

Report of the Directors & Audited Accounts 2002

Steady Progress:

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 36 to the accounts.

An analysis of the performance of the Company and its subsidiaries (collectively referred to as the “Group”) for the year by business and geographical segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 34.

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

RESERVES

Movements in the reserves and accumulated losses of the Group and the Company during the year are set out on pages 36 to 37.

DISTRIBUTABLE RESERVES

In accordance with the Companies Act 1981 of Bermuda (as amended) and the Company’s Bye-Laws, the Company has no distributable reserve as at 31 March 2002.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

SHARE CAPITAL AND WARRANTS

Details of the movements in share capital and warrants of the Company are set out in note 25 to the accounts.

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.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

Report of the Directors

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*

Mr YUNG Yung Cheng, Frank**

Dr HO Chung Tai, Raymond** (appointed on 1 August 2001)

Mr YUNG Ha Kuk Victor** (resigned on 1 August 2001)

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

* Non-executive directors

** Independent non-executive directors

In accordance with Bye-law 85(2) of the Bye-Laws of the Company, Dr HO Chung Tai, Raymond retires from office and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 86(1) of the Bye-Laws of the Company, Mr CHAN Wai Lun, Mr LI Yi Sheng and Mr YUNG Yung Cheng, Frank retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

During the year, the Group had transactions with Liking Industrial Limited ("Liking") and First Active Investments Limited ("First Active") as disclosed in note 32(a) to the accounts. Mr HAU Tung Ying was interested in these transactions to the extent that he is a beneficial shareholder of Liking and First Active respectively.

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 18 to 21.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31 March 2002, the interests of the directors and chief executive in the shares of the Company or any associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register required to be kept under Section 29 of the SDI Ordinance were as follows:

	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% and 40% of the entire issued share capital of Goldtop.

Save as disclosed above, as at 31 March 2002, none of the directors and chief executive (including their spouse and children under 18 years of age) had any other interests in shares in or debentures of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which had been entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance.

Apart from the shares as disclosed above, share options to subscribe for ordinary shares of the Company have been granted to HAU Tung Ying, SHUI Ming Hua, CHAN Wai Lun, YANG Jun and HU Tiejun pursuant to the approved China Motion Employees' Share Option Scheme. Information in relation to their share options during the year were shown in the following section under the heading "Information on Share Options".

Report of the Directors

INFORMATION ON SHARE OPTIONS

1. Movements of share options, which have been granted under China Motion Employees' Share Option Scheme, during the year are listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Date of grant	Exercise price HK\$	Exercise period	Vesting period	No. of outstanding options at 1 April 2001	No. of options granted during the year	No. of options lapsed during the year	No. of outstanding options at 31 March 2002
Directors:								
HAU Tung Ying	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	–	2,000,000
SHUI Ming Hua	25 February 2000	3.19	25/02/01 – 17/03/08	N/A	378,499	–	–	378,499
	17 October 2000	1.22	17/10/01 – 17/03/08	N/A	432,570	–	–	432,570
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	–	2,000,000
CHAN Wai Lun	25 February 2000	3.19	25/02/01 – 17/03/08	N/A	378,499	–	–	378,499
	17 October 2000	1.22	17/10/01 – 17/03/08	N/A	432,570	–	–	432,570
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	–	2,000,000
YANG Jun	29 June 1998	0.751	29/06/99 – 17/03/08	N/A	257,483	–	–	257,483
	25 February 2000	3.19	25/02/01 – 17/03/08	N/A	252,333	–	–	252,333
	17 October 2000	1.22	17/10/01 – 17/03/08	N/A	288,380	–	–	288,380
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	–	2,000,000
HU Tiejun	19 August 1999	2.00	19/08/00 – 17/03/08	N/A	252,333	–	–	252,333
	17 October 2000	1.22	17/10/01 – 17/03/08	N/A	288,380	–	–	288,380
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	–	2,000,000

INFORMATION ON SHARE OPTIONS (continued)

Category	Date of grant	Exercise price HK\$	Exercise period	Vesting period	No. of outstanding options at 1 April 2001	No. of options granted during the year	No. of options lapsed during the year	No. of options outstanding 31 March 2002
Continuous Contract								
Employees of the Group:								
	29 June 1998	0.751	29/06/99 – 17/03/08	N/A	329,576	–	(102,993)	226,583
	19 August 1999	2.00	19/08/00 – 17/03/08	N/A	1,627,287	–	(406,822)	1,220,465
	25 February 2000	3.19	25/02/01 – 17/03/08	N/A	82,394	–	–	82,394
	17 October 2000	1.22	17/10/01 – 17/03/08	N/A	2,685,541	–	(599,936)	2,085,605
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	23,600,000	–	(7,400,000)	16,200,000
	28 January 2002	0.75	28/01/03 – 27/01/12	28/01/03 – 28/01/05	–	1,850,000	–	1,850,000
			(Note (1))					

Notes:

- (1) The closing price of the shares of the Company immediately before the date on which the options were granted was HK\$0.71.
 - (2) During the year, no options were exercised or cancelled.
2. In assessing the value of the share options granted on 28 January 2002, the Black-Scholes option pricing model (the “Black-Scholes Model”) has been used. The Black-Scholes Model is one of the most generally accepted methodologies used to calculate the value of options and is one of the recommended option pricing models as set out in Chapter 17 of the Listing Rules. The variables of the Black-Scholes Model include, expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company.

In assessing the value of the share options granted during the year to employees, the following variables have been applied to the Black-Scholes Model:

- (a) The expected life is estimated to be 5 years from the date of grant (the “Measurement Date”).
- (b) The risk-free rate applied to the Black-Scholes Model is 5.11%, which represents the yield of the Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the Measurement Date.
- (c) The expected volatility used in the calculation is 64.20% and represents the standard deviation of the daily closing share prices of the Company in The Stock Exchange of Hong Kong Limited for the last twelve months from the Measurement Date.
- (d) The expected dividend is estimated to be 1.73% based on the average dividend yield of past 5 years.

INFORMATION ON SHARE OPTIONS (continued)

Using the Black-Scholes Model in assessing the value of share options granted during the year, the options would have an aggregate value of approximately HK\$721,500 represented as follows:

	Number of share options granted during the year	Estimated value per option HK\$	Estimated value of options granted during the year HK\$
Employees	1,850,000	0.39	721,500
		Total	<u>721,500</u>

In assessing the aggregate value of the share options, no adjustment has been made for possible future forfeiture of the options. No charge is recognised in the profit and loss account in respect of the value of options granted during the year. The share options granted will be recognised in the balance sheet at the time when the share options are exercised. Share capital will be credited at par for each share issued upon the exercise of share options, with share premium credited at the excess of net proceeds received over total share capital credited.

It should be noted that the value of options calculated using the Black-Scholes Model is based on various assumptions and is only an estimate of the value of share options granted during the year. It is possible that the financial benefit accruing to the grantee of an option will be considerably different from the value determined under the Black-Scholes Model.

3. Summary of China Motion Employees' Share Option Scheme (the "Scheme") adopted on 18 March 1998 (as latest amended on 2 February 2001) disclosed in accordance with the Listing Rules was as follows:

- | | |
|--|--|
| 1. Purpose of the Scheme | As incentive to employees |
| 2. Participants of the Scheme | Eligible employees including executive directors |
| 3. Total number of share available for issue under the Scheme and % on issued share capital at 31 March 2002 | 34,626,094 (6.59%) |
| 4. Maximum entitlement of each participant under the Scheme | 25% of the total number of shares in respect of which the Company may grant options under the Scheme and subject to Chapter 17 of the Listing Rules |
| 5. The period within which the shares must be taken up under an option | 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
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 |

INFORMATION ON SHARE OPTIONS (continued)

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|----|---|--|
| 6. | The minimum period for which an option must be held before it can be exercised | For options granted before 20 March 2001:
The first anniversary of the Date of Grant
For options granted on/after 20 March 2001:
33% – first anniversary of the Date of Grant
33% – second anniversary of the Date of Grant
34% – third anniversary of the Date of Grant |
| 7. | The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid | HK\$1.00; within 21 days from the Offer Date |
| 8. | The basis of determining the exercise price | For options granted before 1 September 2001, the exercise price is determined by a committee and being the higher of:
(a) A price being not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (“SEHK”) as stated on the SEHK’s daily quotation sheets for the 5 consecutive trading days immediately preceding the Offer Date; and
(b) The nominal value of a share
For options granted on/after 1 September 2001, the exercise price is determined by a committee and subject to Chapter 17 of the Listing Rules |
| 9. | The remaining life of the Scheme | The Scheme Period will end on 17 March 2008 |

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that, as at 31 March 2002, the Company had been notified of the following substantial shareholders’ interests, being 10% or more of the issued share capital of the Company.

Name of shareholder	Number of shares held	% of the issued share capital
Goldtop Holdings Limited (Note (1))	270,247,500	51.43
HAU Tung Ying (Note (2))	270,247,500	51.43
TING Yat Shuk (Note (3))	270,247,500	51.43

- Notes: (1) Goldtop Holdings Limited (“Goldtop”) is owned as to 60% by Mr HAU Tung Ying and 40% by Madam TING Yat Shuk.
 (2) Mr HAU Tung Ying is deemed to be interested in the 270,247,500 shares held by Goldtop due to his 60% direct interest in Goldtop.
 (3) Madam TING Yat Shuk is deemed to be interested in the 270,247,500 shares held by Goldtop due to her 40% direct interest in Goldtop.

Save as disclosed above, as at 31 March 2002, no other person or corporation had any interest in the share capital of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company.

Report of the Directors

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

In addition to that disclosed in note 16(a) to the accounts, the Group had the following transactions with connected parties which were carried out in the normal course of business and on terms arranged by or between the parties during the year ended 31 March 2002:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Income/(expenses)		
(a) China Motion Telecom Holdings Limited ("CMTH")		
Net sales of pagers and telecommunications equipment	5,692*	16,312*
Maintenance service income	14,332	35,307
Leasing income	9,342	26,579
Airtime income	2,640	2,640
Commission income	-	727
Disposal of microwave telecommunications equipment	61,495	-
Recharge of paging service expenses, operator's cost and dataline rental	(6,902)	(33,714)
Dataline expenses	(1,101)	(1,121)
(b) China Motion Netcom Services Co. Ltd. (formerly known as China Motion Mobile Telecom Services Co. Ltd.) ("CM Netcom")		
Provision of technical consultancy and maintenance services	131,070	184,261
(c) Liking Industrial Limited		
Rental expenses	(316)	(1,546)
(d) First Active Investments Limited		
Disposal of Internet and telecare businesses	15,000	-

* Included in the amount are net sales of HK\$5,073,000 (2001: HK\$5,073,000) to Shenzhen China Motion Telecom United Company Ltd. ("SCMTU"), a subsidiary of CMTH.

The above transactions have also been disclosed as related party transactions in note 32(a) to the accounts.

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.

CONNECTED TRANSACTIONS (continued)

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

- (i) The transactions were entered into in the ordinary and usual course of business of the Group;
- (ii) The transactions were carried out in accordance with the terms of the agreements governing such transactions or where there is no such agreement on terms no less favourable to the Group than terms available to/from third parties;
- (iii) The transactions were on normal commercial terms and on terms that 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 and CM Netcom did not exceed the respective percentage limit specified in the conditional waivers granted to the Company by the SEHK.

MAJOR CUSTOMERS AND SUPPLIERS

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

Sales

– the largest customer	18.2%
– five largest customers combined	37.9%

Purchases

– the largest supplier	17.5%
– five largest suppliers combined	49.5%

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

AUDIT COMMITTEE

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

During the current financial year, 3 meetings were held. The Audit Committee has discretion to convene meeting or hold discussion with the external auditors without the presence of executive directors. It is empowered to investigate activities within its terms of reference. It has discretion to seek information from any employee or obtain outside legal or other independent professional advice if it considers necessary.

Report of the Directors

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The directors are pleased to confirm that throughout the year ended 31 March 2002, 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.

DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with the requirement under paragraph 3.2.1 of Practice Note 19 of the Listing Rules, the directors of the Company report the details of advances to CMTH and its subsidiaries as at 31 March 2002 as follows:

	Total HK\$'000
Trade receivables from	
CMTH	32,401
CM Netcom	166,721
SCMTU	68,756
	<hr/>
	267,878
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The advances were trade receivables arising from the Group's normal and ordinary course of business and were unsecured, interest-free with credit term of 30 – 90 days.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 34 to the accounts.

AUDITORS

PricewaterhouseCoopers, Hong Kong and PricewaterhouseCoopers, Singapore were the joint auditors of the Company for the year ended 31 March 2000.

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 on the SGX-ST to a secondary listing. Accordingly, the accounts 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 accounts 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

Hong Kong, 22 July 2002