



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)

(Stock Code 股份代號 : 989)

通信·無邊界 *Borderless Communications*

06

Annual Report 年報

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.

The Company is primarily listed on The Stock Exchange of Hong Kong Limited and secondarily on The Singapore Exchange Securities Trading Limited. 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「本公司」；連同其附屬公司統稱「本集團」）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，並在香港聯合交易所有限公司作第一上市，並於新加坡證券交易所有限公司作第二上市。一直以來，本集團本著努力不懈、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、移動通信服務與分銷及零售。

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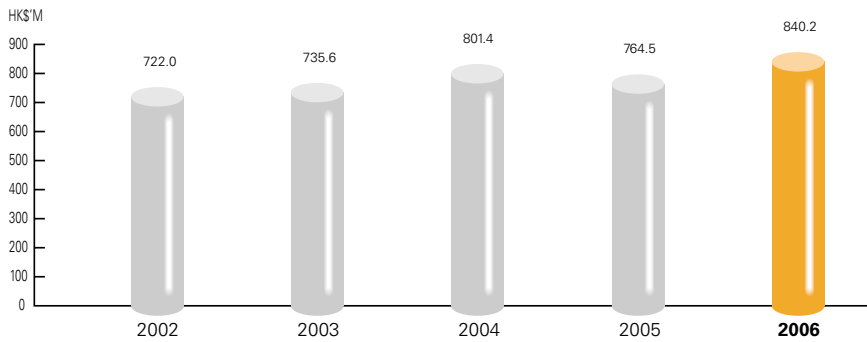
Financial Highlights

	2006	2005 (Restated)	2004 (Restated)	2003 (Restated)	2002 (Restated)
Turnover (HK\$ million)	840.2	764.5	801.4	735.6	722.0
(Loss) Profit before taxation (HK\$ million)	(229.6)	(470.5)	(38.6)	25.3	(115.0)
(Loss) Profit for the year (HK\$ million)	(228.5)	(471.9)	(47.4)	12.8	(129.2)
(Loss) Earnings per share (HK cents)	(38.3)	(87.5)	(9.0)	1.4	(24.9)
Total assets (HK\$ million)	460.8	886.7	1,223.9	1,204.1	1,109.2
Total liabilities (HK\$ million)	408.1	607.8	473.1	404.5	315.2
Net assets (HK\$ million)	52.7	278.9	750.8	799.6	794.0
Net assets value per share (HK\$)	0.1	0.5	1.4	1.5	1.5
Working capital ratio	0.6	0.8	0.8	0.8	2.2
Long-term debt to equity	0.72	0.28	0.09	0.10	0.12

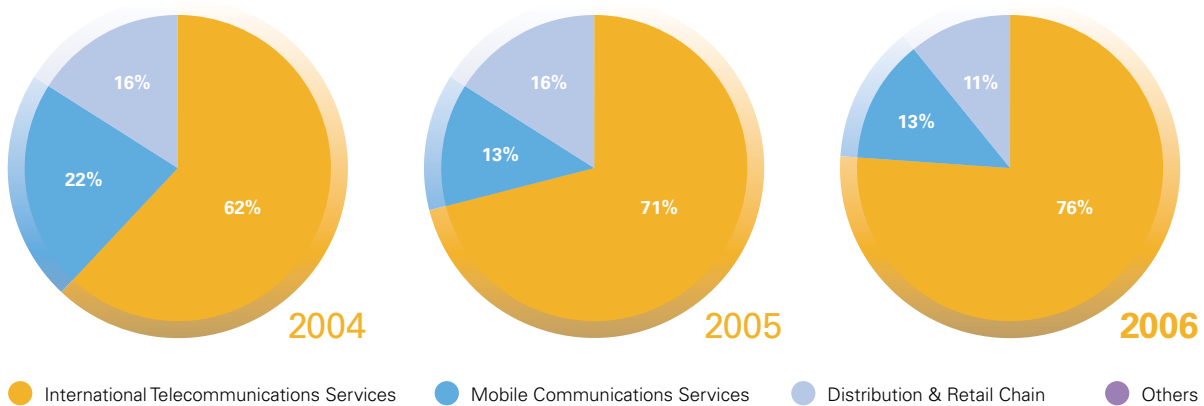
Note: The figures in this table have been restated to reflect the adoption of new/revised Hong Kong Financial Reporting Standards.

Financial Highlights

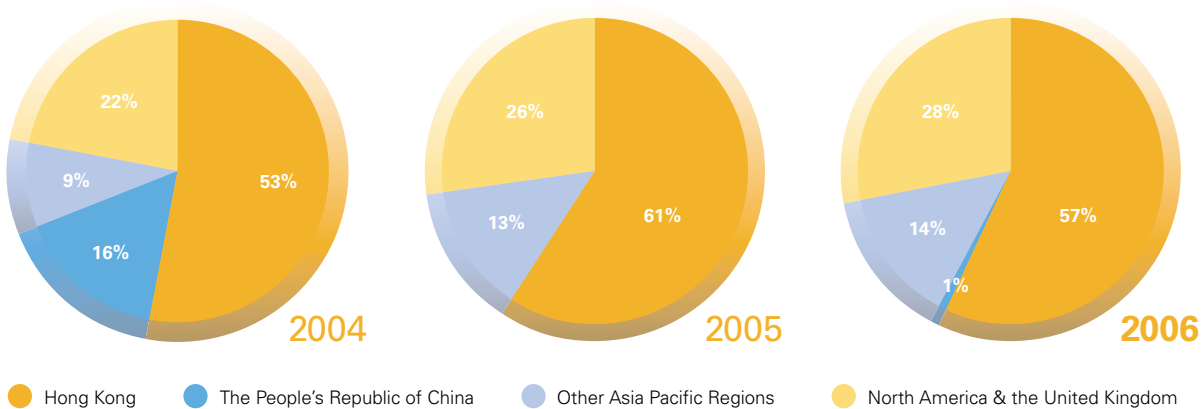
TURNOVER



TURNOVER BY BUSINESS SEGMENT



TURNOVER BY GEOGRAPHICAL SEGMENT



Corporate Information

BOARD OF DIRECTORS

Executive Directors

WU Chi Chiu (*Deputy Chairman
and Chief Executive Officer*)

FAN Wei

Jeffrey WANG

Independent Non-executive Directors

HUANG An Guo (*Chairman*)

LO Chi Ho, William

WONG Fei Tat

AUDIT COMMITTEE

LO Chi Ho, William (*Chairman*)

HUANG An Guo

WONG Fei Tat

REMUNERATION COMMITTEE

LO Chi Ho, William (*Chairman*)

HUANG An Guo

WONG Fei Tat

FAN Wei

NOMINATION COMMITTEE

WU Chi Chiu (*Chairman*)

HUANG An Guo

LO Chi Ho, William

COMPANY SECRETARY

CHAN Siu Mei

LEGAL ADVISORS

Tsun & Partners, Solicitors

Boase Cohen & Collins, Solicitors & Notaries

AUDITORS

Moore Rowland Mazars

Chartered Accountants

Certified Public Accountants

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

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
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

SINGAPORE SHARE TRANSFER AGENT

Tricor Barbinder Share Registration Services
(A division of Tricor Singapore Pte Ltd)
8 Cross Street
#11-00 PWC Building
Singapore 048424

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
DBS Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited

STOCK CODE

SEHK Code: 989

Chairman's Statement

Dear Shareholders,

I am pleased to present the review of China Motion Telecom International Limited (the "Company") and its subsidiaries (collectively, the "Group") for the fiscal year 2005/06. This also marks my first financial report since being the Group's Non-executive Chairman. For the year ended 31 March 2006, the Group experienced substantial changes in controlling shareholders, the composition of the board of directors (the "Board") and key management. These primarily internal and structural adjustments affected our business development and strategic planning for the year, resulting in modest performance across our operations.

In December 2005, Mr. Wu Chi Chiu, an executive director of the Company and the Group's Chief Executive Officer, through his wholly and beneficially owned company, purchased approximately 41.14% of the total issued share capital of the Company from a company held by Mr. Hau Tung Ying, the Group's former Chairman, resulting in a change of controlling shareholder. Since joining the Group, Mr. Wu has been fully committed to reorganising the Board and management, evaluating internal operations and resources and providing strategic insights on business development in order to enhance the Group's competitiveness. Subsequently, a capital reorganisation was implemented in May 2006 with the approval of the shareholders at a special general meeting so as to provide the Company with greater flexibility in issuing shares for fund-raising in future. Such measures have demonstrated the Board's commitment to re-evaluate the Group's management and operational structure, so as to improve the quality of the Group's management and operational efficiency over the long term.

Also during the year under review, despite continuous economic growth in both Mainland China and Hong Kong markets, the telecommunications industry in both markets experienced considerable challenges. Consumers were demanding not only ordinary services, but also more value-added telecommunications and information services, resulting in a structural shift in the supply chain. In response to this industrial development, many telecommunications companies altered their business models to improve their competitiveness and capitalise on new opportunities. As such, the Group had prudently implemented its development strategies to cater to the customer's requirements and to improve its service quality.

Over the past few years, the Group has been focusing on business rationalisation to improve the operational efficiency of its core businesses. For the year ended 31 March 2006, the Group recorded a turnover of HK\$840,222,000, an increase of 9.9%. Due to the competitive pricing and operational difficulties under intense market competition, the gross margin was pressured and accordingly, the gross profit decreased by 20.3% to HK\$122,663,000.

In view of the abrupt changes to the telecommunications services supply chain in domestic and overseas telecommunications markets, we will make use of our operational experience and technical expertise to maintain steady growth in our core businesses while closely to monitor the market for any appropriate opportunities that could provide additional sources of income and improve our overall profitability. However, we currently have no specific plans or projects under negotiation. Management will keep shareholders and investors informed of any developments.

On behalf of the Board, I would like to thank our staff for their dedication and hard work over the previous year. I would also like to extend my sincere thanks to all former members of the Board and management for their contributions to the Group over the years.

HUANG An Guo

Non-Executive Chairman

12 July 2006

Management Discussion and Analysis

BUSINESS OVERVIEW

During the year, China Motion Telecom International Limited and its subsidiaries (collectively, the "Group") placed its focus on management and operational restructuring with a view to strengthening its competitive edge and accordingly, the business development was affected. In addition, due to the intense competition in the telecommunications markets, the Group's performance for the year under review was also affected.

The Group recorded a turnover of HK\$840,222,000, an increase of 9.9% over last fiscal year and incurred a loss of HK\$228,478,000 for the year, representing a 52% decrease when compared with last year.

International Telecommunications Services

For the year ended 31 March 2006, the international telecommunications services business reported turnover amounting to HK\$638,170,000, representing an increase of 18% over last fiscal year. The business division mainly covers wholesale and retail IDD services. During the year, IDD voice traffic continued to increase reaching 3,741 million minutes, representing an increase of 32% over the previous fiscal year.

Growth in voice traffic and turnover for the Group's wholesale IDD business benefited mainly from the Group's dedication in recent years to expand in overseas markets. The wholesale IDD business continued to be the Group's most significant source of income, accounting for almost 74% of the Group's turnover. However, due to keen competition in the wholesale IDD market and the decrease in the PRC minutes rate, the gross profit margin was severally declined, bringing a loss in this business during the year under review.

"ChinaOne", the Group's global retail IDD brand, has established a stable customer base and gained popularity over the years owing to continuous enhancement in marketing efforts and service quality. Not only did the retail IDD business perform well in Hong Kong for the year, but it also successfully penetrated and won recognition from overseas Chinese communities in Canada, Singapore and the United States. During the year, the Group's overseas business developed steadily. No further expansion in overseas markets was made due to the Group's focus on internal reorganisation.

Mobile Communications Services

During the year under review, mobile communications services posted a turnover of HK\$105,824,000, a 9% increase compared to last year and accounting for approximately 13% of the Group's total turnover. Over the past few years, the Group's Mobile Virtual Network Operator ("MVNO") business has been steadily improving, recording a satisfactory performance and stable profit this year. The Group also actively expanded its MVNO business under the "CM Mobile" brand through several strategic moves, including expansion of the proprietary distribution and sales channels, formulation of various marketing strategies to cater to customer requirements, provision of a diversified product portfolio, and improvement of service quality. Under the severe market competition, the Group has also continued to carry out more cost-effective marketing strategies to attract high-usage customers shuttling between Hong Kong and China in order to enhance profitability. In general, the mobile communications service business has remained stable in local and overseas markets during the year, which is in line with the management's forecast.

Management Discussion and Analysis

Distribution and Retail Chain

Facing fierce market competition, the Group aggressively introduced a series of measures to optimise the operational efficiency of the distribution and retail chain business, and hence improved its performance. For the year ended 31 March 2006, the distribution and retail chain business recorded a turnover of HK\$96,228,000, representing a decrease of 24% over the previous year and accounting for approximately 11% of the Group's total turnover.

During the year, the Group continued to identify "CM Concept" as the one-stop-shop sales platform for its telecommunications products and services. Following the market trend, the Group readjusted its development focus by reducing hardware sales (cellular phone and fittings) and emphasising sales efforts in its telecommunications services. As of 31 March 2006, the Group had 17 "CM Concept" stores in operation (2005: 25). As of the latest date available, the number of stores has subsequently increased to 19 in total. The reduction in the number of stores which was largely attributable to the increase in rental costs and the expiry of leases had significant effect on the overall performance of the Group's retail business.

CMTH

By reason of China Motion Telecom Holdings Limited's ("CMTH") breach of the acquisition agreement resulting that CMTH was not able to transfer the stage two acquisition of its 25% equity interest in China Motion Netcom Services Co., Ltd. which currently provides VoIP related services in China to the Group, the Group issued a notice of rescission regarding the acquisition agreement to CMTH on 19 December 2005. In re-assessing the VoIP related business, the Group had recognised impairment charges of totally HK\$126,599,000 in respect

of such VoIP related business in the previous fiscal year and further impairment charges of totally HK\$58,022,000 during the year. There was no material adverse impact on daily operations or working capital from these provisions. The Group will continue to discuss possible arrangements with CMTH and reserves the right to recover all losses arising from rescission.

Regarding the outstanding debts due to the Group from CMTH, the Group made a full provision of HK\$334,331,000 in the previous financial year. During the year, no repayments were received from CMTH. Accordingly, the remaining balance of the consideration designated for stage two acquisition as mentioned above was reclassified as amount due from CMTH. In view of the current financial position of CMTH, the Group has made full provision on the amount due from CMTH of HK\$58,028,000 for the year. However, the Group has sought legal and financial advice in Hong Kong and China and is eagerly seeking for the best solution with CMTH on this issue. The Group reserves the right to pursue legal action to recover the debts with a view to serving the best interests of its shareholders.

PROVISION FOR IMPAIRMENT

Considering the future benefits derived from certain investments in the PRC and devaluation of certain telecommunications equipment, the Group had re-assessed their value and thus taken a prudent approach to make the relevant provisions of HK\$58,022,000 and HK\$63,767,000 respectively. However, such provisions had a material impact on the Group's financial results but had no material adverse effect on the daily operations or working capital of the Group.

Management Discussion and Analysis

PROSPECTS

Looking forward, the Group will continue to rationalise the operations of its core businesses and improve its internal management processes in a pragmatic manner, with a view to enhancing the operational efficiency of each business. Furthermore, the Group remains dedicated to ensuring the healthy development of value-added services and to re-establishing a new marketing system to drive overall business development and help cement our position in the vibrant Asia Pacific telecommunications market.

FINANCIAL POSITION

At 31 March 2006, the Group's bank balances and cash amounted to HK\$37,362,000. Total borrowings and obligations under finance leases amounted to HK\$83,327,000. The Group's bank loans are repayable in monthly bases and the last installment will be in August 2013. The gearing ratio of total borrowings as a percentage of the total capital and reserves attributable to equity holders of the Company was 182% (2005: 41%).

At 31 March 2006, the Group had aggregate banking facilities of approximately HK\$46 million (excluding property mortgage loans), which were fully utilised. Subsequent to the balance sheet date, the Group had successfully obtained additional banking facilities of approximately HK\$40 million.

The Group will strive to implement stringent cost control measures and explore fund-raising opportunities in order to enhance and strengthen its liquidity position and financial resources for operational requirements.

CONTINGENT LIABILITIES

At 31 March 2006, the Group had contingent liabilities amounting to HK\$38,673,000 (2005: HK\$40,463,000) in respect of guarantees given to third parties against non-performance of contractual obligations by subsidiaries.

EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES

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

EMPLOYEES AND REMUNERATION POLICIES

At 31 March 2006, the Group had 272 full-time staff. Total staff costs (including directors' emoluments) incurred for the year amounted to HK\$98,241,000 (2005: HK\$111,351,000). The Group's remuneration policy is in line with prevailing market practice on performance of individual staff.

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

Biographical Details of Directors and Senior Management

Mr. WU Chi Chiu, aged 43, was appointed as executive director of the Company in February 2006 and as Deputy Chairman and Chief Executive Officer of the Group in March 2006. Mr. Wu holds a Bachelor of Science degree from the University of Toronto. Mr. Wu is an experienced investor in local property market. He has over 10 years of experience in the field of property investment and development in Hong Kong and securities investment in local equity market. He is responsible for strategic planning and corporate development of the Group.

Ms. FAN Wei, aged 50, was appointed as executive director of the Company in February 2006 and is the Deputy Chief Executive Officer of the Group. Ms. Fan has substantial years of experience in the media industry. She has been an executive director of China Chief Cable TV Group Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, since January 2005. She has also been employed by Sky Dragon Digital Television and Movies Limited since 2003 and is the general manager and a director of that company. Prior to that, Ms. Fan had been the deputy general manager of ATV Enterprises Limited from 2000 to 2003 and was responsible for TV content distribution. She possesses a Master degree in Business Administration from the Murdoch University in Australia.

Mr. Jeffrey WANG, aged 35, was appointed as executive director of the Company in February 2006 and is the Chief Operating Officer of the Group. Mr. Wang has more than 8 years of experience in the field of project development, project implementation, and procurement for various power plants, industrial plants and transportation projects. Mr. Wang has substantial years of working experience in Asia, such as Thailand and Vietnam and used to work as Head of the Procurement Department in Electrowatt-Ekono (Thailand). His departmental activities include support for project acquisition and cost estimation, bid preparation, commercial analysis, commercial negotiation, logistics and contract management for three ongoing combined cycle power plants and several industrial plants.

Mr. HUANG An Guo, aged 52, was appointed as independent non-executive director of the Company in February 2006 and became Chairman of the Group in April 2006. Mr. Huang has substantial years of experience in the advertising industry. Mr. Huang is an experienced project coordinator in the field of public relation for media business. He currently is a director of Shanghai Jin Li Advertising Company Limited and China Digital Broadcasting Company Limited. Mr. Huang graduated from Shanghai Fudan University.

Mr. LO Chi Ho, William, aged 40, was appointed as independent non-executive director of the Company in February 2006. Mr. Lo has obtained Chartered Accountant qualification in the United Kingdom and is a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Lo holds an honour Bachelor degree in Chemical Engineering and Fuel Technology from Sheffield University in the United Kingdom. Mr. Lo has over 17 years of accounting and corporate finance experience working as senior management in international accounting firms in the United Kingdom and Hong Kong, multinational consumable goods company, international investment banks, and was a director of Skynet (International Group) Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Lo currently is the chief executive officer and an executive director of Sino Gas Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited and is also the independent non-executive director of China Spacesat Co., Ltd., a A-Share company listed on the Shanghai Stock Exchange in the PRC.

Ms. WONG Fei Tat, aged 31, was appointed as independent non-executive director of the Company in February 2006. Ms. Wong holds a Bachelor degree in Commerce from the University of Sydney and a postgraduate diploma in Corporate Administration from the Hong Kong Polytechnic University. She is an associate member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Chartered Secretaries and is a Certified Practising Accountant of CPA Australia. She has over 10 years of experience in the accounting field.

Directors' Report

The board of directors of the Company (the "Board") are pleased to submit their report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding. Its three core businesses include international telecommunications services, mobile communications services and distribution and retail chain. The principal activities and other particulars of its subsidiaries are set out in note 41 to the financial statements.

Details of the analysis of the performance of the Group for the year by business segments and geographical segments are set out in note 8 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 32.

The Board does not recommend the payment of a dividend for the year ended 31 March 2006.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 33 to the financial statements.

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 2006.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Details of the movements in investment properties and property, plant and equipment of the Group during the year are set out in notes 17 and 18 to the financial statements respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year are set out in notes 31 and 32 respectively to the financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 2.

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. WU Chi Chiu, <i>Deputy Chairman and Chief Executive Officer</i>	(appointed on 9 February 2006)
Ms. FAN Wei	(appointed on 9 February 2006)
Mr. Jeffrey WANG	(appointed on 9 February 2006)
Mr. HAU Tung Ying, <i>Chairman</i>	(re-designated as Non-executive Director on 6 March 2006)
Mr. SHUI Ming Hua	(resigned on 6 March 2006)
Dr. LI Bin	(resigned on 31 December 2005)

Non-executive Directors

Mr. HUANG An Guo †, <i>Chairman</i>	(appointed as director on 9 February 2006 and as Chairman on 10 April 2006)
Mr. LO Chi Ho, William †	(appointed on 9 February 2006)
Ms. WONG Fei Tat †	(appointed on 9 February 2006)
Mr. HAU Tung Ying, <i>Chairman</i>	(re-designated from Executive Director on 6 March 2006 and resigned on 10 April 2006)
Mr. LI Yi Sheng, <i>Deputy Chairman</i>	(resigned on 6 March 2006)
Mr. YIP Sam Lo †	(resigned on 6 March 2006)
Dr. HO Chung Tai, Raymond †	(resigned on 6 March 2006)
Mr. PANG Tsun Loy, Michael †	(resigned on 6 March 2006)

† *Independent Non-executive Directors*

In accordance with bye-law 85(2) of the Bye-laws of the Company, all the existing directors of the Company, namely Mr. Wu Chi Chiu, Ms. Fan Wei, Mr. Jeffrey Wang, Mr. Huang An Guo, Mr. Lo Chi Ho, William and Ms. Wong Fei Tat, being 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.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all its Independent Non-executive Directors are independent.

Directors' Report

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on page 9.

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

Save as disclosed under the section of "Connected Transaction" described hereinunder, 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 2006, the directors and chief executive of the Company or their respective associates had the following interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning the Part XV of the Securities and Futures Ordinance (the "SFO")) 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. WU Chi Chiu	216,198,000 <i>(Note)</i>	Corporate	Long	41.14%

Note: The 216,198,000 shares are held by Oriental Base Limited ("Oriental"), a company of which is wholly and beneficially owned by Mr. Wu Chi Chiu. Mr. Wu is therefore deemed to be interested in the 216,198,000 shares held by Oriental.

Directors' Report

DIRECTORS' INTERESTS IN SECURITIES (continued)

(b) Interests in share options of the Company

As at 31 March 2006, details of share options granted to the directors of the Company, employees of the Group and others under the 1998 Share Option Scheme (as described under the section of "Share Option Schemes" below), were as follows:

Grantee	Number of share options			Outstanding as at 31 March 2006	Date of grant	Exercise period	Exercise price per share HK\$	Share price on date of grant (Note) HK\$	Share price on date of exercise HK\$
	Outstanding as at 1 April 2005	Granted during the year	Lapsed during the year						
Director:									
Mr. HAU Tung Ying <i>(resigned on 10 April 2006)</i>	2,000,000	-	-	2,000,000	20/03/2001	20/03/2002 – 19/03/2011	0.75	0.87	N/A
Employees and Others:									
	92,693	-	(41,197)	51,496	29/06/1998	29/06/1999 – 17/03/2008	0.751	1.45	N/A
	834,242	-	(236,883)	597,359	19/08/1999	19/08/2000 – 17/03/2008	2.00	3.05	N/A
	839,392	-	-	839,392	25/02/2000	25/02/2001 – 17/03/2008	3.19	3.80	N/A
	2,173,150	-	(381,075)	1,792,075	17/10/2000	17/10/2001 – 17/03/2008	1.22	1.59	N/A
	14,250,000	-	(2,750,000)	11,500,000	20/03/2001	20/03/2002 – 19/03/2011	0.75	0.87	N/A
	300,000	-	(100,000)	200,000	28/01/2002	28/01/2003 – 27/01/2012	0.75	0.71	N/A
	<u>20,489,477</u>	<u>-</u>	<u>(3,509,155)</u>	<u>16,980,322</u>					

Note: The price of the shares disclosed as at the date of grant of share options refers to the closing price of the shares on the trading date immediately prior to the date of grant of share options.

All interests disclosed above represent long positions.

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

Directors' Report

DIRECTORS' INTERESTS IN SECURITIES (continued)

Save as disclosed above, as at 31 March 2006, 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 2006, the following persons or companies (other than the directors and chief executive of the Company) had or were deemed to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under 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
Oriental	216,198,000 <i>(Note 1)</i>	Long	41.14%
Midsino International Limited ("Midsino")	54,049,500 <i>(Note 2)</i>	Long	10.29%
Mr. YANG Jun	54,049,500 <i>(Note 2)</i>	Long	10.29%
Ms. MA Lin	54,049,500 <i>(Note 2)</i>	Long	10.29%

Directors' Report

SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

- (1) The 216,198,000 shares are held by Oriental, a company of which is wholly and beneficially owned by Mr. Wu Chi Chiu, a director of the Company. Mr. Wu is therefore deemed to be interested in the 216,198,000 shares held by Oriental. The interests disclosed represent the same interests as the corporate interest of Mr. Wu as disclosed under the section of "Directors' interests in securities" above.
- (2) The 54,049,500 shares are held by Midsino, a company of which is beneficially owned as to 50% by Mr. Yang Jun and as to 50% by his spouse, Ms. Ma Lin. Each of Mr. Yang and Ms. Ma is therefore deemed to be interested in the 54,049,500 shares held by Midsino.

Save as disclosed above, there was no person known to the directors or chief executive of the Company who, as at 31 March 2006, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under 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 section 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.

Directors' Report

SHARE OPTION SCHEMES (continued)

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

	1998 Share Option Scheme	New Share Option Scheme
1) Purpose	To recognise the services of such employees being vital to the success and well-being of the Group, to motivate such employees to optimise their performance standards and efficiency, to promote greater commitment and dedication amongst such employees	To recognise and acknowledge the contributions or potential contributions made or to be made by the Participants to the Group, to motivate the Participants to optimise 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 of directors, 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) 1% of the issued share capital of the Company from time to time (excluding substantial shareholders and independent non-executive directors)</p> <p>(b) 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 first anniversary of the date of grant and before the tenth anniversary of the date of grant</p>	The period shall be the period set out in the relevant offer letter provided that such period must expire no later than the tenth anniversary of the date on which an option is offered

Directors' Report

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>	Unless otherwise determined by the Board at its absolute discretion, there shall be no general performance target or minimum holding period to the vesting or exercise of options
7) Payment on acceptance of option	A non-refundable remittance of HK\$1.00 to be paid within 21 days from the date on which the option is offered	A non-refundable remittance of HK\$1.00 to be paid within 21 days from the date on which the option is offered

Directors' Report

SHARE OPTION SCHEMES (continued)

	1998 Share Option Scheme	New Share Option Scheme
8) Subscription price	<p>For options granted before 2 February 2001, the subscription price shall be the higher of</p> <p>(a) a price being not less than 85% of the lower of the average of the last dealt price of shares on the Stock Exchanges in Singapore and Hong Kong for the 5 consecutive trading days immediately preceding the date of grant; or</p> <p>(b) the nominal value of a share</p> <p>For options granted after 2 February 2001, the subscription price shall be the higher of</p> <p>(a) a price being not less than 80% of the average of the closing price of shares on the Stock Exchange in Hong Kong as stated on its daily quotation sheets for the 5 consecutive trading days immediately preceding the date on which an option is offered; or</p> <p>(b) the nominal value of a share</p>	<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> <p>(a) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the date on which an option is offered; or</p> <p>(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</p> <p>(c) the nominal value of the shares</p>
9) Life	<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 6 September 2012</p>

Directors' Report

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 material transactions with connected parties which were carried out in the ordinary course of business and on terms arranged by or between the parties during the year ended 31 March 2006:

1.	2006 HK\$'000
Rental expense paid to:	
A company under control by the spouse of a director of the Company	1,140
Service fee paid to:	
Minority shareholders of subsidiaries	1,350

2. Amounts due from CMTH and its subsidiaries

- (i) On 9 July 2003, the Company entered into an agreement with China Motion Telecom Holdings Limited ("CMTH"), a minority shareholder of subsidiaries of the Company, to reschedule the repayment of receivables in aggregate amount of HK\$373,422,000 (the "Debt") due from CMTH and its subsidiaries (collectively, the "CMTH Group") by 5 yearly instalments.

At 31 March 2005, the outstanding balance of the Debt amounted to HK\$334,331,000. Prior to 14 July 2005, the due date of the second scheduled repayment, CMTH informed the Group that CMTH Group would be unable to repay the outstanding debts in accordance with the repayment schedule. The Company's management has performed an assessment and concluded that the recoverability of the Debt owing by CMTH Group is remote. Accordingly, the Group has made a full provision for the Debt for the years ended 31 March 2005 and 2006. Details of the provision made are set out in note 9(a) to the financial statements.

CONNECTED TRANSACTIONS (continued)

2. Amounts due from CMTH and its subsidiaries (continued)

- (ii) On 30 January 2003, Shenzhen Motion Mobile Telecom Services Co., Ltd ("SMMT"), a subsidiary of the Company, entered into an acquisition agreement with CMTH to acquire 50% equity interest in China Motion Netcom Services Co., Ltd ("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 RMB276,000,000 (equivalent to approximately HK\$258,000,000). Stage one of the acquisition was completed in August 2003. The stage two acquisition of 25% equity interest in CM Netcom of HK\$129,000,000 was to be completed in December 2005. The consideration for the stage two acquisition was to be paid for by offsetting against a portion of the funding of the telecommunications project receivables of HK\$207,546,000.

In November 2005, a letter issued by CMTH to the Company confirmed that they have pledged all its equity interest in CM Netcom to a financial institution established in the PRC. As a result, CMTH would not be able to transfer the 25% equity interest in CM Netcom to SMMT free from encumbrances by 31 December 2005. By reason of CMTH's breach of the relevant acquisition agreement, SMMT issued a notice of rescission to CMTH on 19 December 2005 to rescind the acquisition agreement. However, the Group had taken a conservative approach to make relevant provision against the VoIP related business and the receivables designated as consideration for stage two acquisition for the years ended 31 March 2005 and 2006. Details of the provision made are set out in note 9(b) to the financial statements.

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

All the above transactions are disclosed in accordance with Chapter 14A of the Listing Rules and have not exceeded the cap disclosed in the previous announcements and / or required under the Listing Rules.

The directors, including independent non-executive directors, of the Company have reviewed and confirmed that the above transactions have been entered into by the Group:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or, if there are no sufficient transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than the terms available to / from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in interests of the shareholders of the Company as a whole.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year ended 31 March 2006 attributable to the Group's major customers and suppliers are as follows:

Sales

The largest customer	19%
Five largest customers combined	28%

Purchases

The largest supplier	27%
Five largest suppliers combined	42%

None of the directors, their associates or any shareholders (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.

ADVANCES TO ENTITIES

In accordance with the requirement under Rule 13.20 of the Listing Rules, the directors of the Company report the details of advances to CMTH and its subsidiaries as at 31 March 2006 as follows:

	<i>Note</i>	Total HK\$'000
Trade receivables from		
CMTH		88,863
China Motion Mobile Services Co., Ltd.		127,246
Shenzhen China Motion Telecom United Company Limited		102,599
		<hr/>
	1	318,708
GSM Trust Investment	2	155,505
		<hr/>
Less: provision for doubtful debts	3	(474,213)
		<hr/>
At 31 March 2006		–

Directors' Report

ADVANCES TO ENTITIES (continued)

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 notes 35(b) to the financial statements.
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 two 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. By reason of CMTH's breach of the acquisition agreement, a subsidiary of the Group issued a notice of rescission to CMTH on 19 December 2005 to rescind the acquisition agreement. Accordingly, the remaining balance of the consideration designated for stage two acquisition amounting to HK\$58,028,000 was reclassified as amount due from CMTH. Details of the transaction are set out in note 35(b) to the financial statements.
3. Details of the provision made are set out in notes 9 and 35 to the financial statements.

SUBSEQUENT EVENT

In order to provide the Company with greater flexibility in issuing shares at a price higher than its nominal value in future according to the Companies Act, a capital reorganisation, involving capital reduction and authorised share capital cancellation, diminution and increase, was implemented on 23 May 2006 with approval of the shareholders at the special general meeting held on 22 May 2006. Pursuant to the capital reorganisation, the nominal value of each share of the Company was reduced from HK\$0.75 to HK\$0.01; the authorised share capital and the issued share capital of the Company were reorganised to HK\$780,000,000 divided into 78,000,000,000 shares of HK\$0.01 each and HK\$5,255,000 divided into 525,475,573 shares of HK\$0.01 each respectively. Details of the capital reorganisation are disclosed in note 39 to the financial statements.

SUFFICIENCY OF 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 of the Company, the Company has maintained sufficient public float of not less than 25% of the Company's total issued share capital as required under the Listing Rules.

AUDITORS

During the year, the auditors, Messrs. PricewaterhouseCoopers, who acted as auditors of the Company for the past three years resigned and Messrs. Moores Rowland Mazars were appointed as auditors of the Company. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Moores Rowland Mazars as auditors of the Company.

On behalf of the Board

WU Chi Chiu

Director

Hong Kong, 12 July 2006

Corporate Governance Report

The board of directors (the "Board") is committed to maintaining a good corporate governance. In light of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which came into effect on 1 January 2005, the Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation which are detailed in this report.

STATEMENT OF COMPLIANCE

Throughout the year ended 31 March 2006, the Company has complied with the applicable code provisions of the CG Code as set out in Appendix 14 of the Listing Rules except for the following deviations:

(a) Code provision A.4.2

The second part of this code provision stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Under the provisions of the Company's Bye-laws, at each annual general meeting one-third of the directors of the Company for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third or such other manner or rotation as may be required by the Listing Rules (as modified from time to time) or other codes, rules and regulations as may be prescribed by the applicable regulatory authority from time to time) shall retire from office by rotation provided that notwithstanding anything herein, the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation in each year. To comply with this code provision, the Board proposed to amend the relevant provisions in the Bye-laws of the Company at the forthcoming annual general meeting of the Company, so that every director (whether appointed for specific terms or not) shall be subject to retirement by rotation at least once every three years.

(b) Code provisions B.1.4 and C.3.4

These code provisions stipulate that the remuneration committee and audit committee should make available their respective terms of reference, explaining their roles and the authority delegation to them by the Board. The terms of reference of the committees have been placed on the website of the Company.

(c) Code provision D.1.2

This code provision stipulates that an issuer should formalise the functions reserved to the Board and those delegated to management. This code provision has been complied in July 2006.

Corporate Governance Report

DIRECTORS' SECURITIES TRANSACTIONS

On 20 July 2005, the Company has adopted its own Code for Securities Transactions by Directors (the "Code") on terms no less exacting the required standard set out in the Model Code for Securities by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 of the Listing Rules. All directors of the Company (the "Directors") have confirmed, following specific enquiries by the Company, that they have fully complied with the required standard as set out in the Code and the Model Code during the year. No incident of non-compliance was noted by the Company to date for the year.

THE BOARD

During the year and up to the date of this report, the Board comprised the following Directors:

<i>Executive Directors:</i>	Mr. WU Chi Chiu (<i>Deputy Chairman and Chief Executive Officer</i>)	(appointed on 9 February 2006)
	Ms. FAN Wei	(appointed on 9 February 2006)
	Mr. Jeffrey WANG	(appointed on 9 February 2006)
	Mr. HAU Tung Ying (<i>Chairman</i>)	(re-designated as Non-executive Director on 6 March 2006)
	Mr. SHUI Ming Hua	(resigned on 6 March 2006)
	Dr. LI Bin	(resigned on 31 December 2005)
<i>Non-executive Directors:</i>	Mr. HAU Tung Ying (<i>Chairman</i>)	(re-designated from Executive Director on 6 March 2006 and resigned on 10 April 2006)
	Mr. LI Yi Sheng (<i>Deputy Chairman</i>)	(resigned on 6 March 2006)
<i>Independent Non-executive Directors:</i>	Mr. HUANG An Guo (<i>Chairman</i>)	(appointed as director on 9 February 2006 and as Chairman on 10 April 2006)
	Mr. LO Chi Ho, William	(appointed on 9 February 2006)
	Ms. WONG Fei Tat	(appointed on 9 February 2006)
	Mr. YIP Sam Lo	(resigned on 6 March 2006)
	Dr. HO Chung Tai, Raymond	(resigned on 6 March 2006)
	Mr. PANG Tsun Loy, Michael	(resigned on 6 March 2006)

During the year, the Board at all times complied with the requirements of Rules 3.10(1) and (2) of the Listing Rules for sufficient number and appropriate professional qualifications of Independent Non-executive Directors. As at the date of this report, the Board comprised six Directors, three of whom are Independent Non-executive Directors, representing half of the Board. Two of the Independent Non-executive Directors possess appropriate professional accounting qualifications and expertise. The brief biographical details of the Directors are set out on page 9.

Corporate Governance Report

THE BOARD (continued)

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

There is no relationship (including financial, business, family or other material relationship) among members of the Board and in particular, between the Chairman and the Chief Executive Officer.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors.

The Board is responsible for setting the strategic goals of the Company, providing high-level guidance and overseeing the management of the Company and directing its business strategy, with the ultimate aim to maximise the shareholder value and long-term success of the Company while the management is responsible for management and administrative functions on running day-to-day operations of the Company within the authority delegated by the Board. In addition, the Board has also established Board Committees and has delegated to these committees various responsibilities set out in their terms of reference respectively.

The Board held a total of six full Board meetings for the year ended 31 March 2006. The attendance of each Director is set out as follows:–

	Number of meetings attended/ Eligible to attend
Mr. HAU Tung Ying	6/6
Mr. SHUI Ming Hua	5/6
Dr. LI Bin	3/6
Mr. LI Yi Sheng	1/6
Mr. YIP Sam Lo	6/6
Dr. HO Chung Tai, Raymond	4/6
Mr. PANG Tsun Loy, Michael	6/6

During the year, Mr. Wu Chi Chiu, Ms. Fan Wei, Mr. Jeffrey Wang, Mr. Huang An Guo, Mr. Lo Chi Ho, William and Ms. Wong Fei Tat were appointed on 6 March 2006, and all such newly appointed Directors were not eligible to attend any of the said six full Board meetings.

There were ten additional Board meetings held and attended by certain Executive Directors during the year.

Corporate Governance Report

THE BOARD (continued)

All businesses transacted at the Board meetings were well-documented. Minutes of the Board meetings are taken by the Company Secretary and are available to all Directors.

Apart from the said meetings, matters requiring Board approval were arranged by means of circulation of written resolutions of all Board members.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are separated and performed by Mr. Huang An Guo and Mr. Wu Chi Chiu respectively.

The Chairman is responsible for the leadership of the Board to ensure effective implementation of various aspects of the Board's work for the Board to successfully discharge its overall responsibilities for the activities of the Company while the Chief Executive Officer is responsible for running the business of the Group and implementation of the strategies of the Group in achieving the overall objectives within the authority delegated by the Board. The responsibilities for each of the Chairman and the Chief Executive Officer which have been clearly defined and set out in writing were adopted on 20 July 2005 and reviewed on 12 July 2006 by the Board.

NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors were appointed for a fixed term of one year commencing from 9 February 2006 and they are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years in accordance with the Bye-laws of the Company.

BOARD COMMITTEES

The Board has established three Board committees, including Remuneration Committee, Nomination Committee and Audit Committee to help with the discharge of its responsibilities.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee since June 2000 with specific written terms of reference as adopted on 20 July 2005 and reviewed on 12 July 2006 by the Board setting out its role and responsibilities.

The terms of reference of the Remuneration Committee have included the specific duties as set out in provision B.1.3 of the CG Code. The main duties are to review and endorse the Group's overall remuneration policy and structure for the remuneration of the Directors and senior management and to administer and oversee share options scheme of the Group. The Remuneration Committee ensures that no Directors are involved in deciding his/her own remuneration.

During the year, the remuneration of Directors was determined with reference to his / her experience, duties, responsibilities, workload and time devoted to the Group.

Corporate Governance Report

REMUNERATION COMMITTEE (continued)

The Remuneration Committee held two meetings for the year ended 31 March 2006. The attendance of each member is set out as follows:-

	Number of meetings attended/ Eligible to attend
Mr. YIP Sam Lo (<i>Chairman</i>) (<i>resigned on 6 March 2006</i>)	2/2
Mr. LI Yi Sheng (<i>resigned on 24 October 2005</i>)	1/1
Mr. PANG Tsun Loy, Michael (<i>appointed on 20 July 2005 and resigned on 6 March 2006</i>)	1/1
Mr. SHUI Ming Hua (<i>resigned on 20 July 2005</i>)	1/1
Dr. LI Bin (<i>appointed on 20 July 2005 and resigned on 31 December 2005</i>)	0/1

With effect from 6 March 2006, the Remuneration Committee comprised all the Independent Non-executive Directors, namely Mr. Lo Chi Ho, William, Mr. Huang An Guo and Ms. Wong Fei Tat, and an Executive Director, namely Ms. Fan Wei. Mr. Lo Chi Ho, William is the Chairman of the Remuneration Committee. During the year, all such newly appointed members were not eligible to attend any of the said two meetings.

The work performed by the Remuneration Committee during the year included the following matters:

- (a) To review the remuneration policy of the Directors and senior management; and
- (b) To consider the emoluments for all Directors and senior management.

NOMINATION COMMITTEE

The Company has established a Nomination Committee in 20 July 2005 with specific written terms of reference as adopted on 20 July 2005 and reviewed on 12 July 2006 by the Board setting out its role and responsibilities.

The terms of reference of the Nomination Committee have included the specific duties as set out in provision A.4.5 of the CG Code. The main duties are to formulate and implement nomination policy and to identify individuals suitably qualified to become Board members.

The Nomination Committee did not hold any meetings during the year.

Subsequent to the resignation of Mr. Yip Sam Lo, Dr. Ho Chung Tai, Raymond and Mr. Pang Tsun Loy, Michael on 6 March 2006, the Nomination Committee comprised an Executive Director, namely Mr. Wu Chi Chiu, and two Independent Non-executive Directors, namely Mr. Huang An Guo and Mr. Lo Chi Ho, William. Mr. Wu Chi Chiu is the Chairman of the Nomination Committee.

Corporate Governance Report

AUDITORS' REMUNERATION

For the year ended 31 March 2006, the Auditors' remuneration paid and payable in respect of the audit services and other non-audit services provided by the Auditors to the Group amounted to HK\$3,917,000 and HK\$725,000 respectively.

AUDIT COMMITTEE

The Company has established an Audit Committee since 26 September 1996 with specific written terms of reference as revised on 20 July 2005 and reviewed on 12 July 2006 by the Board setting out its role and responsibilities.

The terms of reference of the Audit Committee have included the specific duties as set out in provision C.3.3 of the CG Code. The main duties are to review and monitor the financial reporting, the financial and internal control, accounting policies and practices of the Company with the management and the auditors and to consider the appointment and resignation of the auditors and the auditors' remuneration.

The Audit Committee held four meetings during the year ended 31 March 2006. The attendance of each member is set out as follows:—

	Number of meetings attended/ Eligible to attend
Mr. YIP Sam Lo (<i>Chairman</i>) (<i>resigned on 6 March 2006</i>)	4/4
Mr. LI Yi Sheng (<i>resigned on 24 October 2005</i>)	1/2
Dr. HO Chung Tai, Raymond (<i>resigned on 6 March 2006</i>)	4/4
Mr. PANG Tsun Loy, Michael (<i>resigned on 6 March 2006</i>)	4/4

With effect from 6 March 2006, the Audit Committee comprised all the Independent Non-executive Directors, namely Mr. Lo Chi Ho, William, Mr. Huang An Guo and Ms. Wong Fei Tat. Mr. Lo Chi Ho, William is the Chairman of the Audit Committee. During the year, all such newly appointed members were not eligible to attend any of the said four meetings.

The work performed by the Audit Committee during the year included the following matters:

- (a) To review the financial statements for the year ended 31 March 2005 and for the six months ended 30 September 2005;
- (b) To review internal audit reports and internal audit plan;
- (c) To review the external auditors' audit plan and findings; and
- (d) To review the connected transaction incurred for the year ended 31 March 2005 and for the six months ended 30 September 2005.

Corporate Governance Report

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The respective responsibilities of the Directors and the Auditors of the Company for the financial statements to the shareholders are set out in page 31.

By Order of the Board

WU Chi Chiu

Director

Hong Kong, 12 July 2006

Auditors' Report

Moores Rowland Mazars

摩斯倫 · 馬賽會計師事務所

34th Floor, The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong
香港銅鑼灣
希慎道33號
利園廣場34樓

To the members of

China Motion Telecom International Limited

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 32 to 91 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements 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 financial statements and to report our opinion solely to you, as a body, 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 Hong Kong Standards on Auditing 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and Group's circumstances, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements in relation to the preparation of the financial statements on a going concern basis in view of the Group's net current liabilities of HK\$157,704,000 as at 31 March 2006. The financial statements have been prepared on a going concern basis, the validity of which depends upon future profitable operations and the funds being available to the Group to carry on its business and to meet its debts as and when they fall due in the foreseeable future. The financial statements do not include any adjustments that would result should the Group fail to continue in business as a going concern. Details of the circumstances relating to this fundamental uncertainty are described in note 2 to the financial statements. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Moores Rowland Mazars

Chartered Accountants

Certified Public Accountants

Hong Kong
12 July 2006

Consolidated Income Statement

Year ended 31 March 2006

	Note	2006 HK\$'000	2005 HK\$'000 (restated)
Turnover	6	840,222	764,491
Cost of sales and services		(717,559)	(610,582)
Gross profit		122,663	153,909
Other revenue	6	12,653	14,325
Other net income	7	62,228	57,738
Distribution costs		(6,674)	(6,385)
Administrative expenses		(237,033)	(216,853)
Provision for doubtful debts and impairment on other non-current assets and interests in associates	9	(116,050)	(460,930)
Impairment loss on property, plant and equipment and other non-current assets	10	(63,767)	–
Finance costs	11	(4,355)	(3,516)
Share of profits (losses) of associates		780	(8,764)
Loss before taxation	12	(229,555)	(470,476)
Taxation	14	1,077	(1,463)
Loss for the year		(228,478)	(471,939)
Attributable to:			
Equity holders of the Company	15, 33(a)	(201,055)	(459,699)
Minority interest	33(a)	(27,423)	(12,240)
		(228,478)	(471,939)
Dividend		–	–
Loss per share	16		
Basic		(38.26) HK cents	(87.48) HK cents
Diluted		N/A	N/A

Balance Sheets

As at 31 March 2006

	Note	Group		Company	
		2006 HK\$'000	2005 HK\$'000 (restated)	2006 HK\$'000	2005 HK\$'000
ASSETS AND LIABILITIES					
Non-current assets					
Investment properties	17	77,400	89,500	–	–
Property, plant and equipment	18	79,219	180,904	–	–
Interests in subsidiaries	19	–	–	46,145	273,679
Interests in associates	20	5,424	61,044	–	–
Premium for land lease	21	82,759	52,675	–	–
Other non-current assets	22	3,739	72,908	–	–
Deferred tax assets	30	–	1,055	–	–
		248,541	458,086	46,145	273,679
Current assets					
Inventories	23	4,229	4,939	–	–
Financial assets at fair value through profit or loss / Marketable securities	24	–	334	–	–
Trade and other receivables	25	170,660	380,187	–	2,965
Pledged bank deposits		2,160	9,187	–	–
Bank balances and cash	26	35,202	33,919	426	191
		212,251	428,566	426	3,156
Current liabilities					
Trade and other payables	27	318,559	471,999	1,000	1,690
Borrowings due within one year	28	43,113	45,328	–	–
Obligations under finance leases	29	2,037	4,078	–	–
Taxation		6,246	7,409	–	–
		369,955	528,814	1,000	1,690
Net current (liabilities) assets		(157,704)	(100,248)	(574)	1,466
Total assets less current liabilities		90,837	357,838	45,571	275,145
Non-current liabilities					
Borrowings due after one year	28	37,799	50,346	–	–
Obligations under finance leases	29	378	1,643	–	–
Long-term trade payables	27(a)	–	24,772	–	–
Deferred tax liabilities	30	–	2,232	–	–
		38,177	78,993	–	–
NET ASSETS		52,660	278,845	45,571	275,145

Balance Sheets

As at 31 March 2006

	Note	Group		Company	
		2006 HK\$'000	2005 HK\$'000 (restated)	2006 HK\$'000	2005 HK\$'000
CAPITAL AND RESERVES					
Issued capital	31	394,107	394,107	394,107	394,107
Reserves	33	(348,276)	(148,239)	(348,536)	(118,962)
Total capital and reserves attributable to equity holders of the Company		45,831	245,868	45,571	275,145
Minority interest	33	6,829	32,977	–	–
TOTAL EQUITY		52,660	278,845	45,571	275,145

Approved and authorised for issue by the Board of Directors on 12 July 2006

WU Chi Chiu

Director

FAN Wei

Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2006

	Note	2006 HK\$'000	2005 HK\$'000 (restated)
Total equity at 1 April			
Attributable to equity holders of the Company, as previously reported		245,868	705,567
Minority interest, as previously presented separately from equity and liability	33(a)	32,977	45,217
As restated		278,845	750,784
Net gain recognised directly in equity			
Exchange reserve	33(a)	2,293	–
Loss for the year	33(a)	(228,478)	(471,939)
Total recognised loss for the year		(226,185)	(471,939)
Total equity at 31 March		52,660	278,845
Total recognised loss for the year			
Attributable to			
Equity holders of the Company		(200,037)	(459,699)
Minority interest		(26,148)	(12,240)
		(226,185)	(471,939)

Consolidated Cash Flow Statement

Year ended 31 March 2006

	Note	2006 HK\$'000	2005 HK\$'000 (restated)
OPERATING ACTIVITIES			
Cash (used in) generated from operations	34	(313)	14,811
Interest received		3,951	44
Finance charges on obligations under finance leases		(186)	(126)
Income tax paid		(1,263)	(1,341)
Interest paid		(4,169)	(3,390)
Net cash (used in) from operating activities		(1,980)	9,998
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		433	354
Proceeds from disposal of investment properties		17,200	–
Proceeds from disposal of premium for land lease and building		7,007	36,093
Proceeds from disposal of financial assets at fair value through profit or loss		265	–
Purchase of property, plant and equipment		(9,520)	(26,270)
Net cash from investing activities		15,385	10,177
FINANCING ACTIVITIES			
New bank borrowings		45,000	7,000
Repayment of bank borrowings		(57,785)	(33,218)
Repayment of obligations under finance lease		(4,387)	(5,782)
Decrease (Increase) in pledged bank deposits		7,027	(1,594)
Net cash used in financing activities		(10,145)	(33,594)
Net increase (decrease) in cash and cash equivalents		3,260	(13,419)
Cash and cash equivalents at beginning of year		31,942	45,361
Cash and cash equivalents at end of year	26	35,202	31,942

Notes to the Financial Statements

Year ended 31 March 2006

1. GENERAL INFORMATION

China Motion Telecom International Limited (the "Company") and its subsidiaries (collectively, the "Group") are principally engaged in the provision of international telecommunications services, mobile communications services, distribution and retail sales, repair and maintenance services for telecommunications equipment and trunking radio services. The Company is a limited liability company incorporated in Bermuda and primarily listed on The Stock Exchange of Hong Kong Limited and secondarily listed on The Singapore Exchange Securities Trading Limited. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

2. PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have carefully assessed the working capital and financing requirements of the Group in the foreseeable future, as the current liabilities of the Group exceeded its current assets by HK\$157,704,000 (2005: *net current liabilities of HK\$100,248,000*) at the balance sheet date as well as commitments that are payable in the next twelve months as stated in note 37 to the financial statements. The directors of the Company are aware of the Group's liquidity position and thus critically evaluate the assets and liabilities of the Group and operating structure of various business segments. The directors are introducing stringent measures as set out below to enhance and strengthen the liquidity position of the Group.

- (1) Streamlining operating structure of various business segments for maximum efficiency, and exercising stringent control over capital expenditure in order to minimise requirement on cash flow. Accordingly, the Group has optimised the staff levels and closed down certain non-profit making retail shops. Besides, the Group has been establishing a new remuneration scheme to all employees.
- (2) Considering to source for other revenues from non-core business, including renting out of those parts of its office space that are surplus to its existing operational requirements to raise funds for its working capital.
- (3) Actively seeking new sources of funding on both equity and debt financing to cover the temporary operating deficit. Subsequent to the balance sheet date, the Group had successfully obtained additional banking facilities of approximately HK\$40 million.

Taking into account the existing and available banking facilities, cash and bank balances of the Group, the historical payment patterns for the Group's liabilities and those measures mentioned above, the directors are satisfied that the Group has sufficient resources to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Notes to the Financial Statements

Year ended 31 March 2006

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

(b) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost, except for investment properties and financial assets at fair value through profit or loss, which have been measured at fair value as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions and balances within the Group are eliminated on consolidation. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interest is that part of profit or loss and net assets of a subsidiary attributable to equity interest that are not owned, directly or indirectly through subsidiaries, by the Company.

(d) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

Notes to the Financial Statements

Year ended 31 March 2006

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is taken to the income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Buildings	2%
Furniture, fixtures and office equipment	20%
Telecommunications equipment	20%
Leasehold improvements	Over the unexpired term of leases
Motor vehicles	30%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

(e) Construction in progress

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction in progress until it is completed and available for use.

(f) Investment properties

Investment properties are land and/or building that are held by owner or lessee under finance lease, either to earn rental income and/or for capital appreciation, which include property interest held under operating lease that are carried at fair value and land held for a currently undetermined future use. Investment properties are stated at fair value at the balance sheet date. Any gain or loss arising from a change in fair value is recognised in the income statement. Profit or loss on disposal of investment properties is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement upon disposal.

The fair value of investment property is based on a valuation by an independent valuer who holds a recognised professional qualification and has recent experience in the location and category of property being valued. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Notes to the Financial Statements

Year ended 31 March 2006

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Investment properties (continued)

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

(g) Premium for land lease

Premium for land lease are up-front payments to acquire interests in lessee-occupied leasehold land. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

(h) Subsidiaries

A subsidiary is an entity, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of each of the investments in subsidiaries is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(i) Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The Group's interests in associates are accounted for under the equity method of accounting. The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. The consolidated balance sheet includes the Group's share of the net assets of associates and any goodwill. Unless the Group has incurred obligations or guaranteed obligations in respect of the associates, equity accounting is discontinued when the Group's share of the losses of an associate equals or exceeds the carrying amount of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of assets transferred.

Notes to the Financial Statements

Year ended 31 March 2006

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Goodwill

Goodwill on acquisition of subsidiaries and associates is initially measured at cost, being the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill on acquisition of subsidiaries is recognised as a separate asset. Goodwill on acquisition of associates is included in the interests in associates. Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment test and determination of gain or loss on disposal. An impairment loss on goodwill is not reversed.

(k) Financial instruments

Financial assets and financial liabilities are recognised when the Group become a party to the contractual provisions of the instruments and on a trade date basis. Financial assets and financial liabilities are measured as follows:

Financial assets or financial liabilities at fair value through profit or loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss include financial assets or financial liabilities that are held for trading or derivatives do not qualify for hedge accounting, and those designated at fair value through profit or loss at inception. They are measured at fair value with changes in fair value recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be immaterial. In such case, the loans and receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Amortisation of cost and any gains and losses are recognised in the income statement.

Trade receivables and payables

Trade receivables and payables are recognised at fair value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of provision is recognised in the income statement.

Notes to the Financial Statements

Year ended 31 March 2006

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Interest-bearing borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of associated costs. After initial recognition, loans and borrowings are measured at amortised cost using the effective interest method.

A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or the Group transfers the contractual rights to future cash flows to a third party. The Group derecognises financial liability when, and only when the liability is extinguished.

(l) Cash equivalents

For the purpose of cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts which is included in current liabilities on the balance sheet.

(m) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases.

- (i) International telecommunications services and mobile communications services income are recognised upon the rendering of services.
- (ii) Revenue from the sale of telecommunications products is recognised on the transfer of ownership, which generally coincides with the time of delivery.
- (iii) Commission income is recognised in accordance with the terms of agency agreements which is generally when the agency services are rendered.
- (iv) Trunking radio service income and roadshow sponsorship income are recognised when the services are rendered.
- (v) Repair and maintenance service income from service agreements is recognised on an accrual basis when the service is performed.
- (vi) Rental and leasing revenue is recognised on a straight-line basis over the period of the respective leases.
- (vii) Interest income is recognised as the interest accrues using the effective interest method to the net carrying amount of the financial asset.
- (viii) Airtime income is recognised on an accrual basis in accordance with the terms of the agreements.

Notes to the Financial Statements

Year ended 31 March 2006

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Foreign currency translation

Items included in the financial statements of each of the group entities, including subsidiaries and associates are measured using the currency of the primary economic environment in which the group entities operate ("functional currency"). The consolidated financial statements are presented in Hong Kong Dollars (HK\$), which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

On consolidation, the results and financial position of all the group entities that have a functional currency different from the presentation currency are translated as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates;
- (c) all resulting exchange differences are recognised as a separate component of equity;
- (d) upon disposal of a group entity, exchange differences relating thereto and previously recognised in reserves are recognised in the income statement as part of the gain or loss on disposal; and
- (e) goodwill arising on acquisition of a foreign entity is treated as assets of foreign entity and translated at the closing rate.

(o) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first in, first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Notes to the Financial Statements

Year ended 31 March 2006

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Impairment losses

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amount of its property, plant and equipment, investments in subsidiaries, investments in associates and premium for land leases have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

(q) Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

(r) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as finance lease obligation. Finance charges, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Lease incentives are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset.

Notes to the Financial Statements

Year ended 31 March 2006

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(s) Employee benefits

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the share of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Company at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Notes to the Financial Statements

Year ended 31 March 2006

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(t) Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

(u) Related parties

A party is related to the Group if

- (a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (b) the party is an associate of the Group;
- (c) the party is a joint venture in which the Group is a venturer;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Notes to the Financial Statements

Year ended 31 March 2006

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services with a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, 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 revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Inter-segment pricing are principally on a cost plus basis.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, bank balances and cash, interest-bearing borrowings, borrowings, tax balances, corporate and financing expenses.

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.

Notes to the Financial Statements

Year ended 31 March 2006

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(w) Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of new/revised HKFRS that are not yet effective and the Group has not early adopted. Except for the following amendments, which will be effective from the next financial year, the directors anticipate that the adoption of these new/revised HKFRS in the future accounting periods will have no significant impact on the result of the Group.

HKAS 39 and HKFRS 4 (Amendments): Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are accounted for as financial instruments under HKAS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with *HKAS 37 Provisions, contingent liabilities and contingent assets* and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

The Group is not yet in a position to reasonably estimate the impact on the adoption of the above amendments in the period of initial application to the Group and the Company's financial position.

4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In this year, the Group adopted the following new/revised HKFRS issued by the HKICPA, which are generally effective for accounting periods beginning on or after 1 January 2005. The comparatives have been amended as required, in accordance with the relevant requirements. The major effects on the changes in accounting policies are summarised below:

(a) HKAS 1 Presentation of financial statements

HKAS 1 has affected the presentation of minority interest, share of net post-tax results of associates, and other disclosures. Comparative figures have been restated accordingly.

(b) HKAS 24 Related party disclosures

HKAS 24 has expanded the definition and the level of disclosure of related party transactions. The adoption of HKAS 24 has not resulted in material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosure made in the current year.

Notes to the Financial Statements

Year ended 31 March 2006

4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) HKAS 17 Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and accumulated impairment losses. Under HKAS 17 leasehold land is classified as an operating lease because the title of the land is not expected to be passed to the Group by the end of the lease term. Accordingly, leasehold land is reclassified from property, plant and equipment to premium for land lease and amortised over the lease term. Buildings are continued to be classified as part of property, plant and equipment. The change in accounting policy has no effect on the previously reported accumulated losses and net assets.

(d) HKAS 40 Investment properties and HKAS-Int 21 Income tax – Recovery of revalued non-depreciable assets

The adoption of HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values of investment properties are recorded in the income statement. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, deferred tax consequences in respect of revalued investment properties were accessed on the basis of tax consequence that would follow from the recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation (SSAP-Interpretation 20).

The changes in accounting policies have been applied retrospectively and has no significant effect on the previously reported accumulated losses and net assets as the Group's investment properties had a net revaluation deficit position as at 1 April 2005 and the changes in fair value during the current and prior years would be recognised in income statement irrespective whether the old policy or the new policy is applied.

Notes to the Financial Statements

Year ended 31 March 2006

4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(e) HKAS 32 Financial instruments: Disclosure and presentation and HKAS 39 Financial instruments: Recognition and measurement

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Until 31 March 2005, the Group classified investments into long-term investments and marketable securities. Long-term investments were carried at cost less provision for impairment losses that was expected to be other than temporary. Marketable securities were stated at their fair value. Changes in fair value were recognised in income statement as they arose.

In accordance with the provisions of HKAS 39, financial instruments have been classified into financial assets or financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Upon the adoption of HKAS 32 and HKAS 39, the Group re-designated its investments in long-term investments, club debentures and marketable securities as loans and receivables and financial assets at fair value through profit or loss respectively. Details of their accounting policies are set out in note 3 to the financial statements. The change in accounting policy has no effect on the previously reported accumulated losses and net assets.

(f) HKFRS 2 Share-based payment

The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. Prior to this, the provision of share options to employees did not result in a charge to the income statement. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods to the income statement. Details of accounting policies are set out in note 3 to the financial statements. As a transitional provision, the cost of share options granted after 7 November 2002 and not yet vested on 1 April 2005 was expensed retrospectively in the income statement of the respective periods. However, since all share options to employees were granted by the Group before 7 November 2002, the adoption of HKFRS 2 has no effect on the current year and the previously reported accumulated losses and net assets.

Notes to the Financial Statements

Year ended 31 March 2006

4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(g) HKFRS 3 Business combination and HKAS 36 Impairment of assets

The adoption of HKFRS 3 has resulted in a change in accounting policy for business combinations on a prospective basis and has impacted the followings:

- The Group ceased amortisation of goodwill from 1 April 2005 and goodwill is tested annually for impairment as well as when there are indications of impairment. The impaired goodwill shall not be reversed in the subsequent period. The opening balance of accumulated amortisation of goodwill has been eliminated with the corresponding decrease in respect of the cost of goodwill at the beginning of the current year.
- Any goodwill previously recognised as a deduction from equity will not be recognised in the calculation of gain or loss upon disposal of all or part of the business associates to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired.

The adoption of HKFRS 3 has resulted in a decrease of goodwill amortisation expense of approximately HK\$12,485,000 for the year ended 31 March 2006.

Notes to the Financial Statements

Year ended 31 March 2006

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are currently evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Apart from information disclosed elsewhere in these financial statements, the following summarise estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment for interests in an associate and amount due from China Motion Telecom Holdings Limited ("CMTH")

In preparing the financial statements of the Group, management are required to make estimates and assumptions in relation to the determination of possible impairment for interests in an associate and recoverability of amounts due from CMTH. These estimates and assumptions affect the reported amounts of assets as well as 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 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 VoIP related business of China Motion Netcom Services Co., Ltd ("CM Netcom") (see note 35).

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.

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of the accounts receivables and on management's judgment. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

Notes to the Financial Statements

Year ended 31 March 2006

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Useful lives and impairment of property, plant and equipment

The directors evaluated the residual value and useful lives of property, plant and equipment on an annual basis, through careful consideration with regards to expected usage, wear-and-tear and potential technical obsolescence to usage of the assets.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the directors have to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

6. TURNOVER AND REVENUE

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 41 to the financial statements.

The Group's turnover and revenue recognised by category are as follows:

	2006 HK\$'000	2005 HK\$'000 (restated)
International telecommunications services income	675,583	577,353
Sale of telecommunications products	32,163	62,882
Commission income	26,009	29,402
Mobile communications services income	94,050	84,965
Trunking radio services income	7,419	7,110
Repair and maintenance services income	4,998	2,779
Turnover	840,222	764,491
Rental income	2,198	3,111
Interest income	3,951	7,798
Others	6,504	3,416
Other revenue	12,653	14,325
Revenue	852,875	778,816

Notes to the Financial Statements

Year ended 31 March 2006

7. OTHER NET INCOME

	2006 HK\$'000	2005 HK\$'000 (restated)
Change in fair value of investment properties	3,947	23,000
Gain on disposal of premium for land lease and buildings	2,024	10,380
Extinguishment of liabilities related to an expired contract (note)	–	23,847
Reversal of impairment loss of premium for land lease	34,970	–
Reversal of impairment loss of buildings	20,370	–
Sundry income	917	511
	62,228	57,738

Note:

In 2005, after extended negotiations with the contracting party (being CMTH and/or its subsidiaries (collectively, the "CMTH Group")) on a telecommunications contract that expired in 2004, it was confirmed that certain liabilities under the expired contract would not need to be paid. Consequently, an amount of HK\$23,847,000 was reversed into the consolidated income statement for the year ended 31 March 2005.

Notes to the Financial Statements

Year ended 31 March 2006

8. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Primary reporting format – Business segments

The Group's principal activities comprise the following main business segments:

	Business segments	Nature of business activities	Place 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 communications services, provision of maintenance and accounts management services to telecommunications operators, and provision of trunking radio services	Hong Kong / the People's Republic of China ("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 / PRC
4	Others	The Company and other businesses	Hong Kong

Certain comparative figures for segment information have been restated and reclassified to conform with current year's presentation. In the opinion of the Company's directors, such classifications provide a more appropriate presentation of the Group's business segment.

Notes to the Financial Statements

Year ended 31 March 2006

8. SEGMENT INFORMATION (continued)

Primary reporting format – Business segments (continued)

2006

	International telecommuni- cations services HK\$'000	Mobile Communi- cations services HK\$'000	Distribution and retail chain HK\$'000	Others HK\$'000	Inter- segment elimination HK\$'000	Group HK\$'000
Turnover						
Revenue from external customers	638,170	105,824	96,228	–	–	840,222
Inter-segment revenue	28,436	–	3,464	–	(31,900)	–
Segment turnover	<u>666,606</u>	<u>105,824</u>	<u>99,692</u>	<u>–</u>	<u>(31,900)</u>	<u>840,222</u>
Segment results	<u>(111,286)</u>	<u>5,409</u>	<u>(4,081)</u>	<u>(64,079)</u>	<u>–</u>	<u>(174,037)</u>
Unallocated operating income and expenses						(51,943)
Finance costs						(4,355)
Share of profits of an associate						780
Loss before taxation						<u>(229,555)</u>
Taxation						1,077
Loss for the year						<u>(228,478)</u>
Assets						
Segment assets	145,951	33,105	25,614	209,959		414,629
Interests in associates						5,424
Unallocated assets						40,739
Total assets						<u>460,792</u>
Liabilities						
Segment liabilities	208,394	86,757	15,033	6,680		316,864
Unallocated liabilities						91,268
Total liabilities						<u>408,132</u>
Other information						
Capital expenditure	7,156	1,229	1,256	960		10,601
Depreciation	32,577	3,752	4,008	5,612		45,949
Amortisation						
Premium for land lease	–	–	–	1,127		1,127
Other non-current assets	1,029	–	–	–		1,029
Significant non-cash expenses (other than depreciation and amortisation)						
Business segment	91,862	2,030	9,836	–		103,728
Unallocated items						116,050

Notes to the Financial Statements

Year ended 31 March 2006

8. SEGMENT INFORMATION (continued)

Primary reporting format – Business segments (continued)

2005

	International telecommuni- cations services HK\$'000 (restated)	Mobile Communi- cations services HK\$'000 (restated)	Distribution and retail chain HK\$'000 (restated)	Others HK\$'000 (restated)	Inter- segment elimination HK\$'000 (restated)	Group HK\$'000 (restated)
Turnover						
Revenue from external customers	540,010	97,214	127,267	–	–	764,491
Inter-segment revenue	22,718	–	5,591	–	(28,309)	–
Segment turnover	<u>562,728</u>	<u>97,214</u>	<u>132,858</u>	<u>–</u>	<u>(28,309)</u>	<u>764,491</u>
Segment results						
	<u>11,735</u>	<u>29,123</u>	<u>(6,983)</u>	<u>(94,643)</u>	<u>–</u>	<u>(60,768)</u>
Unallocated operating income and expenses						(397,428)
Finance costs						(3,516)
Share of losses of associates						(8,764)
						<u>(470,476)</u>
Loss before taxation						
Taxation						(1,463)
						<u>(471,939)</u>
Assets						
Segment assets	466,130	35,360	96,082	181,558		779,130
Interests in associates						61,044
Unallocated assets						46,478
Total assets						<u>886,652</u>
Liabilities						
Segment liabilities	416,556	36,377	20,186	21,004		494,123
Unallocated liabilities						113,684
Total liabilities						<u>607,807</u>
Other information						
Capital expenditure	67,214	2,061	3,762	485		73,522
Depreciation	24,541	4,167	4,622	6,838		40,168
Amortisation						
Premium for land lease	–	–	–	1,448		1,448
Other non-current assets	1,029	–	–	–		1,029
Significant non-cash expenses (other than depreciation and amortisation)						
Business segment	2,285	3,372	–	–		5,657
Unallocated items						460,930

Notes to the Financial Statements

Year ended 31 March 2006

8. SEGMENT INFORMATION (continued)

Secondary reporting format – Geographical segments

During the year, the Group changed its geographical segment classification by separating the operation in Hong Kong from Asia Pacific regions. Comparative figures have been restated for presentation purpose.

	Turnover HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
2006				
PRC	4,998	(6,336)	4,775	942
Hong Kong	483,010	(122,724)	401,579	6,412
Other Asia Pacific regions	120,717	(29,465)	27,116	2,251
North America and the United Kingdom	231,497	(15,512)	27,322	996
	840,222	(174,037)	460,792	10,601
	Turnover HK\$'000 (restated)	Segment results HK\$'000 (restated)	Total assets HK\$'000 (restated)	Capital expenditure HK\$'000 (restated)
2005				
PRC	2,779	17,766	61,038	1,181
Hong Kong	465,758	(64,236)	727,030	65,764
Other Asia Pacific regions	98,728	(5,617)	29,538	3,239
North America and the United Kingdom	197,226	(8,681)	56,486	3,338
	764,491	(60,768)	874,092	73,522
Unallocated items	–	–	12,560	–
	764,491	(60,768)	886,652	73,522

Notes to the Financial Statements

Year ended 31 March 2006

9. PROVISION FOR DOUBTFUL DEBTS AND IMPAIRMENT ON OTHER NON-CURRENT ASSETS AND INTERESTS IN ASSOCIATES

(a) Provision for doubtful debts

On 9 July 2003, the Company entered into an agreement with CMTH, a minority shareholder of subsidiaries of the Company, to reschedule the repayment of receivables in the amount of HK\$373,422,000 (the "Debt") due from CMTH, China Motion Mobile Services Co., Ltd ("CMM") and Shenzhen China Motion Telecom United Company Limited ("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 invest 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 14 July 2005, the due date of the second scheduled repayment, CMTH informed the Group that CMTH would be unable to repay the outstanding debts in the near future due to financial pressure it was experiencing unless there would be a material change in its external finance 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 for the years ended 31 March 2005 and 2006.

By reason of CMTH's breach of the acquisition agreement resulting that CMTH was not able to transfer the stage two acquisition of its 25% equity interest in CM Netcom (details in note 9(b) below), the Group issued a notice of rescission regarding the acquisition agreement to CMTH on 19 December 2005. Accordingly, the remaining balances of the consideration designated for stage two acquisition as mentioned in note 9(b) below was reclassified as amount due from CMTH. In view of the current financial position of CMTH, the Group has made full provision on the amount due from CMTH of HK\$58,028,000 for the year.

(b) Impairment on other non-current assets and interests in associates

On 30 January 2003, Shenzhen Motion Mobile Telecom Services Co., Ltd ("SMMT"), a subsidiary of the Company, entered into an acquisition agreement with CMTH to acquire 50% equity interest 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 RMB276,000,000 (equivalent to approximately HK\$258,000,000). Stage one of the acquisition was completed in August 2003. The stage two acquisition of 25% equity interest in CM Netcom of HK\$129,000,000 was to be completed in December 2005. The consideration for the stage two acquisition was to be paid for by offsetting against part of the receivables from CMTH included in "Other non-current assets" in the balance sheet (notes 22 and 35). At 31 March 2005, 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 the Group's share of its equity interest in CM Netcom.

Notes to the Financial Statements

Year ended 31 March 2006

9. PROVISION FOR DOUBTFUL DEBTS AND IMPAIRMENT ON OTHER NON-CURRENT ASSETS AND INTERESTS IN ASSOCIATES (continued)

(b) Impairment on other non-current assets and interests in associates (continued)

The Group continued to monitor the recoverable value of its interests in CM Netcom during the year ended 31 March 2006. An updated valuation, of the business of CM Netcom, which took account of various assumptions including the availability of financing to CM Netcom and the future discounted cash flows of the VoIP business of CM Netcom, was performed to assess the recoverable amount and, as a result, a further impairment charge of approximately HK\$6,540,000 and HK\$51,482,000 against the Group's share of net assets of CM Netcom and the goodwill arising from the stage one acquisition respectively, were made during the year ended 31 March 2006. The Group's investment in CM Netcom is included in interests in associates in the financial statements (note 20).

10. IMPAIRMENT LOSS ON PROPERTY, PLANT AND EQUIPMENT AND OTHER NON-CURRENT ASSETS

In view of the operating losses incurred for the international telecommunications services segment during the year, the Group conducted a review of the carrying amount of the relevant assets. Based on the valuation report prepared by Grant Sherman Appraisal Limited, an independent, professional qualified valuers, as of 31 March 2006, the Group has recognised an impairment loss of HK\$63,767,000 for the telecommunications equipment and related assets in relation to this segment.

11. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on bank and other borrowings:		
Wholly repayable within five years	2,015	1,351
Not wholly repayable within five years	2,154	2,039
Finance charges on obligations under finance leases	186	126
	4,355	3,516

Notes to the Financial Statements

Year ended 31 March 2006

12. LOSS BEFORE TAXATION

This is stated after charging (crediting):

	2006 HK\$'000	2005 HK\$'000 (restated)
Staff costs (include directors' emoluments)		
Salaries, wages and other benefits	96,151	108,790
Contributions to defined contribution plans	2,090	2,561
	98,241	111,351
Auditors' remuneration		
Current year	1,982	2,380
Underprovision in prior years	1,935	–
	3,917	2,380
Provision for doubtful debts and impairment on other non-current assets and interests in associates		
Impairment loss on goodwill of an associate (notes 9 and 20)	51,482	54,000
Impairment loss on interests in an associate (notes 9 and 20)	6,540	–
Provision for impairment against the carrying value of the receivable from CMTH designated for use in making the stage two acquisition (notes 9 and 35)	–	72,599
Provision for amounts due from CMTH Group (notes 9 and 35)	58,028	334,331
	116,050	460,930
Impairment loss on assets in relation to international telecommunications services segment (note 10)		
Other non-current assets	12,767	–
Property, plant and equipment	51,000	–
	63,767	–
Cost of inventories	29,119	58,290
Depreciation	45,949	40,168
Amortisation		
Premium for land lease	1,127	1,448
Other non-current assets	1,029	1,029
Operating lease charges: minimum lease payments		
Telecommunications equipment	41,178	44,259
Premises	32,318	33,415
Provision for doubtful trade and other receivables	40,203	5,658
Reversal of inventories write-down	(95)	(166)
Realised and unrealised loss on financial assets at fair value through profit or loss	128	1,575
Rental income from investment properties less direct outgoings of HK\$1,192,000 (2005: HK\$709,000)	(1,006)	(2,402)
Loss on disposal of property, plant and equipment	1,360	163

Notes to the Financial Statements

Year ended 31 March 2006

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The aggregate amounts of emoluments received or receivable by the Company's directors are as follows:

	<i>Note</i>	Directors' fees HK\$'000	Salaries, allowances and benefits in kinds HK\$'000	Retirement scheme contributions HK\$'000	Inducement or compensation fees HK\$'000	2006 Total HK\$'000
Executive directors:						
Wu Chi Chiu	(a)	–	132	2	–	134
Fan Wei	(a)	–	149	2	–	151
Jeffrey Wang	(a)	–	132	2	–	134
Hau Tung Ying	(b)	–	4,704	9	–	4,713
Shui Ming Hua	(c)	–	2,193	12	105	2,310
Li Bin	(d)	–	1,884	9	–	1,893
Non-executive directors:						
Huang An Guo*	(a)	–	–	–	–	–
Lo Chi Ho, William*	(a)	–	–	–	–	–
Wong Fei Tat*	(a)	–	–	–	–	–
Hau Tung Ying	(b)	–	–	–	–	–
Li Yi Sheng	(c)	83	–	–	–	83
Yip Sam Lo*	(c)	83	–	–	–	83
Ho Chung Tai, Raymond*	(c)	149	–	–	–	149
Pang Tsun Loy, Michael*	(c)	83	–	–	–	83
		398	9,194	36	105	9,733

* Independent Non-executive directors

Notes to the Financial Statements

Year ended 31 March 2006

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

	Directors' fees	Salaries, allowances and benefits in kinds	Retirement scheme contributions	Inducement or compensation fees	2005 Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors:					
Hau Tung Ying	–	5,383	12	–	5,395
Shui Ming Hua	–	2,318	12	–	2,330
Li Bin	–	1,890	12	–	1,902
Non-executive directors:					
Li Yi Sheng	90	–	–	–	90
Yip Sam Lo*	54	–	–	–	54
Ho Chung Tai, Raymond*	160	–	–	–	160
Pang Tsun Loy, Michael*	54	–	–	–	54
Li Kwok Ping	325	–	7	–	332
Yung Yung Cheng, Frank	80	–	–	–	80
Hu Tiejun (alternate director to Li Yi Sheng)	–	1,365	12	–	1,377
	763	10,956	55	–	11,774

* Independent Non-executive directors

Notes:

- (a) Appointed on 9 February 2006.
- (b) Re-designated as Non-executive director on 6 March 2006 and resigned as director on 10 April 2006.
- (c) Resigned on 6 March 2006.
- (d) Resigned on 31 December 2005.

No directors have waived emoluments in respect of the years ended 31 March 2006 and 2005.

Notes to the Financial Statements

Year ended 31 March 2006

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

The five individuals whose emoluments were the highest in the Group for the year include three directors (2005: four) whose emoluments are reflected in the analysis presented above. Details of the emoluments of the remaining two individuals (2005: one) are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries, allowances and benefits in kinds	1,647	914
Discretionary bonus	–	18
Retirement scheme contributions	23	12
Inducement or compensation fees	271	–
	1,941	944

The emoluments were paid to individuals as follows:

Emoluments band	Number of individuals	
	2006	2005
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	–
	2	1

14. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising from Hong Kong during the year. The income tax provision in respect of operations in the PRC and overseas is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

	2006 HK\$'000	2005 HK\$'000 (restated)
Hong Kong Profits Tax	100	248
PRC income tax	–	2,703
Overseas taxation	–	(524)
Deferred taxation	(1,177)	(964)
Total tax (credit) charge for the year	(1,077)	1,463

Notes to the Financial Statements

Year ended 31 March 2006

14. TAXATION (continued)

Reconciliation of tax expense

The tax on the Group's loss before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits (losses) of the consolidated companies as follows:

	2006 HK\$'000	2005 HK\$'000 (restated)
Loss before taxation	(229,555)	(470,476)
Income tax at domestic tax rates applicable in the respective countries	(40,172)	(81,380)
Non-deductible expenses	41,012	71,418
Tax exempt revenue	(6,442)	(7,570)
Utilisation of previously unrecognised tax losses	(7,568)	(1,598)
Tax effect of unused tax losses not recognised	10,420	22,191
Under (Over) provision in prior years	80	(1,598)
Unrecognised temporary differences	3,429	–
Reversal of previously unrecognised temporary differences	(2,443)	–
Others	607	–
Tax (income) expense for the year	(1,077)	1,463

The weighted average applicable tax rate was 17.5% (2005: 17.3%).

15. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of loss of HK\$229,574,000 (2005: HK\$514,470,000).

16. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of HK\$201,055,000 (2005: HK\$459,699,000) and the weighted average number of 525,475,573 (2005: 525,475,573) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 March 2006 and 2005 have 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.

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17. INVESTMENT PROPERTIES

	Group	
	2006 HK\$'000	2005 HK\$'000
At fair value		
At beginning of year	89,500	66,500
Transfer from premium for land lease upon change of use (note 21)	819	–
Transfer from buildings upon change of use (note 18)	334	–
Disposals	(17,200)	–
Change in fair value	3,947	23,000
At balance sheet date	77,400	89,500

Investment properties of the Group are held under the following lease terms:

	Group	
	2006 HK\$'000	2005 HK\$'000
Land in Hong Kong:		
Long lease	66,300	61,800
Medium-term lease	6,400	23,000
Land outside Hong Kong:		
Medium-term lease	4,700	4,700
	77,400	89,500

The investment properties were valued at market value by independent, professional qualified valuers, DTZ Debenham Tie Leung Limited, as at 31 March 2006.

All of the Group's investment properties with an aggregate carrying value at the balance sheet date of HK\$77,400,000 (2005: HK\$89,500,000) were pledged to secure banking facilities granted to the Group.

Notes to the Financial Statements

Year ended 31 March 2006

18. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Furniture, fixtures and office equipment	Telecommuni- cations equipment	Leasehold improvements	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reconciliation of carrying amount							
– year ended 31 March 2005							
At beginning of year							
As previously reported	109,879	13,728	94,757	9,347	192	–	227,903
Effect of adopting HKAS 17 (note 21)	(79,836)	–	–	–	–	–	(79,836)
As restated	30,043	13,728	94,757	9,347	192	–	148,067
Additions	–	2,564	19,021	2,012	379	49,546	73,522
Reclassification	–	13	(13)	–	–	–	–
Disposals	–	(465)	340	(149)	(243)	–	(517)
Depreciation	(679)	(5,650)	(28,375)	(5,396)	(68)	–	(40,168)
At balance sheet date	29,364	10,190	85,730	5,814	260	49,546	180,904
Reconciliation of carrying amount							
– year ended 31 March 2006							
At beginning of year							
As previously reported	82,039	10,190	85,730	5,814	260	49,546	233,579
Effect of adopting HKAS 17 (note 21)	(52,675)	–	–	–	–	–	(52,675)
As restated	29,364	10,190	85,730	5,814	260	49,546	180,904
Additions	–	2,396	6,970	349	886	–	10,601
Transfer to investment properties upon change of use (note 17)	(334)	–	–	–	–	–	(334)
Transfer upon completion	–	–	17,652	–	–	(17,652)	–
Impairment reversed	20,370	–	–	–	–	–	20,370
Impairment recognised	–	–	(51,000)	–	–	–	(51,000)
Disposals	(2,043)	(416)	(123)	(1,036)	(218)	(31,894)	(35,730)
Depreciation	(622)	(4,490)	(36,471)	(4,043)	(323)	–	(45,949)
Exchange differences	–	23	266	16	52	–	357
At balance sheet date	46,735	7,703	23,024	1,100	657	–	79,219

Notes to the Financial Statements

Year ended 31 March 2006

18. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings	Furniture, fixtures and office equipment	Telecommuni- cations equipment	Leasehold improvements	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2005							
Cost	62,571	49,956	498,488	51,658	7,104	49,546	719,323
Accumulated depreciation and impairment losses	(33,207)	(39,766)	(412,758)	(45,844)	(6,844)	–	(538,419)
	29,364	10,190	85,730	5,814	260	49,546	180,904
At 31 March 2006							
Cost	55,336	50,466	522,793	49,828	7,272	–	685,695
Accumulated depreciation and impairment losses	(8,601)	(42,763)	(499,769)	(48,728)	(6,615)	–	(606,476)
	46,735	7,703	23,024	1,100	657	–	79,219

The net book value of the Group's property, plant and equipment includes an amount of HK\$658,000 (2005: HK\$12,738,000) in respect of assets held under finance leases.

Property, plant and equipment with an aggregate net book value at the balance sheet date of HK\$46,735,000 (2005: HK\$29,364,000) were pledged to secure banking facilities granted to the Group.

As mentioned in note 10 to the financial statements, the Group has recognised impairment charges on telecommunications equipment for the international telecommunications services segment. These assets were revalued at 31 March 2006 by independent, professional qualified valuers, Grant Sherman Appraisal Limited. The recoverable amount of these assets is determined by reference to the value in use of the relevant assets using the discount rate of 15.34%.

Notes to the Financial Statements

Year ended 31 March 2006

19. INTERESTS IN SUBSIDIARIES

	Company	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	113,115	113,115
Impairment loss	(60,045)	–
	53,070	113,115
Due from subsidiaries	1,078,855	1,079,564
Provision for doubtful debts	(1,078,855)	(919,000)
	–	160,564
Due to subsidiaries	(6,925)	–
	46,145	273,679

The amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed term of repayment but repayment is not expected to be within twelve months from the balance sheet date. The carrying amounts of the amounts due approximate their fair values.

Particulars of the Company's principal subsidiaries at the balance sheet date, which in the opinion of the directors principally affect the results for the year or form a substantial portion of the net assets, are set out in note 41 to the financial statements.

20. INTERESTS IN ASSOCIATES

	Note	Group	
		2006 HK\$'000	2005 HK\$'000 (restated)
Share of net assets		11,964	10,999
Impairment loss		(6,540)	–
		5,424	10,999
Goodwill on acquisition	(a)	–	50,045
		5,424	61,044

Notes to the Financial Statements

Year ended 31 March 2006

20. INTERESTS IN ASSOCIATES (continued)

(a) Goodwill on acquisition

	HK\$'000
Goodwill on acquisition	
At 1 April 2004 and 31 March 2005	124,853
At 1 April 2005	124,853
Opening balance adjustment to eliminate accumulated amortisation	(20,808)
At 1 April 2005 (as restated)	104,045
Exchange differences	3,000
At 31 March 2006	107,045
Accumulated amortisation and impairment losses	
At 1 April 2004	8,323
Amortisation	12,485
Impairment loss	54,000
At 31 March 2005	74,808
At 1 April 2005	74,808
Eliminated against goodwill on acquisition at 1 April 2005	(20,808)
At 1 April 2005 (as restated)	54,000
Impairment loss (note 9(b))	51,482
Exchange differences	1,563
At 31 March 2006	107,045
Carrying value	
At 31 March 2006	–
At 31 March 2005	50,045

Note:

During the year, the Group has performed an impairment assessment on the share of net assets and goodwill arising from the stage one acquisition in an associate and accordingly, impairment charges of HK\$6,540,000 and HK\$51,482,000 were recognised respectively. Details of the impairment assessment are set out in note 9(b) to the financial statements.

Notes to the Financial Statements

Year ended 31 March 2006

20. INTERESTS IN ASSOCIATES (continued)

Particulars of the Group's principal associates at the balance sheet date, which in the opinion of the directors principally affect the results for the year or form a substantial portion of the net assets, are as follows:

Name	Place of incorporation/ operation	Particulars of class of issued and paid up shares/ registered capital	Proportion of ownership interest indirectly held	Principal activity
China Motion Netcom Services Co., Ltd.*	PRC	RMB30,000,000	22.5%	Provision of VoIP related services in the PRC
Goodfine Holdings Limited*	Hong Kong	100 ordinary shares of HK\$1 each	48%	Investment holding

* All the associates are unlisted corporate entity and are not audited by Messrs. Moores Rowland Mazars.

Summary of financial information of associates is as follows:

	2006 HK\$'000	2005 HK\$'000
Non-current assets	14,098	37,758
Current assets	160,910	155,672
Non-current liabilities	–	(610)
Current liabilities	(141,585)	(161,930)
Revenue	14,897	46,175
Profits for the year	1,170	11,467

Notes to the Financial Statements

Year ended 31 March 2006

21. PREMIUM FOR LAND LEASE

	Group	
	2006 HK\$'000	2005 HK\$'000 (restated)
At beginning of year		
As previously reported	–	–
Effect of adopting HKAS17 (note 18)	52,675	79,836
As restated	52,675	79,836
Transfer to investment properties upon change of use (note 17)	(819)	–
Impairment loss reversed	34,970	–
Disposals	(2,940)	(25,713)
Amortisation	(1,127)	(1,448)
	82,759	52,675

Premium for land lease of the Group represents cost paid for the following lease terms:

	Group	
	2006 HK\$'000	2005 HK\$'000 (restated)
Land in Hong Kong		
Long lease	5,363	4,507
Medium-term lease	77,396	48,168
	82,759	52,675

The cost of premium for land lease is amortised over the lease period. The amount to be amortised within the next twelve months after the balance sheet date amounting to HK\$1,872,000 (2005: HK\$1,127,000).

All premium for land lease with an aggregate net book value at the balance sheet date of HK\$82,759,000 (2005: HK\$52,675,000) were pledged to secure banking facilities granted to the Group.

Notes to the Financial Statements

Year ended 31 March 2006

22. OTHER NON-CURRENT ASSETS

	Group	
	2006 HK\$'000	2005 HK\$'000
Financial assets at fair value through profit or loss / Club debentures	3,739	3,739
Prepayment (note 10)	–	12,768
Loans and receivables / Long-term investments (note 9 and 35(b))	–	56,401
	3,739	72,908

23. INVENTORIES

	Group	
	2006 HK\$'000	2005 HK\$'000
Finished goods	4,229	4,939

The amount of inventories, included in above, carried at fair value less costs to sell is HK\$145,000 (2005: HK\$2,707,000).

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS / MARKETABLE SECURITIES

	Group	
	2006 HK\$'000	2005 HK\$'000
Held for trading		
Equity investment listed in Hong Kong	–	334

25. TRADE AND OTHER RECEIVABLES

	Note	Group		Company	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade receivables	(a)	134,124	326,942	–	–
Other receivables					
Deposits, prepayments and other receivables		36,496	48,261	–	–
Due from subsidiaries	(b)	–	–	–	2,965
Due from associates	(b)	40	37	–	–
Due from related companies	(b)	–	4,947	–	–
		36,536	53,245	–	2,965
		170,660	380,187	–	2,965

Notes to the Financial Statements

Year ended 31 March 2006

25. TRADE AND OTHER RECEIVABLES (continued)

(a) Trade receivables

The Group has established credit policies for customers in each of its core businesses. The average credit period granted for trade receivables ranges from 30 to 60 days. The carrying amount of the amounts due approximates their fair values.

The ageing analysis of the trade receivables (net of impairment losses for bad and doubtful debts) as of the balance sheet date is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000 (restated)
0 – 30 days	37,569	76,391
31 – 60 days	23,750	33,656
61 – 90 days	22,915	27,773
Over 90 days	49,890	189,122
	134,124	326,942

(b) Due from subsidiaries / associates / related companies

The amounts due are unsecured, interest-free and have no fixed term of repayment. The carrying amount of the amounts due approximates their fair values.

26. CASH AND CASH EQUIVALENTS

	Group	
	2006 HK\$'000	2005 HK\$'000
Bank balances and cash as stated in the consolidated balance sheet	35,202	33,919
Bank overdrafts	–	(1,977)
	35,202	31,942

Notes to the Financial Statements

Year ended 31 March 2006

27. TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade payables	(a)	246,852	360,407	–	–
Other payables					
Accrued charges and other creditors		55,782	86,792	1,000	1,245
Advance subscription fees received		8,042	9,288	–	–
Deposits received		3,695	6,936	–	–
Due to subsidiaries	(b)	–	–	–	445
Due to associates	(b)	4,188	8,725	–	–
Due to a director	(b)	–	(149)	–	–
		71,707	111,592	1,000	1,690
		318,559	471,999	1,000	1,690

(a) Trade payables

	Group	
	2006 HK\$'000	2005 HK\$'000
Trade payables	246,852	385,179
Portion classified as current liabilities	(246,852)	(360,407)
Non-current portion	–	24,772

The trade payables are unsecured and interest-free. The ageing analysis of trade payables as at the balance sheet date is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
0 – 30 days	41,999	49,379
31 – 60 days	33,068	39,964
61 – 90 days	33,403	25,948
Over 90 days	138,382	245,116
	246,852	360,407

(b) Due to subsidiaries / associates / a director

The amounts due are unsecured, interest-free and have no fixed term of repayment. The carrying amount of the amounts due approximates their fair values.

Notes to the Financial Statements

Year ended 31 March 2006

28. INTEREST-BEARING BORROWINGS

	Group	
	2006 HK\$'000	2005 HK\$'000
Bank loans, secured	80,912	93,697
Bank overdrafts, secured	–	1,977
	80,912	95,674
Portion classified as current liabilities	(43,113)	(45,328)
Non-current portion	37,799	50,346

The maturity profile of the interest-bearing borrowings is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Bank loans and overdrafts:		
Within one year	43,113	45,328
In the second year	6,023	8,224
In the third to fifth years, inclusive	20,289	21,162
Over 5 years	11,487	20,960
	80,912	95,674

The effective interest rate of the bank loans at the balance sheet date is 5.37% (2005: 3.15%).

Notes to the Financial Statements

Year ended 31 March 2006

28. INTEREST-BEARING BORROWINGS (continued)

An analysis of the carrying amounts of the total borrowings by type and currency is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
At floating rates		
HK\$	79,609	93,751
US\$	1,303	1,923
	80,912	95,674

29. OBLIGATIONS UNDER FINANCE LEASES

Group

	Minimum lease payments		Present value of minimum lease payments	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Amount payable:				
Within one year	2,090	4,211	2,037	4,078
In the second to fifth years inclusive	394	1,666	378	1,643
	2,484	5,877	2,415	5,721
Future finance charges	(69)	(156)	–	–
Present value of lease obligations	2,415	5,721	2,415	5,721

The average lease term is two years. The effective interest rate of the finance lease obligations is 4.57% (2005: 2.09%).

Notes to the Financial Statements

Year ended 31 March 2006

30. DEFERRED TAXATION

	Group	
	2006 HK\$'000	2005 HK\$'000
At beginning of year	(1,177)	(2,141)
Income statement credit	1,177	964
At the balance sheet date	–	(1,177)

Recognised deferred tax assets (liabilities)

	Group			
	2006		2005	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Accelerated depreciation allowance	–	(519)	–	(7,931)
Tax losses	519	–	6,258	–
Others	–	–	496	–
Deferred tax assets (liabilities)	519	(519)	6,754	(7,931)
Offset deferred tax assets and liabilities	(519)	519	(5,699)	5,699
Net tax assets (liabilities)	–	–	1,055	(2,232)

Deferred income tax assets and liabilities are set off when there is legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Unrecognised deferred tax assets arising from

	Group	
	2006 HK\$'000	2005 HK\$'000
Deductible temporary differences	31,400	38,960
Tax losses	689,903	699,269
At the balance sheet date	721,303	738,229

The Group has not recognised deferred tax assets in respect of tax losses and deductible temporary differences as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

Notes to the Financial Statements

Year ended 31 March 2006

31. ISSUED CAPITAL

	2006		2005	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised:				
Ordinary shares of HK\$0.75 each	1,040,000,000	780,000	1,040,000,000	780,000
Issued and fully paid:				
Ordinary shares of HK\$0.75 each	525,475,573	394,107	525,475,573	394,107

32. EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

On 6 September 2002, the Company adopted a new share option scheme (the "New Share Option Scheme"). No share options have ever been granted by the Company under the New Share Option Scheme since it was adopted. A summary of the New Share Option Scheme is disclosed in the Directors' Report on pages 15 to 19.

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.

Notes to the Financial Statements

Year ended 31 March 2006

32. EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

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

	2006		2005	
	No. of share options	Weighted average exercise price HK\$	No. of share options	Weighted average exercise price HK\$
At 1 April	20,489,477	0.95	25,860,781	0.96
Lapsed	(3,509,155)	0.89	(5,371,304)	0.98
At 31 March	16,980,322	0.96	20,489,477	0.95

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 5.39 years (2005: 4.39 years). Details of the range of exercise price of these options outstanding at the end of year are set out in the Directors' Report on page 13.

33. CAPITAL AND RESERVES

(a) Group

	Reserves attributable to equity holders of the Company									Total capital and reserves HK\$'000
	Issued capital HK\$'000	Share premium HK\$'000	Reserves on consolidation HK\$'000	Exchange reserve HK\$'000	Capital Redemption reserve HK\$'000	Enterprise expansion reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interest HK\$'000	
At 1 April 2004	394,107	455,573	4,900	1,697	450	77,623	(228,783)	311,460	45,217	750,784
Loss for the year	-	-	-	-	-	-	(459,699)	(459,699)	(12,240)	(471,939)
At 31 March 2005	394,107	455,573	4,900	1,697	450	77,623	(688,482)	(148,239)	32,977	278,845
At 1 April 2005	394,107	455,573	4,900	1,697	450	77,623	(688,482)	(148,239)	32,977	278,845
Exchange difference	-	-	-	1,018	-	-	-	1,018	1,275	2,293
Loss for the year	-	-	-	-	-	-	(201,055)	(201,055)	(27,423)	(228,478)
At 31 March 2006	394,107	455,573	4,900	2,715	450	77,623	(889,537)	(348,276)	6,829	52,660

The accumulated losses of the Group include profits of HK\$4,503,000 (2005: HK\$3,723,000) accumulated by associates of the Group.

Notes to the Financial Statements

Year ended 31 March 2006

33. CAPITAL AND RESERVES (continued)

(b) Company

	Reserves						Total capital and reserves
	Issued capital	Share premium	Capital redemption reserve	Contributed surplus	Accumulated losses	Total	
At 1 April 2004	394,107	455,573	450	52,854	(113,369)	395,508	789,615
Loss for the year	–	–	–	–	(514,470)	(514,470)	(514,470)
At 31 March 2005	394,107	455,573	450	52,854	(627,839)	(118,962)	275,145
At 1 April 2005	394,107	455,573	450	52,854	(627,839)	(118,962)	275,145
Loss for the year	–	–	–	–	(229,574)	(229,574)	(229,574)
At 31 March 2006	394,107	455,573	450	52,854	(857,413)	(348,536)	45,571

Note:

As at 31 March 2006 and 2005, the Company has no reserve available for cash distribution as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK\$455,573,000 (2005: HK\$455,573,000) may be distributed in the form of fully paid bonus shares.

Enterprise expansion reserve

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.

Contributed surplus

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 shall 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.

Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and is dealt with in accordance with the accounting policies adopted for foreign currency translation.

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Year ended 31 March 2006

34. CASH (USED IN) GENERATED FROM OPERATIONS

	2006 HK\$'000	2005 HK\$'000 (restated)
Loss before taxation	(229,555)	(470,476)
Interest expenses	4,169	3,390
Finance charges on obligations under finance leases	186	126
Interest income	(3,951)	(7,798)
Depreciation	45,949	40,168
Amortisation on premium for land lease	1,127	1,448
Amortisation on other non-current assets	1,029	1,029
Change in fair value of investment properties	(3,947)	(23,000)
Provision for doubtful debts and other non-current assets	58,028	406,930
Impairment loss on goodwill in an associate	51,482	54,000
Impairment loss on interests in an associate	6,540	–
Impairment loss on other non-current assets	12,767	–
Impairment loss on property, plant and equipment	51,000	–
Reversal of impairment loss of buildings	(20,370)	–
Reversal of impairment loss of premium for land lease	(34,970)	–
Loss on disposal of property, plant and equipment	1,360	163
Gain on disposal of premium for land lease and buildings	(2,024)	(10,380)
Extinguishment of liabilities related to an expired contract	–	(23,847)
Share of (profits) losses of associates	(780)	8,764
Exchange difference arising on translation	3,582	–
Realised and unrealised loss on financial assets at fair value through profit or loss	69	1,298
Decrease in inventories	710	1,636
Decrease (Increase) in trade and other receivables	203,604	(111,519)
(Decrease) Increase in trade and other payables	(146,318)	142,879
Cash (used in) generated from operations	(313)	14,811

Notes to the Financial Statements

Year ended 31 March 2006

35. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions in the ordinary course of the Group's business.

	2006 HK\$'000	2005 HK\$'000 (restated)
<i>(Income) Expenses</i>		
Salaries and other short-term employee benefits paid to:		
Key management personnel, including amounts paid to the Company's directors as disclosed in note 13	17,696	19,840
Rental income received from:		
A company under control by a substantial shareholder of the Company	–	(392)
Rental expense paid to:		
A company under control by the spouse of a director of the Company	1,140	–
Service fee paid to:		
Minority shareholders of subsidiaries	1,350	–
Call centre service fee income received from:		
A minority shareholder of subsidiaries	–	(3,046)
Interest expense paid to:		
A minority shareholder of subsidiaries	–	7,425
Maintenance service income received from:		
A minority shareholder of subsidiaries	–	(1,055)
Sale of telecommunications equipment		
A minority shareholder of subsidiaries	–	(1,608)

Notes to the Financial Statements

Year ended 31 March 2006

35. RELATED PARTY TRANSACTIONS (continued)

(b) As at 31 March 2006, the amounts due from CMTH and its subsidiaries are as follows:

(i) Loans and receivables / Long-term investments

	2006 HK\$'000	2005 HK\$'000
Others, unlisted		
Funding to a telecommunications project receivable	155,505	207,546
Less: provision for impairment losses	(155,505)	(151,145)
At balance sheet date	–	56,401

(ii) Trade receivables

	2006 HK\$'000	2005 HK\$'000 (restated)
CMTH	88,863	30,357
CMM	127,246	123,566
SCMTU	102,599	101,862
	318,708	255,785
Less: provision for doubtful debts	(318,708)	(255,785)
At balance sheet date	–	–

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 CMTH. The amount was to be returned by that company to the subsidiary of the Company before or upon expiry of a service agreement between the subsidiaries of CMTH and the Company in March 2004 when the service agreement expired.

As mentioned in note 9(a), on 30 January 2003, SMMT, CM Netcom and CMTH entered into an acquisition agreement to purchase in two equal stages, a total of 50% equity interest in CM Netcom for a consideration of RMB276,000,000 (equivalent to approximately HK\$258,000,000).

Notes to the Financial Statements

Year ended 31 March 2006

35. RELATED PARTY TRANSACTIONS (continued)

(b) (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 the 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. In prior years, the resulting goodwill of approximately HK\$124,853,000 has been amortised on a straight-line basis over a period of 10 years. Following the adoption of HKFRS 3, the Group ceased amortisation of goodwill from 1 April 2005. The investment in CM Netcom is classified as interests in associates (note 20).

Stage two of the acquisition of an interest in CM Netcom of HK\$129,000,000 was expected to be completed in December 2005. The consideration for the stage two acquisition was 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 the rescheduling agreement entered into between CMTH and the Company dated 9 July 2003.

In 2005, 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.

A letter issued by CMTH to the Company dated 8 November 2005, confirmed to the Company that they have pledged all its equity interest in CM Netcom to a financial institution established in the PRC, an independent third party. As a result of the aforesaid pledge, CMTH would not be able to transfer the 25% equity interest in CM Netcom to SMMT free from encumbrances by 31 December 2005. By reason of CMTH's breach of the relevant acquisition agreement, SMMT issued a notice of rescission to CMTH on 19 December 2005 to rescind the acquisition agreement. Accordingly, the remaining balance of the consideration designated for stage two acquisition as mentioned in note 9 to the financial statements was reclassified as amount due from CMTH. In view of the current financial position of CMTH, the Group has made full provision on the amount due from CMTH of HK\$58,028,000 for the year. The Company has been advised by its PRC legal advisers that SMMT shall not be able to seek specific performance of the acquisition agreement. SMMT has reserved the right to claim damages against CMTH as a result of the rescission.

Notes to the Financial Statements

Year ended 31 March 2006

35. RELATED PARTY TRANSACTIONS (continued)

- (c) As at 31 March 2006, outstanding non-trade payables included payables to minority shareholders of subsidiaries are as follows:

	2006 HK\$'000	2005 HK\$'000
Guangdong Mobile Communication Corporation	–	827

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk factors

Exposure to credit, liquidity, and market (including foreign currency and interest rate) risks arises in the normal course of the Group's business. The Group's risk management objectives and policies mainly focus on minimising the potential adverse effects of these risks on the Group by closely monitoring the individual exposure as follows:

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and cash transactions entered into for risk management purposes.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Debtors who have overdue are requested to settle all outstanding balances before any further credit is granted. In addition, the Group reviews the recoverable amount of each individual debtor regularly to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is considered minimal as such amounts are placed with banks with good credit rating.

(b) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing borrowings. As at 31 March 2006, certain borrowings of the Group amounting to HK\$37,799,000 would be mature in more than one year (2005: HK\$50,346,000). Detail of the Group's borrowings are disclosed in note 28 to the financial statements.

Notes to the Financial Statements

Year ended 31 March 2006

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risk factors (continued)

(c) *Interest rate risk*

The Group has exposure to interest rate risk through the impact of the rate changes on bank balances and bank borrowings. It is the Group's policy to maintain the proportion of borrowings in fixed rates and floating rates within an appropriate range. Management considers the interest rate risk exposure is limited and will consider hedging significant interest rate exposure should the need arise.

(d) *Foreign currency risk*

The Group's foreign currency risk exposure arise mainly from the exchange rate movements of Hong Kong dollars and United State dollars. The Group does not enter into any derivative contracts to hedge its foreign currency risk. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

37. COMMITMENTS

(a) *Commitments under operating leases*

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
In respect of leased properties, including transmission sites:		
Within one year	16,129	22,511
In the second to fifth years inclusive	4,907	14,471
	21,036	36,982
In respect of leased lines:		
Within one year	4,939	9,293
In the second to fifth years inclusive	2,400	3,127
Over five years	4,200	4,800
	11,539	17,220

Notes to the Financial Statements

Year ended 31 March 2006

37. COMMITMENTS (continued)

(b) Future operating lease arrangements

At the balance sheet date, the Group had future aggregate minimum lease income under non-cancellable operating leases, which are receivable as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Within one year	152	606

38. CONTINGENT LIABILITIES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Guarantees in respect of banking facilities of subsidiaries	–	–	284,008	243,731
Guarantees given to third parties against non-performance of contractual obligations by subsidiaries	38,673	40,463	31,585	25,843

39. POST BALANCE SHEET EVENTS

On 30 March 2006, the directors proposed to the shareholders of the Company the capital reorganisation which involved:

- (a) a reduction of the share capital of the Company by (i) reducing the nominal value of every issued share from HK\$0.75 to HK\$0.01, and a credit of approximately HK\$388,852,000 to be arisen from such reduction on the basis of 525,475,573 shares in issue; and (ii) canceling the entire amount standing to the credit of the share premium account of the Company as at 31 March 2005 of approximately HK\$455,573,000;
- (b) a transfer of the credits of approximately HK\$844,425,000 arising from the capital reduction to the contributed surplus account of the Company, and part of such contributed surplus shall be applied to set off in full against the Company's accumulated losses of approximately HK\$627,839,000 as at 31 March 2005;

Notes to the Financial Statements

Year ended 31 March 2006

39. POST BALANCE SHEET EVENTS (continued)

(c) a cancellation of the unissued capital in the authorised share capital of the Company in the sum of HK\$385,893,000 upon the capital reduction becoming effective, resulting in the authorised and issued share capital of the Company becoming HK\$5,255,000 with the subsequent increase in the authorised share capital of the Company to HK\$780,000,000 divided into 78,000,000,000 new shares. The new shares will rank pari passu in all respects with the then existing shares.

The capital reorganisation was approved by the shareholders of the Company in the special general meeting on 22 May 2006 and took effect from 23 May 2006. Details of the capital reorganisation are set out in the circular issued by the Company dated 26 April 2006.

40. COMPARATIVE FIGURES

As further explained in note 3 to the financial statements, due to the adoption of HKFRS during the year, the accounting treatment and the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior period adjustments and opening balance adjustments have been made and related comparative amounts have been restated.

41. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries 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	96.25%	Provision of long distance call services
ChinaMotion NetCom (Canada) Ltd.	Canada	1 common share	96.25%	Provision of long distance call services
China Motion Properties Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding

Notes to the Financial Statements

Year ended 31 March 2006

41. PRINCIPAL SUBSIDIARIES (continued)

Name	Country/place of incorporation/ operation and kind of legal entity in the PRC	Particulars of issued share capital/ registered capital	Percentage of effective equity interest held ¹	Principal activities
China Motion (Australia) Pty Limited	Australia	1 ordinary share of A\$1.00 each	96.25%	Provision of long distance call services
China Motion (Japan) Limited	Japan	200 shares of Yen 50,000.00 each	96.25%	Provision of long distance call services
China Motion (Singapore) Pte. Ltd.	Singapore	100,000 shares of S\$1.00 each	96.25%	Provision of long distance call services
China Motion (Taiwan) Limited	Taiwan	NT\$5,000,000	96.25%	Provision of long distance call services
China Motion (UK) Limited	United Kingdom	2 shares of £1.00 each	96.25%	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	96.25%	Provision of long distance call services
CM Tel (Canada) Ltd	Canada	100 common shares of C\$1.00 each	96.25%	Provision of long distance call services
CM Tel (USA) LLC	United States	US\$10,000	96.25%	Provision of long distance call services
Digital Pacific Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	96.25%	Provision of long distance call services and retail business

Notes to the Financial Statements

Year ended 31 March 2006

41. PRINCIPAL SUBSIDIARIES (continued)

Name	Country/place of incorporation/ operation and kind of legal entity in the PRC	Particulars of issued share capital/ registered capital	Percentage of effective equity interest held ¹	Principal activities
Express Lane Investment Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
Guangzhou Motion Telecom Service Co., Ltd	PRC, equity joint venture	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	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	PRC, equity joint venture	Paid-up and registered capital RMB25,000,000	70%	Maintenance for telecommunications equipment
Townlink Limited	Hong Kong	2,000,000 ordinary shares of HK\$1.00 each	70%	Provision of telecommunications services and 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.

Schedule of Principal Properties

Particulars of principal properties held by the Group which have been completed for existing use at 31 March 2006 are as follows:

A. PROPERTIES HELD FOR THE GROUP'S OWN USE

	Address	Lot No.	Category of the lease	Use	Percentage held by the Group
1.	20th Floor of Towers I, II and III, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Hong Kong	40505/728680th shares of and in New Kowloon Inland Lot No. 6115	Medium-term lease	Commercial	100%
2.	Flat No. 2 on 8th Floor and Flat No. 2 on 11th Floor of Block B and Flat No. 3 on 32nd Floor of Block C, Causeway Centre, 28 Harbour Road, Wanchai, Hong Kong	15/7533rd shares of and in Inland Lot No. 8390	Long lease	Residential	100%
3.	Car parking spaces Nos. A1 to A14 on 1P Floor, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Hong Kong	14/728680th shares of and in New Kowloon Inland Lot No. 6115	Medium-term lease	Commercial	100%

B. INVESTMENT PROPERTIES

	Address	Lot No.	Category of the lease	Use	Percentage held by the Group
1.	Units A to D on 18th Floor, Chinabest International Centre, No. 8 Kwai On Road, Kwai Chung, Hong Kong	570/10000th shares of and in Kwai Chung Town Lot No. 442	Medium-term lease	Industrial	100%
2.	Units 2601 and 2604 to 2608 on 26th Floor, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong	235/611th parts or shares of and in 611/100000th parts or shares of and in one moiety and 1804/100000th parts or shares of and in one moiety of Inland Lot No. 8392	Long lease	Commercial	100%

