



潤 迅 通 信 國 際 有 限 公 司

China Motion Telecom International Limited

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

Annual Report **2005**

二 零 零 五 年 年 報

潤迅網絡 連繫全球

Connecting the world



Corporate Profile ●●●●●●●●●●

Established in 1990, China Motion Telecom International Limited (“China Motion” or the “Company”; together with its subsidiaries collectively referred as the “Group”) is a well regarded telecommunications company with strong networks in Hong Kong , Mainland China and other key overseas markets. It is listed on the stock exchanges of Hong Kong and Singapore. With consistency, innovation and commitment to market needs and customer satisfaction, the Group has transformed into a multi-faceted telecommunications service provider. Its three core businesses include international telecommunications services, mobile communications services and, distribution and retail chain.

企業背景 ●●●●●●●●●●

潤迅通信國際有限公司（「潤迅」或「公司」；連同其附屬公司統稱「集團」）於一九九零年成立，乃一家於香港、中國內地及其他主要海外市場擁有強大網絡的電信企業，並在香港交易所及新加坡交易所上市。一直以來，集團本著努力不懈、創新求變的原則以迎合市場及客戶需要，致力成為一家多元化的綜合電信服務供應商。現今核心業務包括國際電信服務、移動通信服務、分銷及零售。

Contents

2	Milestones
4	Financial Highlights
6	Group Structure
7	Corporate Information
9	Chairman's Statement
13	Management Discussion and Analysis
17	Biographical Details of Directors
19	Directors' Report
35	Auditors' Report
36	Consolidated Profit and Loss Account
37	Balance Sheets
38	Statements of Changes in Equity
39	Consolidated Cash Flow Statement
40	Notes to the Accounts



Milestones

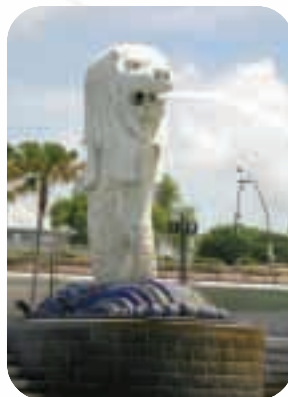
04 Jun

The Group further strengthens its overseas network by extending its collaboration with Vietnam Telecom International (VTI), becoming the largest overseas partner of VTI.



04 Aug

China Motion collaborates with Huawei Technologies Investment Co. Ltd. to develop the Next Generation Network (NGN), providing global cross-media, cross-network and cross-border communications services



04 Sep

Second anniversary of China Motion Telecom Singapore office



04 Oct

China Motion establishes an office in Shinjuku, Japan, aiming to further open the Japanese market

04 Nov

China Motion launches the "CM Phone" Services in Hong Kong to provide local number and overseas number valued-added services



05 Jan

China Motion becomes the first foreign enterprise to enter the Taiwan mobile virtual network market by setting up a local office and launching a range of service plans catering to the needs of Taiwanese businessmen traveling in Mainland China, Hong Kong and Taiwan

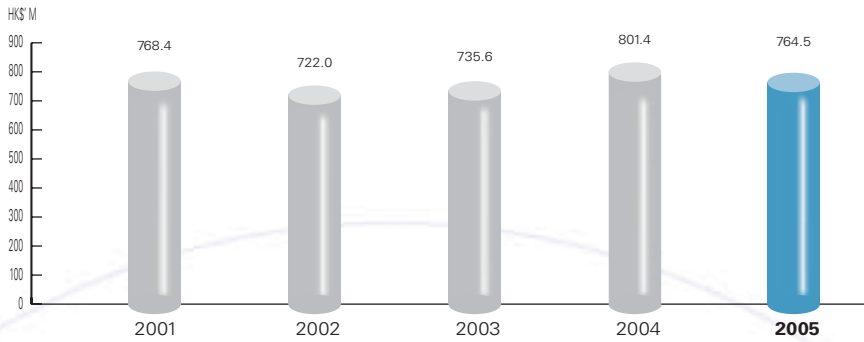


Financial Highlights

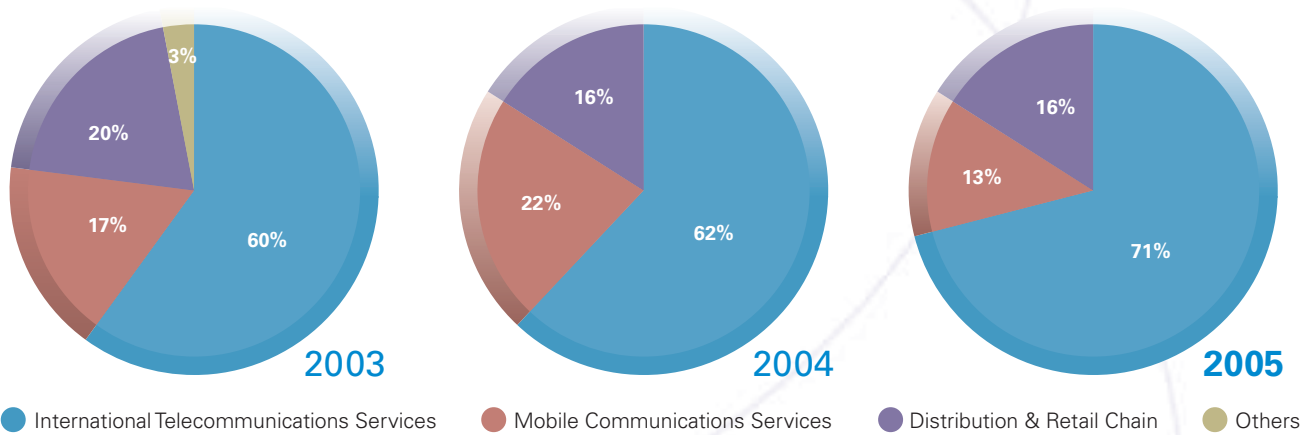
	2005	2004	2003 (Restated)	2002	2001
Turnover (HK\$ million)	764.5	801.4	735.6	722.0	768.4
Group (loss)/profit before tax and minority interests (HK\$ million)	(469.1)	(38.6)	25.6	(115.0)	(221.9)
Net (loss)/profit (HK\$ million)	(459.7)	(47.5)	7.3	(131.0)	(212.2)
(Loss)/earnings per share (HK cents)	(87.5)	(9.0)	1.4	(24.9)	(48.2)
Total assets (HK\$ million)	886.7	1,223.9	1,204.1	1,109.2	1,379.0
Total liabilities (HK\$ million)	640.8	518.3	451.1	364.2	503.0
Net assets (HK\$ million)	245.90	705.6	753.0	745.0	876.0
Net assets value per share (HK\$)	0.5	1.3	1.4	1.4	1.7
Working capital ratio	0.8	0.8	0.8	2.2	1.9
Long-term debt to equity	0.32	0.10	0.12	0.13	0.13

Note: The financial information for the years ended 31 March 2002, 2003, 2004 and 2005 have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Institute of Certified Public 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.

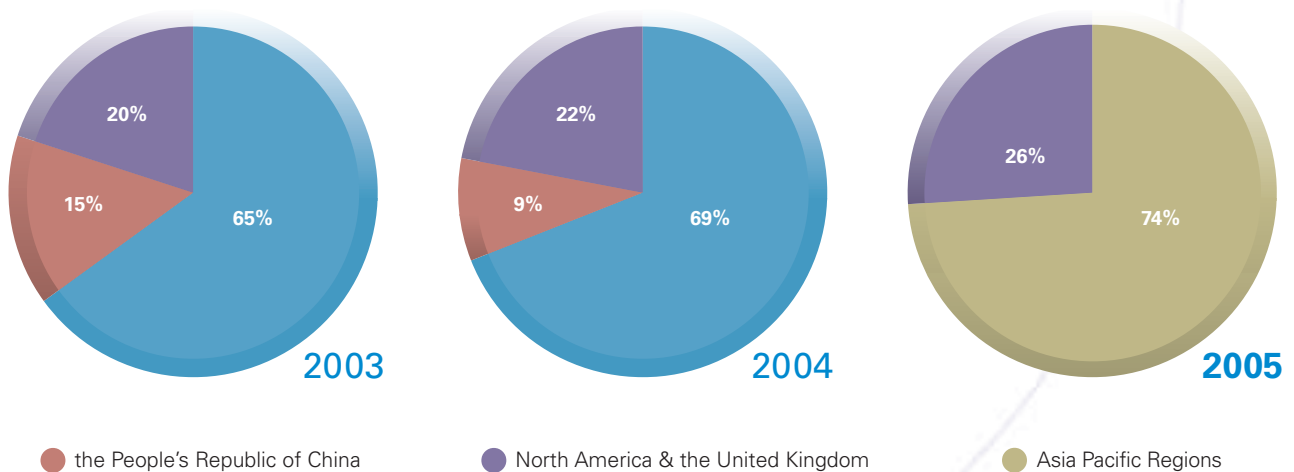
Turnover



Turnover by Business Segment



Turnover by Geographical Location



Board of Directors

Executive Directors

HAU Tung Ying (Chairman)
SHUI Ming Hua
LI Bin

Non-executive Directors

LI Yi Sheng (Deputy Chairman)
YIP Sam Lo[†]
HO Chung Tai, Raymond[†]
PANG Tsun Loy, Michael[†]

[†] Independent Non-executive Directors

Audit Committee

YIP Sam Lo (Chairman)
LI Yi Sheng
HO Chung Tai, Raymond
PANG Tsun Loy, Michael

Remuneration Committee

YIP Sam Lo (Chairman)
LI Yi Sheng
PANG Tsun Loy, Michael
LI Bin

Nomination Committee

LI Bin (Chairman)
YIP Sam Lo
HO Chung Tai, Raymond
PANG Tsun Loy, Michael

Company Secretary

CHAN Siu Mei

Auditors

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

Registered Office

Clarendon House
Church Street
Hamilton HM11
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>

Principal Share Registrar

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
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

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
Bank of China (Hong Kong) Limited
Belgian Bank

Stock Code

SEHK Code: 0989



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 of variety of premium, value-added telecommunications services to all Chinese communities over the globe.

Spreading Our Business

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,

Led by the recovery of the world economy and strong growth in China, Hong Kong's economy gradually revived during the financial year under review. Yet competition in the telecommunications industry remained fierce and the operating environment continued to be challenging. China Motion Telecom International Limited ("China Motion" or "the Company"), together with its subsidiaries (collectively, "the Group"), placed its focus on maintaining steady growth and raising overall operational efficiency. Stringent cost-control measures were also implemented to improve overall business performance. During the financial year under review, turnover of the Group was recorded at HK\$764 million.

The Group implemented effective strategies for optimizing the performance of its existing core businesses. In particular, the international telecommunications services business returned to profitability on the back of enhanced business scale and operating efficiency. Also, the Group's Mobile Virtual Network Operator (MVNO) business recorded a profit for the first time since its launch in 2002. Only the distribution and retail business fell short of management's targets, recording a loss.

The Group's performance was adversely affected by the significant provision made in regard to the debts owed by China Motion Telecom Holdings Limited ("CMTH") and/or its subsidiaries ("CMTH Group"), a major strategic partner of the Group, as well as on the investment in the VOIP related business in the People's Republic of China (the "PRC"). CMTH, a Chinese company with an in-depth understanding of their local market, has been a close strategic partner of the Group



Chairman's Statement

for over 10 years. Through the partnership with CMTH, the Group has been able to pursue many business opportunities and achieve desirable returns in China, which is the largest developing market in the world with a telecommunications market that has just started to open up. However, since CMTH is facing financial pressure and has indicated that they would have difficulty repaying the debts, the Group has decided after careful consideration and assessment to make provision on the debts owed by CMTH as well as on the investment in the VOIP related business in the PRC. Upon making the provision, the Group is now actively seeking legal and financial advice on remedies



relating to the debts and has appointed legal advisers to advise the Group in relation thereto. Moreover, the Group has continued discussions with CMTH regarding possible arrangements for the settlement of the outstanding debts. The Group reserves the right to pursue legal action to recover the debts with a view to serving the best interests of its shareholders.

Financial Performance

In order to secure the continuous and healthy growth of our businesses, the Group must stay financially sound. Under these circumstances, the Board of Directors does not recommend the payment of a final dividend for the year ended 31 March 2005.

Key Developments

During the financial year under review, improvement was seen in all three core businesses, which includes international telecommunications services, mobile communications services and the distribution and retail chain, with the turnaround of the international telecommunications services business being the most outstanding achievement.

Wholesale IDD services recorded significant growth in both local and overseas markets, while retail IDD services progressed satisfactorily. However, fierce market competition has led to erosion in profit margins. Nonetheless, the Group's successful strategy and its commitment to providing reliable and quality service paid off with stable growth for this business.

Mobile communications services continue to perform satisfactorily with encouraging development. Through the implementation of cost-effective marketing strategies, the Group successfully absorbed more quality customers and further enhanced its profitability.



The MVNO business broke even and recorded a profit after three years of development since its launch.

Although a host of business optimizing measures were introduced to the distribution and retail chain business during the year, performance in this sector still fell short of management's expectations, recording a loss.

Business Strategy

Overseas Market Development

The Group is dedicated to providing a bridge for Chinese communities worldwide, something that has become a core development strategy. During the financial year under review, the Group geared up its efforts in developing the overseas markets. After careful study and assessment, the Group opened up new markets that show great potential, such as South Korea, and proactively developed the retail IDD services business. The Group's IDD network coverage has already expanded to cover Australia, Canada, Japan, South Korea, the United Kingdom, the United States and Vietnam. There are plans to further extend the



network to South America, Europe and other regions. In order to further open up the Japanese market, the Group set up a branch office in Tokyo. Another major achievement in the Group's overseas market development was becoming the first foreign enterprise to enter the Taiwan mobile virtual network market. The Group believes that expansion in overseas markets is crucial to its future development and will lay a good foundation for the development of the Next Generation Network (NGN) business.

New Technology – Next Generation Network

Understanding that technology is of paramount importance to telecommunications operators, the Group formed strategic partnerships with Vietnam Telecom International and Huawei Technologies Investment Co. Ltd. ("Huawei") to explore the telecommunications industry further and expand. The Group's collaboration with Huawei has aided the development of the NGN business, which during the financial year under review entered stage two with "CM Phone" services launched in Hong Kong and the United States. The Group plans further launches of its services through its overseas network in the near future.

Cost Control

In addition to its efforts in developing the core businesses, the Group also implemented a host of stringent cost-control measures in order to raise its operational efficiency. These measures proved to be effective in reducing operational expenses substantially and raising cost efficiency. The Group's efforts to improve its credit control were rewarded by a significant reduction of bad debts. The Group also

strived to enhance synergies among its different businesses as well as to optimize its business structure, and measures that are intended to raise overall cost efficiency.

Prospects

With the world economy reviving and more Mainland enterprises expanding their business outside the country, the Group expects that more telecommunications needs will be generated from such economic developments. The Group will continue to solidify its core businesses by leveraging its technological strength and experience in operating overseas telecommunications services.

Riding on the steady growth and synergistic relationships of the Group's three core businesses, as well as the effectiveness of its overseas development strategy, the Group is progressing towards a healthier and more promising future. The Group sees the Next Generation Network, a new focus in the telecommunications industry, as one of the growth drivers for the coming year.

On behalf of the Board of Directors, I would like to thank our staff for their dedication and hard work. I would also like to put on record the tremendous contribution of Mr. HU Tiejun, who resigned in April 2005 from the position of Alternate Director to Mr. LI Yi Sheng, and Mr. LI Kwok Ping and Mr. YUNG Yung Cheng, Frank who retired in August 2004 from their positions as Non-executive Director and Independent Non-executive Director respectively. In compliance with the Code on Corporate Governance Practices under the Listing Rules, I myself, as Chairman of the Board of Directors, resigned from the position of Chief Executive Officer and Dr. LI Bin is appointed as Chief Executive Officer. Mr. YIP Sam Lo and Mr. PANG Tsun Loy, Michael are appointed as Independent Non-executive Directors.

HAU Tung Ying

Chairman

20 July 2005



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

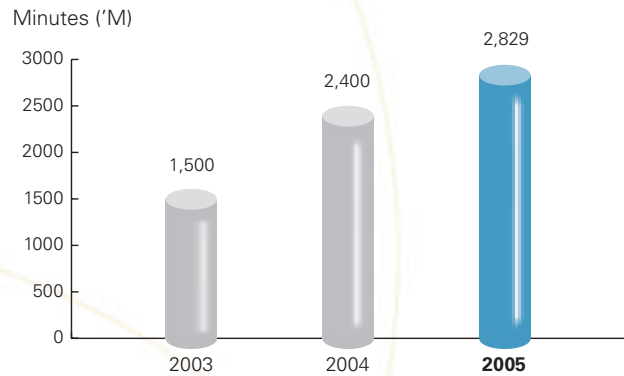
Amplify
Our Networks

Business Overview

During the financial year under review, the Group placed focus on both a stringent cost control policy and sound business development strategy. The commitment to rigorous cost control has delivered a significant reduction in operating expenses.

The Group continues its efforts to strengthen and optimize its three core businesses: international telecommunications services, mobile communications services, and the distribution and retail chain. The international telecommunications services business returned to profitability on the back of enhanced business scale and operating efficiency. Despite the service contract expiry of 70,000 mobile subscribers in China, the mobile communications services business regained growth momentum through a successful repositioning. Only the distribution and retail chain business fell short of management's targets, recording a loss. The Group reported a loss of HK\$460 million after making material provision of HK\$461 million for the debts owed by China Motion Telecom Holdings Limited ("CMTH") and/or its subsidiaries ("CMTH Group"), as well as investment in the VOIP related business in the People's Republic of China (the "PRC").

IDD Voice Traffic



China Motion Global Network Coverage



paid off with the extension of its global network and coverage in key markets such as Australia, Canada, Japan, South Korea, the United Kingdom, the United States and Vietnam. Encouraged by the progress made in overseas markets, the Group plans to expand the business to South America, Europe and other regions.

"ChinaOne", China Motion's global retail IDD brand, has gained popularity over the years due to continued enhancement in service quality. Not only did the retail IDD business perform well in Hong Kong, but it also successfully penetrated and won recognition from overseas Chinese communities in Canada, Singapore and the United States. A host of retail IDD services and products tailored for specific overseas markets was launched during the year. As of 31 March 2005, the number of "ChinaOne" subscribers exceeded 130,000, an increase of 10% over the preceding year.



International Telecommunications Services

The international telecommunications services business covers wholesale and retail IDD services. In the financial year under review, the Group's international telecommunications services business achieved a turnaround. IDD voice traffic rose steadily to 2,829 million minutes, representing an 18% increase over the previous year, and turnover grew by 8% to HK\$540 million.

During the year under review, the wholesale IDD business recorded a growth on the back of increasing voice traffic and turnover. The Group's overseas strategy



Mobile Communications Services

In the financial year under review, mobile communications services posted a turnover of HK\$97 million, a 43% reduction compared to last year. This

was due to the full-year impact on the business' turnover and profitability caused by the service contract expiry of 70,000 mobile subscribers in March 2004. Still, the Group began to reap return on its investments in the MVNO business. "CM Mobile", the brand of the Group's MVNO business, outperformed the management's forecast in local as well as in overseas markets and contributed a net profit of HK\$9 million for the first time since its launch in 2002.



products and services, and the opening of a flagship store in Tsimshatsui with an aim to enhancing the level of customer service both for local and Mainland customers. Despite these measures, the business recorded a loss of HK\$7 million. As of 31 March 2005, there are 25 "CM Concept" stores in operation. In view of the unsatisfactory performance, it is the top priority of the Group to improve this business going forward.



The Group substantially strengthened the efficiency and yield of its MVNO business through more effective marketing strategies, which combined the redefining of target customers and the customization of product strategy and promotions intended to reach targeted customers. As a result of these efforts, the number of subscribers increased 17% to 70,000.

After being awarded an MVNO license in Taiwan in 2004, the Group launched the service in early 2005 and became the first foreign enterprise to operate in Taiwan's MVNO market.



Distribution and Retail Chain

In the financial year under review, the management initiated and implemented a host of business optimization measures to re-engineer the distribution and retail chain business. These included the repositioning of "CM Concept" from a distribution outlet of data and digital electronics products to a 'one-stop shop' featuring a full suite of telecommunications

Property Disposal

The Group believes in the benefit of staying focused on its core telecommunications businesses so as to create shareholder value in the long term. As part of this commitment, the Group disposed of several properties during the year. In August 2004, two shops, one in Mongkok and one in Causeway Bay, were sold, which contributed a profit of HK\$10 million and a cash inflow of HK\$38 million for the Group. In March 2005, the Group disposed of the car parking spaces located on the 2/F and 3/F of Enterprise Square, No. 9 Sheung Yuet Road, Kowloon, which will contribute a cash inflow of HK\$17 million for the Group in the coming year.

Provision

The Group made material provision related to the debts owed by CMTH Group, as well as investment in the VOIP related business in the PRC. The provision of HK\$461 million had a significant material impact on the Group's financial results; yet, such provision do not materially adversely affect the daily operations and working capital of the Group. Upon making the provision, the Group is actively seeking legal and financial advice on remedies relating to the debts and has appointed legal advisers to advise the Group in relation thereto. Moreover, the Group has continued discussions with CMTH regarding possible



arrangements for the settlement of the outstanding debts. The Group reserves the right to pursue legal action to recover the debts with a view to serving the best interests of its shareholders.

Prospects and Conclusion

The management has seen continued improvement in the major core business: international telecommunications services. Wholesale and retail IDD services complement each other, adding to the Group's competitiveness in overseas markets. The Group will also cement its position in the vibrant Asia Pacific telecommunications market through a consistent focus on overseas expansion and cost control.



The Group embarked on business planning early in the financial year and launched the Next Generation Network (NGN) in late 2004. By virtue of the network, the Group then launched its broadband phone services, "CM Phone", in Hong Kong and the United States in 2005. The Group expects that it will be able to leverage the introduction of new regulatory regimes in overseas markets to gain first-mover advantage with a view to expanding its NGN related business – a new growth area for the telecommunications industry.

The Group maintained steady development in its three core business areas and remained committed to its expansion priorities. The Group will build on its overseas network and existing customer base to grow the three core businesses and will speed up the development of NGN. At the same time, the Group will continue to strengthen its relationship with Mainland China and overseas partners and gain solid access to the

increasingly liberal and growing telecommunications market in Mainland China. Looking forward, the Group will also continue to pursue its business development strategy in an aggressive yet cautious manner while controlling costs and optimizing operations to create value for its shareholders.

Financial Position

As at 31 March 2005, the Group's cash and bank balances amounted to approximately HK\$43 million. Total bank borrowings were approximately HK\$101 million. 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 at a gearing ratio of 41% (2004: 18%).

As at 31 March 2005, the Group had aggregate banking facilities of approximately HK\$62 million (excluding property mortgage loans), of which HK\$45 million was utilized. 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 the fluctuations in Renminbi and United States dollars as certain expenses payable and trade receivables from customers are settled in these currencies respectively.

Employees and Remuneration Policies

As at 31 March 2005, the Group had 357 full-time staff. Total staff costs (including directors' emoluments) incurred for the year amounted to HK\$111 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 fund and medical insurance. The Group also granted share options to certain directors of the Company and certain employees of the Group.



Our Cohesive Vision

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 customer's needs.

Biographical Details of Directors

Mr. HAU Tung Ying, Chairman, aged 51, is the founder of the Group and has been an executive director and the Chairman of the Company since 1994. 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, the Ministry of Post and Telecommunication of China and the Shenzhen Municipal Government. Mr. Hau graduated from Sun Yat-sen 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, the member of the Information & Communications Technology (ICT) Services Advisory Committee and China Trade Advisory Committee at the Trade Development Council of Hong Kong and Chongqing Committee of the Chinese People's Political Consultative Conference (CPPCC).



Mr. HAU Tung Ying

Mr. SHUI Ming Hua, aged 66, joined the Group in 1998 and has been an executive director of the Company since 2000. Mr. Shui has over 31 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.



Mr. SHUI Ming Hua

Dr. LI Bin, aged 37, joined the Group in 1998 and has been an executive director of the Company since April 2004. Dr. Li was appointed as the Chief Operating Officer of the Group in April 2004 and became the Chief Executive Officer of the Group since April 2005. He was previously the Chief Operating Officer of ChinaMotion Netcom Limited, a subsidiary of the Company. Before joining the Group, he had worked in the China Telecom Guang Dong Branch. Dr. Li possesses over 14 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).



Dr. LI Bin

Mr. LI Yi Sheng, Deputy Chairman, aged 69, 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 41 years of experience in the telecommunications industry.



Mr. LI Yi Sheng

Biographical Details of Directors •••••

Mr. YIP Sam Lo, aged 57, has been an independent non-executive director of the Company since August 2004 and is the Chairman of the Audit Committee and the Remuneration Committee of the Company. Mr. Yip had been the managing director and president of ePRO Limited ("ePRO"), a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Prior to joining ePRO in 1992, he was the regional manager of a major computer company in the United States. Mr. Yip possesses over 23 years' experience in the IT industry. He graduated from the University of Texas, the United States with a Bachelor's degree in Mathematics and from the Texas A & M University, the United States with a Master's degree in Computing Science.



Mr. YIP Sam Lo

Dr. the Hon. Raymond HO Chung Tai, MBE, JP, aged 66, 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, former Chairman of Hong Kong Technology Committee of the Industry and Technology Development Council (ITDC), former Council Chairman of the City University of Hong Kong and former Council Chairman of former City Polytechnic of Hong Kong. He has had 42 years' experience in wide-ranging, large magnitude and complex infrastructure projects and environmental works 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 by University of Manchester of the United Kingdom.



Dr. the Hon. Raymond HO Chung Tai

Mr. PANG Tsun Loy, Michael, aged 61, has been an independent non-executive director of the Company in August 2004. Mr. Pang has been the sole proprietor of M T L Pang & Co., *Certified Public Accountants*, since 1984. Mr. Pang possesses over 38 years' professional experience in accounting, finance, auditing and taxation. He graduated from The Hong Kong Polytechnic University with a higher diploma in accounting. He is a fellow member of Hong Kong Institute of Certified Public Accountants, CPA Australia, Institute of Chartered Accountants in Australia, Taxation Institute of Australia and The Hong Kong Taxation Institute and a member of The Society of Chinese Accountants and Auditors, Society of Registered Financial Planners and The Institute of Crisis and Risk Management.



Mr. PANG Tsun Loy, Michael

Directors' Report •••••

The directors of the Company submit their report together with the audited accounts of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2005.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The three core businesses include international telecommunications services, mobile communications services and, distribution and retail chain. Details of the principal activities of its subsidiaries are set out in note 37 to the accounts.

Details of the analysis of the performance of 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 36.

The directors do not recommend the payment of a final dividend for the year ended 31 March 2005.

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 38.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$411,000.

Distributable reserves

In accordance with the Companies Act 1981 of Bermuda (as amended) and the Company's Bye-laws, the Company has no distributable reserves as at 31 March 2005.

Fixed assets

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

Share capital and share options

Details of the movements in share capital and share options 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.

Directors' Report •••••

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 listed 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 directors

Mr. HAU Tung Ying, *Chairman*

Mr. SHUI Ming Hua

Dr. LI Bin (appointed on 1 April 2004)

Non-executive directors

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

Mr. YIP Sam Lo[†] (appointed on 26 August 2004)

Dr. HO Chung Tai, Raymond[†]

Mr. PANG Tsun Loy, Michael[†] (appointed on 26 August 2004)

Mr. LI Kwok Ping (appointed on 1 April 2004 and retired on 26 August 2004)

Mr. YUNG Yung Cheng, Frank[†] (retired on 26 August 2004)

Mr. HU Tiejun (Alternate director to Mr. LI Yi Sheng) (resigned on 1 April 2005)

[†] *Independent non-executive directors*

In accordance with bye-law 86(1) of the Bye-laws of the Company, Mr. SHUI Ming Hua and Dr. HO Chung Tai, Raymond shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with bye-law 85(2) of the Bye-laws of the Company, Mr. YIP Sam Lo and Mr. PANG Tsun Loy, Michael, 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.

In July 2005, the board has approved that the term of office for each non-executive director shall be 2 years commencing on 1 August 2005 subject to retirement by rotation and re-election at least once every 3 years.

The Company has received from each of the independent non-executive directors an annual confirmation as regards their independence to the Company pursuant to Rule 3.13 of the Listing Rules. The Company considers all its independent non-executive directors are independent.

Biographical details of directors

Biographical details of directors are set out on pages 17 and 18.

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

Except for the rental income from a company owned by a director (as set out in page 29), 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.

Directors' interests in securities

As at 31 March 2005, the directors and chief executive of the Company or their respective associates had the following interests or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning the Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which such director or chief executive was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Listing Rules, to be notified to the Company and the Stock Exchange:

(a) Interests in shares of the Company

Name of director	No. of ordinary shares held	Nature of interest	Position	Approximate shareholding percentage
Mr. HAU Tung Ying	216,198,000 (Note)	Corporate	Long	41.14%
Mr. SHUI Ming Hua	250,000	Personal	Long	0.05%

Note: The 216,198,000 shares are held by Goldtop Holdings Limited ("Goldtop"), a company of which is beneficially owned as to 60% by Mr. HAU Tung Ying and as to 40% by his spouse, Madam TING Yat Shuk. Mr. HAU is therefore deemed to be interested in the 216,198,000 shares held by Goldtop.

Directors' Report •••••

Directors' interests in securities (continued)

(b) Interests in share options of the Company

As at 31 March 2005, details of share options granted to the directors of the Company and others 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		
					As at 1 April 2004	Lapsed during the year	As at 31 March 2005
Directors:							
Mr. HAU Tung Ying	20/03/2001	0.75	20/03/2002 – 19/03/2011	20/03/2002 – 20/03/2004	2,000,000	–	2,000,000
Mr. SHUI Ming Hua	25/02/2000	3.19	25/02/2001 – 17/03/2008	N/A	378,499	–	378,499
	17/10/2000	1.22	17/10/2001 – 17/03/2008	N/A	432,570	–	432,570
	20/03/2001	0.75	20/03/2002 – 19/03/2011	20/03/2002 – 20/03/2004	2,000,000	–	2,000,000
							2,811,069
Dr. LI Bin	17/10/2000	1.22	17/10/2001 – 17/03/2008	N/A	108,143	–	108,143 (Note)
	20/03/2001	0.75	20/03/2002 – 19/03/2011	20/03/2002 – 20/03/2004	700,000	–	700,000 (Note)
							808,143
Others:							
	29/06/1998	0.751	29/06/1999 – 17/03/2008	N/A	401,672	(308,979)	92,693
	19/08/1999	2.00	19/08/2000 – 17/03/2008	N/A	1,091,724	(257,482)	834,242
	25/02/2000	3.19	25/02/2001 – 17/03/2008	N/A	713,226	(252,333)	460,893
	17/10/2000	1.22	17/10/2001 – 17/03/2008	N/A	2,234,947	(602,510)	1,632,437
	20/03/2001	0.75	20/03/2002 – 19/03/2011	20/03/2002 – 20/03/2004	15,400,000	(3,850,000)	11,550,000
	28/01/2002	0.75	28/01/2003 – 27/01/2012	28/01/2003 – 28/01/2005	400,000	(100,000)	300,000
							14,870,265
					25,860,781	(5,371,304)	20,489,477

Note: The 108,143 and 700,000 share options include 36,048 and 200,000 share options held by Madam GU Jie, the spouse of Dr. LI Bin respectively.

Directors' interests in securities (continued)

(b) Interests in share options of the Company (continued)

All interests disclosed above represent long positions.

During the year, there were no share options granted, exercised or cancelled under the share option schemes.

Save as disclosed above, as at 31 March 2005, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in any 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 required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which such director or chief executive was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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 rights to subscribe for any securities in or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such right during the year.

Substantial shareholders

As at 31 March 2005, the following shareholders, other than the directors and chief executive of the Company, had or were deemed to have interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	No. of ordinary shares held	Position	Approximate shareholding percentage
Goldtop	216,198,000	Long	41.14%
Madam TING Yat Shuk	216,198,000 (Notes 1 and 3)	Long	41.14%
Midsino International Limited	54,049,500	Long	10.29%
Mr. YANG Jun	54,049,500 (Note 2)	Long	10.29%
Madam MA Lin	54,049,500 (Note 2)	Long	10.29%

Substantial shareholders (continued)

Notes:

- (1) The 216,198,000 shares are held by Goldtop, a company of which is beneficially owned as to 40% by Madam TING Yat Shuk and as to 60% by her spouse, Mr. HAU Tung Ying, a director of the Company. Madam TING Yat Shuk is therefore deemed to be interested in the 216,198,000 shares held by Goldtop.
- (2) The 54,049,500 shares are held by Midsino International Limited ("Midsino"), a company of which beneficially owned as to 50% by Mr. YANG Jun and as to 50% by his spouse, Madam MA Lin. Each of Mr. YANG Jun and Madam MA Lin is therefore deemed to be interested in the 54,049,500 shares held by Midsino.
- (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 securities" above.

Save as disclosed above, there was no person known to the directors or chief executive of the Company, other than the directors or chief executive of the Company, who, as at 31 March 2005, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were 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 at 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 securities" 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.

Share option schemes (continued)

Summary of each of the 1998 Share Option Scheme and the New Share Option Scheme are as follows:

	1998 Share Option Scheme	New Share Option Scheme
(1) Purpose	To recognize the services of such employees being vital to the success and well-being of the Group, to motivate such employees to optimize their performance standards and efficiency, to promote greater commitment and dedication amongst such employees	To recognize 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	Full-time employee of the Group (including non-executive directors who are occupying an executive role in the Group) or an executive director	<p>(a) any part-time or full-time employee or officer of any member of the Group or any affiliate or of any substantial shareholder of any member of the Group; or</p> <p>(b) director (including executive and non-executive) or chief executive of any member of the Group or of any affiliate; or</p> <p>(c) 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>(d) 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>

Directors' Report •••••

Share option schemes (continued)

	1998 Share Option Scheme	New Share Option Scheme
(3) Total number of shares available for issue	10% of issued share capital of the Company from time to time	52,547,557 shares (10% of total 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	<p>In any 12-month period:</p> <p>(a) not exceeding 1% of the issued share capital of the Company from time to time (excluding substantial shareholders and independent non-executive directors)</p> <p>(b) not exceeding 0.1% of the issued share capital of the Company from time being and not exceeding HK\$5 million in aggregate value (for substantial shareholders and independent non-executive directors)</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/after 20 March 2001: at any time after 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.

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/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</p> <p>(c) after the third anniversary of the date of grant, 34% of the options are exercisable</p>	<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.</p>
(7) Payment on acceptance of option	<p>A non-refundable remittance of HK\$1.00 to be paid within 21 days from the date on which the option is offered</p>	<p>A non-refundable remittance of HK\$1.00 to be paid within 21 days from the date on which the option is offered.</p>

Share option schemes (continued)

	1998 Share Option Scheme	New Share Option Scheme
(8)	<p>Subscription price</p> <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 shares on the Stock Exchange and Singapore Exchange Securities Trading Limited for the 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 price 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 quotations sheets for the 5 business days immediately preceding the date on which an option is offered; or (c) the nominal value of the shares
(9)	<p>Life</p> <p>The scheme shall continue to be in force for a maximum period of 10 years commencing from the adoption date, ie 18 March 1998</p>	<p>The scheme shall be valid and effective for a period of 10 years commencing on 6 September 2002 and expiring on 5 September 2012</p>

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 2005:

(1) Income/(expenses)	2005 HK\$'000
<hr/>	
ChinaMotion Telecare (HK) Limited, a company owned by a director	
Rental income	392
Significant transactions with minority shareholders of subsidiaries	
China Motion Telecom Holdings Limited ("CMTH")	
Call center service fee	(3,046)
Interest income	7,425
Maintenance service fee	(1,055)
Shenzhen China Motion Telecom United Company Limited ("SCMTU")	
Sales of telecommunications equipment	1,608
<hr/>	

- (2) On 9 July 2003, the Company entered into a repayment agreement with CMTH, pursuant to which the Company conditionally agreed to reschedule the repayment dates for the debts owing by CMTH and its subsidiaries (collectively the "CMTH Group") in aggregate amount of HK\$373,422,000 (the "Debt") by 5 yearly instalments. Details of the transactions are set out in note 35(b) to the accounts.

Prior to the 2nd instalment due on 14 July 2005, CMTH indicated to the directors of the Company that CMTH Group would have difficulty in repaying the outstanding balance of the 2nd instalment and the other outstanding balances of the Debt in the near future in accordance with the repayment schedule. The Company is actively seeking legal and financial advice and working with CMTH in formulating the remedies and alternatives available to the Company and the Company had appointed legal advisers to advise the Company in relation to thereto.

However, the Company has taken a conservative approach to make full provision for the outstanding balance of the Debt in amount of HK\$334,331,000 in the accounts for the year ended 31 March 2005. Details of the provision made are set out in note 4 to the accounts.

Connected transactions (continued)

- (3) On 30 January 2003, Shenzhen Motion Mobile Telecom Services Co., Ltd. ("SMMT"), China Motion Netcom Services Co., Ltd. ("CM NetCom") and CMTH entered into an acquisition agreement, pursuant to which SMMT conditionally agreed to purchase in two stages, a total of 50% of the registered capital of CM NetCom, being 25% at stage 1 and 25% at stage 2, for an aggregate consideration of RMB276,000,000 (equivalent to approximately HK\$258,000,000). CM Netcom is principally engaged in the VOIP business of providing long distance call related services in the PRC. The stage 1 was completed before 31 December 2003 and the completion date of stage 2 has been extended from 31 December 2004 to 31 December 2005 pursuant to a second supplemental agreement to the acquisition agreement dated 23 December 2004. Details of the transactions are set out in note 35(b) to the accounts.

After considering the funding requirement of CMTH to establish the network for VOIP business, the valuation of the VOIP business prepared by American Appraisal HK Ltd and assessing the financial position of CMTH including its ability to provide the necessary funding to establish the VOIP network, the Company has taken a conservative approach to make provision for impairment on investment of HK\$72,599,000 and impairment of goodwill in an associated company of HK\$54,000,000. Details of the provision made are set out in note 4 to the accounts.

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

All the above transactions are disclosed in accordance with Chapter 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 CMTH Group did not exceed the respective percentage limit specified in the conditional waivers granted to the Company by the Stock Exchange.

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	14.9%
– five largest customers combined	25.7%

Purchases

– the largest supplier	20.1%
– five largest suppliers combined	38.7%

None of the directors, their respective associates nor 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 at any time during the year.

Audit committee

The Group has established an Audit Committee since 26 September 1996. As at the date of this report, the Audit Committee comprises three independent non-executive directors, namely Mr. YIP Sam Lo, Dr. HO Chung Tai, Raymond and Mr. PANG Tsun Loy, Michael 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, including the review of the interim and annual reports for the financial year and had provided advices and recommendation to the board of directors.

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

Compliance with the Code of Best Practice of the Listing Rules

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not throughout the year ended 31 March 2005, in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules in force prior to 1 January 2005, 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.

The Code was replaced by the Code on Corporate Governance Practices (the "New Code") which has become effective for accounting periods commencing on or after 1 January 2005. Appropriate actions are being taken by the Company for complying with the New Code.

Directors' Report •••••

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standard as set out in the Model Code throughout the year ended 31 March 2005.

Nomination Committee

The Company has established a Nomination Committee on 20 July 2005. Members of the Nomination Committee are three independent non-executive directors, namely Mr. YIP Sam Lo, Dr. HO Chung Tai, Raymond and Mr. PANG Tsun Loy, Michael and an executive director, Dr. LI Bin. The committee is to review the nomination of directors and to make recommendation to the board on such appointments.

Remuneration Committee

The Company has established a Remuneration Committee in June 2000. As at the date of this report, the Remuneration Committee comprises two independent non-executive directors, namely Mr. YIP Sam Lo and Mr. PANG Tsun Loy, Michael, a non-executive director, Mr. LI Yi Sheng and an executive director, Dr. LI Bin. The committee is to review the remuneration policy of the directors and the senior management of the Company.

Advances to Entities

In accordance with the requirement under paragraph 13.20 of the Listing Rules, the directors of the Company report the details of advances to CMTH Group as at 31 March 2005 as follows:

	Note	Total HK\$'000
Trade receivables from		
CMTH		30,357
CMM		123,566
SCMTU		101,862
	1	255,785
GSM Trust Investment	2	207,546
Less: provision for doubtful debts	3	(406,930)
At 31 March 2005		56,401

Notes:

1. The balances of the trade receivables from CMTH Group which are with interest bearing at 2.25% per annum had been included under the Debt as defined in and to be repaid pursuant to the repayment agreement entered into between the Company and CMTH on 9 July 2003. Details of the transaction are set out in note 35(b) to the accounts.

Advances to Entities (continued)

2. The GSM Trust Investment included (i) HK\$129,000,000 to be set off against the consideration payable for the acquisition of further 25% in CM Netcom in stage 2 to be completed by 31 December 2005 and (ii) HK\$78,546,000 being part of the Group's capital expenditure funding made to the GSM project in 1997 which are with interest bearing at 2.25% per annum had been included under the Debt as defined and to be repaid pursuant to the repayment agreement entered into between the Company and CMTH on 9 July 2003. Details of the transaction are set out in note 35(b) to the accounts.
3. The provision for doubtful debts included the provision made for (i) the debts of HK\$334,331,000 owing by CMTH Group under the repayment agreement entered into between the Company and CMTH on 9 July 2003; and (2) impairment on investment in the VOIP business in amount of HK\$72,599,000. Details of the provision made are set out in note (4) to the accounts.

Personal guarantee by director and substantial shareholder

On 10 March 2005, Mr. HAU Tung Ying, an executive director and the chairman of the Company, and Goldtop, a substantial shareholder of which is beneficially owned as to 60% by Mr. HAU and as to 40% by his spouse, Madam TING Yat Shui, respectively entered into guarantees in favour of a bank in the PRC whereby Mr. HAU and Goldtop, as guarantors, shall unconditionally and irrevocably guarantee the repayment obligations of CMTH, as borrower, in favour of the bank, as lender, respectively in respect of a loan in the sum of approximately RMB376,000,000 lent by the bank to CMTH together with the interest and expenses in relation thereto.

Subsequent event

Referring to the repayment agreement dated 9 July 2003 made between the Company and CMTH in relation to the Debt owing by CMTH Group to the Group in the aggregate amount of HK\$373,422,000, CMTH has duly repaid the 1st instalment of HK\$40,000,000 and HK\$2,190,000 out of the sum of HK\$50,000,000 under the 2nd instalment. Prior to the 2nd instalment due on 14 July 2005, CMTH indicated to the directors of the Company that CMTH Group would have difficulty in repaying the outstanding balance of HK\$47,810,000 under the 2nd instalment and the other outstanding balances of the Debt in the near future in accordance with the repayment schedule. The Company is actively seeking legal and financial advice and working with CMTH in formulating the remedies and alternatives available to the Company and the Company had appointed legal advisers to advise the Company in relation to thereto. Details of the transaction are set out in note 35(b) to the accounts.

Public float

As at the date of the report, based on the information that is publicly available to the Company and within the knowledge of the directors, there is sufficient public float of not less than 25% of the Company's total issued share capital as required under the Listing Rules.

Auditors

The accounts have been audited by PricewaterhouseCoopers, Hong Kong who retire and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Hau Tung Ying

Director

Hong Kong, 20 July 2005

Financial Report •••••



35	Auditors' Report
36	Consolidated Profit and Loss Account
37	Balance Sheets
38	Statements of Changes in Equity
39	Consolidated Cash Flow Statement
40	Notes to the Accounts



羅兵咸永道會計師事務所

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

(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 36 to 84 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 Institute of Certified Public 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 2005 and of loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 July 2005

Consolidated Profit and Loss Account •••••

for the year ended 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
Turnover	2	764,491	801,429
Cost of sales and services		(610,582)	(573,432)
Gross profit		153,909	227,997
Other income	2	38,683	12,681
Distribution expenses		(6,385)	(27,757)
Administrative expenses		(216,853)	(239,388)
Provision for doubtful debts and non-current assets	4	(406,930)	–
Other operating income			
Gain on disposal of properties		10,380	–
Surplus on revaluation of investment properties		23,000	3,000
Operating loss	5	(404,196)	(23,467)
Finance costs	6	(3,516)	(4,184)
Share of losses less profits of associated companies	4(b)	(61,437)	(10,916)
Loss before taxation		(469,149)	(38,567)
Taxation	7(a)	(2,790)	(8,852)
Loss after taxation		(471,939)	(47,419)
Minority interests		12,240	(46)
Loss attributable to shareholders		(459,699)	(47,465)
Dividend	9	–	–
Loss per share			
– Basic	10	(87.48) HK cents	(9.03) HK cents
– Diluted		N/A	N/A

Balance Sheets •••••

as at 31 March 2005

	Note	Group		Company	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Non-current assets					
Fixed assets	14	323,079	294,403	–	–
Investment in a subsidiary	15	–	–	273,679	790,659
Investments in associated companies	16	61,044	136,308	–	–
Other non-current assets	17	73,963	481,763	–	–
Current assets					
Inventories	18	4,939	6,575	–	–
Receivables and prepayments	19	380,187	251,314	2,965	–
Marketable securities	20	334	611	–	–
Pledged bank deposits		9,187	7,593	–	–
Bank and cash balances	21, 32	33,919	45,361	191	199
		428,566	311,454	3,156	199
Current liabilities					
Trade and other payables	22	471,999	335,986	1,690	1,243
Taxation payables	7(b)	7,409	6,323	–	–
Borrowings	23	49,406	56,900	–	–
		528,814	399,209	1,690	1,243
Net current (liabilities)/assets					
		(100,248)	(87,755)	1,466	(1,044)
Total assets less current liabilities					
		357,838	824,719	275,145	789,615
Financed by:					
Share capital	27	394,107	394,107	394,107	394,107
Non-distributable capital reserves	28	540,243	540,243	456,023	456,023
Contributed surplus	29	–	–	52,854	52,854
Accumulated losses		(688,482)	(228,783)	(627,839)	(113,369)
Shareholders' funds					
		245,868	705,567	275,145	789,615
Minority interests					
		32,977	45,217	–	–
Non-current liabilities					
Borrowings	23	51,989	69,382	–	–
Trade payable	22(a), 26	24,772	464	–	–
Deferred tax liabilities	30	2,232	4,089	–	–
		78,993	73,935	–	–
Total					
		357,838	824,719	275,145	789,615

On behalf of the Board

HAU Tung Ying
Director

LI Bin
Director

Statements of Changes in Equity

for the year ended 31 March 2005

	Share capital	Non- distributable capital reserves	Contributed surplus	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(note 27)	(note 28)	(note 29)		
Group					
Balance at 1 April 2003	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	<u>394,107</u>	<u>540,243</u>	<u>–</u>	<u>(228,783)</u>	<u>705,567</u>
Balance at 1 April 2004	394,107	540,243	–	(228,783)	705,567
Loss for the year	–	–	–	(459,699)	(459,699)
Balance at 31 March 2005	<u>394,107</u>	<u>540,243</u>	<u>–</u>	<u>(688,482)</u>	<u>245,868</u>
Company					
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	<u>394,107</u>	<u>456,023</u>	<u>52,854</u>	<u>(113,369)</u>	<u>789,615</u>
Balance at 1 April 2004	394,107	456,023	52,854	(113,369)	789,615
Loss for the year	–	–	–	(514,470)	(514,470)
Balance at 31 March 2005	<u>394,107</u>	<u>456,023</u>	<u>52,854</u>	<u>(627,839)</u>	<u>275,145</u>

Consolidated Cash Flow Statement

for the year ended 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
Operating activities			
Net cash inflow generated from operations	31(a)	16,138	9,445
Interest paid		(3,390)	(3,944)
Interest received		44	580
Interest element of finance leases		(126)	(240)
Income tax paid		(2,668)	(10,859)
		<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities		9,998	(5,018)
		<hr/>	<hr/>
Investing activities			
Proceeds from disposal of fixed assets		36,447	493
Dividend from listed investments		-	2
Purchase of fixed assets		(26,270)	(29,492)
Proceeds from disposal of investment		-	14,018
Increase in shareholding of an associated company		-	(2,638)
Net proceeds from disposal of business		-	1,500
		<hr/>	<hr/>
Net cash inflow/(outflow) from investing activities		10,177	(16,117)
		<hr/>	<hr/>
Financing activities			
Draw-down of bank loans	31(b)	7,000	17,500
Repayment of bank loans		(33,218)	(24,344)
Payment of capital element of finance leases		(5,782)	(5,080)
Increase in pledged bank deposits		(1,594)	(373)
		<hr/>	<hr/>
Net cash outflow from financing activities		(33,594)	(12,297)
		<hr/>	<hr/>
Net decrease in cash and cash equivalents		(13,419)	(33,432)
Cash and cash equivalents at the beginning of year		45,361	78,793
		<hr/>	<hr/>
Cash and cash equivalents at the end of year	32	31,942	45,361
		<hr/>	<hr/>

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 Institute of Certified Public Accountants ("HKICPA"). 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\$459,699,000 during the year ended 31 March 2005 and had net current liabilities of approximately HK\$100,248,000 as at 31 March 2005 (2004: HK\$87,755,000), as well as commitments that are payable in the next twelve months as detailed in note 34 to the accounts. The directors, after taking into consideration the historical payment patterns for the Group's liabilities and the Group's available financial resources, consider the Group will be able to meet its liabilities as and when they fall due during the year ended 31 March 2006 and accordingly, the accounts have been prepared on a going concern basis.

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

(b) Impact of recently issued Hong Kong Financial Reporting Standards ("HKFRSs")

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, hereinafter collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on the Group's results of operations and financial position.

(c) 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.

1 Principal accounting policies (continued)

(c) Group accounting (continued)

(i) Consolidation (continued)

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 any 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 and impairment losses) 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.

(d) 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 2005 and 2004, there was no material exchange difference arising from such translation.

(e) 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.

(f) Fixed assets

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

Notes to the Accounts •••••

1 Principal accounting policies (continued)

(f) Fixed assets (continued)

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%

The cost of maintenance and repairs is charged to operations as incurred. Expenditures, which extend the useful life of the asset or increase the capacity or quality of output or standard of performance, are capitalised and depreciated at the applicable depreciation rates.

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

Construction in progress ("CIP") is stated at cost, which includes borrowing costs incurred to finance the construction, and is proportionally attributed to the qualifying assets. No depreciation is provided for CIP. On completion, the relevant assets are transferred to fixed assets at cost less accumulated impairment losses.

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.

(g) 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.

1 Principal accounting policies (continued)

(g) Investment properties (continued)

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.

(h) Assets under leases

(i) Finance leases

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

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

(ii) Operating leases

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

(i) 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.

(j) 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.

Notes to the Accounts •••••

1 Principal accounting policies (continued)

(k) 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.

(l) 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 which have original maturities of three months or less at the date of acquisition.

(m) 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.

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.

(n) 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.

(o) 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)

(o) 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) Rental and leasing revenue is recognised on a straight-line basis over the period of the respective leases.
- (vii) Interest income is recognised on a time proportion basis, taking into account the principals outstanding and interest rates applicable.
- (viii) Dividend income is recognised when the right to receive payment is established.
- (ix) Airtime income is recognised on an accrual basis in accordance with the terms of the agreements.

(p) 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 ("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 option 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)

(q) 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.

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenues, segment expenses and segment performance include transactions between segments. These transactions are eliminated upon consolidation.

Unallocated costs represent corporate expenses and those that cannot be allocated on a reasonable basis to a segment. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Unallocated assets represent assets not dedicated to a particular segment, consisting primarily of cash and bank balances, investments in securities, investment properties and other non-current assets. Segment liabilities comprise operating liabilities and corporate borrowings. Unallocated liabilities represent liabilities not attributable to a particular segment, consisting primarily of short-term and long-term and other payables. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are based on where the assets are located. Unallocated expenses consist of those that cannot be allocated on a reasonable basis to a geographical segment.

(r) 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.

(s) 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:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Turnover		
International telecommunications services income	577,353	522,930
Sale of telecommunications products	62,882	91,370
Technical consultancy services income	–	72,830
Commission income	29,402	16,302
Mobile communications services income	84,965	84,475
Trunking radio services income	7,110	11,240
Repair and maintenance service income	2,779	2,282
	764,491	801,429
Other revenues		
Rental income	3,111	3,074
Interest income	7,798	7,221
Dividend income from listed investments	–	2
Others	3,927	2,384
	14,836	12,681
Total revenues	779,327	814,110
Other income represents		
Other revenues	14,836	12,681
Extinguishment of liabilities related to an expired contract (note (a))	23,847	–
	38,683	12,681

Note (a): During the year, after extended negotiations with the contracting party (being China Motion Telecom Holdings Limited ("CMTH") and/or its subsidiaries ("CMTH Group")) on a telecommunication contract that expired in the previous financial year, it was confirmed that certain liabilities under the expired contract will not need to be paid. Consequently, an amount of HK\$23,847,000 was reversed into the consolidated profit and loss account for the year ended 31 March 2005.

Notes to the Accounts •••••

3 Segment information

The Group's principal activities can be categorised into three 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 and the United Kingdom/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 and provision for mobile service subscription service to mobile operators	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
2005

	International Telecommuni- cations Services HK\$'000	Mobile Communi- cations Services HK\$'000	Distribution and Retail Chain HK\$'000	Unallocated Items HK\$'000	Group HK\$'000
Turnover	540,010	97,214	127,267	–	764,491
Segmental profit/(loss)	11,715	29,123	(6,983)	(445,849)*	(411,994)
Net finance income					4,282
Share of losses less profits of associated companies					(61,437)
Loss before taxation					(469,149)
Taxation					(2,790)
Loss after taxation					(471,939)
Minority interests					12,240
Loss attributable to the shareholders					(459,699)
Segment assets	601,697	39,386	97,084	87,441	825,608
Investments in associated companies					61,044
Consolidated total assets					886,652
Segment liabilities	428,832	96,229	20,777	94,946	640,784
Capital expenditure	67,214	2,061	3,762	485	73,522
Depreciation	24,541	4,167	4,622	8,286	41,616
Amortisation	–	–	–	–	–
Other non-cash (expenses)/ income, net	(2,285)	(2,376)	51	(437,930)	(442,540)

Notes to the Accounts •••••

3 Segment information (continued)

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

2004

	International Telecommuni- cations Services HK\$'000	Mobile Communi- cations Services HK\$'000	Distribution and Retail Chain 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 less profits of associated companies					(10,916)
Loss before taxation					(38,567)
Taxation					(8,852)
Loss after taxation					(47,419)
Minority interests					(46)
Loss attributable to the shareholders					(47,465)
Segment assets	409,539	102,323	12,405	563,353	1,087,620
Investments in associated companies					136,308
Consolidated total assets					1,223,928
Segment liabilities	232,330	37,154	22,611	226,266	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)

3 Segment information (continued)

(b) Secondary reporting format – geographical segments

	Turnover		Segmental profit/(loss)		Total assets		Capital expenditure	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC	2,779	76,209	17,766	42,984	196,687	486,669	1,181	637
Asia Pacific regions	564,486	550,954	24,770	(21,719)	629,499	687,348	69,004	24,199
North America and the United Kingdom	197,226	174,266	(8,681)	(6,531)	60,466	49,911	3,337	14,705
	764,491	801,429	33,855	14,734	886,652	1,223,928	73,522	39,541
Unallocated items	-	-	(445,849)*	(45,422)	-	-	-	-
	764,491	801,429	(411,994)	(30,688)	886,652	1,223,928	73,522	39,541

* These unallocated items primarily include provision for doubtful debts and other non-current assets. See Note 4 for further details. These items cannot be allocated to any business segments or geographical segments on a reasonable basis.

4 Provision for doubtful debts and non-current assets

- (a) On 9 July 2003, the Company entered into an agreement with CMTH to reschedule the repayment of receivables in the amount of HK\$373,422,000 (the "Debt") due from CMTH, CMM and SCMTU. Under the agreement, the aggregate amount of the Debt owing by CMTH, comprising technical consultancy and maintenance fees, sales of telecommunications equipment, maintenance service income and leasing income and investment in GSM project, will be returned to the Group over a period of 5 years. At 31 March 2005, the outstanding balance of the Debt amounted to HK\$334,331,000. Prior to the due date of 14 July 2005, the second scheduled repayment, CMTH informed the Group that CMTH would be unable to repay the outstanding debts in the near future due to the financial pressure it was experiencing unless there would be a material change in its external financing environment. The Company's management has performed an assessment, based on all relevant and available facts and information including information about the CMTH Group, the telecommunications projects undertaken by the CMTH Group and the financing available for these projects, and concluded that the recoverability of the Debt owing by CMTH is remote. Accordingly, the Group has made a full provision for the Debt of HK\$334,331,000.
- (b) The Group has entered into an acquisition agreement with CMTH to acquire 50% in CM Netcom which is engaged in a VOIP business providing long distance call related services in the PRC in two stages at an aggregate consideration of HK\$258,000,000. Stage one of the acquisition was completed in August 2003. The stage two acquisition of 25% shareholding in CM Netcom of HK\$129,000,000 is to be completed in December 2005. The consideration for the stage two acquisition is to be paid for by offsetting against part of the receivables from CMTH included in "Other non-current assets" in the balance sheet as of 31 March, 2005 (see notes 17 and 35(b)). In assessing the value in use of the underlying project, the estimated future cash flows of the VOIP business of CM Netcom were discounted to their present value using a discount rate that reflects the current market assessment of the time value of money and the risks specific to the project. As a result of the assessment, the Group recognised an impairment charge of approximately HK\$72,599,000 against the carrying value of the receivables from CMTH which has been designated for use in making the stage two acquisition and an impairment charge of approximately HK\$54,000,000 for goodwill included in the carrying value of its current interest in CM Netcom. The Group's current investment in CM Netcom is included in investments in associated companies on the balance sheet (see note 16).
- (c) Details of the balances with CMTH and its subsidiaries are set out in note 35(b).

5 Operating loss

Operating loss is stated after crediting and charging the following:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Crediting		
Net exchange gains	–	327
Extinguishment of liabilities related to an expired contract	23,847	–
Dividend income from listed investments	–	2
Gain on disposal of properties	10,380	–
Unrealised gain on marketable securities	–	314
Surplus on revaluation of investment properties	23,000	3,000
Gross rental income	3,111	3,074
Less: outgoings	(709)	(739)
	2,402	2,335
Charging		
Auditors' remuneration	2,380	2,128
Staff costs including directors' emoluments (Note 12)	111,351	121,674
Depreciation of fixed assets		
– owned assets	38,062	35,262
– assets under finance leases	3,554	2,670
Operating lease charges for land and buildings	33,415	26,039
Operating lease charges for telecommunications equipment	44,259	63,655
Amortisation of goodwill (included in administrative expenses)	–	1,246
Cost of inventories sold	58,290	83,763
Provision for inventories	(166)	18
Provision for doubtful debts	5,658	20,317
Diminution in value of marketable securities	277	–
Net exchange loss	242	–
Provision for diminution in other investments	1,298	–
Provision for impairment against the carrying value of the receivable from CMTH designated for use in making the stage two acquisition (notes 4, 16 and 35)	72,599	–
Provision for amounts due from CMTH group (notes 4 and 35(b))	334,331	–

Notes to the Accounts •••••

6 Finance costs

	Group	
	2005 HK\$'000	2004 HK\$'000
Interest on bank loans and overdrafts		
– wholly repayable within five years	1,351	1,743
– not wholly repayable within five years	2,039	2,201
Interest element of finance leases	126	240
	3,516	4,184

7 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. 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	
	2005 HK\$'000	2004 HK\$'000
Hong Kong profits tax		
– current year	280	60
– (overprovision)/underprovision in previous years	(32)	80
Overseas taxation		
– current year	1,042	1,030
– overprovision in previous years	(1,566)	–
PRC taxation		
– current year	2,703	8,071
Deferred taxation	(964)	(389)
	1,463	8,852
Share of taxation attributable to associated companies	1,327	–
	2,790	8,852

7 Taxation (continued)

(a) (continued)

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the company as follows:

	2005	2004
	HK\$'000	HK\$'000
Loss before taxation	(469,149)	(38,567)
Calculated at a taxation rate of 17.5% (2004: 17.5%)	(82,101)	(6,749)
Effect of different taxation rates in other countries	721	(264)
Income not subject to taxation	(7,570)	(1,566)
Expenses not deductible for taxation purpose	72,745	2,813
Utilisation of previously unrecognised tax losses	(1,598)	(774)
Tax effect of unused tax losses not recognised (Overprovision)/underprovision in previous years	22,191	15,312
	(1,598)	80
Taxation charge	2,790	8,852

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
Hong Kong profits tax payable	314	59
PRC taxation	5,922	5,634
Overseas taxation	1,173	630
	7,409	6,323

8 Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of loss of HK\$514,470,000 (2004: profit of HK\$166,627,000).

9 Dividend

The directors do not recommend the payment of a final dividend for the year ended 31 March 2005 (2004: Nil).

Notes to the Accounts •••••

10 Loss per share

	Group	
	2005	2004
	HK\$'000	HK\$'000
Loss attributable to shareholders	(459,699)	(47,465)
Loss per share		
– Basic (note (a))	(87.48) HK cents	(9.03) HK cents
– Diluted (note (b))	N/A	N/A

Notes:

- (a) Basic loss per share is calculated based on weighted average number of issued ordinary shares of 525,475,573 shares (2004: 525,475,573 shares).
- (b) Diluted loss per share for the years ended 31 March 2005 and 2004 has not been presented as the conversion of potential ordinary shares to ordinary shares would have an anti-dilutive effect to the basic loss per share.

11 Retirement benefit costs

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

The Group has contributed HK\$2,561,000 to the MPF for the year ended 31 March 2005 (2004: HK\$2,451,000).

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

12 Staff costs (including directors' remuneration)

	Group	
	2005	2004
	HK\$'000	HK\$'000
Wages and salaries	107,333	115,342
Unutilised annual leave	(683)	(1,211)
Long service payments	(569)	1,088
Termination benefits	2,709	4,004
Retirement benefit costs- contribution to the MPF	2,561	2,451
	111,351	121,674

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

13 Directors' and senior management's emoluments

(a) Directors' emoluments

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
Fees	763	1,370
Basic salaries, housing allowances, other allowances and benefits in kind	10,956	15,139
Retirement benefit costs	55	48
	11,774	16,557

Directors' fees disclosed above included HK\$348,000 (2004: HK\$360,000) paid to independent non-executive directors.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2005	2004
HK\$Nil - HK\$1,000,000	6	4
HK\$1,000,001 - HK\$1,500,000	1	1
HK\$1,500,001 - HK\$2,000,000	1	1
HK\$2,000,001 - HK\$2,500,000	1	–
HK\$3,000,001 - HK\$3,500,000	–	1
HK\$5,000,001 - HK\$5,500,000	1	–
HK\$7,000,001 - HK\$7,500,000	–	1
	10	8

During the year, there was no payment as inducement to join and compensation for loss of office.

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2004: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: two) individuals during the year are as follows:

	2005	2004
	HK\$'000	HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	914	3,405
Bonuses	18	2,094
Retirement benefit costs	12	24
	944	5,523

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2005	2004
HK\$Nil - HK\$1,000,000	1	–
HK\$1,500,001 - HK\$2,000,000	–	–
HK\$2,000,001 - HK\$2,500,000	–	–
HK\$2,500,001 - HK\$3,000,000	–	2

During the year, there was no payment as inducement to join and compensation for loss of office.

- (c) The share options held by the directors (including non-executive directors of the Company) under the 1998 Share Option Scheme are set out in the report of the directors on pages 22 to 23.

14 Fixed assets – Group

	Investment properties	Leasehold land and buildings	Furniture, fixtures and office equipment	Telecom- munications equipment	Leasehold improve- ments	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation								
At 1 April 2004	66,500	212,737	50,421	479,480	52,113	7,580	-	868,831
Additions	-	-	2,564	19,021	2,012	379	49,546	73,522
Transfers	-	-	13	(13)	-	-	-	-
Revaluation (note (b))	23,000	-	-	-	-	-	-	23,000
Disposals/write-off	-	(39,531)	(3,042)	-	(2,467)	(855)	-	(45,895)
At 31 March 2005	89,500	173,206	49,956	498,488	51,658	7,104	49,546	919,458
Accumulated depreciation and impairment								
At 1 April 2004	-	102,858	36,693	384,723	42,766	7,388	-	574,428
Charge for the year	-	2,127	5,650	28,375	5,396	68	-	41,616
Disposals/write-off	-	(13,818)	(2,577)	(340)	(2,318)	(612)	-	(19,665)
At 31 March 2005	-	91,167	39,766	412,758	45,844	6,844	-	596,379
Net book value or valuation								
At 31 March 2005	89,500	82,039	10,190	85,730	5,814	260	49,546	323,079
At 31 March 2004	66,500	109,879	13,728	94,757	9,347	192	-	294,403

Notes:

- (a) As at 31 March 2005, the net book value of fixed assets pledged as security for banking facilities of the Group amounted to approximately HK\$171,539,000 (2004: HK\$176,379,000).
- (b) The investment properties are valued at open market value by DTZ Debenham Tie Leung Limited, independent professional valuers, as at 31 March 2005. The revaluation surplus 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.

Notes to the Accounts •••••

14 Fixed assets – Group (continued)

Notes: (continued)

- (c) The analysis of the net book value of the Group's leasehold land and buildings and valuation of the Group's investment properties as at 31 March 2005 is as follows:

	Group			
	Leasehold land and buildings in Hong Kong	Investment properties		Total
	Hong Kong	Hong Kong	PRC	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Period unexpired				
Leases between 20 to 50 years				
At net book value	75,499	–	–	–
At valuation	–	23,000	4,700	27,700
Leases not less than 50 years				
At net book value	6,540	–	–	–
At valuation	–	61,800	–	61,800
	<u>82,039</u>	<u>84,800</u>	<u>4,700</u>	<u>89,500</u>

- (d) As at 31 March 2005, the net book values of fixed assets held under finance leases are as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Telecommunications equipment	<u>12,738</u>	<u>11,017</u>

15 Investment in a subsidiary

	Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted investment, at cost (note (a))	113,115	113,115
Amount due from a subsidiary (note (b))	1,079,564	1,084,544
Provision for amount due from a subsidiary	(919,000)	(407,000)
	<u>273,679</u>	<u>790,659</u>

Notes:

- (a) Particulars of principal subsidiaries are set out in note 37 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

	Group	
	2005 HK\$'000	2004 HK\$'000
Share of net assets (note (a))	10,999	7,278
Goodwill on acquisition	124,853	124,853
Amortisation for the year (note (b))	(20,808)	(8,323)
	104,045	116,530
Loan to an associated company (note (c))	–	12,500
Provision for goodwill impairment (note (d))	(54,000)	–
	61,044	136,308

Notes:

- (a) Particulars of the principal associated companies are set out in note 38 to the accounts. The Group has entered into an acquisition agreement with CMTH to acquire 50% in CM Netcom which is engaged in a VOIP business providing long distance call related services in the PRC in two stages at an aggregate consideration of HK\$258,000,000. Stage one of the acquisition was completed in August 2003. The stage two acquisition of 25% shareholding in CM Netcom of HK\$129,000,000 is to be completed in December 2005. The consideration for the stage two acquisition is to be paid for by offsetting against part of the receivable from CMTH included in "Other non-current assets" in the balance sheet as of 31 March, 2005 (see notes 17 and 35(b)). An impairment charge of approximately HK\$72,599,000 was recognised against this receivable designated for use in making the stage two acquisition (see note 4(b)).
- (b) The amortisation expenses of goodwill is included under the item of share of losses less profits of associated companies in the consolidation profit and loss account.
- (c) The loan to an associated company was unsecured, interest bearing at 3 months Hong Kong Interbank Offer Rate plus 2% and has been repaid during the year.
- (d) The Company has performed an impairment assessment on the goodwill included in the carrying value of its current interest in CM Netcom and an impairment charge of approximately HK\$54,000,000 was recognised and is included under the item of share of losses less profits of associated companies in the consolidated profit and loss account (see note 4(b) for details).

Notes to the Accounts •••••

17 Other non-current assets

	Group	
	2005 HK\$'000	2004 HK\$'000
Long-term investments		
Club debentures	3,739	4,762
Other, unlisted (note 35(b))	56,401	207,546
	60,140	212,308
Non-current trade receivables (note 35(b))	–	256,134
Deferred tax assets (note 30)	1,055	1,948
Prepayment	12,768	11,373
	73,963	481,763

18 Inventories

	Group	
	2005 HK\$'000	2004 HK\$'000
Finished goods	4,939	6,575

At 31 March 2005, the carrying amount of inventories that are carried at net realisable value amounted to HK\$2,707,255 (2004: HK\$4,551,000).

19 Receivables and prepayments

	Note	Group		Company	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade					
Trade receivables, net of provision	(a)	326,942	189,211	–	–
Non-trade					
Due from:					
Subsidiaries	(b)	–	–	2,965	–
Associated companies	(b)	37	36,186	–	–
Related companies	(b)	4,947	3,707	–	–
Other receivables and prepayments		48,261	22,210	–	–
		380,187	251,314	2,965	–

19 Receivables and prepayments (continued)

Notes:

(a) The ageing analysis of the trade receivables as at 31 March 2005 is as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
0-30 days	76,391	44,204
31-60 days	33,656	26,903
61-90 days	28,033	21,306
Over 90 days	227,288	130,830
	365,368	223,243
Less: Provision for doubtful debts	(38,426)	(34,032)
	326,942	189,211

The Group has a defined credit policy. The general credit term is 30 to 60 days.

(b) The amounts due are unsecured, interest-free and have no fixed terms of repayment.

20 Marketable securities

	Group	
	2005	2004
	HK\$'000	HK\$'000
Equity securities, listed in Hong Kong at market value	334	611

21 Bank and cash balances – Group

Included in bank and cash balances of the Group is HK\$3,017,000 (2004: HK\$21,963,000) which represents bank balances denominated in Renminbi (“RMB”) placed with banks in the PRC. RMB is not a freely convertible currency.

Notes to the Accounts •••••

22 Trade and other payables

	Note	Group		Company	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade					
Trade payables	(a)	360,407	215,279	–	–
Advance subscription fees received		9,288	5,410	–	–
Non-trade					
Due to:					
Subsidiaries	(b)	–	–	445	–
Associated companies	(b)	8,725	28,513	–	–
A director	(c)	(149)	122	–	–
Deposits received		6,936	6,585	–	–
Other payables and accrued liabilities		86,792	80,077	1,245	1,243
		471,999	335,986	1,690	1,243

Notes:

(a) Trade payables

	Group	
	2005 HK\$'000	2004 HK\$'000
Trade payables	385,179	215,743
Less: amounts payable within one year included in current liabilities	(360,407)	(215,279)
Amounts payable after one year (note 26)	24,772	464

The ageing analysis of trade payables as at 31 March 2005 is as follows:

	2005 HK\$'000	2004 HK\$'000
0-30 days	49,379	47,668
31-60 days	39,964	22,269
61-90 days	25,948	18,241
Over 90 days	245,116	127,101
Total	360,407	215,279

(b) As at 31 March 2005, amounts due to subsidiaries and associated companies are unsecured, interest-free and have no fixed terms of repayment.

(c) The balance represents the amount due from Mr. HAU Tung Ying, director of the Company. The amount is unsecured, interest-free and has no fixed terms of repayment. The maximum amount outstanding during the year is approximately HK\$149,000.

23 Borrowings

	Note	Group	
		2005 HK\$'000	2004 HK\$'000
Current			
Bank overdrafts – secured	24	1,977	–
Bank loans – secured	24	43,351	52,246
Obligations under finance leases	25	4,078	4,654
		49,406	56,900
Non-current			
Bank loans – secured	24	50,346	67,671
Obligations under finance leases	25	1,643	1,711
		51,989	69,382
Total borrowings		101,395	126,282

24 Bank overdrafts and bank loans – secured

	Group	
	2005 HK\$'000	2004 HK\$'000
Secured bank overdrafts and bank loans repayable:		
– within one year (included in current liabilities)	45,328	52,246
– between one and two years	8,224	17,554
– between two and five years	21,162	22,726
– over five years	20,960	27,391
	50,346	67,671
	95,674	119,917

Notes to the Accounts •••••

24 Bank overdrafts and 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 interest rate exposure of the bank loans of the Group is as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
At floating rates		
– Hong Kong dollar denominated loans	93,751	117,408
– United States dollar denominated loans	1,923	2,509
	<u>95,674</u>	<u>119,917</u>

25 Obligations under finance leases

At 31 March 2005, the Group's finance leases liabilities are repayable as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	4,211	4,713
In the second year	1,666	1,739
	<u>5,877</u>	6,452
Future finance charges on finance leases	(156)	(87)
Present value of finance lease liabilities	<u>5,721</u>	<u>6,365</u>

The present value of finance lease liabilities is as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year (included in current liabilities)	4,078	4,654
In the second year	1,643	1,711
	<u>1,643</u>	1,711
	<u>5,721</u>	<u>6,365</u>

26 Trade payable – non current

The amount is non-interest bearing and not repayable within twelve months from the balance sheet date.

27 Share capital

	Company	
	2005	2004
	HK\$'000	HK\$'000
Authorised:		
1,040,000,000 ordinary shares of HK\$0.75 each	780,000	780,000

	2005		2004	
	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	525,475,573	394,107	525,475,573	394,107

(a) Share option scheme

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 option 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 it was adopted. A summary of the New Share Option Scheme is disclosed in the report of directors.

Notes to the Accounts •••••

27 Share capital (continued)

(a) Share option scheme (continued)

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 31 March 2005
		Outstanding as at 1 April 2004	Granted during the year	Exercised during the year	Lapsed during the year	
29 June 1998	0.751	401,672	–	–	(308,979)	92,693
19 August 1999	2.00	1,091,724	–	–	(257,482)	834,242
25 February 2000	3.19	1,091,725	–	–	(252,333)	839,392
17 October 2000	1.22	2,775,660	–	–	(602,510)	2,173,150
20 March 2001	0.75	20,100,000	–	–	(3,850,000)	16,250,000
28 January 2002	0.75	400,000	–	–	(100,000)	300,000
		<u>25,860,781</u>	<u>–</u>	<u>–</u>	<u>(5,371,304)</u>	<u>20,489,477</u>

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 20,489,477 ordinary shares with estimated proceeds of HK\$19,479,000.

28 Non-distributable capital reserves

Group

	2005						2004					
	Share premium	Reserves on consolidation	Exchange reserve	Capital redemption reserve	Enterprise expansion reserve	Total	Share premium	Reserves on consolidation	Exchange reserve	Capital redemption reserve	Enterprise expansion reserve	Total
At 1 April	455,573	4,900	1,697	450	77,623	540,243	455,573	4,900	1,697	450	69,274	531,894
Transfer from retained profits of subsidiaries	-	-	-	-	-	-	-	-	-	-	8,349	8,349
At 31 March	455,573	4,900	1,697	450	77,623	540,243	455,573	4,900	1,697	450	77,623	540,243

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

	2005			2004		
	Share premium	Capital redemption reserve	Total	Share premium	Capital redemption reserve	Total
At 1 April and 31 March	455,573	450	456,023	455,573	450	456,023

29 Contributed surplus

	Company	
	2005	2004
	HK\$'000	HK\$'000
At 1 April and 31 March	52,854	52,854

The contributed surplus of the Company, which arose from a corporate reorganisation in March 1995 represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of China Motion Holdings Limited 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% (2004:17.5%).

The movement in the deferred tax assets/(liabilities) during the year is as follows:

	2005	2004
	HK\$'000	HK\$'000
At 1 April	(2,141)	(2,530)
Credited to consolidated profit and loss account	964	389
At 31 March	(1,177)	(2,141)

Deferred tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has estimated unrecognised tax losses of HK\$122,372,000 (2004: HK\$117,211,000) to set off against future taxable income. These tax losses have 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	
	2005	2004
	HK\$'000	HK\$'000
At 1 April	11,075	9,525
(Credited)/Charged to consolidated profit and loss account	(3,144)	1,550
At 31 March	7,931	11,075

30 Deferred taxation (continued)

Deferred tax assets

	Tax losses		Others		Total	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	8,328	6,297	606	698	8,934	6,995
(Charged)/Credited to consolidated profit and loss account	(2,070)	2,031	(110)	(92)	(2,180)	1,939
At 31 March	6,258	8,328	496	606	6,754	8,934

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:

	2005	2004
	HK\$'000	HK\$'000
Deferred tax assets	1,055	1,948
Deferred tax liabilities	(2,232)	(4,089)

Notes to the Accounts •••••

31 Notes to the consolidated cash flow statement

(a) Reconciliation of loss before taxation to cash inflow generated from operating activities

	2005 HK\$'000	2004 HK\$'000
Loss before taxation	(469,149)	(38,567)
Depreciation of owned fixed assets	38,062	35,262
Depreciation of fixed assets held under finance leases	3,554	2,670
Amortisation of goodwill	–	1,246
Surplus on revaluation of investment properties	(23,000)	(3,000)
Share of losses less profits of associated companies	8,764	10,916
Net (gain)/loss on disposal of fixed assets	(10,217)	1,497
Provision for doubtful debts and non-current assets	406,930	–
Impairment of goodwill in an associated company	54,000	–
Provision for diminution in other investments	1,298	–
Extinguishment of liabilities related to an expired contract	(23,847)	–
Dividend from listed investments	–	(2)
Interest expense	3,390	3,944
Interest element of finance leases	126	240
Interest income	(7,798)	(7,221)
Changes in working capital		
(Increase)/decrease in inventories	1,636	(484)
Increase in trade receivables, other receivables and prepayments, including amounts due from associated companies and related companies	(110,490)	(65,245)
Increase in trade payables, other payables and accrued liabilities, deposit received, advance subscription fees received including amounts due to associated companies and a director	142,879	68,189
Net cash inflow generated from operations	16,138	9,445

31 Notes to the consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	Share capital		Minority interests		Loans and obligations under finance leases	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	394,107	394,107	45,217	46,560	126,282	135,419
Share of (loss)/profits by minority shareholders	-	-	(12,240)	46	-	-
New finance leases	-	-	-	-	5,136	2,787
Cash outflows from financing	-	-	-	-	(32,000)	(11,924)
Capital contributions from minority shareholders	-	-	-	3,342	-	-
Dividends paid to minority shareholders	-	-	-	(4,731)	-	-
At 31 March	394,107	394,107	32,977	45,217	99,418	126,282

32 Cash and cash equivalents

	Group	
	2005	2004
	HK\$'000	HK\$'000
Bank and cash balances	33,919	45,361
Bank overdrafts	(1,977)	-
	31,942	45,361

33 Contingent liabilities and future operating lease arrangements

As at 31 March 2005, the Group and the Company had contingent liabilities not provided for in the accounts as follows:

(a) Contingent liabilities

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Guarantees in respect of banking facilities of subsidiaries	–	–	243,731	280,961
Guarantees given to third parties against non-performance of contractual obligations by subsidiaries	40,463	29,041	25,843	23,924

(b) Future operating lease arrangements

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

	Group	
	2005 HK\$'000	2004 HK\$'000
Within one year	606	1,060
Between two and five years	–	122
	606	1,182

34 Commitments

As at 31 March 2005, the Group had the following operating lease commitments:

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
<hr/>		
In respect of land and buildings, including transmission sites:		
within one year	22,511	21,574
between two and five years	14,471	11,277
	<hr/> 36,982 <hr/>	<hr/> 32,851 <hr/>
In respect of leased lines:		
within one year	9,293	8,439
between two and five years	3,127	5,632
more than five years	4,800	5,400
	<hr/> 17,220 <hr/>	<hr/> 19,471 <hr/>
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Notes to the Accounts •••••

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 between the parties during the year.

	Group	
	2005	2004
	HK\$'000	HK\$'000
Income/(expenses)		
ChinaMotion Telecare (HK) Limited, a company owned by a director		
Hotline service fee	–	(425)
PA center service fee	–	(360)
Rental income	392	–
Significant transactions with minority shareholders of subsidiaries		
CMTH		
Recharge of paging and mobile services expenses	–	(829)
Call center service fee	(3,046)	(6,029)
Interest income	7,425	5,891
Maintenance service fee	(1,055)	–
Shenzhen China Motion Telecom United Company Limited (“SCMTU”)		
Sales of telecommunications equipment	1,608	3,030
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

35 Related party transactions (continued)

(b) As at 31 March 2005, the amounts due from CMTH and its subsidiaries are as follows:

(i) Long-term investments

	2005	2004
	HK\$'000	HK\$'000
Others, unlisted		
Funding to a telecommunications project receivable	207,546	207,546
Less: provision for impairment	(151,145)	–
At 31 March	56,401	207,546

(ii) Trade receivables

	Group	
	2005	2004
	HK\$'000	HK\$'000
CMTH	30,357	31,125
CMM	101,862	137,313
SCMTU	123,566	98,196
	255,785	266,634
Less: provision for doubtful debts	(255,785)	–
At 31 March	–	266,634

This represents the remaining balance of funding in an original amount of HK\$341,192,000 originally provided by the Group to a telecommunications project in the Guangdong province in the PRC in 1997. This project was entered into on behalf of the Group by a subsidiary of the CMTH. The amount was to be returned by that subsidiary to a subsidiary of the Company before or upon expiry of a service agreement between the subsidiaries of CMTH and the Company in March 2004. This service agreement expired in March 2004.

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 an consideration of RMB276 million (equivalent to approximately HK\$258 million). CM Netcom is engaged in the VOIP business of providing long distance call related services in the PRC.

35 Related party transactions (continued)

(b) (continued)

(ii) Trade receivables (continued)

Stage one of the acquisition was completed on 5 August 2003. The total consideration of HK\$128,973,000 was satisfied by a cash payment of HK\$2,085,000 and by offsetting the receivable arising from the provision of capital expenditure funding of HK\$80,159,000 and a deposit of HK\$46,729,000 paid in previous years. The resulting goodwill of approximately HK\$124,853,000 has been amortised on a straight-line basis over a period of 10 years. The investment in CM Netcom is included in investments in associated companies on the balance sheet (See Note 16).

Stage two of the acquisition of an interest in CM Netcom of HK\$129,000,000 is expected to be completed in December 2005. The consideration for the stage two acquisition is to be paid for by set off against a portion of the funding to the telecommunications project receivable of HK\$207,546,000. The remaining balance of HK\$78,546,000 would be returned according to a rescheduling agreement entered into between CMTH and the Company dated 9 July 2003.

In assessing the recoverability of the funding to the telecommunications project receivable, the Group had made reference to the value of VOIP business of CM Netcom and the ability of CMTH to repay the rescheduled Debt and has concluded that a provision for recoverability of the receivable of approximately HK\$151,145,000 is required and of which HK\$78,546,000 is included in the provision of the Debt. See note 4 for details of the provision made.

In preparing the accounts for the current year, 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 investment and recoverability of amounts due from CMTH. 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 CMTH requires the exercise of significant judgement by management. It also depends on the success of the telecommunications projects undertaken by CMTH including but not limited to CM Netcom's VOIP related business (see note 4). Given the inherent risk associated with CMTH and the telecommunications projects, management believes that it has made reasonable judgements based on all relevant and available facts and information about CMTH including the telecommunications projects undertaken by CMTH and the financing facilities available for these projects in assessing the recoverability of carrying amounts of the funding provided to a telecommunications project receivable. Adjustments to management's estimates will be made as the Group receives updated information about the business performance of CMTH and the telecommunications projects in which it is involved.

35 Related party transactions (continued)

(b) (continued)

(ii) Trade receivables (continued)

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 totaling HK\$373,422,000 due from CMTH Group comprising an amount of trade receivables of HK\$294,876,000 and part of receivable arising from the funding provided to a telecommunications project of HK\$78,546,000 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 the date upon which the conditions precedent to which the agreement is subject to has been fulfilled ("Effective Date")	40,000
On or before the last day of the second year commencing from the Effective Date	50,000
On or before the last day of the third year commencing from the Effective Date	80,000
On or before the last day of the fourth year commencing from the Effective Date	100,000
On or before the last day of the fifth year commencing from the Effective Date	<u>103,422</u>
Total:	<u>373,422</u>

The Group has determined that a provision for recoverability of the amounts due under the repayment is required. Details of the provision are set out in note 4.

(c) As at 31 March 2005, outstanding non-trade payables included payables to minority shareholders of subsidiaries are as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Guangdong Mobile Communication Corporation	<u>827</u>	<u>827</u>

Notes to the Accounts •••••

36 Personal guarantee by director and substantial shareholder

On 10 March 2005, Mr. HAU Tung Ying, an executive director and the chairman of the Company, and Goldtop, a substantial shareholder of which is beneficially owned as to 60% by Mr. HAU and as to 40% by his spouse, Madam TING Yat Shui, respectively entered into guarantees in favour of a bank in the PRC whereby Mr. HAU and Goldtop, as guarantors, shall unconditionally and irrevocably guarantee the repayment obligations of CMTH, as borrower, in favour of the bank, as lender, respectively in respect of a loan in the sum of approximately RMB376,000,000 lent by the bank to CMTH together with the interest and expenses in relation thereto.

37 Principal subsidiaries as at 31 March 2005

The principal subsidiaries as at 31 March 2005 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 ¹	Principal activities
Best Class International Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion Data System Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion Holdings Limited	British Virgin Islands	100 ordinary shares of US\$1.00 each	100%	Investment holding
ChinaMotion NetCom (Asia) Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	93.02%	Provision of long distance call services
ChinaMotion NetCom (Canada) Ltd.	Canada	1 common share	93.02%	Provision of long distance call services
China Motion Properties Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion (Australia) Limited	Australia	1 ordinary share of A\$1.00 each	93.02%	Provision of long distance call services
China Motion (Japan) Limited	Japan	200 shares of Yen 50,000.00 each	93.02%	Provision of long distance call services

37 Principal subsidiaries as at 31 March 2005 (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 held¹	Principal activities
China Motion (Singapore) Pte. Ltd.	Singapore	100,000 shares of S\$1.00 each	93.02%	Provision of long distance call services
China Motion (Taiwan) Limited	Taiwan	NT\$5,000,000	93.02%	Provision of long distance call services
China Motion (UK) Limited	The United Kingdom	2 shares of £1.00 each	93.02%	Provision of long distance call services
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
CM Concept Holdings (China) Limited	Hong Kong	100 ordinary shares of HK\$1.00 each and 500 non-voting deferred shares of HK\$10,000.00 each	100%	Investment holding
CM Concept (HK) Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Retail business
CM Tel (HK) Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	93.02%	Provision of long distance call services
CM Tel (Canada) Ltd	Canada	100 common shares of C\$1.00 each	93.02%	Provision of long distance call services

Notes to the Accounts •••••

37 Principal subsidiaries as at 31 March 2005 (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 held¹	Principal activities
CM Tel (USA) LLC	United States	US\$10,000	93.02%	Provision of long distance call services
Digital Pacific Limited	Hong Kong	2 ordinary share of HK\$1.00 each	93.02%	Provision of long distance call services
Express Lane Investment Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
Guangzhou Motion Telecom Service Co., Ltd.	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
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

37 Principal subsidiaries as at 31 March 2005 (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 held¹	Principal activities
Townlink Limited	Hong Kong	2,000,000 ordinary shares of HK\$1.00 each	70%	Provision of telecommunications services and the sale of mobile transceivers and related accessories
World Sheen Properties Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding

1. 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.

38 Principal associated companies

The principal associated companies as at 31 March 2005 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

Notes to the Accounts •••••

38 Principal associated companies (continued)

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.

39 Approval of accounts

The accounts were approved by the board of directors on 20 July 2005.

