

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and marketable securities as disclosed in the accounting policies below.

Since 1 April 2000, the Group implemented the following revised or new IAS which came to effect in current financial year and were applicable to the Group:

- IAS 10 (revised 1999) "Events after the Balance Sheet Date";
- IAS 16 (revised 1998) "Property, Plant and Equipment";
- IAS 22 (revised 1998) "Business Combinations";
- IAS 36 "Impairment of Assets";
- IAS 37 "Provision, Contingent Liabilities and Contingent Assets";
- IAS 38 "Intangible Assets"

Other than IAS 38 and IAS 10 (revised 1999), there are no changes in accounting policies that affect (loss)/profit attributable to the members or equity resulting from the adoption of the above accounting standards in these financial statements. The effects of the adoption of IAS 38 and IAS 10 (revised 1999) are described as follows:

- (i) With effect from 1 April 2000, the Group changed its accounting policy with respect to the accounting treatment for deferred expenditure in accordance with IAS 38. Deferred expenditures were previously capitalized and amortized over a period, normally not exceeding five years. The Group now charges all deferred expenditures which do not meet the criteria for recognition of intangible assets under IAS 38 to the income statement at the time when they are incurred. The change in accounting policy was applied retrospectively. As a result of the adoption of this accounting policy, the Group's profit attributable to the members for the year ended 31 March 2000 was decreased by HK\$1,661,000. The Group's loss attributable to members for the year ended 31 March 2001 was decreased by HK\$2,238,000. The retained profits brought forward on 1 April 1999 and 1 April 2000 were decreased by HK\$8,415,000 and HK\$10,076,000 respectively. The net asset values of the Group as at 31 March 2000 and 31 March 2001 were decreased by HK\$10,076,000 and HK\$7,838,000 respectively.
- (ii) In accordance with IAS 10 (revised 1999), dividend payables are not accounted for if they are recommended or proposed after balance sheet date. The change in accounting policy was applied retrospectively. As a result of adoption of IAS 10 (revised 1999), the final dividend proposed after the balance sheet date for the year ended 31 March 1999 of HK\$15,158,000 was accounted for as an appropriation of retained profits in the year ended 31 March 2000. There was no dividend proposed after the balance sheet date in respect of the year ended 31 March 2000.

Notes to the Financial Statements

1 Principal accounting policies *(continued)*

(b) Group accounting

(i) *Subsidiary undertakings*

Subsidiary undertakings, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Interests in subsidiaries in the Company's balance sheet are stated at cost, being the fair value of consideration given plus related acquisition costs, less any provision for permanent diminution in value. The results of the subsidiaries are accounted for in the Company's financial statements to the extent of dividends received and receivable.

(ii) *Associated undertakings*

Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealized gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealized losses are also eliminated unless the transactions provides evidence of an impairment of the asset transferred.

Equity accounting involves recognizing in the income statement the Group's share of the associates' results for the year. The Group's interests in the associates are carried in the balance sheet at an amount that reflects its share of the net assets or liabilities of the associates. Provisions are recorded for long-term impairment in value.

(iii) *Foreign currencies*

Income statements of foreign entities are translated into the Group's reporting currency at average exchange rates for the year and the balance sheets are translated at the exchange rates ruling on 31 March. Exchange differences arising from the retranslation of the net investment in foreign subsidiaries are taken to "exchange reserve" in shareholders' equity. On disposal of the foreign entity, the related accumulated exchange difference is recognized in the income statement as part of the gain or loss on sale.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the income statement. Such balances are translated at year-end exchange rates.

Notes to the Financial Statements

1 Principal accounting policies *(continued)*

(c) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, trade creditors, leases and borrowings. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

(d) Intangible assets - Goodwill

Goodwill arising on consolidation, representing the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertakings or associated undertakings at the date of acquisition. Goodwill on acquisition of subsidiary undertakings and associated undertakings are included in intangible assets and amortized using the straight-line method over its estimated useful life of five years.

Goodwill arising on an acquisition of telecommunications related business is amortized over a maximum period of five years on a straight-line basis.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

The gain or loss on disposal of an entity includes the unamortized balance of goodwill relating to the entity disposed of.

(e) Property, plant and equipment

All property, plant and equipment, except investment properties, is stated at historical cost less amortization or depreciation.

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

Telecommunications systems	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	30%

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Notes to the Financial Statements

1 Principal accounting policies *(continued)*

(f) Investment properties

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

Investment properties are treated as long-term investments and carried at market value determined annually by independent professional valuers. Investment properties are not subject to depreciation. Increases in the carrying amount are credited to revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve; all other decreases are charged to the income statement.

On disposal of an investment property, the difference between the net sales proceeds and the carrying amount is charged or credited to the income statement; any amounts in revaluation reserve relating to that investment property are transferred to the income statement.

(g) Leases

(i) *A company is the lessee*

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(ii) *A company is the lessor*

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognized on a straight-line basis over the lease term.

(h) Investments

Investments held for long-term purposes other than those in subsidiary undertakings and associated undertakings are stated at cost less provision for any permanent diminution in value.

Notes to the Financial Statements

1 Principal accounting policies *(continued)*

(h) Investments *(continued)*

Marketable securities held for short-term purposes are stated at the lower of cost and market value determined on a portfolio basis. On disposal of a marketable security, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out method. Net realisable value is the estimated of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(j) Trade receivables

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

(k) Cash and cash equivalents

For the purposes of the cash flow, cash and cash equivalents comprise cash net of bank overdrafts, trust receipts loans and short-term highly liquid investments, which are readily convertible into cash and have original maturities of three months or less at the date of acquisition. In the balance sheet, bank overdrafts, trust receipts loans are included in borrowings in current liabilities. Cash equivalents are stated at cost, which approximates fair value because of the short-term maturity of these instruments.

(l) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimated amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

(m) Retirement benefit costs

The Group's contributions to the defined contribution retirement benefit scheme and mandatory provident fund scheme are charged to the income statement in the year to which the contributions relate.

(n) Borrowing costs

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

Notes to the Financial Statements

1 Principal accounting policies *(continued)*

(o) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on property, plant and equipment and tax losses carried forward. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets relating to the available tax losses carried forward are not recognized unless there is reasonable expectation of their realization in the foreseeable future.

(p) Revenue recognition

(i) Paging subscription fee income is recognized on a straight-line basis over the period of the paging service contracts. Revenue received in advance for provision of paging services for an agreed period of time is deferred and amortized on a straight-line basis over the contract period.

(ii) Revenue from the sale of telecommunications products is recognized on the transfer of ownership, which generally coincides with the time of shipment.

(iii) Maintenance and technical consultancy service income from service agreements is recognized on an accruals basis when the services are rendered.

(iv) Trunking service income is recognized when the services are rendered.

(v) International communications and internet related services provided to customers are recognized upon the delivery of the relevant services.

(vi) Commission income is recognized in accordance with the terms of agency agreements which is generally when the agency services are rendered.

(vii) Rental and leasing revenue is recognized on a straight-line basis over the period of the respective leases.

(viii) Interest income is recognized on a time proportion basis, taking into account the principals outstanding and interest rates applicable.

(ix) Dividend income is recognized when the right to receive payment is established.

(x) Management service fee income is accrued on a monthly basis in accordance with the terms of the agreements.

Notes to the Financial Statements

2 Segment information

The Group's principal activities can be categorized into seven business segments:

(i) VoIP & Data Communications Services which include:

- Mobile Related Services Operation – provision of technical advisory, maintenance and accounts management services to telecommunications operators.
- VoIP & IP Transport Service – provision of international calling services.

(ii) Multimedia Retail Chain & Repair Services which include:

- CM Concept Retail Chain Operation – retail sales of telecommunications related equipment and products.
- Repair Service Operation – provision of maintenance and repairs services.

(iii) Networking Services which include:

- Trunking Operation – provision of trunking radio services.
- Leasing Operation – leasing of telecommunications equipment.

(iv) Unified Messaging Services – provision of paging services.

(v) Telecare Services – provision of call center services.

(vi) Internet & e-commerce – provision of internet related services.

(vii) Trading Operation – trading of telecommunications equipment and products.

(a) Primary reporting format - business segments

	VoIP & Data Communications Services		Multimedia Retail Chain & Repair Services		Networking Services		Unified Messaging Services	Telecare Services	Internet & e-commerce	Trading Operation	Unallocated Items	Group
	Mobile Related Services Operation	VoIP & IP Transport Service	CM Concept Retail Chain Operation	Repair Service Operation	Trunking Operation	Leasing Operation						
Year ended 31 March 2001	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue:												
Turnover	184,261	98,196	147,354	46,141	23,957	26,027	190,383	12,782	27,848	11,484	–	768,433
Segmental result	139,657	20,350	(23,955)	25,282	(36,540)	(83,592)	(104,930)	(6,712)	(53,050)	601	(96,985)	(219,874)
Net finance costs												(8,820)
Share of results before taxation of associated undertakings												6,778
Loss before taxation												(221,916)
Taxation												(18,620)
Loss after taxation												(240,536)
Minority interests												28,333
Loss attributable to the members												(212,203)
Other information:												
Segment assets	408,121	58,863	56,407	78,699	95,390	72,994	37,075	3,017	56,129	101,659	408,374	1,376,728
Associated undertakings												2,228
Consolidated total assets												1,378,956
Segment liabilities	68,394	112,060	31,920	22,412	13,207	–	47,376	1,205	11,446	28,471	166,511	503,002
Capital expenditure	4,589	927	1,763	3,813	5,619	857	6,458	655	18,526	–	26,987	70,194
Depreciation	1,361	44	3,630	2,533	2,133	15,162	8,165	797	1,293	–	10,698	45,816
Amortization	8,843	–	–	–	536	–	5,337	–	598	–	700	16,014
Impairment charge/write-off (note)	–	–	2,599	–	26,381	93,144	103,390	–	10,720	–	–	236,234
Other non-cash expenses	–	5,798	4,945	–	4,037	–	17,398	–	1,120	385	2,910	36,593

Note: Impairment charge is related to property, plant and equipment and the write-off of goodwill

Notes to the Financial Statements

2 Segment information (continued)

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

Year ended 31 March 2000	VoIP & Data Communications Services		Multimedia Retail Chain & Repair Services		Networking Services			Telecare Services	Internet & e-commerce	Trading Operation	Unallocated Items	Group HK\$'000
	Mobile Related Services Operation	VoIP & IP Transport Service	CM Concept Retail Chain Operation	Repair Service Operation	Trunking Operation	Leasing Operation	Unified Messaging Services					
Revenue:												
Turnover	175,965	16,129	240,622	56,043	28,140	31,702	262,944	1,509	104	78,011	–	891,169
Segmental result (restated)*	125,113	(465)	18,325	33,238	6,711	11,701	8,819	133	(21,454)	5,186	(81,721)	105,586
Net finance costs												(47,205)
Share of results before taxation of associated undertakings												1,007
Profit before taxation												59,388
Taxation												(7,362)
Profit after taxation												52,026
Minority interests (restated)*												(13,668)
Profit attributable to the members												38,358
Other information:												
Segment assets (restated)*	346,984	10,974	54,741	21,568	106,416	180,625	182,228	381	34,897	96,225	384,176	1,419,215
Associated undertakings												8,579
Consolidated total assets												1,427,794
Segment liabilities (restated)*	47,455	10,618	19,432	46,726	14,683	–	177,211	82	11,017	85,097	231,126	643,447
Capital expenditure (restated)*	5,904	1,533	4,871	3,699	5,816	22,560	52,195	1,043	12,522	–	2,302	112,445
Depreciation	1,587	588	2,543	1,874	2,977	18,401	13,658	12	253	–	8,667	50,560
Amortization (restated)*	8,843	–	–	–	532	–	8,119	–	–	–	1,684	19,178
Impairment charge/write-off	–	–	–	–	–	–	1,000	–	–	–	–	1,000
Other non-cash expenses	–	–	–	–	655	–	4,183	–	–	280	9,569	14,687

* As a result of the adoption of revised or new IAS in current year, certain balances in the financial statements as at 31 March 2000 were restated as detailed in note 1(a).

The Group mainly operates in the following geographical areas:

1. People's Republic of China – mobile related services operation, repair service operation, trunking operation, leasing operation, unified messaging services and internet & e-commerce.
("PRC")
2. Hong Kong – VoIP & IP transport service, CM Concept retail chain operation, repair service operation, trunking operation, unified messaging services, telecare services, trading operation and internet & e-commerce.
3. Canada and the USA – VoIP & IP transport service.

Notes to the Financial Statements

2 Segment information *(continued)*

(b) Secondary reporting format – geographical segments

	Turnover		Total assets		Capital expenditure	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000 <i>(Restated)</i>	2001 HK\$'000	2000 HK\$'000 <i>(Restated)</i>
PRC	372,824	394,759	665,434	644,229	9,259	30,392
Hong Kong	367,365	496,410	687,110	783,565	60,245	82,053
Canada and USA	28,244	–	26,412	–	690	–
	768,433	891,169	1,378,956	1,427,794	70,194	112,445

3 Revenue

The amounts of each significant category of revenue recognized during the year are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Sale of telecommunications products	112,626	247,798
Paging subscription fee income	200,617	237,820
Maintenance service income	42,789	53,114
Trunking service income	16,091	23,833
Leasing income	26,579	32,254
Technical consultancy service income	185,077	175,965
Commission income	90,041	103,152
International communications and internet related services income	94,613	16,233
Interest income	6,556	11,418
Management service fee income	1,731	2,310
Dividend income from listed investments	73	30
Dividend income from an unquoted investments	–	216

Notes to the Financial Statements

4 Operating (loss)/profit

	Group	
	2001	2000
	HK\$'000	HK\$'000
		<i>(Restated)</i>
Operating (loss)/profit is stated after charging and crediting:		
<i>Charging</i>		
Auditors' remuneration	1,500	1,534
Depreciation of property, plant and equipment		
– leased assets under finance leases	2,412	3,035
– owned assets	28,242	29,383
– owned assets (telecommunications equipment) leased out under operating leases	15,162	18,402
Net loss on disposal of property, plant and equipment	651	1,450
Loss/(profit) on disposal of marketable securities	313	(571)
Operating lease charges for land and buildings	72,875	61,237
Operating lease charges for telecommunications equipment	43,354	14,707
Amortization of goodwill (included in administrative expenses)	16,014	19,178
Loss on disposal of associated undertakings	2,378	–
Cost of inventories recognized as an expense	132,379	250,764
Deficit on revaluation of investment properties	2,910	9,569
Depreciation/(appreciation) in value of marketable securities	1,560	(775)
	<hr/>	
<i>Crediting</i>		
Profit from dilution of interest in subsidiary undertakings	2,666	–
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Gross rental income	4,563	6,759
Less: outgoings	(397)	(387)
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	4,166	6,372
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Notes to the Financial Statements

5 Staff costs

Staff costs which are exclusive of directors' emoluments are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Wages and salaries	189,344	157,463
Termination benefits	1,197	307
Contributions to defined contribution scheme/mandatory provident fund scheme	1,756	2,149
	192,297	159,919
Average number of persons employed by the Group during the year:		
Full time	924	530
Part time	56	31
	980	561

6 Finance costs

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	14,478	17,547
Interest on other loans – wholly repayable within 5 years	456	7,548
Interest on notes payable within 5 years	–	32,743
Interest element of finance leases	442	785
	15,376	58,623

7 Taxation

(a) The amount of taxation in the consolidated income statement represents:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Hong Kong profits tax		
– current year	–	–
– under/(over) provision in previous years	50	(803)
PRC taxation		
– current year	18,570	20,477
– overprovision in previous years	–	(12,312)
	18,620	7,362

Notes to the Financial Statements

7 Taxation *(continued)*

(a) The amount of taxation in the consolidated income statement represents: *(continued)*

No provision for Hong Kong profits tax has been made as the company and its subsidiaries operating in Hong Kong do not have any assessable profit for the year.

PRC taxation represents income tax payable by the subsidiaries operating in the PRC at the applicable rates ranging from 7.5% to 16.5%. The subsidiaries operating in the PRC are entitled to a tax holiday scheme which is available to certain Sino-foreign equity joint venture companies established in the PRC. Under such scheme, the subsidiaries are entitled to a full exemption of PRC income tax for the first profit making year and 50% reduction in the applicable tax rates for the ensuing 2 years. The applicable rate for which there is no exemption, is either 15% or 33%.

The difference between the actual taxation charge in the consolidated income statement and the amounts which would result applying the applicable tax rate to profit before taxation can be reconciled as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
		<i>(Restated)</i>
Operating (loss)/profit before income tax and share of results of associated undertakings	(228,694)	58,381
Applicable tax rate	16%	16%
Tax provision on profit at applicable tax rate	(36,591)	9,341
Add/(less) tax effect of:		
Expenses not deductible for tax purposes	22,398	9,376
Income not subject to tax	(4,798)	(5,488)
Different applicable tax rates of overseas operations	(1,974)	(8,194)
Provision for valuation allowance against tax losses	39,535	15,442
Under/(over) provision in previous years	50	(13,115)
	18,620	7,362

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Hong Kong profits tax recoverable	(91)	(160)
PRC income tax payable	16,198	9,576
	16,107	9,416

Notes to the Financial Statements

7 Taxation *(continued)*

(c) The deferred tax (assets)/liabilities are made up of the taxation effects of the following:

Deferred income tax assets and liabilities are offset when income taxes relate to the same fiscal authority. The following amounts are shown in the consolidated balance sheet:

	Group	
	2001	2000
	HK\$'000	HK\$'000
		<i>(Restated)</i>
Deferred tax liabilities/(assets):		
Depreciation and impairment of fixed assets	(6,064)	6,880
Provision for slow moving inventories	(73)	(73)
Tax losses carried forward	(62,160)	(35,569)
	(68,297)	(28,762)
Less: valuation allowance	68,643	29,108
Deferred tax liabilities, net	346	346

8 Dividends

	Group & Company	
	2001	2000
	HK\$'000	HK\$'000
		<i>(Restated)</i>
Ordinary		
Final dividend in respect of 2000 - HK\$Nil (1999: HK\$0.05 per share)	-	15,158
Interim dividend in respect of 2001 - HK\$Nil (2000: HK\$0.03 per share)	-	10,368
Additional final dividend for previous year	-	1,119
	-	26,645

The directors do not recommend the payment of a final dividend in respect of the years ended 31 March 2001 and 2000.

Notes to the Financial Statements

9 (Loss)/earnings per share

	Group	
	2001	2000
	HK\$'000	HK\$'000
		<i>(Restated)</i>
(Loss)/profit attributable to the members	(212,203)	38,358
Weighted average number of ordinary shares in issue	440,027,564	324,640,709
Adjustments for share options and warrants	59,060,944	13,981,991
Weighted average number of ordinary shares for calculation of diluted (loss)/earnings per share	499,088,508	338,622,700
Basic (loss)/earnings per share	(48.22) HK cents	11.82 HK cents
Diluted (loss)/earnings per share	N/A	11.33 HK cents

- (a) Basic (loss)/earnings per share is calculated based on the weighted average number of issued ordinary shares and the related income amount. For the diluted (loss)/earnings per share the weighted average number of issued ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares. The number of incremental shares from assumed exercise of stock options and warrants has been determined using the treasury stock method.
- (b) Diluted loss per share for the year ended 31 March 2001 has not been presented as the conversion of potential ordinary shares to ordinary shares would have anti-dilutive effect to the basic loss per share.
- (c) The weighted average number of ordinary shares that was used for calculating the basic and diluted earnings per share has not been retrospectively adjusted for the rights issue which took place in February 2001 because that was no bonus element in the rights issue.

10 Directors' and senior management's emoluments

- (a) Directors' remuneration

The aggregate amounts of the emoluments of the directors of the Company are as follows:

	2001	2000
	HK\$'000	HK\$'000
Fees	2,090	478
Basic salaries, housing allowances, other allowances and benefits in kind	12,373	16,367
Share options exercised	–	2,568
Contributions to defined contribution scheme/mandatory provident fund scheme	335	407
Discretionary bonuses	–	92
	14,798	19,912

Notes to the Financial Statements

10 Directors' and senior management's emoluments *(continued)*

(a) Directors' remuneration *(continued)*

The directors' fee disclosed above include HK\$311,000 (2000: HK\$478,000) paid to independent non-executive directors.

No director waived any emoluments during the year (2000: Nil). During the year, no amounts have been paid by the Group to the directors as an inducement to join the Group or as compensation for loss of office (2000: Nil).

The emoluments of the directors fell within the following bands:

	2001	2000
HK\$Nil – HK\$1,000,000	10	5
HK\$1,000,001 – HK\$1,500,000	–	2
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	2
HK\$3,000,001 – HK\$3,500,000	1	–
HK\$5,000,001 – HK\$5,500,000	1	–
HK\$7,000,001 – HK\$7,500,000	–	1
	14	11

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are as follows:

	2001	2000
Directors	3	5
Non-directors	2	–
	5	5

The emoluments payable to the two (2000: Nil) non-directors during the year is as follows:

	2001	2000
	HK\$'000	HK\$'000
Basic salaries	3,283	–
Contributions to defined contribution scheme/mandatory provident fund scheme	3	–
Discretionary bonuses	376	–
	3,662	–

Notes to the Financial Statements

10 Directors' and senior management's emoluments *(continued)*

(b) Five highest paid individuals *(continued)*

During both years presented, no amounts have been paid by the Group to the above non directors as an inducement to join the Group or as compensation for loss of office.

The emoluments of the above non directors fell within the following bands:

	2001	2000
HK\$1,500,001 – HK\$2,000,000	2	–

(c) The share options held by the directors (including non-executive directors of the Company) under the CM Employee's Share Option Scheme were set out in the report of the directors on page 25.

11 Intangible assets

	Group	
	2001	2000
	HK\$'000	HK\$'000
		<i>(Restated)</i>
Goodwill arising on consolidation (note 12)	19,350	31,877
Goodwill arising from acquisition of business (note 13)	–	36,448
	19,350	68,325

12 Goodwill arising on consolidation

	Group	
	2001	2000
	HK\$'000	HK\$'000
Cost		
At 1 April	60,149	54,701
Acquisition of subsidiaries	–	5,448
Disposal	(12,209)	–
At 31 March	47,940	60,149
Accumulated amortization		
At 1 April	28,272	17,213
Amortization charge	10,078	11,059
Disposal	(9,760)	–
At 31 March	28,590	28,272
Net book amount	19,350	31,877

Notes to the Financial Statements

13 Goodwill arising from acquisition of business

	Group	
	2001	2000
	HK\$'000	HK\$'000
Cost		
At 1 April	45,815	23,016
Additions	10,456	25,674
Write-off (note)	(56,271)	(2,875)
At 31 March	-	45,815
Accumulated amortization		
At 1 April	9,367	1,440
Amortization charge	5,936	8,119
Write-off (note)	(15,303)	(192)
At 31 March	-	9,367
Net book amount	-	36,448

Note: The amount represents write-off of goodwill arising from acquisition of paging and internet business. In view of contraction of the paging market in Hong Kong, the unamortized goodwill is fully written off during the year. The goodwill arising from acquisition of internet business during the year is also fully written off due to uncertainties of the global internet market.

Notes to the Financial Statements

14 Property, plant and equipment – Group

	Land and buildings	Furniture, fixtures and office equipment	Telecom- munications equipment	Leasehold improve- ments	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost						
At 1 April 2000	218,570	41,212	422,027	32,400	10,081	724,290
Additions	–	21,025	15,221	22,995	497	59,738
Disposals/write-off	–	(4,721)	(57)	(136)	(836)	(5,750)
At 31 March 2001	218,570	57,516	437,191	55,259	9,742	778,278
Accumulated depreciation						
At 1 April 2000	8,956	18,775	99,210	15,635	6,328	148,904
Charge for the year	4,393	7,183	24,441	8,060	1,739	45,816
Impairment charge (note (b))	–	4,642	188,693	1,931	–	195,266
Disposals/write-off	–	(2,856)	(6)	–	(417)	(3,279)
At 31 March 2001	13,349	27,744	312,338	25,626	7,650	386,707
Net book value						
At 31 March 2001	205,221	29,772	124,853	29,633	2,092	391,571
At 31 March 2000	209,614	22,437	322,817	16,765	3,753	575,386

- (a) As at 31 March 2001 the net book value of the property, plant and equipment pledged as security for banking facilities of the Group amounted to approximately HK\$205,221,000 (2000: HK\$221,602,000).
- (b) In light of the severe competition in the telecommunications market in Hong Kong and the rapid change of technology, the Group has reviewed the carrying value of all telecommunications equipment based on the recoverable value of these assets and an impairment charge of HK\$195,266,000 has been made in the year ended 31 March 2001.

Notes to the Financial Statements

15 Investment properties

	Group	
	2001 HK\$'000	2000 HK\$'000
Net book value, at 1 April	93,150	79,650
Transfer from property, plant and equipment	–	23,069
Deficit on revaluation	(2,910)	(9,569)
Net book value, at 31 March	90,240	93,150

The investment properties are accounted for as long-term investments and are valued at open market value by DTZ Debenham Tie Leung Limited, independent professional valuers, at 31 March 2001. The revaluation deficit is charged to the income statement. Depreciation is not charged on investment properties.

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

16 Net book value of the Group's land and buildings and investment properties

	Group			Investment properties in Hong Kong HK\$'000
	Leasehold land and buildings			
	Hong Kong HK\$'000	PRC HK\$'000	Total HK\$'000	
Period unexpired				
Leases between 10 to 50 years				
At net book value	164,919	8,640	173,559	–
At valuation	–	–	–	20,000
Leases not less than 50 years				
At net book value	31,662	–	31,662	–
At valuation	–	–	–	70,240
Net book value, at 31 March 2001	196,581	8,640	205,221	90,240

Notes to the Financial Statements

17 Property, plant and equipment held under finance leases

As at 31 March 2001, the net book values of property, plant and equipment held under finance leases are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Telecommunications equipment	6,462	11,988
Motor vehicles	879	1,806
	7,341	13,794

18 Investment in a subsidiary undertaking

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted investment, at cost (note (a))	113,115	113,115
Amount due from a subsidiary undertaking (note (b))	296,718	109,086
	409,833	222,201

(a) Details of principal subsidiary undertakings are set out in note 41 to the financial statements.

(b) The amounts due from a subsidiary undertaking are unsecured, interest-free and have no fixed terms of repayment but repayment is not expected to be made within twelve months from the balance sheet date.

19 Investments in associated undertakings

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets/(liabilities)	2,228	(3,909)
Amounts due from associated undertakings	-	12,488
	2,228	8,579

Details of principal associated undertakings are set out in note 42 to the financial statements.

Notes to the Financial Statements

20 Other long-term investments

	Group	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost less amounts written off	14,178	150
Club debentures	4,765	4,752
Other, unlisted (note (a))	247,733	247,733
	266,676	252,635

(a) This represents an amount invested by the Group in a telecommunications project in Guangdong province in the PRC. This investment has been undertaken on behalf of the Group by a related party, China Motion Mobile Telecom Services Co. Ltd ("CMM"). CMM is a minority shareholder of a subsidiary. The amount is repayable by CMM to a subsidiary of the Company before or upon expiry of a service agreement between that subsidiary and CMM in March 2004.

21 Inventories

	Group	
	2001 HK\$'000	2000 HK\$'000
Finished goods		
– at cost	870	17,933
– at net realisable value	6,193	19,215
	7,063	37,148

22 Receivables and prepayments

	Note	Group		Company	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade					
Trade receivables, net of provision	22(a),37(b)	273,436	192,479	–	–
Non-trade					
Other receivables and prepayments	37(c)	106,447	64,359	4	17,472
Due from subsidiary undertakings		–	–	586,390	522,474
Due from an associated undertaking	22(b)	7,280	13,439	–	–
Due from related companies	22(c)	366	366	–	–
Due from an investee company		2,581	126	–	–
Dividend receivable from a subsidiary undertaking		–	–	–	6,500
		390,110	270,769	586,394	546,446

Notes to the Financial Statements

22 Receivables and prepayments *(continued)*

- (a) Ageing analysis of trade receivables is as follows:

	2001	2000
	HK\$'000	HK\$'000
0-30 days	49,348	79,802
31-60 days	35,269	27,346
61-90 days	29,390	10,877
Over 90 days	159,429	74,454
Total	273,436	192,479

The Group has a defined credit policy. The general credit term is 30-60 days. Included in trade debtors with ageing over 61 days comprise amounts due from China Motion Telecom Holdings Limited and its subsidiaries, the related parties of the Group, amounted to HK\$176,398,000 (2000: HK\$62,099,000). The total outstanding trade receivables due from the related parties as at year end has been disclosed in note 37(b).

- (b) As at 31 March 2001, the amount due from an associated undertaking is unsecured, interest-free and repayable on demand.
- (c) As at 31 March 2001, the amounts due from related companies are unsecured, interest-free and repayable on demand.

23 Marketable securities

	Group	
	2001	2000
	HK\$'000	HK\$'000
Marketable securities, listed in Hong Kong at market value	2,940	3,394

24 Bank and cash balances – Group

- (a) Included in bank and cash balances of the Group is HK\$61,217,000 (2000: HK\$40,077,000) which represents bank balances denominated in Renminbi placed with banks in the PRC. Renminbi is not a freely convertible currency.
- (b) Included in bank and cash balances of the Group are fixed deposits with financial institutions amounting to HK\$125,811,000 (2000: HK\$34,172,000). The weighted average effective interest rate on fixed deposits during the year was 4.37% (2000: 5.44%).

Notes to the Financial Statements

25 Trade and other payables

	Note	Group		Company	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade					
Bills payable		341	1,368	-	-
Trade payables	25(a), 37(d)	65,022	67,227	-	-
Advance subscription fees received		25,389	32,393	-	-
Non-trade					
Due to subsidiary undertakings		-	-	113,001	169,337
Due to associated undertakings	25(b)	65,563	106,972	-	-
Due to directors		555	267	-	-
Other payables and accrued liabilities	37(e)	127,564	97,391	1,805	36,692
		284,434	305,618	114,806	206,029

(a) Trade payables

(i) Included in trade payables is HK\$9,785,000 (2000: HK\$14,791,000) which are interest bearing at a rate of 3.75% (2000: 3.75%) per annum. Included in last year's balance was HK\$4,022,000 which was repayable after one year.

(ii) Ageing analysis of trade payables is as follows:

	2001 HK\$'000	2000 HK\$'000
0-30 days	14,775	4,355
31-60 days	5,453	6,399
61-90 days	512	2,810
Over 90 days	44,282	53,663
Total	65,022	67,227

(b) Amounts due to associated undertakings

As at 31 March 2001, amounts due to associated undertakings are unsecured, interest-free and repayable on demand. The balance mainly represents calling card service income received on behalf of an associate by a subsidiary undertaking of the Company. Included in last year's balance was HK\$98,570,000 which was interest bearing at prevailing market rate ranging from 6.25% to 7.25% per annum during the year.

Notes to the Financial Statements

26 Borrowings

	Note	Group	
		2001 HK\$'000	2000 HK\$'000
Non-current			
Bank loans - secured	27	116,948	140,475
Obligations under finance leases	28	391	2,235
		117,339	142,710
Current			
Bank overdrafts - secured		–	19,568
Notes payable		–	35,525
Trust receipt loans - secured	26(a)	2,893	26,500
Bank loans - secured	27	22,604	27,720
Obligations under finance leases	28	1,773	3,597
		27,270	112,910
Total borrowings		144,609	255,620

(a) The weighted average effective interest rate for trust receipt loans during the year was 8.71% (2000: 9.23%).

27 Bank loans – secured

	Group	
	2001 HK\$'000	2000 HK\$'000
Secured bank loans are repayable:		
– within one year (included in current liabilities)	22,604	27,720
– between one and two years	19,022	20,082
– between two and five years	44,255	41,917
– over five years	53,671	78,476
	116,948	140,475
	139,552	168,195

Notes to the Financial Statements

27 Bank loans – secured *(continued)*

The bank loans are secured (note 14) and repayable by monthly instalment. The maturity date for the last instalment is August 2013. The weighted average effective interest rate was 8.79% per annum (2000: 9.10% per annum) and the interest rate exposure of the bank loans of the Group was as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
At floating rates		
– Hong Kong dollars denominated loans	135,545	163,838
– US dollar denominated loan	4,007	4,357
	139,552	168,195

28 Obligations under finance leases

	Group	
	2001	2000
	HK\$'000	HK\$'000
Minimum lease payments payable		
– within one year	1,975	4,049
– between one and two years	314	2,019
– between two and five years	172	510
	486	2,529
Future finance charges on finance leases	(297)	(746)
Present value of finance lease liabilities	2,164	5,832

The present value of finance lease liabilities may be analysed as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year (included in current liabilities)	1,773	3,597
Between one and two years	253	1,815
Between two and five years	138	420
	391	2,235
	2,164	5,832

Notes to the Financial Statements

29 Share capital

	Company			
	2001		2000	
	HK\$'000		HK\$'000	
Authorised:				
1,040,000,000 ordinary shares of HK\$0.75 each	780,000		780,000	
	2001		2000	
	Number of shares	Issued and fully paid HK\$'000	Number of shares	Issued and fully paid HK\$'000
Ordinary shares of HK\$0.75 each				
At 1 April	375,330,459	281,498	303,164,516	227,373
Issue of shares				
– placement (note (a))	45,000,000	33,750	40,000,000	30,000
– rights issue (note (b))	105,095,114	78,821	–	–
– share option scheme (note (c))	50,000	38	2,370,000	1,778
– exercise of warrants (note (d))	–	–	29,795,943	22,347
At 31 March	525,475,573	394,107	375,330,459	281,498

(a) Placement

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 new share. The placing price was determined at arm's length negotiation by reference to the closing price per share of S\$0.94 (about HK\$4.263) as quoted on the SGX-ST and HK\$4.925 as quoted on the SEHK on 28 March 2000. Net proceeds of HK\$202 million were received from the placement. The net proceeds are being applied as follows:

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

Notes to the Financial Statements

29 Share capital (continued)

(b) Rights issue

On 1 February 2001, 105,095,114 rights shares of HK\$0.75 each in the proportion of one rights share for every four existing shares in issue have been issued at HK\$1.00 per rights share. These shares rank pari passu with the then existing shares. The net proceeds of approximately HK\$101 million are being applied as follows:

- (i) HK\$40 million is used for VoIP and IP network expansion;
- (ii) HK\$40 million is used for wireless network digital equipment upgrade; and
- (iii) the remaining balance is retained as general working capital.

(c) Share option scheme

Pursuant to an ordinary resolution passed on 18 March 1998 and subsequently modified pursuant to an ordinary resolution passed on 2 February 2001, a share option scheme known as "The CM Employees' Share Option Scheme" (the "Scheme") was adopted. A committee comprising directors of the Company who were duly appointed by the board of directors is authorised to grant options to eligible employees including executive directors of the Company to subscribe for shares not exceeding 10% of the total issued share capital of the Company from time to time. If a member of the committee who is eligible to participate in the Scheme should not be involved in its deliberations in respect of options to be granted to the member.

The movements in the number of share options under the Scheme during the year were as follows:

Date of grant	Exercise price HK\$	Balance outstanding as at 1 April 2000	Options granted during the year	Options exercised during the year	Options lapsed during the year	Adjustment as a result of the rights issue	Balance outstanding as at 31 March 2001
29 June 1998	0.751	620,000	–	(50,000)	–	17,059	587,059
19 August 1999	2.00 [#]	2,865,000	–	–	(1,041,049)	55,669	1,879,620
25 February 2000	3.19 [#]	1,060,000	–	–	–	31,725	1,091,725
17 October 2000	1.22 [#]	–	4,167,500	–	(164,790)	124,731	4,127,441
20 March 2001	0.75	–	33,600,000	–	–	–	33,600,000
		4,545,000	37,767,500	(50,000)	(1,205,839)	229,184	41,285,845

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

The aforesaid share options are exercisable at any time after the date of grant and before the tenth anniversary of the date of grant. Exercise in full of all outstanding share options would result in the issue of an additional 41,285,845 ordinary shares with proceeds of HK\$37,918,202.

(d) Warrants

On 1 April 2000, 55,804,270 (as adjusted) units of warrants were issued to the financial investors as part of the consideration for the acquisition of additional interests in CM Mobile Telecom Holdings Limited, a wholly-owned subsidiary of the Company. The warrants confer the holders the right to subscribe for 55,804,270 (as adjusted) new fully paid shares in the Company at an initial subscription price of HK\$2.184 per share at any time from 1 April 2000 and subsequently adjusted to HK\$2.12 per share on 23 January 2001 up to and including 31 March 2004. Exercise in full of all outstanding warrants would result in the issue of an additional 55,804,270 shares with proceeds of HK\$118,305,052. No warrants were exercised during the year.

Notes to the Financial Statements

30 Non-distributable capital reserves

	Group											
	2001						2000					
	Share premium HK\$'000	Reserves on consolidation HK\$'000	Exchange reserve HK\$'000	Capital redemption reserve HK\$'000	Enterprise expansion reserve HK\$'000	Total 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	Total HK\$'000
At 1 April	264,726	4,900	1,343	450	40,748	312,167	88,451	4,900	2,941	450	28,985	125,727
Transfer from retained profits	-	-	-	-	13,691	13,691	-	-	-	-	11,763	11,763
Issue of shares, net of expenses	190,847	-	-	-	-	190,847	176,275	-	-	-	-	176,275
Exchange differences arising from investments in PRC subsidiary undertakings	-	-	354	-	-	354	-	-	(1,598)	-	-	(1,598)
At 31 March	455,573	4,900	1,697	450	54,439	517,059	264,726	4,900	1,343	450	40,748	312,167

	Company					
	2001			2000		
	Share premium HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
At 1 April	264,726	450	265,176	88,451	450	88,901
Issue of shares, net of expenses	190,847	-	190,847	176,275	-	176,275
At 31 March	455,573	450	456,023	264,726	450	265,176

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

31 Contributed surplus

	Company	
	2001	2000
	HK\$'000	HK\$'000
Brought forward and carried forward	52,854	52,854

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

Notes to the Financial Statements

32 Cash (outflow)/inflow generated from operations

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

	2001	2000
	HK\$'000	HK\$'000
		<i>(Restated)</i>
(Loss)/profit before taxation	(221,916)	59,388
Depreciation of owned fixed assets	43,404	47,785
Depreciation of fixed assets held under finance leases	2,412	3,035
Impairment loss on property, plant and equipment	195,266	1,000
Amortization of goodwill	16,014	19,178
Write-off of goodwill	40,968	2,683
Depreciation/(appreciation) in value of marketable securities	1,560	(775)
Deficit on revaluation of investment properties	2,910	9,569
Share of results before taxation of associated undertakings	(6,778)	(1,007)
Net loss on disposal of property, plant and equipment	651	1,450
Loss/(profit) on disposal of marketable securities	313	(571)
Profit from dilution of interest in subsidiary undertakings	(2,666)	–
Loss on disposal of other investments	150	–
Loss on disposal of associated undertakings	2,378	–
Interest expense	14,934	57,838
Interest element of finance leases	442	785
Interest received	(6,556)	(11,418)
Dividends received from listed investments	(73)	(30)
Dividend received from an unquoted investment	–	(216)
Changes in working capital (excluding the effect of acquisition of subsidiary undertakings):		
Decrease/(increase) in inventories	30,085	(5,311)
(Increase)/decrease in trade receivables, other receivables, bills receivable, including amounts due from associated undertakings, related companies and an investee company	(129,514)	70,153
(Decrease)/increase in trade payables, other payables and accrued liabilities, bills payable, advance subscription fee received including amounts due to associated undertakings	(19,149)	68,447
Cash (outflow)/inflow generated from operations	(35,165)	321,983

Notes to the Financial Statements

33 Cash and cash equivalents

	Group	
	2001	2000
	HK\$'000	HK\$'000
Bank and cash balances	202,401	105,131
Trust receipt loans	(2,893)	(26,500)
Bank overdrafts	–	(19,568)
Notes payable	–	(35,525)
	199,508	23,538

34 Contingent liabilities

As at 31 March 2001, the Group and the Company had contingent liabilities not provided for in the financial statements as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees in respect of banking facilities of subsidiaries	–	–	275,131	290,931
Guarantees to suppliers in respect of purchase of telecommunications equipment	20,108	43,024	20,108	43,024
Guarantees given to third parties against non-performance of contractual obligations by a subsidiary	28,700	28,700	25,700	24,700

35 Commitments

As at 31 March 2001, the Group had the following commitments:

(a) Operating lease commitments

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	88,984	35,070
Between one and five years	64,075	21,400
More than five years	2,930	4,840
	155,989	61,310

Notes to the Financial Statements

35 Commitments *(continued)*

(a) Operating lease commitments *(continued)*

(ii) The future minimum leasing income receivable under non-cancellable operating leases are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	17,580	26,027
Between one and five years	52,740	52,740
More than five years	52,363	71,174
	122,683	149,941

(b) Capital commitments for purchase of property, plant and equipment

	Group	
	2001	2000
	HK\$'000	HK\$'000
Contracted but not provided for	5,691	3,371
Authorised but not contracted for	69,005	–
	74,696	3,371

36 Retirement benefits

The Group operates a defined contribution retirement scheme for its employees. The assets of the scheme are held under a retirement fund managed by an independent administrator. Under the scheme, the employees are required to contribute 5 per cent. of their basic monthly salary while the employer's contributions are calculated at a range between 5 per cent. and 10 per cent. of the basic monthly salary. Members are entitled to 100 per cent. of the employers' contributions plus investment earnings after completing ten years of service or more or attaining the retirement age, or at a reduced scale of between 30 per cent. and 90 per cent. after completing a period of service of at least three years but less than ten years. The unvested benefits of employees terminating employment forfeited in accordance with the terms of the scheme can be utilised to reduce the employers' future levels of contributions or refunded to the employers. The defined contribution retirement scheme was officially terminated on 30 November 2000 following the introduction of the mandatory provident fund scheme ("MPF") after obtaining consent of all members under the scheme. At the date of termination, the vested benefits of the employees have been paid to the employees and the unvested benefits of HK\$2,597,000 have been forfeited and credited to the income statement for the year. The employers' gross contributions to the scheme net of forfeited contribution of HK\$1,827,000 (2000: HK\$694,000) amounted to HK\$32,000 (2000: HK\$ 2,149,000) for the year ended 31 March 2001.

MPF was established under the MPF Ordinance in December 2000. The MPF requires both the employers and employees to contribute 5% of their monthly gross earnings with a ceiling of HK\$1,000 per month. The assets of the scheme are held separately from those of the Group in independent administered funds. The employers' gross contribution to the MPF amounted to HK\$1,724,000 for the year ended 31 March 2001.

Notes to the Financial Statements

37 Related party transactions

- (a) Significant transactions during the year between the Group and related parties and also including minority shareholders of subsidiaries undertakings during the year, which were conducted in the ordinary course of business and on terms arranged by or between the parties concerned, are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Income/(expenses)		
Rental payable to a related party (note (i))	(1,546)	(1,656)
Significant transactions with associated undertakings		
Wanbao Telecom (H.K.) Company, Limited ("Wanbao")		
Purchase of ISP business	(7,183)	–
Purchase of fixed assets	(2,817)	–
Network service fee	(622)	(3,976)
Interest expenses	–	(3,922)
Internet service fee	–	4,917
Goodfine Holdings Limited		
Network service fee	(2,220)	–
Significant transactions with minority shareholders of subsidiary undertakings		
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	11,239	51,144
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)
Shenzhen China Motion Telecom United Company Ltd. ("SCMTU")		
Sales of telecommunications equipment	5,073	17,819
China Motion Mobile Telecom Services Co. Ltd. ("CMM")		
Provision of technical consultancy and maintenance services	184,261	175,965
Guangdong Mobile Communication Company Limited ("GMCC")		
Network service fee	–	(1,254)

Note:

- (i) This represents rental paid to Liking Industrial Limited, a company beneficially owned by a director of the Company in respect of a property utilised by the aforesaid director.

Notes to the Financial Statements

37 Related party transactions *(continued)*

- (b) As at 31 March 2001, outstanding trade receivables due from minority shareholders of subsidiary undertakings are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
CMTH	50,063	17,698
CMM	100,933	36,738
SCMTU	65,469	66,130
	216,465	120,566

- (c) As at 31 March 2001, outstanding non-trade receivables due from minority shareholders of subsidiary undertakings are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
CMTH	21,540	1,404
SCMTU	12,692	–
CMIS	3,768	–
Sheen Line Investments Limited	9,750	9,750
Red Flag Finance Limited	5,850	5,850
Brilliant Eagle Group Limited	1,950	–
Portishead Holdings Limited	780	–
Double Happy Limited	585	–
Money Concept Investment Limited	3,315	–
	60,230	17,004

- (d) As at 31 March 2001, outstanding trade payables included a payable to a minority shareholder of a subsidiary undertaking are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
GMCC	–	1,993

Notes to the Financial Statements

37 Related party transactions *(continued)*

- (e) As at 31 March 2001, outstanding non-trade payables included payables to minority shareholders of subsidiary undertaking are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
CMTH	2,921	9,816
GMCC	827	11,205
SCMTU	1,160	4,829
CMM	13,185	—
	18,093	25,850

38 Financial assets and financial liabilities

Financial assets of the Group include cash, investments, trade receivables and other receivables, amounts due from an associated undertaking, an investee company and related companies. Financial liabilities of the Group include bank borrowings, obligations under finance leases, trade payables, bills payable, other payables and amounts due to associated undertakings, related companies and directors.

- (a) Interest rate risk

The Group's short-term deposits are at fixed interest rates and mature within three months.

The interest rates and terms of repayment of major bank loans of the Group are set out in note 27.

- (b) Credit risk

The substantial portion of the Group's financial assets are represented by short term deposits placed with international banks, trade receivables and other receivables. The Group's trade receivables is concentrated on a major customer, China Motion Telecom Holdings Limited and its subsidiaries, a limited liabilities company established in the PRC. The Group's historical experience in collection of trade receivables falls within the recorded allowance. Management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Group's trade receivables.

Notes to the Financial Statements

38 Financial assets and financial liabilities *(continued)*

(c) Fair value

As cash, current trade receivables, current trade payables and notes payable are short-term in nature, their carrying amounts approximate fair value.

The carrying value of short-term marketable securities approximates fair value.

The fair values of the Group's long term bank loans, obligations under finance leases and long-term trade payables are estimated based on applying a discounted cash flow using current market rates for similar financial instruments.

The carrying amounts and fair values of the Group's long-term trade payable, long-term bank loans and obligations under finance leases as at 31 March 2001 are as follows:

	2001		2000	
	Carrying Amount HK\$'000	Fair Value HK\$'000	Carrying Amount HK\$'000	Fair Value HK\$'000
Long-term bank loans	139,552	139,552	168,195	168,528
Obligations under finance leases	2,164	2,154	5,832	5,089
Long-term trade payable	–	–	4,022	3,842

39 Holding company and ultimate holding company

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

40 Approval of financial statements

The financial statements were approved by the board of directors on 12 July 2001.

Notes to the Financial Statements

41 Group structure – subsidiary undertakings

As at 31 March 2001, the principal subsidiary undertakings are as follows:

Name of company	Country/ place of establishment/ operation	Particulars of issued share capital/ registered capital	Effective interest held *	Principal activities
Best Class International Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion Data System Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion Holdings Limited	British Virgin Islands	100 ordinary shares of US\$1.00 each	100%	Investment holding
China Motion Properties Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion Technology Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Trading of telecommunications products and equipment
China Motion Telecom (HK) Limited	Hong Kong	1 million ordinary shares of HK\$1.00 each	100%	Paging and retail operations
China Motion United Telecom Limited	Hong Kong	66.8 million ordinary shares of HK\$1.00 each	70%	Investment holding and provision of roaming trunk radio services
ChinaMotion.com Inc.	British Virgin Islands	5.921 million ordinary shares of US\$1.00 each	50.67%	Investment holding
ChinaMotion NetCom (Asia) Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Provision of long distance call service
ChinaMotion NetCom (Canada) Ltd.	Canada	1 ordinary share of C\$1.00 each	100%	Provision of long distance call services
CM Concept (HK) Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Retail business
CM Concept Holdings (China) Limited	Hong Kong	100 ordinary shares of HK\$1.00 each and 500 non-voting deferred shares of HK\$10,000.00 each	100%	Trading of telecommunication products and equipment
CM Internet (Hong Kong) Limited	Hong Kong	100 ordinary shares of HK\$1.00 each	50.67%	Provision of Internet services

Notes to the Financial Statements

41 Group structure – subsidiary undertakings *(continued)*

Name of company	Country/ place of establishment/ operation	Particulars of issued share capital/ registered capital	Effective interest held *	Principal activities
CM Internet Investment Limited	British Virgin Islands	1,000 ordinary shares of US\$0.10 each	100%	Investment holding
CM Mobile Telecom (Hong Kong) Company Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Investment holding
CM Tel (USA) LLC	United States	US\$10,000	100%	Provision of long distance call services
Eagle Heights Limited	British Virgin Islands	1 ordinary share of US\$1.00 each	100%	Provision of long distance call services
eCMTI.com Inc.	United States	100 ordinary shares of US\$0.01 each	50.67%	Investment in Internet related business in United States
Express Lane Investment Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
Jackie Industries Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
Moving On Corporation	British Virgin Islands	5.85 million ordinary shares of US\$1.00 each	51.28%	Investment holding
Prime Target International Limited	British Virgin Islands	1 ordinary share of US\$1.00 each	100%	Provision of roaming paging services
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 Internet Technology Co., Limited**	People's Republic of China	RMB3,500,000	45.60%	Provision of e-commerce service
Shenzhen Motion Mobile Telecom Services Co., Ltd.**	People's Republic of China	US\$12,000,000	90%	Provision of technical consultancy and maintenance services in cellular mobile phone operation

Notes to the Financial Statements

41 Group structure – subsidiary undertakings *(continued)*

Name of company	Country/ place of establishment/ operation	Particulars of issued share capital/ registered capital	Effective interest held *	Principal activities
Shenzhen Motion Telecom Service Co., Ltd.**	People's Republic of China	RMB25,000,000	70%	Provision of maintenance services and telecommunications equipment leasing in the PRC
Shenzhen Motion Trunked Radio Co., Ltd.**	People's Republic of China	Paid-up capital US\$5,000,000 Registered capital US\$9,000,000	49%	Provision of telecommunications equipment leasing
Sungloss International Limited	British Virgin Islands	1 ordinary share of US\$1.00 each	100%	Investment holding and trading of telecommunications products and equipment
Townlink Limited	Hong Kong	2 million ordinary shares of HK\$1.00 each	70%	Provision of telecommunications services and the sale of mobile transceivers and related accessories
World Sheen Properties Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding

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

** The statutory accounts of the above companies are not audited by PricewaterhouseCoopers. The net assets of these subsidiary undertakings amounted to approximately 27% of the Group's total net asset.

The above table includes the subsidiary undertakings 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 subsidiary undertakings would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements

42 Associated undertakings

As at 31 March 2001, the principal associated undertakings of the Group are as follows:

Name of company	Country/ place of establishment/ operation	Particulars of issued shares held	Effective interest held	Principal activities
CM Mobile Investment Limited	British Virgin Islands	Ordinary shares of US\$1.00 each	38%	Investment holding
Thinker Communications Technology (HK) Co., Limited	Hong Kong	Ordinary shares of HK\$1.00 each	48%	Agency services
Wanbao Telecom Investment Limited	Hong Kong	Ordinary shares of HK\$1.00 each	48%	Trading of telecommunications equipment and provision of paging network services

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