



潤迅通信國際有限公司

China Motion Telecom International Limited

(Incorporated in Bermuda with limited liability)



Strengthening Our Bonds

Weaving A Bright Future Ahead

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Hau Tung Ying (Chairman)
Shui Ming Hua
Chan Wai Lun

Non-executive Directors

Yang Jun (Vice-Chairman)
Li Yi Sheng
Yung Yung Cheng, Frank *
Ho Chung Tai, Raymond *
Hu Tiejun (Alternate Director to Li Yi Sheng)

* Independent Non-executive Directors

COMPANY SECRETARY

Yeung Sze Nga

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

20th Floor, Tower II & III
Enterprise Square
9 Sheung Yuet Road
Kowloon Bay
Hong Kong

WEBSITE

<http://www.chinamotion.com>

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Abacus Share Registrars Limited
G/F., Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

SINGAPORE SHARE TRANSFER AGENT

Barbinder & Co Pte Ltd
8 Cross Street
#11-00 PWC Building
Singapore 048424

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Fortis Bank Asia HK

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
33rd Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

STOCK CODE

0989

The Board of Directors (the "Board") of China Motion Telecom International Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2003 together with the comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 September 2003

	Note	Unaudited Six months ended 30 September	
		2003 HK\$'000	2002 HK\$'000
Turnover	2	386,496	353,658
Cost of sales and services		(276,874)	(239,459)
Gross profit		109,622	114,199
Other revenues		7,130	20,165
Distribution expenses		(16,218)	(3,682)
Administrative expenses		(114,085)	(115,412)
Operating (loss)/profit	3	(13,551)	15,270
Finance costs		(2,256)	(2,771)
Share of (losses)/profits of associated companies	9	(4,421)	853
(Loss)/profit before taxation		(20,228)	13,352
Taxation	4	(6,369)	(6,120)
(Loss)/profit after taxation		(26,597)	7,232
Minority interests		(781)	(2,093)
(Loss)/profit attributable to shareholders		(27,378)	5,139
Dividend	5	–	–
(Loss)/earnings per share	6		
– Basic		(5.21) HK cents	0.98 HK cents
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2003 and 31 March 2003

	Note	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Non-current assets			
Goodwill	7	595	1,246
Fixed assets	8	289,318	291,784
Investment in associated companies	9	155,277	29,184
Other non-current assets	20(b)	467,185	612,989
Current assets			
Inventories		7,371	6,091
Receivables and prepayments	10, 20(c)	233,816	174,146
Marketable securities		659	297
Pledged bank deposits		7,680	7,220
Bank and cash balances	11	68,297	78,793
		<u>317,823</u>	<u>266,547</u>
Current liabilities			
Trade and other payables	12	322,701	253,953
Taxation payables		6,499	7,940
Borrowings	13	50,026	54,703
		<u>379,226</u>	<u>316,596</u>
Net current liabilities		<u>(61,403)</u>	<u>(50,049)</u>
Total assets less current liabilities		<u>850,972</u>	<u>885,154</u>
Financed by:			
Share capital	16	394,107	394,107
Non-distributable capital reserves		531,894	531,894
Accumulated losses		(198,163)	(170,785)
Shareholders' funds		<u>727,838</u>	<u>755,216</u>
Minority interests		<u>50,724</u>	<u>46,560</u>
Non-current liabilities			
Borrowings	13	70,674	80,716
Trade payable	15	1,390	2,316
Deferred taxation		346	346
		<u>72,410</u>	<u>83,378</u>
		<u>850,972</u>	<u>885,154</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2003

	Share capital HK\$'000 (Note 16)	Unaudited Non- distributable capital reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2003	394,107	531,894	(170,785)	755,216
Loss for the period	–	–	(27,378)	(27,378)
At 30 September 2003	394,107	531,894	(198,163)	727,838
At 1 April 2002	394,107	530,951	(180,067)	744,991
Profit for the period	–	–	5,139	5,139
At 30 September 2002	394,107	530,951	(174,928)	750,130

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2003

	Unaudited	
	Six months ended	
	30 September	
	2003	2002
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	7,939	(10,806)
Net cash outflow from investing activities	(3,257)	(4,056)
Net cash (outflow)/inflow from financing activities	(15,178)	11,165
Net decrease in cash and cash equivalents	(10,496)	(3,697)
Cash and cash equivalents at 1 April	78,793	111,804
Cash and cash equivalents at 30 September	68,297	108,107
Analysis of balances of cash and cash equivalents:		
Bank and cash balances	68,297	117,544
Bank overdrafts	–	(9,437)
	68,297	108,107

NOTES TO CONDENSED ACCOUNTS

1 Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (the “HKSA”).

These condensed accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31 March 2003 except that the Group has changed its accounting policies following its adoption of SSAP 12 (Revised) “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group’s accounting policies and the effect of adopting these revised policies are set out below:

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future.

The adoption of the revised SSAP has no material effect on the Group’s results.

2 Segment information

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.

An analysis of the Group's revenue and results for the period by business segments and geographical segments is as follows:

(a) Primary reporting format – business segments

	Six months ended 30 September 2003						Group HK\$'000
	Telecom- munications networks HK\$'000	Mobile related services HK\$'000	Distribution and retail chain HK\$'000	Other operations HK\$'000	Discontinued operations HK\$'000	Unallocated items HK\$'000	
Turnover	<u>248,582</u>	<u>82,334</u>	<u>55,580</u>	-	-	-	<u>386,496</u>
Segmental profit/(loss)	(9,719)	17,904	(523)	-	-	(23,990)	(16,328)
Net finance income							521
Share of losses of associated companies							<u>(4,421)</u>
Loss before taxation							(20,228)
Taxation							<u>(6,369)</u>
Loss after taxation							(26,597)
Minority interests							<u>(781)</u>
Loss attributable to shareholders							<u>(27,378)</u>

2 Segment information (Continued)

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

	Six months ended 30 September 2002						Group HK\$'000
	Telecom- munications networks HK\$'000	Mobile related services HK\$'000	Distribution and retail chain HK\$'000	Other operations HK\$'000	Discontinued operations HK\$'000	Unallocated items HK\$'000	
Turnover	209,926	49,820	73,183	56	20,673	–	353,658
Segmental profit/(loss)	10,295	17,246	(4,195)	114	28,890	(37,527)	14,823
Net finance costs							(2,324)
Share of profits of associated companies							853
Profit before taxation							13,352
Taxation							(6,120)
Profit after taxation							7,232
Minority interests							(2,093)
Profit attributable to shareholders							5,139

(b) Secondary reporting format – geographical segments

	Six months ended 30 September			
	Turnover		Segmental profit/(loss)	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
The People's Republic of China (the "PRC")	46,465	61,226	25,081	29,319
Hong Kong	218,345	227,670	(15,964)	22,411
Canada and United States of America	81,347	64,762	(2,174)	620
Other regions	40,339	–	719	–
	386,496	353,658	7,662	52,350
Unallocated items	–	–	(23,990)	(37,527)
	386,496	353,658	(16,328)	14,823

3 Operating (loss)/profit

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

	Six months ended	
	30 September	
	2003	2002
	HK\$'000	HK\$'000
Crediting:		
Write-back of provision for slow moving inventories	204	–
Dividend income from listed securities	–	5
Gain on disposal of business	–	15,902
	<hr/>	<hr/>
Charging:		
Depreciation (Note 8)	19,170	14,603
Amortisation of goodwill (Notes 7 and 9)	651	4,527
Cost of inventories sold	46,319	50,239
Operating lease rentals for land and buildings and lease lines	45,273	79,517
Staff costs (including directors' emoluments)	59,352	60,923
Provision for doubtful debts	4,075	749
Provision for slow moving inventories	–	1,108
	<hr/>	<hr/>

4 Taxation

No provision for Hong Kong profits tax has been made as there is no estimated assessable profit for the period (2002: Nil). PRC taxation represents income tax payable by the Group's 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 period.

The aggregate deferred tax asset of HK\$118,641,000 (31 March 2003: HK\$94,535,000) relating to tax losses available to be carried forward and other timing differences including accelerated depreciation allowance as at 30 September 2003 has not been recognised as the crystallisation of the asset is uncertain.

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

	Six months ended	
	30 September	
	2003	2002
	HK\$'000	HK\$'000
PRC taxation		
– current year	5,251	4,778
– over provision in prior years	–	(1,969)
Overseas taxation		
– current year	1,053	3,311
	6,304	6,120
Share of taxation attributable to associated companies	65	–
	6,369	6,120

5 Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2003 (2002: Nil).

6 (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of HK\$27,378,000 (2002: profit of HK\$5,139,000) and the weighted average number of 525,475,573 (2002: 525,475,573) ordinary shares in issue during the period.

Diluted (loss)/earnings per share for the period ended 30 September 2003 and 2002 has not been presented as the conversion of potential ordinary shares to ordinary shares would have anti-dilutive effect to the basic (loss)/earnings per share.

7 Goodwill

	HK\$'000
Opening net book amount at 1 April 2003	1,246
Amortisation charge (Note 3)	(651)
	<hr/>
Closing net book amount at 30 September 2003	595
	<hr/>

8 Fixed assets

	HK\$'000
Opening net book amount at 1 April 2003	291,784
Additions	16,916
Disposals	(212)
Depreciation (Note 3)	(19,170)
	<hr/>
Closing net book amount at 30 September 2003	289,318
	<hr/>

9 Investment in associated companies

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
Share of net assets	7,505	4,184
	<hr/>	<hr/>
Goodwill on acquisition (Note 17)	124,853	–
Amortisation for the period	(2,081)	–
	<hr/>	<hr/>
Unamortised goodwill	122,772	–
	<hr/>	<hr/>
Loan to an associated company	25,000	25,000
	<hr/>	<hr/>
Total	155,277	29,184
	<hr/>	<hr/>

The amortisation expense of goodwill was included under the item of share of (losses)/profits of associated companies in the condensed consolidated profit and loss account.

10 Receivables and prepayments

Included in receivables and prepayments are trade debtors and their ageing analysis is as follows:

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
0–30 days	50,872	33,139
31–60 days	25,728	22,318
61–90 days	12,920	18,266
Over 90 days	89,618	59,626
Total	179,138	133,349

The Group has a defined credit policy. The general credit term is 30 to 60 days.

11 Bank and cash balances

Included in bank and cash balances of the Group is HK\$22,590,000 (31 March 2003: HK\$41,481,000) which represents bank balances denominated in Renminbi (“RMB”) placed with banks in the PRC. RMB is not a freely convertible currency.

12 Trade and other payables

Included in trade and other payables are trade creditors and their ageing analysis is as follows:

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
0–30 days	44,197	54,844
31–60 days	23,818	31,688
61–90 days	20,040	10,853
Over 90 days	122,300	58,854
Total	210,355	156,239

13 Borrowings

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
Current		
Bank loans – secured	46,275	50,132
Obligations under finance leases (Note 14)	3,751	4,571
	50,026	54,703
Non-current		
Bank loans – secured	68,199	76,629
Obligations under finance leases (Note 14)	2,475	4,087
	70,674	80,716
Total	120,700	135,419

The movement in the borrowings can be analysed as follows:

	HK\$'000
Balance at 1 April 2003	135,419
Repayments	(14,719)
Balance at 30 September 2003	120,700

At 30 September 2003, the Group's borrowings (excluding finance lease liabilities) are repayable as follows:

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
Within one year	46,275	50,132
In the second year	13,544	15,491
In the third to fifth year	23,707	27,048
After the fifth year	30,948	34,090
	114,474	126,761

14 Obligations under finance leases

At 30 September 2003, the Group's finance lease liabilities are repayable as follows:

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
Within one year	4,009	4,791
In the second year	2,771	3,338
In the third to fifth year	–	834
	6,780	8,963
Future finance charges on finance leases	(554)	(305)
Present value of finance lease liabilities	6,226	8,658

The present value of finance lease liabilities is as follows:

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
Within one year	3,751	4,571
In the second year	2,475	3,260
In the third to fifth year	–	827
	2,475	4,087
	6,226	8,658

15 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.

16 Share capital

	Ordinary shares of HK\$0.75 each	
	Number of shares	HK\$'000
Authorised:		
At 1 April and 30 September 2003	<u>1,040,000,000</u>	<u>780,000</u>
Issued and fully paid:		
At 1 April and 30 September 2003	<u>525,475,573</u>	<u>394,107</u>

17 Acquisition

On 5 August 2003, the Group completed its acquisition of 25% of the share capital of China Motion Netcom Services Co., Ltd. ("CM Netcom") which is engaged in VOIP related services in the PRC. The total consideration of HK\$128,973,000 was satisfied by cash of HK\$2,085,000 and by the assignment of the capital expenditure funding of HK\$80,159,000 and a deposit of HK\$46,729,000 paid in previous years. The fair value of the net identifiable assets of CM Netcom at the date of acquisition was approximately HK\$5,687,000. The resulting goodwill of approximately HK\$124,853,000 will be amortised on a straight-line basis over a period of 10 years. Excluding the goodwill amortisation, the acquired business contributed a loss of approximately HK\$367,000 to the Group for the period ended 30 September 2003.

The assets and liabilities arising from the acquisition are as follows:

	HK\$'000
Fixed assets	15,448
Cash	10,504
Other assets less liabilities	<u>(3,204)</u>
Fair value of net assets	<u>22,748</u>
25% share of fair value of net assets	5,687
Net acquisition expenses	(1,567)
Goodwill (Note 9)	<u>124,853</u>
Total purchase consideration	<u>128,973</u>

18 Contingent liabilities

The Group had contingent liabilities not provided for in the accounts as follows:

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
Guarantees given to third parties against non-performance of contractual obligations by subsidiaries	39,041	33,874

19 Operating leases commitments

At 30 September 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
In respect of land and buildings, including transmission sites:		
Within one year	16,527	14,571
In the second to fifth year	14,432	12,739
After the fifth year	–	321
	30,959	27,631

In respect of leased lines:

Within one year	4,354	18,104
In the second to fifth year	450	1,207
	4,804	19,311

20 Related party transactions

- (a) Save as disclosed in other notes to condensed accounts, significant transactions during the period between the Group and related parties and also including minority shareholders of subsidiaries during the period, which are carried out in the normal course of business and on terms arranged by or between the parties concerned are as follows:

	Six months ended	
	30 September	
	2003	2002
	HK\$'000	HK\$'000
Income/(expense)		
ChinaMotion Telecare (HK) Limited, a company owned by a director		
Hotline service fee	(523)	–
PA center services fee	(331)	–
Significant transactions with minority shareholders of subsidiaries		
China Motion Telecom Holdings Limited (“CMTH”)		
Call center services expenses	(2,823)	–
Interest income	1,872	–
Shenzhen China Motion Telecom United Company Ltd (“SCMTU”)		
Sales of telecommunications equipment	2,830	2,526
China Motion Mobile Services Co., Ltd. (“CMM”) (upon division of CM Netcom)		
Provision of technical consultancy and maintenance services	42,535	46,515
CM Netcom		
VOIP service fee income	1,409	1,142
Wanbao Telecom Investment Limited, an associated company		
Interest income	421	–

- (b) Included in other non-current assets is a total amount of HK\$462,422,000 related to CMTH and/or its subsidiaries (collectively “CMTH Group”) which comprises of HK\$207,546,000 of a trust investment in a telecommunications project to be returned by CMTH Group and HK\$254,876,000 of non-current trade receivables due from CMTH Group.

20 Related party transactions *(Continued)*

- (c) Included in receivables and prepayments is an amount of HK\$16,244,000 due from CMTH Group.

- (d) Subsequently, the Company entered into an agreement with CMTH on 9 July 2003, pursuant to which the Company conditionally agreed to reschedule the repayment date for the debt due from CMTH Group. Under the agreement, the aggregate amount of HK\$373,422,000 will be repayable over a period of five years with interest bearing at the rate of 2.25% per annum. Details of such transaction were disclosed in 2003 annual accounts.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS AND OPERATIONS

Despite the difficult operating environment in the telecommunications sector and the SARS (Severe Acute Respiratory Syndrome) outbreak, the Group recorded a 9% growth in turnover to HK\$386.5 million for the first half of the year. However, as a result of the drastic price reduction due to competitive factors, the revenue and profitability for IDD business were not in tandem with the high growth in voice traffic. Together with the loss incurred in the development phase of MVNO (Mobile Virtual Network Operator) business, the Group recorded a loss of HK\$27.4 million during the period.

Telecommunications Networks

During the period, the turnover of the telecommunications networks business increased to HK\$248.6 million or by 18% when compared to the same period last year. IDD voice traffic continued its rapid growth to one billion minutes. The average monthly voice traffic increased by 69% compared to the same period last year. Subsequent to the award of the fixed line services license in Hong Kong in early 2003, the Group launched the fixed line service under the brand "ChinaOne" in the local market and, in May of the same year, commenced the IDD retail service. Since intense market competition has led to tariff reduction in IDD business, the turnover was therefore not in line with the increase in IDD voice traffic. Further, with the retail business at an early development stage, the telecommunications networks business recorded an operating loss of HK\$9.7 million.

The Group has been taking active measures to lower operating costs, modify marketing strategy and negotiate with the service provider on interconnection charges and circuit rentals. To cope with the strong growth of visitors to Hong Kong from China as a result of the "Individual Visit Scheme", the Group, in co-operation with the leading mainland telecommunications operators, launched a number of IDD calling cards for cross-border travelers which can be used in both the mainland and Hong Kong. This measure has facilitated a growth in the Group's IDD retail business.

Mobile Related Services

During the period, the Group's mobile related services recorded a turnover of HK\$82.3 million, representing an increase of 65% compared to the same period last year. The operating profit was also up 4% from last year to HK\$17.9 million.

The Group's MVNO business launched up-market products under the brand "CM Mobile", including the "Tri-Number Single SIM Mobile Service" customised for cross-border business executives and travelers who frequently travel to China, Hong Kong and Singapore and "Dual-Number Single SIM Mobile Service" extended from Guangdong to Shanghai, as well as the prepaid stored value SIM cards for mainland visitors. This business recorded a turnover of HK\$39.8 million during the period, representing an increase of 93% compared to the total income of last year (comprising eight months). However, under the competitive market environment, the MVNO business recorded an operating loss of HK\$16.3 million.

During the period, the turnover of mobile related services in Guangdong remained stable at HK\$42.5 million. An operating profit of HK\$34.2 million was achieved, representing an increase of 21% over last year.

Distribution and Retail Chain

As one of the largest distributors of telecommunications products and services in Hong Kong, CM Concept is a conduit to distribute the Group's products, services and concept to consumers. Due to the outbreak of SARS and other market factors, the retail business recorded a turnover of HK\$55.6 million, down 24% from previous year, resulting in an operating loss of HK\$0.5 million.

VOIP Related Business

Stage one of the acquisition of 25% shareholding in CM Netcom which currently provides VOIP related services in China has been completed according to schedule. The total purchase consideration for this stage amounted to HK\$129.0 million and subsequently, the corresponding amortisation of goodwill has been included under the item of share of losses/profits of associated companies in the consolidated profit and loss account.

PROSPECTS

The Group anticipates that the IDD traffic will continue its rapid growth in the second half of the year. Subject to stable telecommunications policies, the Group's turnover will improve. Further, the local fixed line business will bring synergy to the Group's IDD wholesale business. With better quality of subscribers, the turnover of MVNO business is expected to increase. Barring unforeseen circumstances, the Group expects the loss will be narrowed by the second half of the year.

FINANCIAL POSITION

The Group has always maintained a prudent and stable financial strategy. At 30 September 2003, the Group's bank and cash balances amounted to approximately HK\$76.0 million. Total bank borrowings were approximately HK\$120.7 million and that as a percentage of shareholders' funds were maintained at a healthy gearing ratio of 17%, which is similar to last year's level.

During the period, the Group financed its operations through internally generated funds and banking facilities.

At 30 September 2003, the Group had aggregate banking facilities of approximately HK\$75.7 million, of which HK\$42.8 million was utilised. It is anticipated that the Group's bank and cash balances, as at the balance sheet date, together with the unused banking facilities, will be sufficient to discharge its debts and to fund its operations.

EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES

The Group has exposure to the fluctuations in Renminbi and United States dollars as certain expenses payable and trade receivables from customers are settled in these currencies respectively.

STAFF AND REMUNERATION POLICIES

At 30 September 2003, the Group had a total number of 532 full-time staff. Total staff costs (including directors' emoluments) incurred for the period amounted to HK\$59.4 million. The Group's remuneration policy has been in line with the prevailing market practice and its employees are remunerated based on performance and experience.

In addition to salaries, the Group also offers a staff benefits package to its employees, including training allowance, provident fund and medical insurance. The Group also grants share options to certain directors of the Company and certain employees of the Group.

OTHER DISCLOSURES

Apart from above, other information which are required to be disclosed under the requirements of paragraph 40 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") either have no material changes from the information disclosed in the annual report of the Company for the year ended 31 March 2003 or are considered not significant to the Group's operations, and hence no additional disclosure has been made in this report.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SECURITIES

At 30 September 2003, the directors and chief executive of the Company or their respective associates had the following interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning the Part XV of the Securities and Futures Ordinance (the "SFO")) which required notification to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange:

(a) Interests in shares of the Company

Name of director	Number of ordinary shares held			Total interests	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Hau Tung Ying	–	–	270,247,500	270,247,500	51.43%
			(Note)		
Shui Ming Hua	250,000	–	–	250,000	0.05%
Chan Wai Lun	267,000	–	–	267,000	0.05%
Hu Tiejun	292,000	–	–	292,000	0.06%

Note: The 270,247,500 shares are beneficially owned by Goldtop Holdings Limited ("Goldtop"), a company of which Mr Hau Tung Ying and his wife, Madam Ting Yat Shuk, are both directors and in which they hold 30,000 and 20,000 ordinary shares respectively, representing 60% and 40% of the entire issued share capital of Goldtop. Mr Hau Tung Ying is therefore deemed to be interested in the 270,247,500 shares held by Goldtop due to his 60% direct interest and his wife's 40% direct interest in Goldtop.

All interests disclosed above represent long positions.

(b) Interests in share options of the Company

At 30 September 2003, the interests of the directors of the Company and the employees of the Group in share options of the Company as recorded in the register of the Company required to be kept under section 352 of Part XV of the SFO, together with the movement of their share options during the period, were as follows:

Category	Date of grant	Exercise price HK\$	Exercisable period	Vesting period	Number of share options		
					At 1 April 2003	Lapsed during the period	At 30 September 2003
Directors:							
Hau Tung Ying	20/03/2001	0.75	20/03/2002 – 19/03/2011	20/03/2002 – 20/03/2004	2,000,000	–	2,000,000
Shui Ming Hua	25/02/2000	3.19	25/02/2001 – 17/03/2008	N/A	378,499	–	378,499
	17/10/2000	1.22	17/10/2001 – 17/03/2008	N/A	432,570	–	432,570
	20/03/2001	0.75	20/03/2002 – 19/03/2011	20/03/2002 – 20/03/2004	2,000,000	–	2,000,000
							<u>2,811,069</u>
Chan Wai Lun	25/02/2000	3.19	25/02/2001 – 17/03/2008	N/A	378,499	–	378,499
	17/10/2000	1.22	17/10/2001 – 17/03/2008	N/A	432,570	–	432,570
	20/03/2001	0.75	20/03/2002 – 19/03/2011	20/03/2002 – 20/03/2004	2,000,000	–	2,000,000
							<u>2,811,069</u>
Yang Jun	29/06/1998	0.751	29/06/1999 – 17/03/2008	N/A	257,483	–	257,483
	25/02/2000	3.19	25/02/2001 – 17/03/2008	N/A	252,333	–	252,333
	17/10/2000	1.22	17/10/2001 – 17/03/2008	N/A	288,380	–	288,380
	20/03/2001	0.75	20/03/2002 – 19/03/2011	20/03/2002 – 20/03/2004	2,000,000	–	2,000,000
							<u>2,798,196</u>
Hu Tiejun	19/08/1999	2.00	19/08/2000 – 17/03/2008	N/A	252,333	–	252,333
	17/10/2000	1.22	17/10/2001 – 17/03/2008	N/A	288,380	–	288,380
	20/03/2001	0.75	20/03/2002 – 19/03/2011	20/03/2002 – 20/03/2004	2,000,000	–	2,000,000
							<u>2,540,713</u>
Employees:							
	29/06/1998	0.751	29/06/1999 – 17/03/2008	N/A	144,189	–	144,189
	19/08/1999	2.00	19/08/2000 – 17/03/2008	N/A	1,019,628	–	1,019,628
	25/02/2000	3.19	25/02/2001 – 17/03/2008	N/A	82,394	–	82,394
	17/10/2000	1.22	17/10/2001 – 17/03/2008	N/A	1,874,470	(144,190)	1,730,280
	20/03/2001	0.75	20/03/2002 – 19/03/2011	20/03/2002 – 20/03/2004	12,850,000	(1,200,000)	11,650,000
	28/01/2002	0.75	28/01/2003 – 27/01/2012	28/01/2003 – 28/01/2005	500,000	(100,000)	400,000
							<u>15,026,491</u>
					<u>29,431,728</u>	<u>(1,444,190)</u>	<u>27,987,538</u>

(b) Interests in share options of the Company *(Continued)*

All interests disclosed above represent long positions.

During the period, there were no share options granted, exercised or cancelled under the share option schemes.

The share options were granted under the share option scheme adopted by the Company on 18 March 1998 (the "Share Option Scheme"), pursuant to which the directors of the Company might 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 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.

On 6 September 2002, the Company adopted a new share option scheme (the "New Share Option Scheme"), pursuant to which the directors of the Company might at their discretion grant share options to any employee, director or chief executive, supplier, sales agent, customer, joint venture partner, accountant, legal adviser, business development and technological consultant, substantial shareholders of the Company or of its subsidiaries under the terms and conditions stipulated therein. No share options have ever been granted by the Company under the New Share Option Scheme since its adoption.

Save as disclosed above, at 30 September 2003, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which required notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2003, the following shareholders (other than the directors and chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Note	Number of ordinary shares held	Percentage of issued share capital
Goldtop	1, 3	270,247,500	51.43%
Ting Yat Shuk	2, 3	270,247,500	51.43%

Notes:

- (1) Goldtop is a company beneficially owned by Mr Hau Tung Ying, a director of the Company (60%) and his wife, Madam Ting Yat Shuk (40%).
- (2) Madam Ting Yat Shuk is deemed to be interested in the 270,247,500 shares held by Goldtop due to her 40% direct interest and 60% direct interest held by her husband, Mr Hau Tung Ying, in Goldtop.
- (3) The interests disclosed represent the same interests as the corporate interests of Mr Hau Tung Ying as disclosed under the heading of "Directors' Interests in Securities" above.

All interests disclosed above represent long positions.

Save as disclosed above, there was no person known to the directors or chief executive, other than the directors or chief executive, who, at 30 September 2003, had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

AUDIT COMMITTEE

The Audit Committee has reviewed with management and the auditors of the Company the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including the review of the unaudited consolidated interim results for the six months ended 30 September 2003.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the period.

DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with the requirements under Practice Note 19 of the Listing Rules, the directors of the Company report the details of advances to CMTH Group as at 30 September 2003 as follows:

	Total HK\$'000
Trade receivables from	
CMTH	31,490
CMM (upon division of CM Netcom)	141,792
SCMTU	97,838
	<hr/>
	271,120
	<hr/>

The balances were trade receivable arising from the Group's normal and ordinary course of business and were unsecured, interest-free with credit term of 30 to 90 days.

Subsequently, the Company entered into an agreement with CMTH on 9 July 2003, pursuant to which the Company conditionally agreed to reschedule the repayment date for the debt due from CMTH Group. Under the agreement, the aggregate amount of HK\$373,422,000 will be repayable over a period of five years with interest bearing at the rate of 2.25% per annum. Details of such transaction were disclosed in 2003 annual accounts.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-laws.

By Order of the Board
Hau Tung Ying
Chairman

Hong Kong, 4 December 2003