

# Notes to the Accounts

## 1 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They 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.

In the current year, the Group adopted the following new and revised Statements of Standard Accounting Practice ("SSAP") which are effective for accounting periods commencing on 1 January 2002:

SSAP 33:	"Discontinuing Operations"
SSAP 34 (revised):	"Employee Benefits"

The changes to the Group's accounting policies are set out below and the adoption of these new and revised SSAPs has no material effect on the Group's results.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March.

Subsidiaries are those entities in which the Group, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

# Notes to the Accounts

## 1 Principal accounting policies (continued)

### (b) Group accounting (continued)

#### (ii) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

### (c) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### (d) Goodwill

Goodwill represents 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 or associated company at the date of acquisition. Goodwill is amortised using the straight-line method over its estimated useful life of five years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

### (e) Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Leasehold land is depreciated 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 on the straight-line method over their estimated useful lives. The annual rates are as follows:

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

Major costs incurred in restoring the telecommunications equipment components to their normal working condition to allow continued use of the overall asset are capitalised and depreciated over the remaining useful lives.

## 1 Principal accounting policies (continued)

### (e) Fixed assets (continued)

Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

### (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 investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent professional valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

### (g) Assets under leases

#### (i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases 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 capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

#### (ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

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## Notes to the Accounts

### 1 Principal accounting policies (continued)

(h) Investments

Investments held for long-term purposes other than those in subsidiaries and associated companies are stated at cost less provision for impairment losses.

Marketable securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of marketable securities are recognised in the profit and loss account. Profits and losses on disposal of marketable securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the first-in, first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds in the ordinary course of business, less estimated selling expenses.

(j) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks net of bank overdrafts and trust receipts loans which have original maturities of three months or less at the date of acquisition.

(l) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(m) Borrowing costs

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

(n) Revenue recognition

Revenue is recognised, net of discount and allowances given, when it is probable that the economic benefits will accrue to the Group and when the revenue can be measured reliably on the following bases:

(i) Revenue from the sales of telecommunications products is recognised on the transfer of ownership, which generally coincides with the time of delivery.

(ii) Maintenance and technical consultancy services income from service agreements is recognised on an accrual basis when the service is performed.

(iii) Trunking services income and roadshow sponsorship income are recognised when the services are rendered.

## 1 Principal accounting policies (continued)

- (n) Revenue recognition (continued)
- (iv) International communication, mobile communication and internet related services provided to customers are recognised upon the rendering of services.
  - (v) Commission income is recognised in accordance with the terms of agency agreements which is generally when the agency services are rendered.
  - (vi) Paging subscription fee income is recognised on a straight-line basis over the period of the paging service contracts. Revenue received in advance for the provision of paging services for an agreed period of time is deferred and amortised on a straight-line basis over the contract period.
  - (vii) Rental and leasing income is recognised on a straight-line basis over the period of the respective leases.
  - (viii) Interest income is recognised on a time proportion basis, taking into account the principals outstanding and interest rates applicable.
  - (ix) Dividend income is recognised when the right to receive payment is established.
  - (x) Management service fee income is recognised on an accrual basis in accordance with the terms of the agreements.
  - (xi) Airtime income is recognised on an accrual basis in accordance with the terms of the agreements.
- (o) Employee benefits
- (i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised 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. The accounts for the prior periods have not been restated as the effect is not material.

Employee entitlements to sick leave and maternity are not recognised until the time of leave.
  - (ii) *Pension obligations*

The Group contributes to a Mandatory Provident Fund Scheme (“MPF”) for the eligible employees in Hong Kong. The Group’s contributions to the MPF are expensed as incurred.
  - (iii) *Equity compensation benefits*

Share options are granted to directors and to employees at a price determined pursuant to the Company’s share option scheme on the date of the grant and are exercisable at that price, no compensation cost is recognised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

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## Notes to the Accounts

### 1 Principal accounting policies (continued)

(p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Unallocated assets represent assets not dedicated to a particular segment, consist primarily of cash and bank balances, investments in securities, investment properties and other receivables. Segment liabilities comprise operating liabilities and corporate borrowings. Unallocated liabilities represent liabilities not dedicated to a particular segment, consist primarily of short-term and long-term loans and other payables. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

(q) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(r) Use of estimates

In preparing the accounts, management are required to make estimates and assumptions for the reporting period and as of the date of the accounts. These estimates and assumptions affect the reported amounts of assets and liabilities as well as the reported amounts of turnover and expenses. Actual results could differ from these estimates, and the differences could be significant.

## 2 Turnover and revenues

The Group is principally engaged in the provision of international communication services, mobile communication services, technical consultancy services, repair and maintenance services for telecommunications equipment, and trunking radio services. It is also engaged in the distribution and retail sales of telecommunications equipment and trading of telecommunications equipment and products. Revenues recognised during the year are as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Turnover		
International communication services income	<b>427,657</b>	170,378
Sales of telecommunications products	<b>116,813</b>	112,165
Technical consultancy services income	<b>92,007</b>	131,607
Commission income	<b>29,951</b>	64,666
Paging subscription fee and related services income	<b>22,768</b>	138,897
Mobile communication services income	<b>20,578</b>	–
Leasing income	<b>13,255</b>	68,205
Trunking services income	<b>9,259</b>	16,322
Maintenance services income	<b>3,285</b>	19,075
Internet related services income	–	673
	<b>735,573</b>	721,988
Other revenues		
Rental income	<b>5,154</b>	8,135
Advertising income	–	3,518
Airtime income	–	2,640
Interest income	<b>1,394</b>	1,834
Dividend income from listed investments	<b>5</b>	–
Others	<b>4,941</b>	729
	<b>11,494</b>	16,856
Total revenues	<b>747,067</b>	738,844

## Notes to the Accounts

### 3 Segment information

The Group's principal activities can be categorised into five business segments:

	<b>Business segments</b>	<b>Nature of business activities</b>	<b>Places of operation</b>
1	Telecommunications Networks	Provision of trunking radio services, sales of trunking related equipment, international communication services and income from lease line rental	Hong Kong/Canada/United States of America ("USA")/Singapore/Taiwan/Japan
2	Distribution and Retail Chain	Retail sales of telecommunications related equipment and products, provision of maintenance and repair services and commission income	Hong Kong/People's Republic of China ("PRC")
3	Mobile Related Services	Provision of mobile communication services, provision of technical advisory, maintenance and accounts management services to telecommunications operators	Hong Kong/PRC
4	Other Operations	Leasing and trading of telecommunications equipment and products	PRC
5	Discontinued Operations (note 4)	Provision of paging services and sales of pagers and accessories	Hong Kong/PRC

Transactions between the business segments and geographical segments have been eliminated.

### 3 Segment information (continued)

(a) Primary reporting format – business segments

	Telecommunications Networks HK\$'000	Distribution and Retail Chain HK\$'000	Mobile Related Services HK\$'000	Other Operations HK\$'000	Discontinued Operations HK\$'000	Unallocated Items HK\$'000	Group HK\$'000
<b>2003</b>							
Turnover	<b>456,400</b>	<b>146,140</b>	<b>109,841</b>	<b>127</b>	<b>23,065</b>	<b>–</b>	<b>735,573</b>
Segmental profit/(loss)	<b>34,815</b>	<b>1,359</b>	<b>40,373</b>	<b>(375)</b>	<b>26,967</b>	<b>(75,587)</b>	<b>27,552</b>
Net finance costs							<b>(3,987)</b>
Share of profits of associated companies							<b>2,038</b>
Profit before taxation							<b>25,603</b>
Taxation							<b>(9,874)</b>
Profit after taxation							<b>15,729</b>
Minority interests							<b>(5,504)</b>
Profit attributable to the shareholders							<b>10,225</b>
Segment assets	<b>400,379</b>	<b>185,065</b>	<b>266,874</b>	<b>54,240</b>	<b>3,771</b>	<b>262,237</b>	<b>1,172,566</b>
Investments in associated companies							<b>29,184</b>
Consolidated total assets							<b>1,201,750</b>
Segment liabilities	<b>184,436</b>	<b>14,421</b>	<b>92,244</b>	<b>11,112</b>	<b>2,038</b>	<b>142,283</b>	<b>446,534</b>
Capital expenditure	<b>55,144</b>	<b>381</b>	<b>11,086</b>	<b>–</b>	<b>–</b>	<b>293</b>	<b>66,904</b>
Depreciation	<b>14,726</b>	<b>2,288</b>	<b>3,273</b>	<b>–</b>	<b>1,359</b>	<b>9,835</b>	<b>31,481</b>
Amortisation	<b>–</b>	<b>–</b>	<b>8,843</b>	<b>–</b>	<b>–</b>	<b>209</b>	<b>9,052</b>
Other non-cash expenses/(income), net	<b>7,915</b>	<b>443</b>	<b>651</b>	<b>–</b>	<b>(1,165)</b>	<b>7,275</b>	<b>15,119</b>

## Notes to the Accounts

### 3 Segment information (continued)

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

	<b>Telecommunications Networks</b>	<b>Distribution and Retail Chain</b>	<b>Mobile Related Services</b>	<b>Other Operations</b>	<b>Discontinued Operations</b>	<b>Unallocated Items</b>	<b>Group</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2002							
Turnover	254,244	184,712	131,070	9,579	142,383	–	721,988
Segmental profit/(loss)	4,857	12,550	93,222	(42,395)	6,131	(183,952)	(109,587)
Net finance costs							(5,681)
Share of profits of associated companies							216
Loss before taxation							(115,052)
Taxation							(14,170)
Loss after taxation							(129,222)
Minority interests							(1,741)
Loss attributable to the shareholders							(130,963)
Segment assets	266,868	182,114	368,993	57,709	15,847	215,243	1,106,774
Investments in associated companies							2,444
Consolidated total assets							1,109,218
Segment liabilities	82,007	23,492	66,894	15,540	37,083	139,211	364,227
Capital expenditure	38,118	1,843	1,029	–	1,206	6,003	48,199
Depreciation	4,285	4,735	1,913	78	8,578	12,037	31,626
Amortisation	–	–	8,843	–	–	209	9,052
Impairment losses on fixed assets	26,092	–	–	47,315	4,616	98,899	176,922
Other non-cash expenses/(income), net	(44)	(1,036)	–	678	(1,254)	15,331	13,675

### 3 Segment information (continued)

(b) Secondary reporting format – geographical segments

	Turnover		Segmental profit/(loss)		Total assets		Capital expenditure	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
PRC	108,408	220,725	49,232	96,858	595,586	691,525	344	2,090
Hong Kong	459,138	474,013	48,902	(24,784)	537,109	392,901	49,480	29,273
Canada and USA	143,639	27,250	2,096	2,291	51,442	24,792	12,171	16,836
Other regions	24,388	–	2,909	–	17,613	–	4,909	–
	<b>735,573</b>	721,988	<b>103,139</b>	74,365	<b>1,201,750</b>	1,109,218	<b>66,904</b>	48,199
Unallocated items	–	–	(75,587)	(183,952)	–	–	–	–
	<b>735,573</b>	721,988	<b>27,552</b>	(109,587)	<b>1,201,750</b>	1,109,218	<b>66,904</b>	48,199

### 4 Discontinued operation

On 28 May 2002, a sale and purchase agreement (the "Agreement") was entered into between China Motion Telecom (HK) Limited, a wholly-owned subsidiary of the Company and Telecom Digital Data Limited (the "Purchaser"), under which the Group disposed of its business of operating paging networks and providing paging services in Hong Kong and, where the context permits, included the business assets (the "Business") to the Purchaser. Under the terms of the Agreement, the Business included the licences, the equipment and other benefits of the subscriber contracts and transmission sites contracts related to its business of operating paging networks and providing paging services in Hong Kong.

The consideration for the disposal of the Business equals to the total gross revenues of the Business that are actually received by the Purchaser from the subscribers for the paging services provided to the subscribers for the months of June, August and October 2002.

## Notes to the Accounts

### 4 Discontinued operation (continued)

The operation was sold and discontinued with effect from 1 June 2002. The sales, results, cash flows and net assets of the paging operation are as follows:

	Year ended	
	2003 HK\$'000	2002 HK\$'000
Turnover	23,065	136,901
Other revenues	251	3,200
Operating costs	(9,292)	(121,269)
Impairment of fixed assets	–	(4,616)
Operating profit	14,024	14,216
Net finance income	4	121
Profit before taxation	14,028	14,337
Taxation	1,779	(27)
Profit after taxation	15,807	14,310
Cash inflow in respect of:		
Operating activities	2,081	12,903
Investing activities	(106)	(1,374)
Financing activities	4	130
Total cash inflow	1,979	11,659
	1 June 2002 HK\$'000	31 March 2002 HK\$'000
Fixed assets	1,001	1,117
Current assets	942	1,121
Total assets	1,943	2,238
Total liabilities	–	–
Net assets	1,943	2,238

#### 4 Discontinued operation (continued)

The gain on disposal recognised for the year ended 31 March 2003 is determined as follows:

	HK\$'000
Proceeds from disposal	19,193
Less: Net assets disposed	(1,943)
Severance payment	(4,307)
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Gain on disposal of business	12,943
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The net cash inflow on disposal is determined as follows:

	HK\$'000
Proceeds from disposal	19,193
Less: accounts receivable	(5,910)
advance subscription income received	(7,399)
severance payment	(4,307)
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Net cash inflow on disposal	1,577
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## Notes to the Accounts

### 5 Operating profit/(loss)

Operating profit/(loss) is stated after crediting and charging the following:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Crediting		
Net gain on disposal of fixed assets	–	33,999
Net exchange gains	<b>293</b>	–
Dividend income from listed investments	<b>5</b>	–
Gain on disposal of business	<b>12,943</b>	–
Gross rental income	<b>5,154</b>	8,135
Less: outgoings	<b>(645)</b>	(703)
	<b>4,509</b>	7,432
Charging		
Auditors' remuneration	<b>1,500</b>	1,500
Staff costs excluding directors' emoluments (Note 12)	<b>119,455</b>	148,704
Depreciation of fixed assets		
– owned assets	<b>30,001</b>	26,054
– owned assets (telecommunications equipment) leased out under operating leases	–	5,102
– assets under finance leases	<b>1,480</b>	470
Operating lease charges for land and buildings	<b>28,277</b>	63,753
Operating lease charges for telecommunications equipment	<b>84,863</b>	88,663
Amortisation of goodwill (included in administrative expenses)	<b>9,052</b>	9,052
Loss on disposal of subsidiaries	–	26,328
Cost of inventories sold	<b>101,490</b>	94,118
Provision for inventories/(written back of provision for inventories)	<b>2,314</b>	(708)
Provision for doubtful debts	<b>7,615</b>	541
Impairment losses on fixed assets	–	176,922
Deficit on revaluation of investment properties	<b>5,190</b>	13,842
Diminution in value of marketable securities	<b>810</b>	1,954

## 5 Operating profit/(loss) (continued)

The future minimum lease income receivable under non-cancellable operating leases are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	844	6,276
Between two and five years	–	585
	<u>844</u>	<u>6,861</u>

## 6 Finance costs

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts		
– wholly repayable within five years	2,573	2,449
– not wholly repayable within five years	2,529	4,231
Interest on other loans wholly repayable within five years	–	641
Interest element of finance leases	279	194
	<u>5,381</u>	<u>7,515</u>

## Notes to the Accounts

### 7 Taxation

(a) The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong profits tax		
– underprovision in previous years	24	442
Overseas taxation		
– current year	2,082	–
PRC taxation		
– current year	9,249	13,728
– overprovision in previous years	(1,779)	–
	<u>9,576</u>	<u>14,170</u>
Share of taxation attributable to associated companies	298	–
	<u>9,874</u>	<u>14,170</u>

Hong Kong profits tax is calculated at a rate of 16% (2002: 16%) on the estimated assessable profit for the year. The provision for Hong Kong profits tax has been reduced by the availability of tax losses to set off against assessable profit for the year and the tax savings from the utilisation of such losses amounted to HK\$1,036,000 for the year ended 31 March 2003 (2002: HK\$5,502,000).

PRC taxation represents income tax payable by the subsidiaries operating in the PRC at the applicable rates ranging from 15% to 33%. Overseas taxation has been provided for at the applicable rate on the estimated assessable profit for the year.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong profits tax payable	76	–
PRC income tax payable	7,864	7,360
	<u>7,940</u>	<u>7,360</u>

(c) The aggregate potential deferred tax asset of HK\$94,535,000 (2002: HK\$87,551,000) relating to tax losses available to be carried forward and other timing differences including accelerated depreciation allowance as at 31 March 2003 has not been recognised as the crystallisation of the asset in the foreseeable future is uncertain.

## 8 Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$1,611,000 (2002: HK\$277,105,000).

## 9 Dividend

The directors do not recommend the payment of a final dividend for the year ended 31 March 2003 (2002: Nil).

## 10 Earnings/(loss) per share

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Profit/(loss) attributable to shareholders	<b>10,225</b>	(130,963)
Earnings/(loss) per share		
– Basic	<b>1.95 HK cents</b>	(24.92) HK cents
– Diluted (note (b))	<b>N/A</b>	N/A

Notes:

- (a) Basic earnings/(loss) per share is calculated based on weighted average number of issued ordinary shares of 525,475,573 shares (2002: 525,475,473 shares). The diluted earnings/(loss) per share is calculated based on the weighted average number of issued ordinary shares plus the weighted average of all potential ordinary shares deemed to be issued at no consideration if all outstanding options and warrants had been exercised.
- (b) Diluted earnings/(loss) per share for the years ended 31 March 2003 and 2002 has not been presented as the conversion of potential ordinary shares to ordinary shares would have an anti-dilutive effect to the basic earnings/(loss) per share.

## 11 Retirement benefit costs

The Group's contributions to the MPF are at 5% of employees' basic salaries up to a maximum of HK\$1,000 per employee per month. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

The Group has contributed HK\$2,501,000 to the MPF for the year ended 31 March 2003 (2002: HK\$3,992,000).

The assets of MPF are held separately from those of the Group in independent administered funds.

## Notes to the Accounts

### 12 Staff costs

	Group	
	2003	2002
	HK\$'000	HK\$'000
Wages and salaries	107,753	132,743
Unutilised annual leave	2,651	5,326
Long service payment	2,143	–
Termination benefits	4,407	6,643
Retirement benefit costs contribution to the MPF	2,501	3,992
	<u>119,455</u>	<u>148,704</u>

Details of the China Motion's Employees Share Option Scheme are set out in note 28(a).

### 13 Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of the emoluments payable to directors of the Company during the year are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees	1,370	1,535
Basic salaries, housing allowances, other allowances and benefits in kind	13,607	13,767
Retirement benefit costs	48	48
	<u>15,025</u>	<u>15,350</u>

Directors' fees disclosed above included HK\$360,000 (2002: HK\$351,666) paid to independent non-executive directors.

During the year, one director waived emoluments of HK\$25,000 (2002: 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 (2002: Nil).

### 13 Directors' and senior management's emoluments (continued)

(a) Directors' emoluments (continued)

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2003	2002
HK\$Nil – HK\$1,000,000	4	6
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	1	2
HK\$3,000,001 – HK\$3,500,000	1	1
HK\$6,500,001 – HK\$7,000,000	–	1
HK\$7,000,001 – HK\$7,500,000	1	–
	<u>8</u>	<u>10</u>

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2002: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2002: two) individuals during the year are as follows:

	2003	2002
	HK\$'000	HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	3,312	5,004
Bonuses	620	31
Retirement benefit costs	24	23
	<u>3,956</u>	<u>5,058</u>

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2003	2002
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	–	1
	<u>–</u>	<u>1</u>

(c) The share options held by the directors (including non-executive directors of the Company) under the China Motion Employees' Share Option Scheme are set out in the report of the directors on pages 26 to 28.

## Notes to the Accounts

### 14 Goodwill

	Group	
	2003	2002
	HK\$'000	HK\$'000
Cost		
At 1 April and 31 March	<u>47,940</u>	<u>47,940</u>
Accumulated amortisation		
At 1 April	37,642	28,590
Amortisation charge	<u>9,052</u>	<u>9,052</u>
At 31 March	<u>46,694</u>	<u>37,642</u>
Net book value	<u>1,246</u>	<u>10,298</u>

## 15 Fixed assets – Group

	Investment properties	Leasehold 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	HK\$'000
Cost or valuation							
At 1 April 2002	86,280	195,147	44,359	390,941	52,622	8,250	777,599
Additions	–	–	2,744	63,155	783	222	66,904
Disposal of business	–	–	–	(3,504)	–	–	(3,504)
Transfers	(15,000)	15,000	–	–	–	–	–
Revaluation (note (b))	(5,190)	–	–	–	–	–	(5,190)
Disposals/write-off	–	–	(266)	(1,742)	(1,361)	(683)	(4,052)
<b>At 31 March 2003</b>	<b>66,090</b>	<b>210,147</b>	<b>46,837</b>	<b>448,850</b>	<b>52,044</b>	<b>7,789</b>	<b>831,757</b>
Accumulated depreciation and impairment							
At 1 April 2002	–	98,195	25,733	348,291	33,551	7,597	513,367
Charge for the year	–	2,305	5,987	16,070	6,446	673	31,481
Disposal of business	–	–	–	(2,503)	–	–	(2,503)
Disposals/write-off	–	–	(143)	(293)	(1,229)	(707)	(2,372)
<b>At 31 March 2003</b>	<b>–</b>	<b>100,500</b>	<b>31,577</b>	<b>361,565</b>	<b>38,768</b>	<b>7,563</b>	<b>539,973</b>
<b>Net book value or valuation</b>							
<b>At 31 March 2003</b>	<b>66,090</b>	<b>109,647</b>	<b>15,260</b>	<b>87,285</b>	<b>13,276</b>	<b>226</b>	<b>291,784</b>
At 31 March 2002	86,280	96,952	18,626	42,650	19,071	653	264,232

Notes:

- (a) As at 31 March 2003, the net book value of fixed assets pledged as security for banking facilities of the Group amounted to approximately HK\$160,737,000. (2002: HK\$183,232,000).
- (b) The investment properties are valued at open market value by DTZ Debenham Tie Leung Limited, independent professional valuers, as at 31 March 2003. The revaluation deficit is charged to the profit and loss account.

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

## Notes to the Accounts

### 15 Fixed assets – Group (continued)

- (c) The analysis of the net book value of the Group's leasehold land and buildings and valuation of the Group's investment properties as at 31 March 2003 is as follows:

	Leasehold land and buildings in Hong Kong HK\$'000	Group		Total HK\$'000
		Hong Kong HK\$'000	Investment properties PRC HK\$'000	
Period unexpired				
Leases between 10 to 50 years				
At net book value	78,985	–	–	–
At valuation	–	18,400	5,000	23,400
Leases not less than 50 years				
At net book value	30,662	–	–	–
At valuation	–	42,690	–	42,690
	<b>109,647</b>	<b>61,090</b>	<b>5,000</b>	<b>66,090</b>

- (d) As at 31 March 2003, the net book values of fixed assets held under finance leases are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Telecommunications equipment	9,593	–
Motor vehicles	–	424
	<b>9,593</b>	<b>424</b>

### 16 Investments in a subsidiary

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted investment, at cost (note (a))	113,115	113,115
Amount due from a subsidiary (note (b))	783,076	784,437
Provision for amount due from a subsidiary	(275,000)	(275,000)
	<b>621,191</b>	<b>622,552</b>

Notes:

- (a) Particulars of principal subsidiaries are set out in note 36 to the accounts.
- (b) The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment but repayment is not expected to be within twelve months from the balance sheet date.

## 17 Investments in associated companies

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Share of net assets (note (a))	<b>4,184</b>	2,444
Loan to an associated company (note (b))	<b>25,000</b>	–
	<b>29,184</b>	2,444

Notes:

- (a) Particulars of principal associated companies are set out in note 37 to the accounts.
- (b) The loan to an associated company is unsecured, interest bearing at 3 months Hong Kong Interbank Offer Rate plus 2% and is repayable on 28 May 2004.

## 18 Other non-current assets

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Long-term investments		
Unlisted investments	<b>7,168</b>	14,178
Club debentures	<b>4,762</b>	4,762
Others, unlisted (note 35(b))	<b>287,705</b>	327,892
Deposit for purchase of unlisted investment (note 35(b))	<b>46,729</b>	–
	<b>346,364</b>	346,832
Non-current trade receivables (note 35(c))	<b>266,625</b>	–
	<b>612,989</b>	346,832

## Notes to the Accounts

### 19 Inventories

	Group	
	2003 HK\$'000	2002 HK\$'000
Finished goods	<u>6,091</u>	<u>8,248</u>

At 31 March 2003, the carrying amount of inventories that are carried at net realisable value amounted to HK\$99,000 (2002: HK\$7,972,000).

### 20 Receivables and prepayments

	Notes	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade					
Trade receivables, net of provision	20(a), 35(c)	<b>133,349</b>	316,419	–	–
Non-trade					
Due from:					
Subsidiaries	20(b)	–	–	<b>2,865</b>	2,903
Associated companies	20(b)	<b>10,827</b>	16,503	–	–
Related companies	20(b)	<b>3,262</b>	1,717	–	–
Other receivables and prepayments		<b>26,708</b>	23,259	<b>38</b>	–
		<u><b>174,146</b></u>	<u>357,898</u>	<u><b>2,903</b></u>	<u>2,903</u>

## 20 Receivables and prepayments (continued)

(a) The ageing analysis of the trade receivables as at 31 March 2003 is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0–30 days	33,139	36,600
31–60 days	22,318	26,177
61–90 days	18,266	15,722
Over 90 days	59,626	237,920
Total	133,349	316,419

The Group has a defined credit policy. The general credit term is 30-60 days. As at 31 March 2003 the trade receivable with ageing over 61 days comprised amounts due from China Motion Telecom Holdings Limited (“CMTH”) and its subsidiaries totalling HK\$28,251,000 (2002: HK\$243,441,000). Subsequent to 31 March 2003, the Company and CMTH entered into an agreement to reschedule the repayment date for trade receivables due from CMTH and its subsidiaries outstanding as at 31 March 2003 (see note 35(c)(ii)). The information in respect of the total outstanding trade receivables due from CMTH and its subsidiaries as at 31 March 2003 and 2002 has been disclosed in note 35(c).

(b) As at 31 March 2003, the amounts due are unsecured, interest-free, and have no fixed terms of repayment.

## 21 Marketable securities

	Group	
	2003 HK\$'000	2002 HK\$'000
Equity securities, listed in Hong Kong at market value	297	1,107

## 22 Bank and cash balances – Group

Included in bank and cash balances of the Group is HK\$41,481,000 (2002: HK\$70,511,000) which represents bank balances denominated in Renminbi (“RMB”) placed with banks in the PRC. RMB is not a freely convertible currency.

## Notes to the Accounts

### 23 Trade and other payables

	Note	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade					
Bills payable		–	1,999	–	–
Trade payables	23(a)	<b>156,239</b>	59,943	–	–
Advance subscription fees received		<b>4,513</b>	14,969	–	–
Non-trade					
Due to:					
Subsidiaries		–	–	<b>62</b>	–
Associated companies	23(b)	<b>650</b>	7,859	–	–
An investee company		–	5,272	–	–
A director		<b>132</b>	97	–	–
Deposits received		<b>11,308</b>	15,297	–	–
Other payables and accrued liabilities	35(d)	<b>81,111</b>	74,864	<b>1,243</b>	962
		<b>253,953</b>	180,300	<b>1,305</b>	962

#### (a) Trade payables

	Group	
	2003 HK\$'000	2002 HK\$'000
Trade payables	<b>158,555</b>	59,943
Less: amounts payable within one year included in current liabilities	<b>(156,239)</b>	(59,943)
Amounts payable after one year (note 27)	<b>2,316</b>	–

The ageing analysis of trade payables as at 31 March 2003 is as follows:

	2003 HK\$'000	2002 HK\$'000
0–30 days	<b>54,844</b>	24,795
31–60 days	<b>31,688</b>	8,506
61–90 days	<b>10,853</b>	6,431
Over 90 days	<b>58,854</b>	20,211
Total	<b>156,239</b>	59,943

#### (b) As at 31 March 2003, amounts due to associated companies are unsecured, interest-free and have no fixed terms of repayment.

## 24 Borrowings

		Group	
	Note	2003 HK\$'000	2002 HK\$'000
Current			
Bank loans – secured	25	50,132	30,335
Obligations under finance leases	26	4,571	208
		54,703	30,543
Non-current			
Bank loans – secured	25	76,629	96,476
Obligations under finance leases	26	4,087	138
		80,716	96,614
Total borrowings		135,419	127,157

## 25 Bank loans – secured

	Group	
	2003 HK\$'000	2002 HK\$'000
Secured bank loans are repayable:		
– within one year (included in current liabilities)	50,132	30,335
– between one and two years	15,491	19,578
– between two and five years	27,048	34,746
– over five years	34,090	42,152
	76,629	96,476
	126,761	126,811

## Notes to the Accounts

### 2.5 Bank loans – secured (continued)

The bank loans are secured by the Group's investment properties, leasehold land and buildings and certain bank deposits, and are repayable by monthly instalment. The maturity date for the last instalment is August 2013. The weighted average effective interest rate for the year ended 31 March 2003 was 3.90% per annum (2002: 5.08% per annum) and the interest rate exposure of the bank loans of the Group is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
At floating rates		
– Hong Kong dollar denominated loans	123,704	123,249
– US dollar denominated loans	3,057	3,562
	<u>126,761</u>	<u>126,811</u>

### 2.6 Obligations under finance leases

As at 31 March 2003, the Group's finance leases liabilities are repayable as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	4,791	257
In the second year	3,338	172
In the third to the fifth year	834	–
	<u>8,963</u>	<u>429</u>
Future finance charges on finance leases	(305)	(83)
	<u>8,658</u>	<u>346</u>

## 26 Obligations under finance leases (continued)

The present value of finance lease liabilities is as follows:

	<b>Group</b>	
	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Within one year (included in current liabilities)	<u>4,571</u>	<u>208</u>
In the second year	<b>3,260</b>	138
In the third to the fifth year	<b>827</b>	–
	<u><b>4,087</b></u>	<u>138</u>
	<u><b>8,658</b></u>	<u>346</u>

## 27 Trade payable – non current

The amount is non-interest bearing, guaranteed by a bank and not repayable within twelve months from the balance sheet date.

## 28 Share capital

	<b>Company</b>			
	<b>2003</b> <b>HK\$'000</b>		2002 HK\$'000	
Authorised:				
1,040,000,000 ordinary shares of HK\$0.75 each		<u><b>780,000</b></u>		<u>780,000</u>
	<b>2003</b>		2002	
	<b>Number of shares</b>	<b>Issued and fully paid HK\$'000</b>	Number of shares	Issued and fully paid HK\$'000
Ordinary shares of HK\$0.75 each				
At 1 April and 31 March	<u><b>525,475,573</b></u>	<u><b>394,107</b></u>	<u>525,475,573</u>	<u>394,107</u>

## Notes to the Accounts

### 28 Share capital (continued)

(a) Share option schemes

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

The Company adopted a new share option scheme ("New Scheme") on 6 September 2002. As at 31 March 2003, no share options were granted under the New Scheme. A summary of the terms of the New Scheme is disclosed in the report of the directors.

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

<b>Date of grant</b>	<b>Exercise price</b> HK\$	<b>No. of outstanding options at 1 April 2002</b>	<b>No. of options granted during the year</b>	<b>No. of options exercised during the year</b>	<b>No. of options lapsed during the year</b>	<b>No. of outstanding options at 31 March 2003</b>
29 June 1998	0.751	484,066	–	–	(82,394)	401,672
19 August 1999	2.00	1,472,798	–	–	(200,837)	1,271,961
25 February 2000	3.19	1,091,725	–	–	–	1,091,725
17 October 2000	1.22	3,527,505	–	–	(211,135)	3,316,370
20 March 2001	0.75	26,200,000	–	–	(3,350,000)	22,850,000
28 January 2002	0.75	1,850,000	–	–	(1,350,000)	500,000
		<u>34,626,094</u>	<u>–</u>	<u>–</u>	<u>(5,194,366)</u>	<u>29,431,728</u>

For the above mentioned options granted before 20 March 2001, they are exercisable after the first anniversary of the date of grant and before the tenth anniversary of the date of grant or the expiry of the 1998 Share Option Scheme, whichever is earlier.

For options granted on or after 20 March 2001, they are subject to the following vesting periods:

- (a) After the first anniversary of the date of grant, 33% of the options are exercisable.
- (b) After the second anniversary of the date of grant, 33% of the options are exercisable.
- (c) After the third anniversary of the date of grant, 34% of the options are exercisable.

Exercise in full of all outstanding share options would result in the issue of 29,431,728 ordinary shares with estimated proceeds of HK\$27,887,000.

## 28 Share capital (continued)

### (b) Warrants

On 1 April 2000, 54,182,608 (subsequently adjusted to 55,804,270) units of unlisted warrants were issued to certain third parties 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 new fully paid shares in the Company at an initial subscription price of HK\$2.184 per share (subsequently adjusted to HK\$2.12 per share on 23 January 2001) at any time from 1 April 2000 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 ordinary shares with estimated proceeds of HK\$118,305,000. No warrants were exercised during the year.

## 29 Non-distributable capital reserves

	Group											
	2003					Total	2002					Total
	Share premium	Reserves on consolidation	Exchange reserve	Capital redemption reserve	Enterprise expansion reserve		Share premium	Reserves on consolidation	Exchange reserve	Capital redemption reserve	Enterprise expansion reserve	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	455,573	4,900	1,697	450	68,331	530,951	455,573	4,900	1,697	450	54,439	517,059
Transfer from retained profits of subsidiaries	-	-	-	-	943	943	-	-	-	-	13,892	13,892
At 31 March	455,573	4,900	1,697	450	69,274	531,894	455,573	4,900	1,697	450	68,331	530,951

	Company					
	2003			Total	2002	
	Share premium	Capital redemption reserve	Enterprise expansion reserve		Share premium	Capital redemption reserve
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April and 31 March	455,573	450	456,023	455,573	450	456,023

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

## Notes to the Accounts

### 30 Contributed surplus

	<b>Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
At 1 April and 31 March	<b>52,854</b>	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 ("CMH") 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; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account. On 6 September 1996, HK\$9,344,832 was transferred to share capital upon a special bonus issue. At Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.

### 31 Notes to the consolidated cash flow statement

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

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Profit/(loss) before taxation	<b>25,603</b>	(115,052)
Depreciation of owned fixed assets	<b>30,001</b>	31,156
Depreciation of fixed assets held under finance leases	<b>1,480</b>	470
Impairment losses on fixed assets	–	176,922
Amortisation of goodwill	<b>9,052</b>	9,052
Deficit on revaluation of investment properties	<b>5,190</b>	13,842
Share of profits of associated companies	<b>(2,038)</b>	(216)
Net loss/(gain) on disposal of fixed assets	<b>202</b>	(33,999)
Gain on disposal of business	<b>(12,943)</b>	–
Dividend received from listed investments	<b>(5)</b>	–
Loss on disposal of subsidiaries	–	26,328
Interest expense	<b>5,102</b>	7,321
Interest element of finance leases	<b>279</b>	194
Interest income	<b>(1,394)</b>	(1,834)
Changes in working capital		
Decrease/(increase) in inventories	<b>1,215</b>	(1,185)
Increase in trade receivables, other receivables and prepayment, marketable securities including amounts due from associated companies, related companies and an investee company	<b>(76,371)</b>	(60,004)
Increase/(decrease) in trade payables, other payables and accrued liabilities, bills payable, advance subscription fee received including amounts due to associated companies, an investee company and a director	<b>79,200</b>	(103,283)
Cash inflow/(outflow) generated from operating activities	<b>64,573</b>	(50,288)

## Notes to the Accounts

### 31 Notes to the consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	Share capital		Minority interests		Loans and obligations under finance leases	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	<b>394,107</b>	394,107	<b>49,064</b>	57,506	<b>127,157</b>	141,716
Share of profits by minority shareholders	–	–	<b>5,504</b>	1,741	–	–
New finance leases	–	–	–	–	<b>11,073</b>	–
Cash outflows from financing	–	–	–	–	<b>(2,811)</b>	(14,559)
Capital contributions from minority shareholders	–	–	–	773	–	–
Disposal of subsidiaries	–	–	–	727	–	–
Dividends paid to minority shareholders (note 31(d))	–	–	<b>(8,008)</b>	(11,683)	–	–
At 31 March	<b>394,107</b>	394,107	<b>46,560</b>	49,064	<b>135,419</b>	127,157

(c) Disposal of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Fixed assets	–	13,761
Trade and other receivables	–	26,630
Cash and bank balances	–	1,061
Other payables and accruals	–	(851)
Minority interests	–	727
Loss on disposal	–	41,328
Satisfied by cash	–	15,000
Net inflow of cash and cash equivalents	–	13,939

### 31 Notes to the consolidated cash flow statement (continued)

(d) Major non-cash transactions

During the year, Shenzhen Motion Mobile Telecom Services Co Ltd (“SMMT”) declared dividends amounting to HK\$78,326,000 of which HK\$8,008,000 was declared to CMTH, a minority shareholder of SMMT. The amount was settled through a current account with CMTH.

### 32 Cash and cash equivalents

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bank and cash balances	<b>78,793</b>	111,804

### 33 Contingent liabilities

As at 31 March 2003, the Group and the Company had contingent liabilities not provided for in the books as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees in respect of banking facilities of subsidiaries	–	–	<b>282,831</b>	275,131
Guarantees given to third parties against non-performance of contractual obligations by subsidiaries	<b>33,874</b>	35,474	<b>31,874</b>	31,474

## Notes to the Accounts

### 34 Commitments

As at 31 March 2003, the Group has the following commitments:

(a) Operating lease commitments

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

	<b>2003</b>	<b>Group</b>
	<b>HK\$'000</b>	2002
		HK\$'000
In respect of land and buildings, including transmission sites:		
Within one year	<b>14,571</b>	23,014
Between two and five years	<b>12,739</b>	17,237
More than five years	<b>321</b>	1,635
	<b>27,631</b>	41,886

In respect of leased lines:

Within one year	<b>18,104</b>	27,110
Between two and five years	<b>1,207</b>	10,419
	<b>19,311</b>	37,529

(b) Capital commitments for purchase of fixed assets

	<b>2003</b>	<b>Group</b>
	<b>HK\$'000</b>	2002
		HK\$'000
Contracted but not provided for	–	17,354
Authorised but not contracted for	–	36,955
	–	54,309

## 35 Related party transactions

- (a) The Group has the following transactions with related parties, including minority shareholders of subsidiaries, which were carried out in the normal course of business and terms arranged by or between the parties during the year.

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Income/(expenses)</b>		
Liking Industrial Ltd., a company owned by a director		
Rental expenses	–	(316)
First Active Investments Limited, a company owned by a director		
Disposal of subsidiaries	–	15,000
ChinaMotion Telecare (HK) Limited, a company owned by a director		
Hotline service fee	<b>(1,640)</b>	(429)
PA center services fee	<b>(427)</b>	(327)
Significant transactions with minority shareholders of subsidiaries		
CMTH		
Disposal of microwave telecommunications equipment	–	61,495
Maintenance service income	–	14,332
Leasing income	–	9,342
Airtime income	–	2,640
Recharge of paging and mobile service expenses	<b>(2,208)</b>	(6,902)
Dataline expenses	–	(1,101)
Call center services expenses	<b>(3,037)</b>	(836)
Shenzhen China Motion Telecom United Company Ltd (“SCMTU”)		
Sales of telecommunications equipment	<b>3,234</b>	5,073
China Motion Netcom Services Co. Ltd. (“CM Netcom”)		
Provision of technical consultancy and maintenance services	<b>92,007</b>	131,070
Wanbao Telecom Investment Limited, an associated company		
Interest income	<b>781</b>	–
Network fee charges	<b>(137)</b>	(1,736)

## Notes to the Accounts

### 35 Related party transactions (continued)

- (b) As at 31 March 2003, included in long-term investments are the following amounts which are related to CMTH and its subsidiaries:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Others, unlisted		
– Trust investment in a telecommunications project (note (i))	<b>207,546</b>	247,733
– Capital expenditure funding (note (ii))	<b>80,159</b>	80,159
	<b>287,705</b>	327,892
Deposit for purchase of unlisted investment (note (iii))	<b>46,729</b>	–

Notes:

- (i) This represents the remaining balance of funding in an amount of HK\$341,192,000 originally provided by the Group to a telecommunications project in Guangdong province in the PRC in 1997. This project was entered into on behalf of the Group by CM Netcom, a subsidiary of CMTH. The amount is to be returned by CM Netcom to a subsidiary of the Company before or upon expiry of a service agreement between that subsidiary and CM Netcom in March 2004. It is expected that HK\$129,000,000 of the balance will offset against the consideration payable for the proposed stage 2 acquisition by the Group of equity interest in CM Netcom (see note 35(b)(iii)). The remaining balance of HK\$78,546,000 will be returned according to a rescheduling agreement entered into between CMTH and the Company on 9 July 2003 (see note 35(c)(ii)).
- (ii) The amount represents capital expenditure funding provided by the Group to CM Netcom for developing CM Netcom's voice over Internet protocol ("VOIP") long distance call services business pursuant to an agreement entered into between the Group, SMMT, a subsidiary of the Company, and CM Netcom. The amount will be utilised in partial settlement of the consideration payable for the stage 1 acquisition by the Group of a 25% equity interest in CM Netcom on or before 31 December 2003. Details of this proposed transaction are set out in note 35(b)(iii).
- (iii) This represents a deposit paid for the acquisition of a 25% equity interest in CM Netcom.

On 30 January 2003, SMMT, CM Netcom and CMTH entered into an acquisition agreement, pursuant to which SMMT conditionally agreed to purchase in two equal stages, a 50% of the registered capital of CM Netcom for total consideration of RMB276,000,000 (equivalent to HK\$258,000,000). The aggregate consideration is to be satisfied by (i) the assignment of the capital expenditure funding of HK\$80,159,000 as mentioned in note 35(b)(ii) above; and (ii) by cash payments of HK\$49,000,000 and (iii) by way of setting off of amounts due from CMTH and/or its subsidiaries ("CMTH Group") to the Group of HK\$129,000,000. Completion of the acquisition agreement is conditional upon, inter alia, the conditions precedent which have been set out in the circular to shareholders dated 6 March 2003 being fulfilled on or before 31 October 2003 (unless such conditions are waived by SMMT). These conditions include but are not limited to the following:

- (1) the due division of CM Netcom into two companies with a "new" company assuming the assets, liabilities and operations of the GSM related business and all non VOIP related business and the continued CM Netcom ("Continued CM Netcom") retaining all the assets, liabilities and operations of the VOIP related business after the division of CM Netcom; and
- (2) the Continued CM Netcom having obtained the necessary authority to operate the VOIP related business in not less than ten cities in the PRC.

## 35 Related party transactions (continued)

### (b) (iii) (continued)

The consideration of RMB276,000,000 has been determined by reference to an independent valuation of the VOIP related business of the Continued CM Netcom prepared by American Appraisal Hongkong Limited, a third party international valuer as at 31 October 2002. The fair market value of the VOIP related business as a going concern has been determined through the application of the income approach commonly known as the discounted cash flow method and was valued at approximately RMB552,000,000 (equivalent to HK\$516,000,000) for the entire VOIP related business as at 31 October 2002. On this basis, a 50% interest of the VOIP related business was valued at approximately RMB276,000,000 (equivalent to approximately HK\$258,000,000).

Pursuant to the acquisition, the consideration payable for the stage 1 25% registered capital of RMB138,000,000 (equivalent to approximately HK\$129,000,000) shall be settled as follows:

- (1) Upon signing of the acquisition agreement, RMB50,000,000 (equivalent to approximately HK\$47,000,000) was paid as a deposit and shall be applied towards payment of the consideration upon completion of stage 1 of the acquisition on or before 31 December 2003; and
- (2) The remaining balance of RMB88,000,000 (equivalent to approximately HK\$82,000,000) will be paid by way of the assignment of the capital expenditure funding of approximately RMB86,000,000 (equivalent to HK\$80,159,000) (note 35(b)(ii)) and a cash payment of RMB2,000,000 (equivalent to approximately HK\$2,000,000).

As of the date of this report, the relevant parties to the acquisition are still in the process of fulfilling the relevant conditions precedent.

The consideration payable upon the completion of stage 2 of RMB138,000,000 (equivalent to approximately HK\$129,000,000) is to be satisfied by SMMT firstly setting off of sums owing by CMTH to SMMT and/or assignment to CMTH of any sums owing by any of the subsidiaries of CMTH (including CM Netcom) to SMMT, and the remaining balance of the consideration (if any) shall be paid in cash. It is the present intention of the Group to set off the whole amount of the consideration payable against the remaining balance of the trust investment in a telecommunications project which is to be returned to the Group as set out in note 35(b)(i) above.

Further details of the proposed transactions are set out in the circular to the shareholders dated 6 March 2003.

### (c) As at 31 March 2003 outstanding trade receivables due from CMTH and its subsidiaries are as follows:

	<b>2003</b>	<b>Group</b>
	<b>HK\$'000</b>	2002 HK\$'000
CMTH	<b>32,016</b>	32,401
CM Netcom	<b>167,868</b>	166,721
SCMTU	<b>94,992</b>	68,756
	<b>294,876</b>	267,878
Less: amounts receivable within 2 to 5 years (note (i))	<b>(266,625)</b>	–
Amounts receivable within one year included in current assets	<b>28,251</b>	267,878

- (i) The amounts are unsecured and interest-free with credit terms ranging from 30–90 days. As at 31 March 2003, most of these trade receivables are overdue. Subsequent to the year end, on 9 July 2003, the Company and CMTH entered into an agreement to reschedule the repayment dates for the receivables.

## Notes to the Accounts

### 35 Related party transactions (continued)

(c) (continued)

- (ii) Under the agreement, an aggregate amount of HK\$373,422,000 (the "Debt") as at 31 March 2003, comprising an amount of trade receivables of HK\$294,876,000 and part of the trust investment in a telecommunications project of HK\$78,546,000 to be returned to the Group (see note 35(b)(i) above) will be repayable over a period of five years in accordance with the following schedule:

<b>Date of repayment</b>	<b>Repayment amount</b>
	HK\$'000
On or before the last day of the first year commencing from the date upon which all the conditions precedent to which the agreement is subject to have been fulfilled ("Effective Date")	40,000
On or before the last day of the second year commencing from the Effective Date	50,000
On or before the last day of the third year commencing from the Effective Date	80,000
On or before the last day of the fourth year commencing from the Effective Date	100,000
On or before the last day of the fifth year commencing from the Effective Date	103,422
	<hr/>
Total:	373,422
	<hr/>

#### *Interest*

The entire amount of the Debt will bear interest at the rate of 2.25% per annum. Interest payment for the first three years will be payable on or before the last day of the third year commencing from the Effective Date whilst interest payment for the fourth year and fifth year will be payable on or before the last day of the fourth year and the fifth year commencing from the Effective Date respectively.

#### *First right of refusal*

In the event that any member of the CMTH Group offers to sell, transfer, assign or dispose of any of its assets, properties, investment, business or offers to enter into any form of co-operation with any party CMTH shall grant and shall procure other relevant member(s) of the CMTH Group to grant the Group a first right of refusal for such investment opportunities to the extent permitted under the applicable laws in Hong Kong and China.

Subject to mutually agreed terms and applicable laws in both Hong Kong and China, in the event that the Group decides to pursue any of the investment opportunities presented by CMTH Group, the Group may at its sole discretion, if it thought fit, set-off its contribution obligations or consideration for such investment opportunities against the then remaining balance of the Debt due from CMTH Group provided that the value of such investments shall be subject to an independent valuation prepared by an independent professional valuer to be mutually agreed. Upon such set-off, the remaining balance of the Debt due from CMTH Group shall be reduced accordingly.

Details of this transaction are summarised in the circular to the shareholders of the Company dated 22 July 2003.

Accordingly, the Debt has been substantially classified as non-current assets as at 31 March 2003.

### 35 Related party transactions (continued)

(c) (ii) (continued)

As at 31 March 2003, the amounts to be returned and repaid by CMTH and its subsidiaries totalled approximately HK\$629,310,000 (2002: HK\$595,770,000) as detailed in notes 35(b) and 35(c)(i) above. As mentioned above, while HK\$373,422,000 is expected to be received through the reschedule debt payments and the remaining balance of HK\$255,888,000 is expected to be set off against the consideration payable for the acquisition of 50% equity interest in the Continued CM Netcom (note 35(b)).

The determination of whether or not a decline in value of the trust investment in the telecommunications project has occurred, and if so, whether it is other than temporary, and the recoverability of the amounts due from CMTH requires the exercise of significant judgement by management. It also depends on the success of the telecommunications projects undertaken by CMTH including but not limited to CM Netcom's VOIP related business (see note 35(b)(iii)). Given the inherent risk associated with CMTH and the telecommunications projects, management believes that it has made reasonable judgements based on all relevant and available facts and information about CMTH and the telecommunications projects (including the financing facilities available for these projects) that the trade receivables due from CMTH and the trust investment in the telecommunications project can be or will be realised at an amount equal to or in excess of their carrying value. Adjustments to management's estimates will be made as the Group receives updated information about the business performance of CMTH and the telecommunications projects.

(d) As at 31 March 2003, outstanding non-trade payables included payables to minority shareholders of subsidiaries are as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Guangdong Mobile Communication Company Limited	<b>827</b>	827

## Notes to the Accounts

### 36 Principal subsidiaries

The principal subsidiaries as at 31 March 2003 are as follows:

<b>Name</b>	<b>Country/ place of incorporation/ operation and kind of legal entity in the PRC</b>	<b>Particulars of issued share capital/ registered capital</b>	<b>Percentage of effective equity held*</b>	<b>Principal activities</b>
Best Class International Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion Data System Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion Holdings Limited	British Virgin Islands	100 ordinary shares of US\$1.00 each	100%	Investment holding
ChinaMotion NetCom (Asia) Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Provision of long distance call services
ChinaMotion NetCom (Canada) Ltd.	Canada	1 ordinary share of C\$1.00 each	100%	Provision of long distance call services
China Motion Properties Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion (Japan) Limited	Japan	200 shares of ¥50,000.00 each	100%	Provision of long distance call services
China Motion (Singapore) Pte. Ltd.	Singapore	2 shares of S\$1.00 each	100%	Provision of long distance call services
China Motion (Taiwan) Limited	Taiwan	NT\$5,000,000	100%	Provision of long distance call services
China Motion Telecom (HK) Limited	Hong Kong	1 million ordinary shares of HK\$1.00 each	100%	Provision of mobile communications services
China Motion United Telecom Limited	Hong Kong	66.8 million ordinary shares of HK\$1.00 each	70%	Investment holding and provision of roaming trunked radio services

### 36 Principal subsidiaries (continued)

<b>Name</b>	<b>Country/ place of incorporation/ operation and kind of legal entity in the PRC</b>	<b>Particulars of issued share capital/ registered capital</b>	<b>Percentage of effective equity held*</b>	<b>Principal activities</b>
CM Concept Holdings (China) Limited	Hong Kong	100 ordinary shares of HK\$1.00 each and 500 non-voting deferred shares of HK\$10,000.00 each	100%	Investment holding
CM Concept (HK) Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Retail business
CM Tel (HK) Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Provision of long distance call services
CM Tel (USA) LLC	USA	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
Express Lane Investment Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
Guangzhou Motion Telecom Service Co., Ltd.	PRC, equity joint venture	HK\$2,660,000	70%	Maintenance services and provision of telecom related services
Jackie Industries Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
Sheen Metro Investment Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
Sheen Sino Investment Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding

## Notes to the Accounts

### 36 Principal subsidiaries (continued)

Name	Country/ place of incorporation/ operation and kind of legal entity in the PRC	Particulars of issued share capital/ registered capital	Percentage of effective equity held*	Principal activities
Shenzhen Motion Mobile Telecom Services Co., Ltd.	PRC, equity joint venture	US\$12,000,000	90%	Provision of GSM- related services to telecom operator in the PRC
Shenzhen Motion Telecom Service Co., Ltd.	PRC, equity joint venture	RMB25,000,000	70%	Maintenance for telecommunication equipment
Shenzhen Motion Trunked Radio Co., Ltd.	PRC, equity joint venture	Paid-up capital US\$5,000,000 Registered capital US\$9,000,000	49%	Provision of telecommunication equipment leasing
Townlink Limited	Hong Kong	2 million ordinary shares of HK\$1.00 each	70%	Provision of telecommunication 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 above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

### 37 Principal associated companies

The principal associated companies as at 31 March 2003 are as follows:

<b>Name</b>	<b>Country/place of establishment/ operation</b>	<b>Particulars of issued shares held</b>	<b>Percentage of effective equity interest indirectly held</b>	<b>Principal activities</b>
Goodfine Holdings Limited	Hong Kong	Ordinary shares HK\$1.00 each	48%	Investment holding
Thinker Communications Technology (HK) Co., Limited	Hong Kong	Ordinary shares HK\$1.00 each	48%	Agency services
Wanbao Telecom Investment Limited	Hong Kong	Ordinary shares HK\$1.00 each	48%	Telecommunication and agency services

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

### 38 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.

### 39 Post balance sheet events

- (a) Details of the connected transaction entered into between the Company and CMTH on 9 July 2003 are set out in note 35(c)(ii) to the accounts.
- (b) As of the date of this report, CMH, a wholly-owned subsidiary of the Company, transferred 1,362,000 shares of ChinaMotion NetCom Holdings Limited ("CM NetCom Holdings") to certain employees of the Group. Accordingly, the shareholding of CMH in CM NetCom Holdings was reduced to 86.38%.

### 40 Approval of accounts

The accounts were approved by the board of directors on 22 July 2003.