

Report of Directors & Financial Statements 2001

Report of the Directors

The directors present their report to the members together with the audited financial statements for the year ended 31 March 2001.

CHANGE OF NAME

Pursuant to a special resolution passed by the shareholders at the annual general meeting held on 28 September 2000, the Company changed its name from CM Telecom International Limited to China Motion Telecom International Limited with effect from 3 October 2000.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

An analysis of the turnover and contribution to operating results of the Company and its subsidiaries (collectively referred to as the "Group") by principal activity and market is set out in note 2 to the financial statements.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 31.

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

RESERVES

Movements in reserves and retained profits of the Group and the Company during the year are set out on pages 33 to 34.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 March 2001 amounted to HK\$51,574,000.

DONATIONS

Donations made by the Group during the year amounted to HK\$1,000.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

The movements in property, plant and equipment and investment properties during the year are set out in notes 14 and 15 to the financial statements respectively.

INTEREST CAPITALISED

No interest was capitalised during the year.

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PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws and there are no restrictions against such rights under the laws in Bermuda.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the movements in issued share capital, share options and warrants of the Company are set out in note 29 to the financial statements.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

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

DIRECTORS

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

Mr HAU Tung Ying

Mr SHUI Ming Hua

Mr CHAN Wai Lun

Mr YANG Jun *

Mr LI Yi Sheng *

Mr Timothy Allen BRIDGEWATER * (appointed on 14 July 2000)

Mr Ian Barnett AARON * (appointed on 14 July 2000 and resigned on 26 March 2001)

Mr YUAN Wei* (appointed on 14 August 2000 and resigned on 26 March 2001)

Mr YUNG Yung Cheng, Frank **

Mr YUNG Ha Kuk Victor ** (appointed on 26 April 2000)

Mr XIANG Bing ** (resigned on 14 August 2000)

Mr HU Tiejun (resigned as an executive director on 14 August 2000 and appointed as alternate director to Mr LI Yi Sheng on 14 August 2000)

Mr PAN Rubo (resigned as alternate director to Mr LI Yi Sheng on 26 April 2000)

Mr LI Kwok Ping (appointed as alternate director to Mr LI Yi Sheng on 26 April 2000 and resigned on 14 August 2000)

* Non-executive directors

** Independent non-executive directors

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

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DIRECTORS' SERVICE CONTRACTS

Mr HAU Tung Ying has entered into service contracts with members of the Group for an initial period of three years from 1 July 1995 and thereafter unless terminated by either party. Under such contracts, he will receive a fixed monthly salary and an additional one month salary.

Apart from the above, none of the directors proposed for re-election 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

During the year, the Group had transactions with Liking Industrial Limited as disclosed in note 37(a) to the financial statements. Mr HAU Tung Ying was interested in these transactions to the extent that he is a beneficial shareholder of Liking Industrial Limited.

Save as disclosed herein, 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 EQUITY OR DEBT SECURITIES

As at 31 March 2001, the interests of the directors and chief executive in the shares and options in the Company or any associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to Section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 or Part I of the Schedule to the SDI Ordinance), or to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"), or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein were as follows:

(a) Ordinary shares

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

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

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DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES *(continued)*

(b) Share options

As at 31 March 2001, details of share options granted by the Company to the directors to subscribe for ordinary shares in the Company were as follows:

	Date of Grant	Exercise Price HK\$	Outstanding at 1 April 2000	Granted during the year	Adjustment as a result of rights issue	Outstanding at 31 March 2001
HAU Tung Ying	20 March 2001	0.75	–	2,000,000	–	2,000,000
SHUI Ming Hua	25 February 2000	3.19 [#]	367,500	–	10,999	378,499
	17 October 2000	1.22 [#]	–	420,000	12,570	432,570
	20 March 2001	0.75	–	2,000,000	–	2,000,000
CHAN Wai Lun	25 February 2000	3.19 [#]	367,500	–	10,999	378,499
	17 October 2000	1.22 [#]	–	420,000	12,570	432,570
	20 March 2001	0.75	–	2,000,000	–	2,000,000
YANG Jun	29 June 1998	0.751	250,000	–	7,483	257,483
	25 February 2000	3.19 [#]	245,000	–	7,333	252,333
	17 October 2000	1.22 [#]	–	280,000	8,380	288,380
	20 March 2001	0.75	–	2,000,000	–	2,000,000
HU Tiejun	19 August 1999	2.00 [#]	245,000	–	7,333	252,333
	17 October 2000	1.22 [#]	–	280,000	8,380	288,380
	20 March 2001	0.75	–	2,000,000	–	2,000,000

The exercise price has been adjusted as a result of the rights issue during the year.

The share options were granted under a share option scheme known as “The CM Employees’ Share Option Scheme” (the “Scheme”). The rules to the Scheme were modified with shareholders’ approval at the special general meeting held on 2 February 2001. Pursuant to the amended rules, the options are exercisable at any time after the date of grant and before the tenth anniversary of the date of grant.

Save as disclosed above, at no time during the year, the directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and its associated corporations (within the meaning of the SDI Ordinance).

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement 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.

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SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 31 March 2001, the Company had been notified of the following substantial shareholder's interests, being 10 per cent. or more of the issued share capital of the Company.

Name	Number of shares held	% of issued share capital
Goldtop Holdings Limited	270,247,500	51.43

Save as disclosed above, as at 31 March 2001, no other person was recorded in the register kept pursuant to Section 16 of the SDI Ordinance as having an interest in 10 per cent. or more of the issued share capital of the Company.

MANAGEMENT CONTRACTS

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

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CONNECTED TRANSACTIONS

During the year, in the normal course of business, the Group had various transactions with connected parties on terms arranged by or between the parties as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Income/(expenses)		
Significant transactions with		
(a) China Motion Telecom Holdings Limited (formerly known as China Motion Telecom Development Company) ("CMTH")		
Net sales of pagers and telecommunications equipment including		
technical service income	16,312*	68,963*
Maintenance service income	35,307	47,439
Leasing income	26,579	31,702
Airtime income	2,640	3,192
Commission income	727	3,004
Interest income	-	1,591
Recharge of paging service expenses, operator's cost and dataline rental	(33,714)	(41,234)
Dataline expenses	(1,121)	(1,028)
(b) China Motion Mobile Telecom Services Co. Ltd. ("CMM")		
Provision of technical consultancy and maintenance services	184,261	175,965
(c) Guangdong Mobile Communication Company Limited ("GMCC")		
Network service fee	-	(1,254)
(d) Liking Industrial Limited		
Rental expenses	(1,546)	(1,656)

* Included in the amount are net sales of HK\$5,073,000 (2000: HK\$17,819,000) to Shenzhen China Motion Telecom United Company Ltd., a subsidiary of CMTH.

The above transactions have also been disclosed as related party transactions in note 37(a) to the financial statements.

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

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

- (i) The transactions were entered into in the ordinary and usual course of business of the Group;
- (ii) The transactions were carried out in accordance with the terms set out in relevant agreements governing such transactions or where there is no such agreement on terms no less favourable to the Group than terms available to/from third parties;

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CONNECTED TRANSACTIONS *(continued)*

- (iii) The transactions were on normal commercial terms and on terms which are fair and reasonable so far as the members of the Company are concerned; and
- (iv) The respective aggregate values of transactions for each of the agreements with CMTH, CMM and GMCC did not exceed the respective percentage limit specified in the conditional waivers granted to the Company by the SEHK on 21 November 1997, 28 December 1998 and 31 August 1999 respectively except that the transactions with CMM exceeded the percentage limit by 1%.

MAJOR CUSTOMERS AND SUPPLIERS

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

Turnover

– the largest customer	24.0%
– five largest customers combined	47.3%

Purchases

– the largest supplier	6.8%
– five largest suppliers combined	25.4%

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

USES OF PROCEEDS

On 11 April 2000, there was a placement made by the Company whereby 45,000,000 new ordinary shares of HK\$0.75 each were issued to Goldtop Holdings Limited, the ultimate holding company, at a placing price of HK\$4.625 per share. Net proceeds of HK\$202 million were applied as follows:

HK\$55 million of the net proceeds received is used for the expansion of sales and distribution network of the retail operation of the Group; HK\$55 million is being used for the development of long distance call business of the Group; HK\$25 million is used for the furtherance of the business of Internet service provider of the Group; HK\$15 million is used for the acquisition of equipment for the operator-assisted call centres; and the remaining balance is retained as general working capital.

On 1 February 2001, by way of rights issue, the Company has issued 105,095,114 new ordinary shares ("Rights Shares") at HK\$1.00 per share for cash, being one Rights Share for every four existing shares in issue. Net proceeds of HK\$101 million were applied as follows:

HK\$40 million is being used for VoIP and IP network expansion; HK\$40 million is being used for wireless network digital equipment upgrade; and the remaining balance is retained as general working capital.

Report of the Directors

AUDIT COMMITTEE

The Group has established an Audit Committee since 26 September 1996. At the date of this report, the Audit Committee comprises two independent non-executive directors, namely Mr YUNG Yung Cheng, Frank and Mr YUNG Ha Kuk, Victor, and a non-executive director, Mr LI Yi Sheng.

The Audit Committee meets not less than twice a year and has discretion to convene meeting or hold discussion with the external auditors without the presence of executive Board members. The Committee is empowered to investigate activities within its terms of reference. It has discretion to seek information from any employee or obtain outside legal or other independent professional advice if it considers necessary.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The directors are pleased to confirm that throughout the year ended 31 March 2001, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the non-executive directors are not appointed for a specific term as recommended therein. However, all the directors are subject to retirement by rotation and re-election at the annual general meeting of the Company. Also an Audit Committee comprising two independent non-executive directors and a non-executive director has been established with written terms of reference duly adopted by the Board of Directors.

AUDITORS

PricewaterhouseCoopers, Hong Kong and PricewaterhouseCoopers, Singapore were the joint auditors of the Company since the year ended 31 March 1998.

On 21 August 2000, the Singapore Exchange Securities Trading Limited (the "SGX-ST") has granted in-principle approval for the conversion of the Company's primary listing in the SGX-ST to a secondary listing. Accordingly, the financial statements of the Company and of the Group are not required to be audited by Certified Public Accountants in Singapore with effect from the financial year ended 31 March 2001. Therefore, PricewaterhouseCoopers, Singapore retired as joint auditors and did not seek re-appointment in the annual general meeting held on 28 September 2000.

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

On behalf of the Board

HAU Tung Ying

Director

12 July 2001