



潤迅通信國際有限公司

China Motion Telecom International Limited

(Incorporated in Bermuda with limited liability)

Interim Report 2004/05





# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Hau Tung Ying (Chairman)  
Shui Ming Hua  
Li Bin

### Non-executive Directors

Li Yi Sheng (Deputy Chairman)  
Yip Sam Lo †  
Ho Chung Tai, Raymond †  
Pang Tsun Loy, Michael †  
Hu Tiejun (Alternate Director to Li Yi Sheng)

† Independent Non-executive Directors

## COMPANY SECRETARY

Chan Siu Mei

## 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  
Tel : (852) 2209 2888  
Fax : (852) 2827 9883  
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  
Belgian Bank

## AUDITORS

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

## STOCK CODE

SEHK Code: 0989

# Condensed Consolidated Profit and Loss Account

For the six months ended 30 September 2004

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 2004 together with the comparative figures for the previous period as follows:

	Note	<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2004</b>	2003
		<b>HK\$'000</b>	HK\$'000
Turnover	2	<b>377,843</b>	386,496
Cost of sales and services		<b>(296,187)</b>	(276,874)
Gross profit		<b>81,656</b>	109,622
Other revenues		<b>7,454</b>	7,130
Distribution expenses		<b>(3,345)</b>	(16,218)
Administrative expenses		<b>(107,485)</b>	(114,085)
Other operating income			
Gain on disposal of properties		<b>10,380</b>	–
Operating loss	3	<b>(11,340)</b>	(13,551)
Finance costs		<b>(1,614)</b>	(2,256)
Share of losses of associated companies	8	<b>(6,292)</b>	(4,421)
Loss before taxation		<b>(19,246)</b>	(20,228)
Taxation	4	<b>970</b>	(6,369)
Loss after taxation		<b>(18,276)</b>	(26,597)
Minority interests		<b>1,225</b>	(781)
Loss attributable to shareholders		<b>(17,051)</b>	(27,378)
Dividend	5	–	–
Loss per share	6		
– Basic		<b>(3.24) HK cents</b>	(5.21) HK cents
– Diluted		<b>N/A</b>	N/A

# Condensed Consolidated Balance Sheet

At 30 September 2004 and 31 March 2004

	Note	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Non-current assets			
Fixed assets	7	254,647	294,403
Investment in associated companies	8	117,516	136,308
Other non-current assets	17(b)	434,209	481,763
Current assets			
Inventories		7,103	6,575
Receivables and prepayments	9, 17(b)	404,830	251,314
Marketable securities		263	611
Pledged bank deposits		9,178	7,593
Bank and cash balances	10	46,868	45,361
		<b>468,242</b>	<b>311,454</b>
Current liabilities			
Trade and other payables	11	411,129	335,986
Taxation payables		2,062	6,323
Borrowings	12	67,589	56,900
		<b>480,780</b>	<b>399,209</b>
Net current liabilities		<b>(12,538)</b>	<b>(87,755)</b>
Total assets less current liabilities		<b>793,834</b>	<b>824,719</b>
Financed by:			
Share capital	14	394,107	394,107
Non-distributable capital reserves		540,243	540,243
Accumulated losses		(245,834)	(228,783)
Shareholders' funds		<b>688,516</b>	<b>705,567</b>
Minority interests		<b>43,992</b>	<b>45,217</b>
Non-current liabilities			
Borrowings	12	58,300	69,382
Trade payable		-	464
Deferred taxation		3,026	4,089
		<b>61,326</b>	<b>73,935</b>
		<b>793,834</b>	<b>824,719</b>

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2004

	Share capital HK\$'000 (Note 14)	Unaudited Non- distributable capital reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>At 1 April 2004</b>	<b>394,107</b>	<b>540,243</b>	<b>(228,783)</b>	<b>705,567</b>
<b>Loss for the period</b>	<b>–</b>	<b>–</b>	<b>(17,051)</b>	<b>(17,051)</b>
<b>At 30 September 2004</b>	<b>394,107</b>	<b>540,243</b>	<b>(245,834)</b>	<b>688,516</b>
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

# Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2004

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Net cash inflow from operating activities	<b>13,370</b>	7,939
Net cash outflow from investing activities	<b>(9,865)</b>	(3,257)
Net cash outflow from financing activities	<b>(6,705)</b>	(15,178)
Net decrease in cash and cash equivalents	<b>(3,200)</b>	(10,496)
Cash and cash equivalents at 1 April	<b>45,361</b>	78,793
Cash and cash equivalents at 30 September	<b>42,161</b>	68,297
Analysis of balances of cash and cash equivalents:		
Bank and cash balances	<b>46,868</b>	68,297
Bank overdrafts	<b>(4,707)</b>	–
	<b>42,161</b>	68,297

# Notes to Condensed Accounts

## 1 Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with the disclosure requirement of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and is in compliance with Statement of Standard Accounting Practice 25, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These condensed accounts should be read in conjunction with the 2004 annual accounts.

The accounting policies and basis of preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31 March 2004.

Certain comparative figures have been reclassified to conform with the current period's presentation.

## 2 Segment information

The Group is principally engaged in the provision of international telecommunications services, mobile communications services and distribution and retail sales of telecommunications products and services.

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

### (a) Primary reporting format - business segments

	Six months ended 30 September 2004				Group HK\$'000
	International Telecom- munications Services HK\$'000	Mobile Com- munications Services HK\$'000	Distribution and Retail Chain HK\$'000	Unallocated items HK\$'000	
Turnover	260,009	47,221	70,613	-	377,843
Segmental loss	(2,621)	(688)	(5,588)	(6,324)	(15,221)
Net finance income					2,267
Share of losses of associated companies					(6,292)
Loss before taxation					(19,246)
Taxation					970
Loss after taxation					(18,276)
Minority interests					1,225
Loss attributable to shareholders					(17,051)



# Notes to Condensed Accounts

## 2 Segment information (Continued)

### (a) Primary reporting format - business segments (Continued)

	Six months ended 30 September 2003				Group HK\$'000
	International	Telecom-	Mobile Com-	Distribution	
		munications	munications	and Retail	
		Services	Services	Chain	
		HK\$'000	HK\$'000	HK\$'000	
	(Restated)	(Restated)		Unallocated items HK\$'000	
Turnover	240,594	90,322	55,580	–	386,496
Segmental profit/(loss)	(11,128)	19,313	(523)	(23,990)	(16,328)
Net finance income					521
Share of losses of associated companies					(4,421)
Loss before taxation					(20,228)
Taxation					(6,369)
Loss after taxation					(26,597)
Minority interests					(781)
Loss attributable to shareholders					(27,378)

During the second half period of 2003/04, the Group reclassified its operations amongst business segments. Comparative figures have been reclassified to conform with such presentation.

### (b) Secondary reporting format - geographical segments

	Six months ended 30 September			
	Turnover		Segmental profit/(loss)	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The People's Republic of China (the "PRC")	1,244	46,465	(5,793)	25,081
Hong Kong	224,088	218,345	(4,813)	(15,964)
North America and United Kingdom	92,759	81,347	(2,222)	(2,174)
Other Asia Pacific regions	59,752	40,339	3,931	719
	377,843	386,496	(8,897)	7,662
Unallocated items	–	–	(6,324)	(23,990)
	377,843	386,496	(15,221)	(16,328)

# Notes to Condensed Accounts

## 3 Operating loss

Operating loss is stated after crediting and charging the following:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Crediting:		
Write-back of provision for inventories	<b>118</b>	204
Charging:		
Depreciation (Note 7)	<b>20,277</b>	19,170
Amortisation of goodwill (included in administrative expenses)	–	651
Cost of inventories sold	<b>31,543</b>	46,319
Operating lease rentals for land and buildings and lease lines	<b>34,762</b>	45,273
Staff costs (including directors' emoluments)	<b>51,994</b>	59,352
Provision for doubtful debts	<b>2,246</b>	4,075

# Notes to Condensed Accounts

## 4 Taxation

Hong Kong profits tax is calculated at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period. No Hong Kong profits tax has been provided as there is no estimated assessable profit for the period (2003: Nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
PRC taxation		
– current year	3	5,251
– over provision in previous years	(725)	–
Overseas taxation		
– current year	10	1,053
Deferred taxation	(258)	–
	<u>(970)</u>	<u>6,304</u>
Share of taxation attributable to associated companies	–	65
	<u>(970)</u>	<u>6,369</u>
Taxation (credit)/charge		
	<u>(970)</u>	<u>6,369</u>

## 5 Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2004 (2003: Nil).

## 6 Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$17,051,000 (2003: HK\$27,378,000) and the weighted average number of 525,475,573 ordinary shares (2003: 525,475,573 ordinary shares) in issue during the period.

Diluted loss per share for the period ended 30 September 2004 and 2003 has not been presented as the conversion of potential ordinary shares to ordinary shares would have anti-dilutive effect to the basic loss per share.

# Notes to Condensed Accounts

## 7 Fixed assets

	HK\$'000
Opening net book amount at 1 April 2004	294,403
Additions	6,724
Disposals	(26,203)
Depreciation (Note 3)	<u>(20,277)</u>
Closing net book amount at 30 September 2004	<u>254,647</u>

As at 30 September 2004, the net book value of fixed assets pledged as security for banking facilities of the Group amounted to approximately HK\$154,200,000 (31 March 2004: HK\$176,400,000).

## 8 Investment in associated companies

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Share of net assets	<u>7,229</u>	<u>7,278</u>
Goodwill on acquisition	124,853	124,853
Accumulated amortisation	<u>(14,566)</u>	<u>(8,323)</u>
Unamortised goodwill	<u>110,287</u>	<u>116,530</u>
Loan to an associated company	<u>–</u>	<u>12,500</u>
Total	<u>117,516</u>	<u>136,308</u>

The amortisation expense of goodwill for the period was HK\$6,243,000 (2003: HK\$2,081,000) and has been included under the item of share of losses of associated companies in the condensed consolidated profit and loss account.

# Notes to Condensed Accounts

## 9 Receivables and prepayments

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

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
0 - 30 days	<b>57,665</b>	43,640
31 - 60 days	<b>21,661</b>	25,544
61 - 90 days	<b>16,547</b>	19,227
Over 90 days	<b>202,489</b>	100,800
Total	<b>298,362</b>	189,211

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

## 10 Bank and cash balances

Included in bank and cash balances of the Group is HK\$25,547,000 (31 March 2004: HK\$21,963,000) which represents bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency.

## 11 Trade and other payables

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

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
0 - 30 days	<b>44,082</b>	47,668
31 - 60 days	<b>23,444</b>	22,269
61 - 90 days	<b>18,399</b>	18,241
Over 90 days	<b>183,310</b>	127,101
Total	<b>269,235</b>	215,279

# Notes to Condensed Accounts

## 12 Borrowings

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Current		
Bank overdrafts - secured	<b>4,707</b>	–
Bank loans - secured	<b>59,031</b>	52,246
Obligations under finance leases (Note 13)	<b>3,851</b>	4,654
	<b>67,589</b>	56,900
Non-current		
Bank loans - secured	<b>58,282</b>	67,671
Obligations under finance leases (Note 13)	<b>18</b>	1,711
	<b>58,300</b>	69,382
Total	<b>125,889</b>	126,282

The movement in the borrowings during the period is as follows:

	<b>HK\$'000</b>
Balance at 1 April 2004	<b>126,282</b>
Additions	<b>14,927</b>
Repayments	<b>(15,320)</b>
Balance at 30 September 2004	<b>125,889</b>

As at 30 September 2004, the Group's borrowings (excluding finance lease liabilities) were repayable as follows:

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Within one year	<b>63,738</b>	52,246
In the second year	<b>12,323</b>	17,554
In the third to fifth year	<b>21,834</b>	22,726
After the fifth year	<b>24,125</b>	27,391
	<b>122,020</b>	119,917

# Notes to Condensed Accounts

## 13 Obligations under finance leases

As at 30 September 2004, the Group's finance lease liabilities were repayable as follows:

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Within one year	<b>3,876</b>	4,713
In the second year	<b>20</b>	1,739
	<b>3,896</b>	6,452
Future finance charges on finance leases	<b>(27)</b>	(87)
Present value of finance lease liabilities	<b>3,869</b>	6,365

The present value of finance lease liabilities is as follows:

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Within one year (included in current liabilities)	<b>3,851</b>	4,654
In the second year	<b>18</b>	1,711
	<b>3,869</b>	6,365

## 14 Share capital

	<b>Ordinary shares of HK\$0.75 each</b>	
	<b>Number of shares</b>	<b>HK\$'000</b>
Authorised:		
At 1 April and 30 September 2004	<b>1,040,000,000</b>	<b>780,000</b>
Issued and fully paid:		
At 1 April and 30 September 2004	<b>525,475,573</b>	<b>394,107</b>

# Notes to Condensed Accounts

## 15 Contingent liabilities

As at 30 September 2004, the Group had contingent liabilities not provided for in the accounts as follows:

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Guarantees given to third parties against non-performance of contractual obligations by subsidiaries	<b>39,144</b>	29,041

## 16 Operating leases commitments

As at 30 September 2004, the Group has the following commitments:

### (a) Operating lease commitments

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

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
In respect of land and buildings, including transmission sites:		
Within one year	<b>18,136</b>	21,574
In the second to fifth year	<b>10,304</b>	11,277
Beyond five years	<b>217</b>	–
	<b>28,657</b>	32,851

In respect of leased lines:

Within one year	<b>6,003</b>	8,439
In the second to fifth year	<b>2,611</b>	5,632
Beyond five years	<b>5,100</b>	5,400
	<b>13,714</b>	19,471

### (b) Capital commitments for purchase of fixed assets

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Contracted but not provided for	<b>35,532</b>	–



# Notes to Condensed Accounts

## 17 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, which were carried out in the normal course of business and on terms arranged by or between the parties concerned are as follows:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Income/(expenses)		
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	<b>(1,892)</b>	(2,823)
Interest income	<b>3,708</b>	1,872
Shenzhen China Motion Telecom United Company Limited (“SCMTU”)		
Sales of telecommunications equipment	–	2,830
China Motion Mobile Services Co., Ltd. (“CMM”)		
Provision of technical consultancy and maintenance services	–	42,535
China Motion Netcom Services Co., Ltd. (“CM Netcom”)		
VOIP service fee income	–	1,409
Wanbao Telecom Investment Limited, an associated company		
Commission income	<b>560</b>	–
Interest income	<b>160</b>	421

# Notes to Condensed Accounts

## 17 Related party transactions *(Continued)*

- (b) As at 30 September 2004, the amounts to be repaid/returned by the CMTH and/or its subsidiaries (collectively, the "CMTH Group") included a trust investment of HK\$207,546,000, a non-current trade receivable of HK\$208,332,000 and trade receivable of HK\$47,810,000, totaling HK\$463,688,000. Of this amount, HK\$334,688,000 is expected to be received through the rescheduled debt payment (the "Debt") and the remaining balance of HK\$129,000,000 is expected to be set off against the consideration payable for the acquisition of remaining 25% equity interest in the CM Netcom.

The interest income of the Debt for the period ended 30 September 2004 amounted to approximately HK\$3,708,000 (2003: HK\$1,872,000), and has been included under other revenues in the condensed consolidated profit and loss account.

Of the scheduled repayment of HK\$40,000,000 which was due by 14 July 2004, the full amount has been received prior to 14 July 2004. Of the scheduled repayment of HK\$50,000,000 which was due by 14 July 2005, HK\$2,190,000 has been received prior to 30 September 2004.

## REVIEW OF RESULTS AND OPERATIONS

The Group has achieved stable turnover of HK\$378 million during the six months under review, notwithstanding the considerable challenge posed by the expiry of the service contract with 100,000 mobile subscribers in China. The Group managed to narrow loss to HK\$17 million, a decrease of 38% compared with the same period last year. The decrease was attributable to improvements in several business areas, the implementation of ongoing stringent cost control measures and a gain on properties disposal of HK\$10 million.

### International Telecommunications Services

During the first half of the year, turnover of the International Telecommunications Services business increased by 8% to HK\$260 million when compared with the same period last year. IDD voice traffic recorded 1.3 billion minutes for the period, increased by 25% over the same period last year.

These favorable results were primarily due to the well-established wholesale IDD business. The new markets, including Vietnam, Japan and the United Kingdom, reported encouraging results. The success of our overseas strategies has confirmed that we are on the right track in identifying potential overseas markets and developing them. This will continue to be our strategy going forward. In addition, although faced with keen market competition, the gross profit margin for the wholesale IDD business managed to maintain at a comparable level in the first half of the current financial year and gross profit increased in tandem with stable voice traffic growth. Apart from China, voice traffic for the rest of the world increased while the mix of traffic also improved, which contributed to a growth in turnover.

Voice traffic for the Hong Kong retail IDD business "ChinaOne 0050" increased by 20%, and operating loss for the period under review narrowed to HK\$6 million since its launch in May 2003. The Group has gradually executed its overseas markets development strategy by expanding the retail IDD business to Los Angeles, New York, Toronto and Vancouver in North America.

# Management Discussion and Analysis

## **Mobile Communications Services**

The Mobile Communications Services business generated turnover of HK\$47 million. The Mobile Virtual Network Operator (MVNO) business has performed remarkably, helping the business reached break-even point earlier than expected. The business contributed a profit of HK\$2 million to the Group in the interim period. The customer base increased significantly by 29%, and the Group also managed to lower the churn rate by 34% from the same period last year. The Group has pursued on-target marketing initiatives through deepening market segmentation and promoting customer retention programs, and these efforts have proven successful in boosting the customer base and turnover.

Apart from Hong Kong and Singapore, the Group took a step into another major Chinese community, Taiwan. The Group was awarded an MVNO license by the Taiwan Directorate General of Telecommunications Ministry of Transportation and Communications. It is the first foreign enterprise to enter into the Taiwan mobile virtual network market. The management expects to launch the services in Taiwan in this financial year, which will expand service coverage to current customers.

During the period, the Group's trunking radio business in China secured an engineering project and contributed an additional profit of HK\$2 million.

# Management Discussion and Analysis

## **Distribution and Retail Chain**

The Group's Distribution business, which mainly involves the sales of prepaid telecommunications products and services, made considerable progress despite being established just a year ago. During the current period, the Group focused on centralizing all marketing efforts, resulting in more efficient and effective marketing initiatives that delivered tangible business results. On account of these efforts, the Distribution business continued to grow steadily and contributed HK\$21 million to the Group's turnover. The management believes that the business will be able to break even in the near future.

The Group's retail chain outlets are strategically significant for the Group's overall development. The comprehensive network of retail outlets provides tremendous support to the Group's other businesses. The Group has strengthened various customer services by introducing the concept of one-stop shopping and a service centre in its recently opened flagship store in Tsim Sha Tsui.

Despite signs of economic recovery during the latter part of the current period, the Group's Retail Chain business was slow to benefit from the trend. In order to capture more spending by travelers from the "Individual Visit Scheme", the Group has relocated some of its retail outlets to target customer locations with strong pedestrian flow. This strategy aims to achieve a more focused sales and marketing approach to target segments. Management expects that these measures will benefit the Group in the long run, although it had a negative impact on business performance during the current period. Turnover for the Retail Chain business was HK\$49 million, decreased by 10% from that of last year.

## **PROPERTY DISPOSAL**

It is the Group's strategy to focus our efforts on core telecommunications businesses that we believe are our strengths and that can best bring benefits to our shareholders in the long run. To this end, during the first half of the year the Group has disposed of two shops, one in Mongkok and another one in Causeway Bay, which contributed a profit of HK\$10 million and will contribute a cash inflow of HK\$38 million to the Group.

# Management Discussion and Analysis

## PROSPECTS

Looking forward, the management believes that our overseas development strategies will continue to be the backbone supporting present and new business initiatives. The Group remains confident that turnover will continue to grow as a result of the ongoing improvements in its existing three core businesses. On the business development front, the Group made significant progress by signing a partnership agreement with Huawei Tech. Investment Co., Ltd. to launch the Next Generation Network (NGN), which provides broadband phone services, in the fourth quarter of 2004. The Group believes that the business will bring synergy to the current businesses, which share a very similar retail customer base with the NGN business, and will lead to an increase in Average Revenue Per User (ARPU). With this innovative business service initiative, together with an international strategy that is proven effective, the Group expects to further establish its strong status in the dynamic Asia Pacific telecommunications market.

## FINANCIAL POSITION

As at 30 September 2004, the Group's cash and bank balances amounted to approximately HK\$56 million. Total bank borrowings were approximately HK\$126 million. The Group's bank loans are repayable monthly and the last monthly installment will be in August 2013. The current total borrowings as a percentage of shareholders' funds were maintained at a healthy gearing ratio of 18%, which is similar to last period.

As at 30 September 2004, the Group had aggregate banking facilities of approximately HK\$88 million (excluding property mortgage loans), of which HK\$69 million was utilized. It is anticipated that the Group's cash and bank 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 is exposed to the fluctuations in Renminbi and United States dollars as certain expenses payable and trade receivables from customers are settled in these currencies respectively.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 September 2004, the Group had 388 full-time staff. Total staff costs (including directors' emoluments) incurred for the period amounted to HK\$52 million. The Group's remuneration policy is in line with 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 granted share options to certain directors of the Company and certain employees of the Group.

## **OTHER DISCLOSURES**

The directors of the Company are not aware of any material changes from the information disclosed in the annual report of the Company for the year ended 31 March 2004, other than disclosed in this announcement.

## Other Information

### DIRECTORS' INTERESTS IN SECURITIES

As at 30 September, 2004, the directors and chief executive of the Company or their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified 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 and short positions which such director or chief executive is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Listing Rules to be notified to the Company and the Stock Exchange:

#### (i) Shares of the Company

<b>Name of director</b>	<b>No. of shares held</b>	<b>Nature of interest</b>	<b>Position</b>	<b>Approximate shareholding percentage</b>
Hau Tung Ying	216,198,000 (Note)	Corporate	Long	41.14%
Shui Ming Hua	250,000	Personal	Long	0.05%
Hu Tiejun	292,000	Personal	Long	0.06%

Note: The 216,198,000 shares are held by Goldtop Holdings Limited ("Goldtop"), a company of which is beneficially owned as to 60% by Mr. Hau Tung Ying and as to 40% by his spouse, Madam Ting Yat Shuk. Mr. Hau Tung Ying is therefore deemed to be interested in the 216,198,000 shares held by Goldtop.



## Other Information

### DIRECTORS' INTERESTS IN SECURITIES (Continued)

#### (ii) Share options of the Company

The movements in the Company's share options for the six months ended 30 September 2004 are as follows:

Grantee	Date of grant	Exercise price HK\$	Exercise period	Vesting period	Number of share options		
					Outstanding as at 1 April 2004	Lapsed during the period	Outstanding as at 30 September 2004
<b>Directors:</b>							
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
							2,811,069
Li Bin	17/10/2000	1.22	17/10/2001 – 17/03/2008	N/A	108,143	–	108,143 (Note)
	20/03/2001	0.75	20/03/2002 – 19/03/2011	20/03/2002 – 20/03/2004	700,000	–	700,000 (Note)
							808,143
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
							2,540,713
<b>Employees:</b>							
	29/06/1998	0.751	29/06/1999 – 17/03/2008	N/A	401,672	(257,483)	144,189
	19/08/1999	2.00	19/08/2000 – 17/03/2008	N/A	839,391	(102,993)	736,398
	25/02/2000	3.19	25/02/2001 – 17/03/2008	N/A	713,226	(252,333)	460,893
	17/10/2000	1.22	17/10/2001 – 17/03/2008	N/A	1,946,567	(458,318)	1,488,249
	20/03/2001	0.75	20/03/2002 – 19/03/2011	20/03/2002 – 20/03/2004	13,400,000	(3,250,000)	10,150,000
	28/01/2002	0.75	28/01/2003 – 27/01/2012	28/01/2003 – 28/01/2005	400,000	(100,000)	300,000
							13,279,729
					25,860,781	(4,421,127)	21,439,654

Note: The 108,143 and 700,000 share options include 36,048 and 200,000 share options held by Madam Gu Jie, the spouse of Dr. Li Bin respectively.

### **DIRECTORS' INTERESTS IN SECURITIES** *(Continued)*

#### **(ii) Share options of the Company** *(Continued)*

All interests discussed 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 a share option scheme adopted on 18 March 1998 and subsequently amended on 19 February 2000 and 2 February 2001 (the "Share Option Scheme"). The Share Option Scheme was subsequently terminated by the Company at a special general meeting held on 6 September 2002 but the share options granted and not yet exercised thereunder would however remain effective and are bound by the terms therein. A new share option scheme was adopted by the Company on 6 September 2002, pursuant to which no share options have ever been granted by the Company since adoption.

Save as disclosed above, as at 30 September 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 corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which a director or chief executive is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Save as disclosed above, at no time during the period 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 18 years of age had any interests in, or had been granted or exercised, any rights to subscribe for any securities in or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) during the period.

## Other Information

### SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, the following shareholders, other than the directors or chief executive of the Company, had or were deemed to have 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	No. of shares held	Position	Approximate shareholding percentage
Goldtop	216,198,000	Long	41.14%
Ting Yat Shuk	216,198,000 (Note 1 and 3)	Long	41.14%
Midsino International Limited	54,049,500	Long	10.29%
Yang Jun	54,049,500 (Note 2)	Long	10.29%
Ma Lin	54,049,500 (Note 2)	Long	10.29%

Notes:

1. The 216,198,000 shares are held by Goldtop, a company of which is beneficially owned as to 40% by Madam Ting Yat Shuk and as to 60% by her spouse, Mr. Hau Tung Ying, a director of the Company. Madam Ting Yat Shuk is therefore deemed to be interested in the 216,198,000 shares held by Goldtop.
2. The 54,049,500 shares are held by Midsino International Limited ("Midsino"), a company of which beneficially owned as to 50% by Mr. Yang Jun and as to 50% by his spouse, Madam Ma Lin. Each of Mr. Yang Jun and Madam Ma Lin is therefore deemed to be interested in the 54,049,500 shares held by Midsino.
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.

Save as disclosed above, there was no person known to the directors or chief executive of the Company, other than the directors or chief executive of the Company, who, as at 30 September 2004, had interests or short positions 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.

## Other Information

### 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 2004.

### 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 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 30 September 2004 as follows:

	Note	HK\$'000
Trade receivables from		
CMTH		31,170
CMM		124,306
SCMTU		100,666
Total	(1)	<u>256,142</u>

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.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2004, 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 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.

By Order of the Board  
**Hau Tung Ying**  
*Chairman*

Hong Kong, 30 November 2004