their performance and efficiency for the benefit of the Group, and to maintain or attract business relationship with the Participants whose contributions are or may be beneficial to the growth of the Group.
(2) Participants	Eligible employees including executive directors	<p>(a) any employee, part-time or full-time, or officer of any member of the Group or any affiliate; or</p> <p>(b) any substantial shareholder of any member of the Group; or</p> <p>(c) any director (including executive and non-executive) or chief executive of any member of the Group or of any affiliate; or</p> <p>(d) 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</p> <p>(e) any substantial shareholder of the Company or of the subsidiaries</p> <p>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.</p>

Share option schemes (continued)

	1998 Share Option Scheme	New Share Option Scheme
(3) Total number of shares available for issue	34,626,094 shares (10% of issued share capital as at the adoption date of the scheme)	52,547,557 shares (10% of issued share capital as at the adoption date of the scheme)
(4) Maximum entitlement of each participant	25% of the total number of shares in respect of which the Company may grant options under the scheme and subject to Chapter 17 of the Listing Rules	<p>In any 12-month period:</p> <p>(a) must not exceed 1% of the issued share capital of the Company from time to time, in aggregate, otherwise, separate approval by shareholders at general meetings is required</p> <p>(b) for any grant to a substantial shareholder and an independent non-executive director: must not exceed 0.1% of the issued share capital and not exceeding HK\$5 million, in aggregate, otherwise, shareholders' approval at general meetings is required.</p> <p>For any options to be granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, approval by independent non-executive directors is required.</p>
(5) Option period	<p>For options granted before 20 March 2001: at any time after the first anniversary of the date of grant and before the tenth anniversary of the date of grant or the expiry of the scheme, whichever is earlier</p> <p>For options granted on or after 20 March 2001: at any time after the first anniversary of the date of grant and before the tenth anniversary of the date of grant</p>	The period shall be the period set out in the relevant offer letter provided that such period must expire no later than the 10th anniversary of the date on which an option is offered.

Report of the Directors

Share option schemes (continued)

	1998 Share Option Scheme	New Share Option Scheme
(6) Minimum period for which an option must be held before it can vest	<p>For options granted before 20 March 2001, they are exercisable after the first anniversary of the date of grant</p> <p>For options granted on or after 20 March 2001, they are subject to the following vesting periods:</p> <p>(a) after the first anniversary of the date of grant, 33% of the options are exercisable;</p> <p>(b) after the second anniversary of the date of grant, 33% of the options are exercisable; and</p> <p>(c) after the third anniversary of the date of grant, 34% of the options are exercisable</p>	Unless otherwise determined by the Board at its absolute discretion, there shall be no general performance target or minimum holding period to the vesting or exercise of options.
(7) Payment on acceptance of option	A non-refundable remittance of HK\$1.00 to be paid within 21 days from the date on which the option is offered.	A non-refundable remittance of HK\$1.00 to be paid within 21 days from the date on which the option is offered.

Share option schemes (continued)

	1998 Share Option Scheme	New Share Option Scheme
(8) Subscription price	<p>For options granted before 2 February 2001, the subscription price shall be the higher of:</p> <ul style="list-style-type: none"> (a) a price being not less than 85% of the lower of the average of the last dealt price of the shares on the Stock Exchange and Singapore Exchange Securities Trading Limited for 5 consecutive trading days immediately preceding the date of grant; or (b) the nominal value of a share <p>For options granted after 2 February 2001, the subscription price shall be the higher of:</p> <ul style="list-style-type: none"> (a) a price being not less than 80% of the average of the closing prices of shares on the Stock Exchange's daily quotation sheets for the 5 consecutive trading days immediately preceding the date on which an option is offered; or (b) the nominal value of a share 	<p>The subscription price shall be a price notified by the Board to the Participant at the time of the grant. Such price shall be the highest of:</p> <ul style="list-style-type: none"> (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which an option is offered; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date on which an option is offered; or (c) the nominal value of a share

Report of the Directors

Share option schemes (continued)

	1998 Share Option Scheme	New Share Option Scheme
(9) Life	The scheme period will end on 17 March 2008	The scheme shall be valid and effective for a period of 10 years commencing on 6 September 2002 and expiring on 5 September 2012.

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 2004:

(1) Income/(expenses)	2004 HK\$'000
ChinaMotion Telecare (HK) Limited, a company owned by a director	
Hotline service fee	(425)
PA center service fee	(360)
Significant transactions with minority shareholders of subsidiaries	
China Motion Telecom Holdings Limited ("CMTH")	
Recharge of mobile service expenses	(829)
Call center service fee	(6,029)
Interest income	5,891
Shenzhen China Motion Telecom United Company Limited ("SCMTU")	
Sales of telecommunications equipment	3,030
China Motion Netcom Services Co., Ltd. ("CM Netcom")	
VOIP service fee income	1,409
China Motion Mobile Services Co., Ltd. ("CMM") (Upon division of CM Netcom)	
Provision of technical consultancy and maintenance services	71,421

Connected transactions (continued)

- (2) On 30 January 2003, Shenzhen Motion Mobile Telecom Services Co., Ltd. ("SMMT"), CM Netcom and CMTH entered into an acquisition agreement, pursuant to which SMMT conditionally agreed to purchase in two equal stages, a total of 50% of the registered capital of CM Netcom for a consideration of RMB276 million (equivalent to approximately HK\$258 million). Details of the transaction are set out in note 35(b)(i) to the accounts.
- (3) 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 its subsidiaries (collectively the "CMTH Group"). Details of the transaction are set out in note 35(c) to the accounts.

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

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

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 and on terms which 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 the CMTH Group did not exceed the respective percentage limit specified in the conditional waivers granted to the Company by the Stock Exchange.

Report of the Directors

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	9.5%
– five largest customers combined	25.3%

Purchases

– the largest supplier	9.6%
– five largest suppliers combined	29.8%

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. As 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. The Audit Committee met four times during the year to discuss the internal controls and financial reporting matters and to review the interim and annual accounts for the fiscal year.

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

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the non-executive directors of the Company were not appointed for specific terms as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

Disclosure pursuant to Rule 13.20 of the Listing Rules

In accordance with the requirement under Rule 13.20 of the Listing Rules, the directors of the Company report the details of advances to the CMTH Group as at 31 March 2004 as follows:

	Note	HK\$'000
Trade receivables from		
CMTH		31,125
CMM		137,313
SCMTU		98,196
		<hr/>
Total	(1)	266,634
		<hr/>

Note:

- (1) The balances were interest bearing at 2.25% per annum based on an agreement that the Company entered into with CMTH on 9 July 2003. Details of the transaction are set out in note 35(c) to the accounts.

Auditors

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

On behalf of the Board

HAU Tung Ying

Director

Hong Kong, 23 June 2004

Report of the Auditors



羅兵咸永道會計師事務所

PricewaterhouseCoopers
33rd Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF CHINA MOTION TELECOM INTERNATIONAL LIMITED

(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 37 to 92 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare 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 solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis 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 2004 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 23 June 2004

Consolidated Profit and Loss Account

for the year ended 31 March 2004

	Note	2004 HK\$'000	2003 HK\$'000 (Restated)
Turnover	2	801,429	735,573
Cost of sales and services		(575,028)	(480,485)
Gross profit		226,401	255,088
Other revenues	2	12,681	11,494
Distribution expenses		(25,153)	(17,022)
Administrative expenses		(240,396)	(228,367)
Other operating income/(expenses)			
Gain on disposal of business		–	12,943
Surplus/(deficit) on revaluation of investment properties		3,000	(5,190)
Operating (loss)/profit	4	(23,467)	28,946
Finance costs	5	(4,184)	(5,381)
Share of (losses)/profits of associated companies		(10,916)	2,038
(Loss)/profit before taxation		(38,567)	25,603
Taxation	6(a)	(8,852)	(12,826)
(Loss)/profit after taxation		(47,419)	12,777
Minority interests		(46)	(5,504)
(Loss)/profit attributable to shareholders		(47,465)	7,273
Dividend	8	–	–
(Loss)/earnings per share			
– Basic	9	(9.03) HK cents	1.38 HK cents
– Diluted		N/A	N/A

Balance Sheets

as at 31 March 2004

	Note	Group		Company	
		2004 HK\$'000	2003 HK\$'000 (Restated)	2004 HK\$'000	2003 HK\$'000
Non-current assets					
Goodwill	13	–	1,246	–	–
Fixed assets	14	294,403	291,784	–	–
Investment in a subsidiary	15	–	–	790,659	621,191
Investments in associated companies	16	136,308	29,184	–	–
Other non-current assets	17	481,763	615,342	–	–
Current assets					
Inventories	18	6,575	6,091	–	–
Receivables and prepayments	19	251,314	174,146	–	2,903
Marketable securities	20	611	297	–	–
Pledged bank deposits	24	7,593	7,220	–	–
Bank and cash balances	21, 32	45,361	78,793	199	199
		311,454	266,547	199	3,102
Current liabilities					
Trade and other payables	22	335,986	253,953	1,243	1,305
Taxation payables	6(b)	6,323	7,940	–	–
Borrowings	23	56,900	54,703	–	–
		399,209	316,596	1,243	1,305
Net current (liabilities)/assets		(87,755)	(50,049)	(1,044)	1,797
Total assets less current liabilities		824,719	887,507	789,615	622,988
Financed by:					
Share capital	27	394,107	394,107	394,107	394,107
Non-distributable capital reserves	28	540,243	531,894	456,023	456,023
Contributed surplus	29	–	–	52,854	52,854
Accumulated losses		(228,783)	(172,969)	(113,369)	(279,996)
Shareholders' funds		705,567	753,032	789,615	622,988
Minority interests		45,217	46,560	–	–
Non-current liabilities					
Borrowings	23	69,382	80,716	–	–
Trade payable	22(a), 26	464	2,316	–	–
Deferred tax liabilities	30	4,089	4,883	–	–
		73,935	87,915	–	–
		824,719	887,507	789,615	622,988

On behalf of the Board

HAU Tung Ying
Director

SHUI Ming Hua
Director

Statements of Changes in Equity

for the year ended 31 March 2004

	Note	Non-distributable				Total
		Share capital	capital reserves	Contributed surplus	Accumulated losses	
		HK\$'000 (note 27)	HK\$'000 (note 28)	HK\$'000	HK\$'000	HK\$'000
Group						
Balance at 1 April 2002						
As previously reported		394,107	530,951	–	(180,067)	744,991
Effect of adopting SSAP 12	1(l)	–	–	–	768	768
As restated		394,107	530,951	–	(179,299)	745,759
Transfer		–	943	–	(943)	–
Profit for the year						
As previously reported		–	–	–	10,225	10,225
Effect of adopting SSAP 12	1(l)	–	–	–	(2,952)	(2,952)
As restated		–	–	–	7,273	7,273
Balance at 31 March 2003		394,107	531,894	–	(172,969)	753,032
Balance at 1 April 2003						
As previously reported		394,107	531,894	–	(170,785)	755,216
Effect of adopting SSAP 12	1(l)	–	–	–	(2,184)	(2,184)
As restated		394,107	531,894	–	(172,969)	753,032
Transfer		–	8,349	–	(8,349)	–
Loss for the year		–	–	–	(47,465)	(47,465)
Balance at 31 March 2004		394,107	540,243	–	(228,783)	705,567
Company						
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		394,107	456,023	52,854	(279,996)	622,988
Balance at 1 April 2003		394,107	456,023	52,854	(279,996)	622,988
Profit for the year		–	–	–	166,627	166,627
Balance at 31 March 2004		394,107	456,023	52,854	(113,369)	789,615

Consolidated Cash Flow Statement

for the year ended 31 March 2004

	Note	2004 HK\$'000	2003 HK\$'000
Operating activities			
Net cash inflow generated from operations	31(a)	9,445	64,573
Interest paid		(3,944)	(5,102)
Interest received		580	613
Interest element of finance leases		(240)	(279)
Net cash inflow from operating activities		5,841	59,805
Income tax paid		(10,859)	(8,996)
Net cash (outflow)/inflow from operating activities		(5,018)	50,809
Investing activities			
Proceeds from disposal of fixed assets		493	1,478
Loan to an associated company		–	(25,000)
Receipt from repayment of other long-term investment		–	40,187
Deposit for purchase of an investment		–	(46,729)
Dividend income from listed investments		2	5
Purchase of fixed assets		(29,492)	(51,662)
Proceed from disposal of investment		14,018	–
Increase in shareholding of associated companies		(2,638)	–
Net proceeds from disposal of business		1,500	1,577
Net cash outflow from investing activities		(16,117)	(80,144)
Financing activities			
Draw-down of bank loans	31(b)	17,500	28,000
Repayment of bank loans		(24,344)	(28,051)
Payment of capital element of finance leases		(5,080)	(2,760)
Increase in pledged bank deposits		(373)	(865)
Net cash outflow from financing activities		(12,297)	(3,676)
Net decrease in cash and cash equivalents		(33,432)	(33,011)
Cash and cash equivalents at 1 April		78,793	111,804
Cash and cash equivalents at 31 March		45,361	78,793

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 ("HKSA"). 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.

The Group incurred a loss of HK\$47,465,000 during the year ended 31 March 2004 and had net current liabilities of approximately HK\$87,755,000 as at 31 March 2004 (2003: HK\$50,049,000), as well as commitments that are payable in the next twelve months as detailed in note 34 to the accounts. The directors consider the Group has sufficient financial resources to meet its liabilities as and when they fall due during the year ended 31 March 2005 and accordingly, the accounts have been prepared on a going concern basis.

In the current year, the Group adopted Statements of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group's accounting policies and the effect of adopting this policy are set out below.

Certain comparative figures have been reclassified to conform with the current year's presentation.

(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.

Notes to the Accounts

1 Principal accounting policies (continued)

(b) Group accounting (continued)

(i) Consolidation (continued)

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.

(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.

For consolidation purposes, the assets and liabilities 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 accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves. As at 31 March 2004 and 2003, there were no material exchange difference arising from such translation.

1 Principal accounting policies (continued)

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable 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 to ten 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.

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.

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 account.

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.

Notes to the Accounts

1 Principal accounting policies (continued)

(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 term 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.

1 Principal accounting policies (continued)

(g) Assets under leases (continued)

(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.

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

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

Notes to the Accounts

1 Principal accounting policies (continued)

(l) Deferred taxation (continued)

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

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparative accounts presented have been restated to conform to the changed policy.

As detailed in note 30 to the accounts, the accumulated losses as at 1 April 2003 and 2002 have been increased by HK\$2,184,000 and decreased by HK\$768,000, respectively, representing the unprovided net deferred tax liabilities as at those dates. This change in accounting policy has resulted in an increase in net deferred tax liabilities as at 31 March 2004 by HK\$2,141,000. The loss for the year ended 31 March 2004 have been decreased by HK\$389,000 (2003: profit decreased by HK\$2,952,000).

(m) Borrowing costs

Borrowing costs are interests 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 sale of telecommunications products is recognised on the transfer of ownership, which generally coincides with the time of delivery.
- (ii) Maintenance and technical consultancy service income from service agreements is recognised on an accrual basis when the service is performed.
- (iii) Trunking service income and roadshow sponsorship income are recognised when the services are rendered.
- (iv) International telecommunications services and mobile communications services income are recognised upon the rendering of services.

1 Principal accounting policies (continued)

- (n) Revenue recognition (continued)
- (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 revenue 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) 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.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.
 - (ii) *Pension obligations*
The Group contributes to a Mandatory Provident Fund Scheme (the "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 in relation to share options granted. 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 attributable 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 and total assets and capital expenditure are based on 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 telecommunications services, mobile communications 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:

	2004	Group
	HK\$'000	2003 HK\$'000
Turnover		
International telecommunications services income	522,930	427,657
Sale of telecommunications products	91,370	116,813
Mobile communications services income	84,475	20,578
Technical consultancy services income	72,830	92,007
Commission income	16,302	29,951
Trunking radio services income	11,240	9,259
Repair and maintenance services income	2,282	3,285
Paging subscription fee and related service income	–	22,768
Leasing income	–	13,255
	801,429	735,573
Other revenues		
Rental income	3,074	5,154
Interest income	7,221	1,394
Dividend income from listed investments	2	5
Others	2,384	4,941
	12,681	11,494
Total revenues	814,110	747,067

Notes to the Accounts

3 Segment information

During the year, the Group reclassified its operations amongst business segments. Comparative figures have been reclassified to conform with the current year's presentation. The Group's principal activities can be categorised into the following business segments:

Business segments	Nature of business activities	Places of operation
1 International Telecommunications Services	Provision of international calling services and income from lease line rental	Hong Kong/North America/ Other Asia Pacific regions
2 Mobile Communications Services	Provision of mobile communication services, provision of technical advisory, maintenance and accounts management services to telecommunications operators, and provision of trunking radio services	Hong Kong/the People's Republic of China ("the PRC")
3 Distribution and Retail Chain	Retail sales of telecommunications related equipment and products, provision of maintenance and repair services	Hong Kong/the PRC
4 Other Operations	Leasing and trading of telecommunications equipment and products	The PRC
5 Discontinued Operations	Provision of paging services and sales of pagers and accessories	Hong Kong/the PRC

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

3 Segment information (continued)

(a) Primary reporting format – business segments

2004

	International Telecommuni- cations Services HK\$'000	Mobile Communi- cations Services HK\$'000	Distribution and Retail Chain HK\$'000	Other Operations HK\$'000	Discontinued Operations HK\$'000	Unallocated Items HK\$'000	Group HK\$'000
Turnover	500,652	172,058	128,719	-	-	-	801,429
Segmental (loss)/profit	(10,635)	32,445	(7,076)	-	-	(45,422)	(30,688)
Net finance income							3,037
Share of losses of associated companies							(10,916)
Loss before taxation							(38,567)
Taxation							(8,852)
Loss after taxation							(47,419)
Minority interests							(46)
Loss attributable to shareholders							(47,465)
Segment assets	423,749	310,520	172,112	-	-	181,239	1,087,620
Investments in associated companies							136,308
Total assets							1,223,928
Segment liabilities	233,456	128,275	22,611	-	-	134,019	518,361
Capital expenditure	35,827	1,510	2,027	-	-	177	39,541
Depreciation	22,637	4,743	1,447	-	-	9,105	37,932
Amortisation	-	1,089	-	-	-	157	1,246
Other non-cash expenses/(income), net	(9,647)	(10,704)	(191)	-	-	3,000	(17,542)

Notes to the Accounts

3 Segment information (continued)

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

2003

	International Telecommuni- cations Services HK\$'000	Mobile Communi- cations Services HK\$'000	Distribution and Retail Chain HK\$'000	Other Operations HK\$'000	Discontinued Operations HK\$'000	Unallocated Items HK\$'000	Group HK\$'000
Turnover	438,323	124,400	149,658	127	23,065	–	735,573
Segmental (loss)/profit	39,264	37,562	(279)	(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							(12,826)
Profit after taxation							12,777
Minority interests							(5,504)
Profit attributable to shareholders							7,273
Segment assets	335,431	329,732	187,155	54,240	3,771	264,590	1,174,919
Investments in associated companies							29,184
Total assets							1,204,103
Segment liabilities	182,418	97,305	15,915	11,112	2,038	142,283	451,071
Capital expenditure	54,926	11,086	599	–	–	293	66,904
Depreciation	14,576	3,416	2,295	–	1,359	9,835	31,481
Amortisation	–	8,843	–	–	–	209	9,052
Other non-cash expenses/(income), net	4,337	4,229	443	–	(1,165)	7,275	15,119

3 Segment information (continued)

(b) Secondary reporting format – geographical segments

	Turnover		Segmental (loss)/profit		Total assets		Capital expenditure	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC	76,209	108,408	42,984	49,232	486,669	595,586	637	344
Hong Kong	426,309	459,138	(18,878)	48,902	658,441	539,462	21,697	49,480
North America	174,266	143,639	(6,531)	2,096	49,911	51,442	14,705	12,171
Other Asia Pacific regions	124,645	24,388	(2,841)	2,909	28,907	17,613	2,502	4,909
	801,429	735,573	14,734	103,139	1,223,928	1,204,103	39,541	66,904
Unallocated items	-	-	(45,422)	(75,587)	-	-	-	-
	801,429	735,573	(30,688)	27,552	1,223,928	1,204,103	39,541	66,904

Notes to the Accounts

4 Operating (loss)/profit

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

		Group	
	Note	2004 HK\$'000	2003 HK\$'000
Crediting			
Net exchange gains		327	293
Dividend income from listed investments		2	5
Gain on disposal of business		–	12,943
Unrealised gain on marketable securities		314	–
Surplus on revaluation of investment properties		3,000	–
Gross rental income		3,074	5,154
Less: outgoings		(739)	(645)
		2,335	4,509
Charging			
Auditors' remuneration		2,128	1,500
Staff costs (including directors' emoluments)	11	121,674	123,935
Depreciation of fixed assets			
– owned assets		35,262	30,001
– assets under finance leases		2,670	1,480
Operating lease charges for land and buildings		26,039	28,277
Operating lease charges for telecommunications equipment		63,655	85,053
Amortisation of goodwill (included in administrative expenses)		1,246	9,052
Amortisation of goodwill (included in share of (losses)/profits of associated companies)	16	8,323	–
Cost of inventories sold		83,763	101,490
Provision for inventories		18	2,314
Provision for doubtful debts		20,317	7,615
Deficit on revaluation of investment properties		–	5,190
Diminution in value of marketable securities		–	810

4 Operating (loss)/profit (continued)

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	1,060	844
In the second to the fifth year	122	–
	1,182	844

5 Finance costs

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts		
– wholly repayable within five years	1,743	2,573
– not wholly repayable within five years	2,201	2,529
Interest element of finance leases	240	279
	4,184	5,381

Notes to the Accounts

6 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

		Group
	Note	2004 2003
		HK\$'000 HK\$'000 (Restated)
Hong Kong profits tax		
– current year		60 –
– underprovision in previous years		80 24
Overseas taxation		
– current year		1,030 2,082
PRC taxation		
– current year		8,071 9,249
– overprovision in previous years		– (1,779)
Deferred taxation	30	(389) 2,952
		8,852 12,528
Share of taxation attributable to associated companies		– 298
		8,852 12,826

6 Taxation (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong, the home country of the Company as follows:

	2004	2003
	HK\$'000	HK\$'000
		(Restated)
(Loss)/profit before taxation	(38,567)	25,603
Calculated at a taxation rate of 17.5% (2003: 16%)	(6,749)	4,096
Effect of different taxation rates in other countries	(264)	(2,908)
Income not subject to taxation	(1,566)	(2,548)
Expenses not deductible for taxation purpose	9,129	7,699
Utilisation of previously unrecognised tax losses	(774)	(656)
Provision for valuation allowance against tax losses	9,385	5,946
Under/(over)provision in previous years	80	(1,755)
Utilisation of tax losses	(2,031)	(6,122)
Utilisation of accelerated depreciation allowance and others	1,642	9,114
Increase in opening net deferred tax assets resulting from an increase in tax rate	–	(40)
Taxation charge	8,852	12,826

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong profits tax payable	59	76
PRC taxation	5,634	7,864
Overseas taxation	630	–
	6,323	7,940

7 Profit/(loss) attributable to shareholders

The profit/(loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of profit of HK\$166,627,000 (2003: loss of HK\$1,611,000).

Notes to the Accounts

8 Dividend

The directors do not recommend the payment of a final dividend for the year ended 31 March 2004 (2003: Nil).

9 (Loss)/earnings per share

		Group	
	Note	2004 HK\$'000	2003 HK\$'000
(Loss)/profit attributable to shareholders		<u>(47,465)</u>	<u>7,273</u>
(Loss)/earnings per share			
– Basic	(a)	<u>(9.03) HK cents</u>	<u>1.38 HK cents</u>
– Diluted	(b)	<u>N/A</u>	<u>N/A</u>

Notes:

- (a) Basic (loss)/earnings per share is calculated based on weighted average number of issued ordinary shares of 525,475,573 shares (2003: 525,475,573 shares).
- (b) Diluted (loss)/earnings per share for the years ended 31 March 2004 and 2003 have not been presented as the conversion of potential ordinary shares to ordinary shares would have an anti-dilutive effect to the basic (loss)/earnings per share.

10 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\$2,451,000 to the MPF for the year ended 31 March 2004 (2003: HK\$2,501,000).

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

11 Staff costs (including directors' emoluments)

	Group	
	2004	2003
	HK\$'000	HK\$'000
Wages and salaries	115,342	112,233
Unutilised annual leave	(1,211)	2,651
Long service payment	1,088	2,143
Termination benefits	4,004	4,407
Retirement benefit costs – contributions to the MPF	2,451	2,501
	121,674	123,935

Details of the 1998 Share Option Scheme are set out in note 27(a).

12 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	
	2004	2003
	HK\$'000	HK\$'000
Fees	1,370	1,370
Basic salaries, housing allowances, other allowances and benefits in kind	15,139	13,607
Retirement benefit costs	48	48
	16,557	15,025

Directors' fees disclosed above included HK\$360,000 (2003: HK\$360,000) paid to independent non-executive directors.

Notes to the Accounts

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

(a) Directors' emoluments (continued)

During the year, no director waived emoluments (2003: one director waived HK\$25,000). 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 (2003: Nil).

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2004	2003
HK\$Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$3,000,001 – HK\$3,500,000	1	1
HK\$7,000,001 – HK\$7,500,000	1	1
	<u>8</u>	<u>8</u>

(b) Five highest paid individuals

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

	2004	2003
	HK\$'000	HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	3,405	3,312
Bonuses	2,094	620
Retirement benefit costs	24	24
	<u>5,523</u>	<u>3,956</u>

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

(b) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals	
	2004	2003
Emolument bands		
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	2	–

(c) The share options held by the directors (including non-executive directors of the Company) under the 1998 Share Option Scheme are set out on page 25 of the Report of the Directors.

13 Goodwill

	Group	
	2004 HK\$'000	2003 HK\$'000
Cost		
At 1 April and 31 March	47,940	47,940
Accumulated amortisation		
At 1 April	46,694	37,642
Amortisation charge	1,246	9,052
At 31 March	47,940	46,694
Net book value	–	1,246

Notes to the Accounts

14 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 2003	66,090	210,147	46,837	448,850	52,044	7,789	831,757
Additions	–	–	5,088	33,061	1,291	101	39,541
Transfers	(2,590)	2,590	–	–	–	–	–
Revaluation (note (b))	3,000	–	–	–	–	–	3,000
Disposals/Write-off	–	–	(1,504)	(2,431)	(1,222)	(310)	(5,467)
At 31 March 2004	66,500	212,737	50,421	479,480	52,113	7,580	868,831
Accumulated depreciation and impairment							
At 1 April 2003	–	100,500	31,577	361,565	38,768	7,563	539,973
Charge for the year	–	2,358	6,032	24,186	5,221	135	37,932
Disposals/Write-off	–	–	(916)	(1,028)	(1,223)	(310)	(3,477)
At 31 March 2004	–	102,858	36,693	384,723	42,766	7,388	574,428
Net book value or valuation							
At 31 March 2004	66,500	109,879	13,728	94,757	9,347	192	294,403
At 31 March 2003	66,090	109,647	15,260	87,285	13,276	226	291,784

14 Fixed assets – Group (continued)

Notes:

- (a) As at 31 March 2004, the net book value of fixed assets pledged as security for banking facilities of the Group amounted to approximately HK\$176,379,000 (2003: HK\$160,737,000).
- (b) The investment properties are valued at open market value by DTZ Debenham Tie Leung Limited, independent professional valuers, as at 31 March 2004. The revaluation surplus of HK\$3,000,000 is charged to the consolidated profit and loss account.

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

- (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 2004 is as follows:

	Group			
	Leasehold land and buildings in Hong Kong HK\$'000	Investment properties		
	Hong Kong HK\$'000	PRC HK\$'000	Total HK\$'000	
Period unexpired				
Leases between 20 to 50 years				
At net book value	77,242	–	–	–
At valuation	–	17,700	5,000	22,700
Leases not less than 50 years				
At net book value	32,637	–	–	–
At valuation	–	43,800	–	43,800
	<u>109,879</u>	<u>61,500</u>	<u>5,000</u>	<u>66,500</u>

- (d) As at 31 March 2004, the net book values of fixed assets held under finance leases are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Telecommunications equipment	<u>11,017</u>	<u>9,593</u>

Notes to the Accounts

15 Investment in a subsidiary

	Note	Company	
		2004 HK\$'000	2003 HK\$'000
Unlisted investment, at cost	(a)	113,115	113,115
Amount due from a subsidiary	(b)	1,084,544	783,076
Provision for amount due from a subsidiary		(407,000)	(275,000)
		790,659	621,191

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.

16 Investments in associated companies

	Note	Group	
		2004 HK\$'000	2003 HK\$'000
Share of net assets	(a)	7,278	4,184
Goodwill on acquisition	31(c)	124,853	–
Amortisation for the year	(b)	(8,323)	–
		116,530	–
Loan to an associated company	(c)	12,500	25,000
		136,308	29,184

16 Investments in associated companies (continued)

Notes:

- (a) Particulars of principal associated companies are set out in note 37 to the accounts.
- (b) The amortisation expenses of goodwill was included under the item of share of (losses)/profits of associated companies in the consolidated profit and loss account.
- (c) 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 2005. See also note 19(b).

17 Other non-current assets

		Group	
	Note	2004 HK\$'000	2003 HK\$'000
Long-term investments			
Unlisted investments		–	7,168
Club debentures		4,762	4,762
Others, unlisted	35(b)	207,546	287,705
Deposit for an unlisted investment	35(b)	–	46,729
		212,308	346,364
Non-current trade receivables	35(c)	256,134	266,625
Deferred tax assets	30	1,948	2,353
Prepayment	31(d)(ii)	11,373	–
		481,763	615,342

Notes to the Accounts

18 Inventories

	Group	
	2004 HK\$'000	2003 HK\$'000
Finished goods	<u>6,575</u>	<u>6,091</u>

As at 31 March 2004, the carrying amount of inventories that are carried at net realisable value amounted to HK\$4,551,000 (2003: HK\$99,000).

19 Receivables and prepayments

	Note	Group		Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade					
Trade receivables, net of provision	(a), 35(c)	189,211	133,349	–	–
Non-trade					
Due from:					
Subsidiaries		–	–	–	2,865
Associated companies	(b)	36,186	10,827	–	–
Related companies		3,707	3,262	–	–
Other receivables and prepayments		<u>22,210</u>	<u>26,708</u>	<u>–</u>	<u>38</u>
		<u>251,314</u>	<u>174,146</u>	<u>–</u>	<u>2,903</u>

19 Receivables and prepayments (continued)

Notes:

- (a) The ageing analysis of the trade receivables as at 31 March 2004 is as follows:

	2004	Group
	HK\$'000	2003
		HK\$'000
0-30 days	43,640	33,139
31-60 days	25,544	22,318
61-90 days	19,227	18,266
Over 90 days	100,800	59,626
	<hr/>	<hr/>
Total	189,211	133,349
	<hr/>	<hr/>

The Group has a defined credit policy. The general credit term is 30 to 60 days. As at 31 March 2004, the trade receivables with ageing over 60 days included amounts due from China Motion Telecom Holdings Limited ("CMTH") and its subsidiaries (collectively referred to as the "CMTH Group") totaling HK\$10,500,000 (2003: 28,251,000). On 9 July 2003, the Company and CMTH entered into an agreement to reschedule the repayment date for trade receivables due from the CMTH Group outstanding as at 31 March 2003. The information in respect of the repayment agreement and the total outstanding trade receivables due from the CMTH group as at 31 March 2004 and 2003 has been disclosed in note 35(c).

- (b) As at 31 March 2004, the amounts due from associated companies included a loan of HK\$12,500,000 (2003: nil). This loan is unsecured, interest bearing at 3 months Hong Kong Interbank Office Rate plus 2% and is repayable on 28 May 2004. The other amounts due are unsecured, interest-free, and have no fixed terms of repayment.

20 Marketable securities

	2004	Group
	HK\$'000	2003
		HK\$'000
Equity securities, listed in Hong Kong at market value	611	297
	<hr/>	<hr/>

Notes to the Accounts

21 Bank and cash balances – Group

Included in bank and cash balances of the Group is HK\$21,963,000 (2003: HK\$41,481,000) of bank balances denominated in Renminbi (“RMB”) placed with banks in the PRC. RMB is not a freely convertible currency.

22 Trade and other payables

	Note	Group		Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade					
Trade payables	(a)	215,279	156,239	–	–
Advance subscription fees received		5,410	4,513	–	–
Non-trade					
Due to:					
Subsidiaries		–	–	–	62
Associated companies	(b)	28,513	650	–	–
A director		122	132	–	–
Deposits received		6,585	11,308	–	–
Other payables and accrued liabilities	35(d)	80,077	81,111	1,243	1,243
		335,986	253,953	1,243	1,305

22 Trade and other payables (continued)

Notes:

(a) Trade payables	Note	Group	
		2004 HK\$'000	2003 HK\$'000
Trade payables		215,743	158,555
Less: amounts payable within one year included in current liabilities		(215,279)	(156,239)
Amounts payable after one year	26	464	2,316

The ageing analysis of trade payables as at 31 March 2004 is as follows:

	2004 HK\$'000	2003 HK\$'000
0-30 days	47,668	54,844
31-60 days	22,269	31,688
61-90 days	18,241	10,853
Over 90 days	127,101	58,854
Total	215,279	156,239

- (b) As at 31 March 2004, amounts due to associated companies are unsecured, interest-free and have no fixed terms of repayment.

Notes to the Accounts

23 Borrowings

		Group	
	Note	2004 HK\$'000	2003 HK\$'000
Current			
Bank loans – secured	24	52,246	50,132
Obligations under finance leases	25	4,654	4,571
		56,900	54,703
Non-current			
Bank loans – secured	24	67,671	76,629
Obligations under finance leases	25	1,711	4,087
		69,382	80,716
Total borrowings		126,282	135,419

24 Bank loans – secured

	Group	
	2004 HK\$'000	2003 HK\$'000
Secured bank loans are repayable:		
within one year (included in current liabilities)	52,246	50,132
in the second year	17,554	15,491
in the third to the fifth year	22,726	27,048
beyond five years	27,391	34,090
	67,671	76,629
	119,917	126,761

24 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 2004 was 3.18% per annum (2003: 3.90% per annum) and the interest rate exposure of the bank loans of the Group is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
At floating rates		
– Hong Kong dollar denominated loans	117,408	123,704
– United States dollar denominated loans	2,509	3,057
	119,917	126,761

25 Obligations under finance leases

As at 31 March 2004, the Group's finance leases liabilities are repayable as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	4,713	4,791
In the second year	1,739	3,338
In the third to the fifth year	–	834
	6,452	8,963
Future finance charges on finance leases	(87)	(305)
Present value of finance lease liabilities	6,365	8,658

Notes to the Accounts

25 Obligations under finance leases (continued)

The present value of finance lease liabilities is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year (included in current liabilities)	<u>4,654</u>	<u>4,571</u>
In the second year	1,711	3,260
In the third to the fifth year	–	827
	<u>1,711</u>	<u>4,087</u>
	<u>6,365</u>	<u>8,658</u>

26 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.

27 Share capital

	Company	
	2004	2003
	HK\$'000	HK\$'000
Authorised:		
1,040,000,000 ordinary shares of HK\$0.75 each	<u>780,000</u>	<u>780,000</u>

27 Share capital (continued)

	2004		2003	
	Number of shares	Issued and fully paid HK\$'000	Number of shares	Issued and fully paid 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>

(a) Share option schemes

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

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

A summary of each of the 1998 Share Option Scheme and the New Share Option Scheme is disclosed in the Report of the Directors.

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

Date of grant	Exercise price HK\$	Number of share options				
		Outstanding as at 1 April 2003	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 March 2004
29 June 1998	0.751	401,672	–	–	–	401,672
19 August 1999	2.00	1,271,961	–	–	(180,237)	1,091,724
25 February 2000	3.19	1,091,725	–	–	–	1,091,725
17 October 2000	1.22	3,316,370	–	–	(540,710)	2,775,660
20 March 2001	0.75	22,850,000	–	–	(2,750,000)	20,100,000
28 January 2002	0.75	500,000	–	–	(100,000)	400,000
		<u>29,431,728</u>	<u>–</u>	<u>–</u>	<u>(3,570,947)</u>	<u>25,860,781</u>

Notes to the Accounts

27 Share capital (continued)

(a) Share option schemes (continued)

For 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:

- (a) After the first anniversary of the date of grant, 33% of the options are exercisable.
- (b) After the second anniversary of the date of grant, 33% of the options are exercisable.
- (c) 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 25,860,781 ordinary shares with estimated proceeds of HK\$24,729,000.

(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 ordinary 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, pursuant to the terms and conditions attached to the warrants. 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. All the warrants which had not yet been exercised lapsed and ceased to be valid on 1 April 2004 pursuant to the terms and conditions attached to the warrants.

28 Non-distributable capital reserves

	Group											
	2004					Total	2003					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	69,274	531,894	455,573	4,900	1,697	450	68,331	530,951
Transfer from retained profits of subsidiaries	-	-	-	-	8,349	8,349	-	-	-	-	943	943
At 31 March	455,573	4,900	1,697	450	77,623	540,243	455,573	4,900	1,697	450	69,274	531,894

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

	Company					
	2004			2003		
	Share premium	Capital redemption reserve	Total	Share premium	Capital redemption reserve	Total
	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

29 Contributed surplus

	Company	
	2004 HK\$'000	2003 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 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.

Notes to the Accounts

30 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movements on the net deferred tax assets/(liabilities) during the year are as follows:

	Note	2004 HK\$'000	2003 HK\$'000 (Restated)
At 1 April		(2,530)	422
Credited/(charged) to consolidated profit and loss account	6(a)	389	(2,952)
At 31 March		(2,141)	(2,530)

Deferred tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group has estimated unrecognised tax losses of HK\$117,211,000 (2003: HK\$101,886,000) to set off against future taxable income. This tax loss has no expiry date.

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) of the Group during the year are as follows:

Deferred tax liabilities

	Accelerated tax depreciation 2004 HK\$'000	2003 HK\$'000 (Restated)
At 1 April	9,525	346
Charged to consolidated profit and loss account	1,550	9,179
At 31 March	11,075	9,525

30 Deferred taxation (continued)

Deferred tax assets

	Tax loss		Others		Total	
	2004 HK\$'000	2003 HK\$'000 (Restated)	2004 HK\$'000	2003 HK\$'000 (Restated)	2004 HK\$'000	2003 HK\$'000 (Restated)
At 1 April	6,297	160	698	608	6,995	768
Credited/(charged) to consolidated profit and loss account	2,031	6,137	(92)	90	1,939	6,227
At 31 March	8,328	6,297	606	698	8,934	6,995

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

	2004 HK\$'000	2003 HK\$'000 (Restated)
Deferred tax assets	1,948	2,353
Deferred tax liabilities	(4,089)	(4,883)

Notes to the Accounts

31 Notes to the consolidated cash flow statement

(a) Reconciliation of (loss)/profit before taxation to net cash inflow generated from operations

	2004	2003
	HK\$'000	HK\$'000
(Loss)/profit before taxation	(38,567)	25,603
Depreciation of owned fixed assets	35,262	30,001
Depreciation of fixed assets held under finance leases	2,670	1,480
Amortisation of goodwill	1,246	9,052
(Surplus)/deficit on revaluation of investment properties	(3,000)	5,190
Share of losses/(profits) of associated companies	10,916	(2,038)
Net loss on disposal of fixed assets	1,497	202
Gain on disposal of business	–	(12,943)
Dividend income from listed investments	(2)	(5)
Interest expense	3,944	5,102
Interest element of finance leases	240	279
Interest income	(7,221)	(1,394)
Changes in working capital		
(Increase)/decrease in inventories	(484)	1,215
Increase in trade receivables, other receivables and prepayments, marketable securities including amounts due from associated companies and related companies	(65,245)	(76,371)
Increase in trade payables, other payables and accrued liabilities, deposit received, advance subscription fees received including amounts due to associated companies and a director	68,189	79,200
Net cash inflow generated from operations	9,445	64,573

31 Notes to the consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	Note	Loans and obligations under					
		Share capital		Minority interests		finance leases	
		2004	2003	2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April		394,107	394,107	46,560	49,064	135,419	127,157
Share of profits by minority shareholders		-	-	46	5,504	-	-
New finance leases		-	-	-	-	2,787	11,073
Cash outflows from financing		-	-	-	-	(11,924)	(2,811)
Capital contributions from minority shareholders		-	-	3,342	-	-	-
Disposal of subsidiaries		-	-	-	-	-	-
Dividends paid to minority shareholders	31(d)	-	-	(4,731)	(8,008)	-	-
At 31 March		394,107	394,107	45,217	46,560	126,282	135,419

(c) Acquisition

On 5 August 2003, the Group completed its acquisition of 25% of the share capital of China Motion Netcom Services Co., Ltd. ("CM Netcom") which is engaged in VOIP related services in the PRC (see note 35(b) & (c)). The total consideration of HK\$128,973,000 was satisfied by a cash payment of HK\$2,085,000 and by the assignment of the capital expenditure funding of HK\$80,159,000 and a deposit of HK\$46,729,000 paid in previous years. The share of fair value of the net identifiable assets of CM Netcom at the date of acquisition was approximately HK\$5,687,000. The resulting goodwill of approximately HK\$124,853,000 will be amortised on a straight-line basis over a period of 10 years. Excluding the goodwill amortisation, the acquired business contributed a profit of approximately HK\$1,000 to the Group for the year ended 31 March 2004.

Notes to the Accounts

31 Notes to the consolidated cash flow statement (continued)

(c) Acquisition (continued)

The assets and liabilities arising from the acquisition are as follows:

	Note	HK\$'000
Fixed assets		15,448
Cash		10,504
Other assets less liabilities		(3,204)
		<hr/>
Fair value of net identifiable assets		22,748
		<hr/>
25% share of fair value of net assets		5,687
Net acquisition expenses		(1,567)
Goodwill	16	124,853
		<hr/>
Total purchase consideration		128,973
		<hr/>

(d) Major non-cash transactions

(i) During the year, Shenzhen Motion Mobile Telecom Services Co., Ltd. ("SMMT") declared dividends amounting to HK\$47,311,000 of which HK\$4,731,000 was declared to CMTH, a minority shareholder of SMMT. The amount was settled through the amounts due from the CMTH Group.

(ii) During the year, the Company has entered into an agreement with a third party to lease the rights to use certain optic-fibre communications network capacity for a period of 15 years commencing in July 2003. In exchange for this capacity, the Group provided certain outgoing capacity to the third party for IDD communications from Hong Kong to the PRC. Management has estimated the value of this prepaid capacity based on the fair value of outgoing IDD communications capacity provided. The utilisation of the outgoing IDD communications capacity provided has resulted in a prepayment for the lease of the optic-fibre communications capacity.

An analysis of the prepayment in relation to the rights to use of the optic-fibre communications network capacity is as follows:

	2004 HK\$'000	2003 HK\$'000
Current	1,028	–
Non-current	11,373	–
	<hr/>	<hr/>
	12,401	–
	<hr/>	<hr/>

32 Cash and cash equivalents

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank and cash balances	<u>45,361</u>	<u>78,793</u>

33 Contingent liabilities

As at 31 March 2004, the Group and the Company has contingent liabilities not provided for in the accounts as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees in respect of banking facilities of subsidiaries	–	–	280,961	282,831
Guarantees given to third parties against non-performance of contractual obligations by subsidiaries	<u>29,041</u>	<u>33,874</u>	<u>23,924</u>	<u>31,874</u>

Notes to the Accounts

34 Commitments

As at 31 March 2004, the Group has the following commitments:

(a) Operating lease commitments

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

	2004	Group
	HK\$'000	2003
		HK\$'000
In respect of land and buildings, including transmission sites:		
within one year	21,574	14,571
in the second to the fifth year	11,277	12,739
beyond five years	–	321
	32,851	27,631
In respect of leased lines:		
within one year	8,439	18,104
in the second to the fifth year	5,632	1,207
beyond five years	5,400	–
	19,471	19,311

35 Related party transactions

- (a) The Group had 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 agreed between the parties during the year.

	2004	Group
	HK\$'000	2003 HK\$'000
Income/(expenses)		
ChinaMotion Telecare (HK) Limited, a company owned by a director		
Hotline service fee	(425)	(1,640)
PA center service fee	(360)	(427)
Significant transactions with minority shareholders of subsidiaries		
CMTH		
Recharge of paging and mobile services expenses	(829)	(2,208)
Call center service fee	(6,029)	(3,037)
Interest income	5,891	–
Shenzhen China Motion Telecom United Company Limited (“SCMTU”)		
Sales of telecommunications equipment	3,030	3,234
CM Netcom		
VOIP service fee income	1,409	2,745
China Motion Mobile Services Co., Ltd. (“CMM”) (Upon division of CM Netcom)		
Provision of technical consultancy and maintenance services	71,421	89,262
Wanbao Telecom Investment Limited, an associated company		
Interest income	750	781

Notes to the Accounts

35 Related party transactions (continued)

- (b) As at 31 March 2004, included in long-term investments are the following amounts which are related to the CMTH Group:

	Note	2004 HK\$'000	2003 HK\$'000
Others, unlisted			
– Funding to a telecommunications project	(i)	207,546	207,546
– Capital expenditure funding	(i)	–	80,159
		207,546	287,705
Deposit for purchase of unlisted shares	(i)	–	46,729

Note:

- (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 be offset against the consideration payable for the proposed stage two acquisition by the Group of equity interests in CM Netcom. 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)).

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 total of 50% of the registered capital of CM Netcom for total consideration of RMB276,000,000 (equivalent to approximately 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; and (ii) by cash payments and/or by way of setting off of amounts due from the CMTH Group totalling approximately HK\$178,000,000 of which HK\$49,000,000 was paid in cash and the remaining balance of HK\$129,000,000 is expected to be set off against the remaining balance of the funding to a telecommunications project which is to be returned to the Group.

35 Related party transactions (continued)

(b) (i) (continued)

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

The stage one of the acquisition was completed on 5 August 2003 as mentioned in note 31(c).

(c) As at 31 March 2004, outstanding trade receivables due from the CMTH Group are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
CMTH	31,125	32,016
CMM	137,313	167,868
SCMTU	98,196	94,992
	266,634	294,876
Less: amounts receivable within 2 to 5 years (see note (i) below)	(256,134)	(266,625)
Amounts receivable within one year included in current assets	10,500	28,251

Notes to the Accounts

35 Related party transactions (continued)

(c) (continued)

Note:

- (i) 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 the CMTH Group. 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 funding in a telecommunications project of HK\$78,546,000 to be returned to the Group will be repaid over a period of 5 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, 14 July 2003, the date upon which the conditions precedent to which the agreement is subject to has been fulfilled	40,000
On or before the last day of the second year	50,000
On or before the last day of the third year	80,000
On or before the last day of the fourth year	100,000
On or before the last day of the fifth year	<u>103,422</u>
Total	<u>373,422</u>

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 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.

35 Related party transactions (continued)

(c) (continued)

(i) (continued)

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 the PRC.

Subject to mutually agreed terms and applicable laws in both Hong Kong and the PRC, in the event that the Group decides to pursue any of the investment opportunities presented by the 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 the 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 the CMTH Group shall be reduced accordingly.

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

(ii) As at 31 March 2004, the amounts to be repaid/returned by the CMTH Group including long-term investments and trade receivables totalled approximately HK\$474,180,000 (2003: HK\$629,310,000) as detailed in notes 35(b) and (c) above. Of this amount, HK\$345,180,000 (2003: HK\$373,422,000) is expected to be received through the rescheduled Debt payments and the remaining balance of HK\$129,000,000 is expected to be set off against the consideration payable for the acquisition of remaining 25% equity interest in the continued CM Netcom (note 35(b)(i)).

The interest income of the Debt for the year ended 31 March 2004 amounted to approximately HK\$5,891,000 (2003: Nil), and has been included under interest income in the consolidated profit and loss account.

Of the scheduled repayment by 14 July 2004, HK\$29,500,000 has been received on or prior to 31 March 2004, and the remaining HK\$10,500,000 was received subsequent to 31 March 2004.

Notes to the Accounts

35 Related party transactions (continued)

(c) (ii) (continued)

In preparing the accounts, management are required to make estimates and assumptions for the reporting period and as of the date of the accounts and in particular in relation to the determination of possible impairment of investments and recoverability of amounts due from the CMTH Group. 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. The determination of whether or not a decline in value of the investments in telecommunications projects has occurred, and if so, whether it is other than temporary, and the recoverability of the amounts due from the CMTH Group requires the exercise of significant judgement by management. It also depends on the success of the telecommunications projects undertaken by the CMTH Group including but not limited to CM Netcom's VOIP related business. Given the inherent risk associated with the CMTH Group and the telecommunications projects, management believes that it has made reasonable judgements, based on all relevant and available facts and information about the CMTH Group and the telecommunications projects (including the financing facilities available for these projects), that the trade receivables due from the CMTH Group and the 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 the CMTH Group and the telecommunications projects.

(d) As at 31 March 2004, outstanding non-trade payables included payables to minority shareholders of subsidiaries as follows:

	2004	Group	2003
	HK\$'000		HK\$'000
Guangdong Mobile Communication Company Limited	827		827

36 Principal subsidiaries

The principal subsidiaries as at 31 March 2004 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 interest held*	Principal activities
Best Class International Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion (Japan) Limited	Japan	200 shares of Yen 50,000.00 each	92.51%	Provision of long distance call services
China Motion (Singapore) Pte. Ltd.	Singapore	2 shares of S\$1.00 each	92.51%	Provision of long distance call services
China Motion (Taiwan) Limited	Taiwan	NT\$5,000,000	92.51%	Provision of long distance call services
China Motion Data System Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion Properties Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion Telecom (HK) Limited	Hong Kong	1,000,000 ordinary shares of HK\$1.00 each	100%	Provision of mobile communications services
China Motion United Telecom Limited	Hong Kong	66,800,000 ordinary shares of HK\$1.00 each	70%	Investment holding and provision of roaming trunked radio services
China Motion Holdings Limited	British Virgin Islands	100 ordinary shares of US\$1.00 each	100%	Investment 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 interest held*	Principal activities
ChinaMotion NetCom (Asia) Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	92.51%	Provision of long distance call services
ChinaMotion NetCom (Canada) Ltd.	Canada	1 common share of C\$1.00 each	92.51%	Provision of long distance call services
CM Concept (HK) Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Retail business
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 Tel (Canada) Limited	Canada	100 common shares of C\$1.00 each	92.51%	Provision of long distance call services
CM Tel (HK) Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	92.51%	Provision of long distance call services
CM Tel (USA) LLC	United States	US\$10,000	92.51%	Provision of long distance call services
Digital Pacific Limited	Hong Kong	2 ordinary share of HK\$1.00 each	92.51%	Distribution business
Express Lane Investment Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
Guangzhou Motion Telecom Service Co., Ltd	The PRC, equity joint venture	Paid-up capital HK\$2,660,000 Registered capital HK\$3,800,000	70%	Maintenance services and provision of telecommunications related 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 interest held*	Principal activities
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
Shenzhen Motion Mobile Telecom Services Co., Ltd	The PRC, equity joint venture	Paid-up capital US\$12,000,000 Registered capital US\$29,000,000	90%	Provision of GSM-related services to telecommunications operator in the PRC
Shenzhen Motion Telecom Services Co., Ltd	The PRC, equity joint venture	Paid-up and registered capital RMB25,000,000	70%	Maintenance for telecommunications equipment
Townlink Limited	Hong Kong	2,000,000 ordinary shares of HK\$1.00 each	70%	Provision of roaming trunked radio services
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.

Notes to the Accounts

37 Principal associated companies

The principal associated companies as at 31 March 2004 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 interest indirectly held	Principal activities
China Motion Netcom Services Co., Ltd.	The PRC, equity joint venture	Paid-up and Registered Capital RMB30,000,000	22.5%	Provision of VOIP related services in the PRC
Goodfine Holdings Limited	Hong Kong	Ordinary shares HK\$1.00 each	48%	Investment holding
Thinker Communications Technology (H.K.) 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%	Telecommunications and agency services

The above table includes the associated companies of the Group 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 Approval of accounts

The accounts were approved by the board of directors on 23 June 2004.