

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 March 2004.

Principal activities and geographical analysis of operations

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

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

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 37.

The directors do not recommend the payment of a final dividend for the year ended 31 March 2004.

Reserves

Movements in the reserves and accumulated losses of the Group and the Company during the year are set out in the statements of changes in equity on page 39.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$20,000.

Distributable reserves

In accordance with the Companies Act 1981 of Bermuda (as amended) and the Company's Bye-laws, the Company has no distributable reserve as at 31 March 2004.

Fixed assets

Details of the movements in fixed assets of the Group are set out in note 14 to the accounts.

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Share capital and warrants

Details of the movements in share capital and warrants of the Company are set out in note 27 to the accounts.

Five-year financial summary

A summary of the results and of the assets and liabilities of the Group for the preceding five financial years is set out on page 4.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights under the laws of Bermuda.

Purchase, sale and redemption of shares

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

Directors

The directors of the Company who held office during the year and up to the date of this report were:

Executive Director

Mr. HAU Tung Ying, *Chairman*

Mr. SHUI Ming Hua

Dr. LI Bin

(appointed on 1 April 2004)

Mr. CHAN Wai Lun

(resigned on 1 April 2004)

Non-executive Director

Mr. LI Yi Sheng, *Deputy Chairman*

(appointed as Deputy Chairman on 1 April 2004)

Mr. LI Kwok Ping

(appointed on 1 April 2004)

Mr. YUNG Yung Cheng, Frank*

Dr. HO Chung Tai, Raymond*

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

Mr. YANG Jun, *Deputy Chairman*

(resigned on 1 April 2004)

* *Independent Non-executive Director*

Directors (continued)

In accordance with bye-law 86(1) of the Bye-laws of the Company, Mr. LI Yi Sheng and Mr. YUNG Yung Cheng, Frank shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, Mr. Li offers himself for re-election while Mr. Yung has indicated with the Company that he will not stand for re-election.

In accordance with bye-law 85(2) of the Bye-laws of the Company, Dr. LI Bin and Mr. LI Kwok Ping, being directors appointed by the board of directors subsequent to the previous annual general meeting, shall hold office only until the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

Biographical details of directors

Biographical details of directors are set out on pages 19 and 20.

Directors' service contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No other contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Report of the Directors

Directors' interests in shares

As at 31 March 2004, the interests and short positions of the directors and chief executive of the Company or their respective associates 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")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(a) Interests in shares of the Company

Name of director	Number of ordinary shares of HK\$0.75 each held			Total interests	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. HAU Tung Ying	–	–	270,247,500 (Notes 1 & 2)	270,247,500	51.43%
Mr. SHUI Ming Hua	250,000	–	–	250,000	0.05%
Mr. CHAN Wai Lun*	267,000	–	–	267,000	0.05%
Mr. HU Tiejun	292,000	–	–	292,000	0.06%

* resigned on 1 April 2004

All interests disclosed above represent long positions in the shares of the Company.

Notes:

- (1) The 270,247,500 shares were held by Goldtop Holdings Limited ("Goldtop"), a company of which was beneficially owned as to 60% by Mr. HAU Tung Ying and as to 40% by his spouse, Madam TING Yat Shuk. Mr. Hau was therefore deemed to be interested in the said shares held by Goldtop.
- (2) On 17 May 2004, Goldtop sold 54,049,500 shares in the Company to a company owned by an ex-director of the Company pursuant to a sale and purchase agreement dated 10 May 2004. Upon completion of the sale, Goldtop therefore held 216,198,000 shares in the Company, representing 41.14% of the issued share capital of the Company.

Directors' interests in shares (continued)

(b) Interests in share options of the Company

As at 31 March 2004, details of share options granted to the directors of the Company and the employees of the Group under the 1998 Share Option Scheme (as described under the heading of "Share option schemes" below), were as follows:

Grantee	Date of grant	Exercise price HK\$	Exercise period	Vesting period	Number of share options		
					Outstanding as at 1 April 2003	Lapsed during the year	Outstanding as at 31 March 2004
Directors:							
HAU Tung Ying	20/03/2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	2,000,000
SHUI Ming Hua	25/02/2000	3.19	25/02/01 – 17/03/08	N/A	378,499	–	378,499
	17/10/2000	1.22	17/10/01 – 17/03/08	N/A	432,570	–	432,570
	20/03/2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	2,000,000
							2,811,069
CHAN Wai Lun*	25/02/2000	3.19	25/02/01 – 17/03/08	N/A	378,499	–	378,499
	17/10/2000	1.22	17/10/01 – 17/03/08	N/A	432,570	–	432,570
	20/03/2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	2,000,000
							2,811,069
YANG Jun*	29/06/1998	0.751	29/06/99 – 17/03/08	N/A	257,483	–	257,483
	25/02/2000	3.19	25/02/01 – 17/03/08	N/A	252,333	–	252,333
	17/10/2000	1.22	17/10/01 – 17/03/08	N/A	288,380	–	288,380
	20/03/2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	2,000,000
							2,798,196
HU Tiejun	19/08/1999	2.00	19/08/00 – 17/03/08	N/A	252,333	–	252,333
	17/10/2000	1.22	17/10/01 – 17/03/08	N/A	288,380	–	288,380
	20/03/2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	–	2,000,000
							2,540,713
Employees:							
	29/06/1998	0.751	29/06/99 – 17/03/08	N/A	144,189	–	144,189
	19/08/1999	2.00	19/08/00 – 17/03/08	N/A	1,019,628	(180,237)	839,391
	25/02/2000	3.19	25/02/01 – 17/03/08	N/A	82,394	–	82,394
	17/10/2000	1.22	17/10/01 – 17/03/08	N/A	1,874,470	(540,710)	1,333,760
	20/03/2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	12,850,000	(2,750,000)	10,100,000
	28/01/2002	0.75	28/01/03 – 27/01/12	28/01/03 – 28/01/05	500,000	(100,000)	400,000
							12,899,734
					29,431,728	(3,570,947)	25,860,781

* resigned on 1 April 2004

All interests disclosed above represent long positions.

During the year, there were no share options granted, exercised or cancelled under 1998 Share Option Scheme.

Report of the Directors

Directors' interests in shares (continued)

Save as disclosed above, as at 31 March 2004, none of the directors and chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors, nor chief executive of the Company, or any of their spouses or children under the age of 18 had any interests in, or had been granted, any right to subscribe for the shares in or debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO), or had exercised any such right during the year.

Substantial shareholders

As at 31 March 2004, the following parties (other than the directors or chief executive of the Company) had or were deemed to have interests or share positions in the shares and underlying shares of the Company as 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, 4	270,247,500	51.43%
Madam TING Yat Shuk	2, 3, 4	270,247,500	51.43%

All interests disclosed above represent long positions in the shares of the Company.

Substantial shareholders (continued)

Notes:

- (1) Goldtop was a company beneficially owned as to 60% by Mr. HAU Tung Ying, a director of the Company, and as to 40% by his spouse, Madam TING Yat Shuk.
- (2) Madam TING Yat Shuk was 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 spouse, 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 shares" above.
- (4) On 17 May 2004, Goldtop sold 54,049,500 shares in the Company to a company owned by an ex-director of the Company pursuant to a sale and purchase agreement dated 10 May 2004. Upon completion of the sale, Goldtop therefore held 216,198,000 shares in the Company, representing 41.14% of the issued share capital of the Company.

Save as disclosed above, there was no person known to the directors or chief executive, other than the directors or chief executive, who, as at 31 March 2004, had any interests or short positions in the shares or underlying shares of the Company which had been recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Share option schemes

- (a) Pursuant to the share option scheme of the Company adopted on 18 March 1998 and subsequently amended on 19 February 2000 and 2 February 2001 (the "1998 Share Option Scheme"), 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 1998 Share Option Scheme was subsequently terminated by the Company in a special general meeting held on 6 September 2002 but the share options granted and not yet exercised thereunder would however remain effective and are bound by the terms therein. Details of share options granted under the 1998 Share Option Scheme were disclosed under the heading of "Directors' interests in shares" above.
- (b) On 6 September 2002, the Company adopted a new share option scheme (the "New Share Option Scheme"). No share options have ever been granted by the Company under the New Share Option Scheme since its adoption.

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Share option schemes (continued)

Summary of each of the 1998 Share Option Scheme and the New Share Option Scheme disclosed in accordance with the Listing Rules is set out as follows:

	1998 Share Option Scheme	New Share Option Scheme
(1) Purpose	As incentive to employees	To recognise and acknowledge the contributions or potential contributions made or to be made by the Participants to the Group, to motivate the Participants to optimize their performance and efficiency for the benefit of the Group, and to maintain or attract business relationship with the Participants whose contributions are or may be beneficial to the growth of the Group.
(2) Participants	Eligible employees including executive directors	<p>(a) any employee, part-time or full-time, or officer of any member of the Group or any affiliate; or</p> <p>(b) any substantial shareholder of any member of the Group; or</p> <p>(c) any director (including executive and non-executive) or chief executive of any member of the Group or of any affiliate; or</p> <p>(d) any supplier, sales agent, customer, joint venture partner, accountant or legal adviser of, or business development and technological consultant to, any member of the Group; or</p> <p>(e) any substantial shareholder of the Company or of the subsidiaries</p> <p>who, in the opinion of the Board, has made or will make contributions which are or may be beneficial to the Group as a whole.</p>

Share option schemes (continued)

	1998 Share Option Scheme	New Share Option Scheme
(3) Total number of shares available for issue	34,626,094 shares (10% of issued share capital as at the adoption date of the scheme)	52,547,557 shares (10% of issued share capital as at the adoption date of the scheme)
(4) Maximum entitlement of each participant	25% of the total number of shares in respect of which the Company may grant options under the scheme and subject to Chapter 17 of the Listing Rules	<p>In any 12-month period:</p> <p>(a) must not exceed 1% of the issued share capital of the Company from time to time, in aggregate, otherwise, separate approval by shareholders at general meetings is required</p> <p>(b) for any grant to a substantial shareholder and an independent non-executive director: must not exceed 0.1% of the issued share capital and not exceeding HK\$5 million, in aggregate, otherwise, shareholders' approval at general meetings is required.</p> <p>For any options to be granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, approval by independent non-executive directors is required.</p>
(5) Option period	<p>For options granted before 20 March 2001: at any time after the first anniversary of the date of grant and before the tenth anniversary of the date of grant or the expiry of the scheme, whichever is earlier</p> <p>For options granted on or after 20 March 2001: at any time after the first anniversary of the date of grant and before the tenth anniversary of the date of grant</p>	The period shall be the period set out in the relevant offer letter provided that such period must expire no later than the 10th anniversary of the date on which an option is offered.

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Share option schemes (continued)

	1998 Share Option Scheme	New Share Option Scheme
(6) Minimum period for which an option must be held before it can vest	<p>For options granted before 20 March 2001, they are exercisable after the first anniversary of the date of grant</p> <p>For options granted on or after 20 March 2001, they are subject to the following vesting periods:</p> <p>(a) after the first anniversary of the date of grant, 33% of the options are exercisable;</p> <p>(b) after the second anniversary of the date of grant, 33% of the options are exercisable; and</p> <p>(c) after the third anniversary of the date of grant, 34% of the options are exercisable</p>	Unless otherwise determined by the Board at its absolute discretion, there shall be no general performance target or minimum holding period to the vesting or exercise of options.
(7) Payment on acceptance of option	A non-refundable remittance of HK\$1.00 to be paid within 21 days from the date on which the option is offered.	A non-refundable remittance of HK\$1.00 to be paid within 21 days from the date on which the option is offered.

Share option schemes (continued)

	1998 Share Option Scheme	New Share Option Scheme
(8) Subscription price	<p>For options granted before 2 February 2001, the subscription price shall be the higher of:</p> <ul style="list-style-type: none"> (a) a price being not less than 85% of the lower of the average of the last dealt price of the shares on the Stock Exchange and Singapore Exchange Securities Trading Limited for 5 consecutive trading days immediately preceding the date of grant; or (b) the nominal value of a share <p>For options granted after 2 February 2001, the subscription price shall be the higher of:</p> <ul style="list-style-type: none"> (a) a price being not less than 80% of the average of the closing prices of shares on the Stock Exchange's daily quotation sheets for the 5 consecutive trading days immediately preceding the date on which an option is offered; or (b) the nominal value of a share 	<p>The subscription price shall be a price notified by the Board to the Participant at the time of the grant. Such price shall be the highest of:</p> <ul style="list-style-type: none"> (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which an option is offered; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date on which an option is offered; or (c) the nominal value of a share

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Share option schemes (continued)

	1998 Share Option Scheme	New Share Option Scheme
(9) Life	The scheme period will end on 17 March 2008	The scheme shall be valid and effective for a period of 10 years commencing on 6 September 2002 and expiring on 5 September 2012.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Connected transactions

The Group had the following transactions with connected parties which were carried out in the normal course of business and on terms arranged by or between the parties during the year ended 31 March 2004:

(1) Income/(expenses)		2004 HK\$'000
ChinaMotion Telecare (HK) Limited, a company owned by a director		
Hotline service fee		(425)
PA center service fee		(360)
Significant transactions with minority shareholders of subsidiaries		
China Motion Telecom Holdings Limited ("CMTH")		
Recharge of mobile service expenses		(829)
Call center service fee		(6,029)
Interest income		5,891
Shenzhen China Motion Telecom United Company Limited ("SCMTU")		
Sales of telecommunications equipment		3,030
China Motion Netcom Services Co., Ltd. ("CM Netcom")		
VOIP service fee income		1,409
China Motion Mobile Services Co., Ltd. ("CMM") (Upon division of CM Netcom)		
Provision of technical consultancy and maintenance services		71,421

Connected transactions (continued)

- (2) On 30 January 2003, Shenzhen Motion Mobile Telecom Services Co., Ltd. ("SMMT"), CM Netcom and CMTH entered into an acquisition agreement, pursuant to which SMMT conditionally agreed to purchase in two equal stages, a total of 50% of the registered capital of CM Netcom for a consideration of RMB276 million (equivalent to approximately HK\$258 million). Details of the transaction are set out in note 35(b)(i) to the accounts.
- (3) On 9 July 2003, the Company entered into an agreement with CMTH, pursuant to which the Company conditionally agreed to reschedule the repayment dates for the debt due from CMTH and its subsidiaries (collectively the "CMTH Group"). Details of the transaction are set out in note 35(c) to the accounts.

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

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

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

- (i) The transactions were entered into in the ordinary and usual course of business of the Group;
- (ii) The transactions were carried out in accordance with the terms of the agreements governing such transactions or where there is no such agreement on terms no less favourable to the Group than terms available to/from third parties;
- (iii) The transactions were carried out on normal commercial terms and on terms which are fair and reasonable so far as the members of the Company are concerned; and
- (iv) The respective aggregate values of transactions for each of the agreements with the CMTH Group did not exceed the respective percentage limit specified in the conditional waivers granted to the Company by the Stock Exchange.

Report of the Directors

Major customers and suppliers

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

Sales

– the largest customer	9.5%
– five largest customers combined	25.3%

Purchases

– the largest supplier	9.6%
– five largest suppliers combined	29.8%

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

Audit committee

The Group has established an Audit Committee since 26 September 1996. As at the date of this report, the Audit Committee comprises two independent non-executive directors, namely Mr. YUNG Yung Cheng, Frank and Dr. HO Chung Tai, Raymond, and a non-executive director, Mr. LI Yi Sheng. The Audit Committee met four times during the year to discuss the internal controls and financial reporting matters and to review the interim and annual accounts for the fiscal year.

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

Compliance with the Code of Best Practice

The Company has complied throughout the year 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 were not appointed for specific terms as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

Disclosure pursuant to Rule 13.20 of the Listing Rules

In accordance with the requirement under Rule 13.20 of the Listing Rules, the directors of the Company report the details of advances to the CMTH Group as at 31 March 2004 as follows:

	Note	HK\$'000
Trade receivables from		
CMTH		31,125
CMM		137,313
SCMTU		98,196
		<hr/>
Total	(1)	266,634
		<hr/>

Note:

- (1) The balances were interest bearing at 2.25% per annum based on an agreement that the Company entered into with CMTH on 9 July 2003. Details of the transaction are set out in note 35(c) to the accounts.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and being eligible, offer themselves for re-appointment.

On behalf of the Board

HAU Tung Ying

Director

Hong Kong, 23 June 2004