
Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 March 2003.

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 33.

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 in the statements of changes in equity on page 35.

Distributable reserves

In accordance with the Company Act 1981 of Bermuda (as amended) and the Company's Bye-laws, the Company has no distributable reserve as at 31 March 2003.

Fixed assets

Details of the movements in fixed assets of the Group are set out in note 15 to the accounts.

Share capital and warrants

Details of the movements in share capital and warrants of the Company are set out in note 28 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 4.

Report of the Directors

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 and redemption of shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's 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. YUNG Yung Cheng, Frank**

Dr. HO Chung Tai, Raymond**

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

Mr. Timothy Allen BRIDGEWATER* (resigned on 23 July 2002)

* 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.

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

No 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 19 to 22.

Directors' interests in equity or debt securities

As at 31 March 2003, the interests of the directors and chief executive in the shares and debt securities of the Company or any associated corporation (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.

Apart from the shares as disclosed above, options to subscribe for ordinary shares of the Company have been granted to Messrs. HAU Tung Ying, SHUI Ming Hua, CHAN Wai Lun, YANG Jun and HU Tiejun pursuant to the share option scheme adopted by the Company on 18 March 1998 ("1998 Share Option Scheme"). Information in relation to the movements of their share options during the year is shown in the following section under the heading "Information on share options".

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Report of the Directors

Information on share options

- 1 Movements of share options, which have been granted under the 1998 Share Option Scheme, during the year are listed below in accordance with Rule 17.07 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") :

Category	Date of grant	Exercise price HK\$	Exercise period	Vesting period	No. of	No. of	No. of
					outstanding options at 1 April 2002	options lapsed during the year	outstanding options at 31 March 2003
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
Employees:							
	29 June 1998	0.751	29/06/99 – 17/03/08	N/A	226,583	(82,394)	144,189
	19 August 1999	2.00	19/08/00 – 17/03/08	N/A	1,220,465	(200,837)	1,019,628
	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	2,085,605	(211,135)	1,874,470
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	16,200,000	(3,350,000)	12,850,000
	28 January 2002	0.75	28/01/03 – 27/01/12	28/01/03 – 28/01/05	1,850,000	(1,350,000)	500,000

Note: During the year, no share options were granted, exercised or cancelled.

Information on share options (continued)

- 2 In accordance with the 1998 Share Option Scheme, the directors of the Company may at their discretion invite eligible employees of the Group, including executive directors of the Company, to take up options to subscribe for shares in the Company under the terms and conditions stipulated therein.

The 1998 Share Option Scheme was subsequently terminated by the Company in a special general meeting held on 6 September 2002 but the share options granted and not yet exercised thereunder would however remain effective and are bound by the terms therein. A detailed summary of the 1998 Share Option Scheme has been disclosed in the 2002 annual report of the Company.

- 3 On 6 September 2002, the Company adopted a new share option scheme ("New Scheme"). No share option has ever been granted by the Company under the New Scheme since its adoption.

A summary of the New Scheme in accordance with the Listing Rules is set out as follows:

- (i) The purpose of the New Scheme is to recognise and acknowledge the contributions or potential contributions made or to be made by the Qualified Persons (as defined in the New Scheme) to the Group, to motivate the Qualified Persons to optimise their performance and efficiency for the benefit of the Group, and to maintain or attract business relationship with the Qualified Persons whose contributions are or may be beneficial to the growth of the Group;
- (ii) The participants of the New Scheme include any Employee (as defined in the New Scheme); director (including executive and non-executive) or chief executive of any member of the Group or of any Affiliate (as defined in the New Scheme); or any supplier, sales agent, customer, joint venture partner, accountant or legal adviser of, or business development and technological consultant to, any member of the Group; or any substantial shareholder of the Company or of the subsidiaries who, in the opinion of the Board, has made or will make contributions which are or may be beneficial to the Group as a whole;
- (iii) The total number of shares available for issue under the New Scheme is 52,547,557 which represents 10% of the existing issued share capital of the Company as at the date of this report;
- (iv) Unless approved by shareholders in general meeting, the total number of shares issued and to be issued upon exercise of options granted to each grantee in any 12-month period must not exceed 1% of the issued share capital of the Company from time to time. Any grant of options to a director, chief executive or substantial shareholder of the Company or their respective associates must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director who is the grantee of such options). Options granted to a substantial shareholder or an independent non-executive director of the Company or their respective associates in excess of 0.1% of the total issued shares for the time being and with a value in excess of HK\$5 million must be approved by, in addition to the independent non-executive directors of the Company, the Company's shareholders in general meeting;
- (v) An option may be exercised in accordance with the terms of the New Scheme at any time during the period set out in the relevant offer letter provided that such period must expire no later than the tenth anniversary of the date on which an option is offered to a Qualified Person;
- (vi) Unless otherwise determined by the Board at its absolute discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised;

Report of the Directors

Information on share options (continued)

- (vii) A non refundable remittance of HK\$1 by way of consideration for the grant of an option is required to be paid by each grantee within 21 days from the offer date;
- (viii) The exercise price of the option shall be the highest of:
 - (a) the closing price of the shares as stated in the daily quotations sheet issued by The Stock Exchange of Hong Kong Limited ("SEHK") on the offer date, which must be a business day;
 - (b) the average of the closing prices of the shares as stated in the daily quotations sheets issued by the SEHK for the five business days immediately preceding the offer date; and
 - (c) the nominal value of the shares;
- (ix) The life of the New Scheme is until the tenth anniversary of the adoption date of the New Scheme.

Substantial shareholders

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that, as at 31 March 2003, 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 ordinary 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 2003, no other person or corporation had any interest in the share capital of the Company as recorded in the register kept pursuant to Section 16(1) of the SDI Ordinance as having an interest in 10% 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.

Connected transactions

The Group had the following transactions with connected parties which were carried out in the normal course of business and on terms arranged by or between the parties during the year ended 31 March 2003:

	2003 HK\$'000
Income/(expenses)	
ChinaMotion Telecare (HK) Limited, a company owned by a director	
Hotline service fee	(1,640)
PA center services fee	(427)
Significant transactions with minority shareholders of subsidiaries	
China Motion Telecom Holdings Limited ("CMTH")	
Recharge of paging and mobile service expenses	(2,208)
Call center services expenses	(3,037)
Shenzhen China Motion Telecom United Company Limited ("SCMTU")	
Sales of telecommunications equipment	3,234
China Motion Netcom Services Co. Ltd. ("CM Netcom")	
Provision of technical consultancy and maintenance services	92,007
Other advances (Note 1)	
Deposit paid to CMTH	46,729

Notes:

- (1) This represents a deposit paid for the acquisition of a 25% equity interest in CM Netcom. Details of the acquisition are set out in note 35(b)(iii) to the accounts.
- (2) On 9 July 2003, the Company entered into an agreement with CMTH, pursuant to which the Company conditionally agreed to reschedule the repayment dates for the debt due from CMTH and/or its subsidiaries ("CMTH Group"). Details of the transaction are set out in note 35(c)(ii) to the accounts.

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

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

Report of the Directors

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 carried out on normal commercial terms or 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	12.51%
– five largest customers combined	33.23%

Purchases

– the largest supplier	23.42%
– five largest suppliers combined	48.72%

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.

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 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.

Compliance with the Code of Best Practice of the Listing Rules

The directors are pleased to confirm that throughout the year ended 31 March 2003, 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 2003 as follows:

	Note	Total HK\$'000
Trade receivables from		
CMTH		32,016
CM Netcom		167,868
SCMTU		94,992
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	(a)	294,876
Deposit paid for the acquisition of a 25% equity interest in CM Netcom	(b)	46,729
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		341,605
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Notes:

- (a) The balance was 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. On 9 July 2003, the Company entered into an agreement with CMTH, pursuant to which the Company conditionally agreed to reschedule the repayment dates for the debt due from CMTH Group. Details of the transaction are set out in note 35(c)(ii) to the accounts.
- (b) Details of the transaction are set out in note 35(b)(iii) to the accounts.

Post balance sheet events

Details of the significant post balance sheet events are set out in note 39 to the accounts.

Auditors

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 2003