

# Directors' Report •••••

The directors of the Company submit their report together with the audited accounts of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2005.

## **Principal activities and geographical analysis of operations**

The principal activity of the Company is investment holding. The three core businesses include international telecommunications services, mobile communications services and, distribution and retail chain. Details of the principal activities of its subsidiaries are set out in note 37 to the accounts.

Details of the analysis of the performance of 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 36.

The directors do not recommend the payment of a final dividend for the year ended 31 March 2005.

## **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 38.

## **Donations**

Charitable and other donations made by the Group during the year amounted to HK\$411,000.

## **Distributable reserves**

In accordance with the Companies Act 1981 of Bermuda (as amended) and the Company's Bye-laws, the Company has no distributable reserves as at 31 March 2005.

## **Fixed assets**

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

## **Share capital and share options**

Details of the movements in share capital and share options 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.

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## 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 listed 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 directors

Mr. HAU Tung Ying, *Chairman*

Mr. SHUI Ming Hua

Dr. LI Bin (appointed on 1 April 2004)

### Non-executive directors

Mr. LI Yi Sheng, *Deputy Chairman* (appointed as Deputy Chairman on 1 April 2004)

Mr. YIP Sam Lo<sup>†</sup> (appointed on 26 August 2004)

Dr. HO Chung Tai, Raymond<sup>†</sup>

Mr. PANG Tsun Loy, Michael<sup>†</sup> (appointed on 26 August 2004)

Mr. LI Kwok Ping (appointed on 1 April 2004 and retired on 26 August 2004)

Mr. YUNG Yung Cheng, Frank<sup>†</sup> (retired on 26 August 2004)

Mr. HU Tiejun (Alternate director to Mr. LI Yi Sheng) (resigned on 1 April 2005)

<sup>†</sup> *Independent non-executive directors*

In accordance with bye-law 86(1) of the Bye-laws of the Company, Mr. SHUI Ming Hua and Dr. HO Chung Tai, Raymond shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with bye-law 85(2) of the Bye-laws of the Company, Mr. YIP Sam Lo and Mr. PANG Tsun Loy, Michael, 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.

In July 2005, the board has approved that the term of office for each non-executive director shall be 2 years commencing on 1 August 2005 subject to retirement by rotation and re-election at least once every 3 years.

The Company has received from each of the independent non-executive directors an annual confirmation as regards their independence to the Company pursuant to Rule 3.13 of the Listing Rules. The Company considers all its independent non-executive directors are independent.

## Biographical details of directors

Biographical details of directors are set out on pages 17 and 18.

### 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

Except for the rental income from a company owned by a director (as set out in page 29), 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.

### Directors' interests in securities

As at 31 March 2005, the directors and chief executive of the Company or their respective associates had the following interests or short positions in shares, underlying shares and 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 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 or short positions which such director or chief executive was 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:

#### (a) Interests in shares of the Company

<b>Name of director</b>	<b>No. of ordinary shares held</b>	<b>Nature of interest</b>	<b>Position</b>	<b>Approximate shareholding percentage</b>
Mr. HAU Tung Ying	216,198,000 (Note)	Corporate	Long	41.14%
Mr. SHUI Ming Hua	250,000	Personal	Long	0.05%

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 is therefore deemed to be interested in the 216,198,000 shares held by Goldtop.

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## Directors' interests in securities (continued)

### (b) Interests in share options of the Company

As at 31 March 2005, details of share options granted to the directors of the Company and others 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		
					As at 1 April 2004	Lapsed during the year	As at 31 March 2005
<b>Directors:</b>							
Mr. 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
Mr. 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
Dr. 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
<b>Others:</b>							
	29/06/1998	0.751	29/06/1999 – 17/03/2008	N/A	401,672	(308,979)	92,693
	19/08/1999	2.00	19/08/2000 – 17/03/2008	N/A	1,091,724	(257,482)	834,242
	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	2,234,947	(602,510)	1,632,437
	20/03/2001	0.75	20/03/2002 – 19/03/2011	20/03/2002 – 20/03/2004	15,400,000	(3,850,000)	11,550,000
	28/01/2002	0.75	28/01/2003 – 27/01/2012	28/01/2003 – 28/01/2005	400,000	(100,000)	300,000
							14,870,265
					25,860,781	(5,371,304)	20,489,477

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)

### (b) Interests in share options of the Company (continued)

All interests disclosed above represent long positions.

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

Save as disclosed above, as at 31 March 2005, 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 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 or short positions which such director or chief executive was 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 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 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), or had exercised any such right during the year.

### Substantial shareholders

As at 31 March 2005, the following shareholders, other than the directors and 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:

<b>Name of shareholder</b>	<b>No. of ordinary shares held</b>	<b>Position</b>	<b>Approximate shareholding percentage</b>
Goldtop	216,198,000	Long	41.14%
Madam TING Yat Shuk	216,198,000 (Notes 1 and 3)	Long	41.14%
Midsino International Limited	54,049,500	Long	10.29%
Mr. YANG Jun	54,049,500 (Note 2)	Long	10.29%
Madam MA Lin	54,049,500 (Note 2)	Long	10.29%

## Substantial shareholders (continued)

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 31 March 2005, 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.

## 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 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. Details of share options granted under the 1998 Share Option Scheme were disclosed under the heading of "Directors' interests in securities" 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.

## Share option schemes (continued)

Summary of each of the 1998 Share Option Scheme and the New Share Option Scheme are as follows:

	<b>1998 Share Option Scheme</b>	<b>New Share Option Scheme</b>
(1) Purpose	To recognize the services of such employees being vital to the success and well-being of the Group, to motivate such employees to optimize their performance standards and efficiency, to promote greater commitment and dedication amongst such employees	To recognize 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	Full-time employee of the Group (including non-executive directors who are occupying an executive role in the Group) or an executive director	<p>(a) any part-time or full-time employee or officer of any member of the Group or any affiliate or of any substantial shareholder of any member of the Group; or</p> <p>(b) director (including executive and non-executive) or chief executive of any member of the Group or of any affiliate; or</p> <p>(c) 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>(d) 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>

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## Share option schemes (continued)

	1998 Share Option Scheme	New Share Option Scheme
(3) Total number of shares available for issue	10% of issued share capital of the Company from time to time	52,547,557 shares (10% of total 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	<p>In any 12-month period:</p> <p>(a) not exceeding 1% of the issued share capital of the Company from time to time (excluding substantial shareholders and independent non-executive directors)</p> <p>(b) not exceeding 0.1% of the issued share capital of the Company from time being and not exceeding HK\$5 million in aggregate value (for substantial shareholders and independent non-executive directors)</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/after 20 March 2001: at any time after 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.



## Share option schemes (continued)

	<b>1998 Share Option Scheme</b>	<b>New Share Option Scheme</b>
(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/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</p> <p>(c) after the third anniversary of the date of grant, 34% of the options are exercisable</p>	<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.</p>
(7) Payment on acceptance of option	<p>A non-refundable remittance of HK\$1.00 to be paid within 21 days from the date on which the option is offered</p>	<p>A non-refundable remittance of HK\$1.00 to be paid within 21 days from the date on which the option is offered.</p>

## Share option schemes (continued)

	<b>1998 Share Option Scheme</b>	<b>New Share Option Scheme</b>
(8)	<p>Subscription price</p> <p>For options granted before 2 February 2001, the subscription price shall be the higher of</p> <ul style="list-style-type: none"> <li>(a) a price being not less than 85% of the lower of the average of the last dealt price of shares on the Stock Exchange and Singapore Exchange Securities Trading Limited for the 5 consecutive trading days immediately preceding the date of grant; or</li> <li>(b) the nominal value of a share</li> </ul> <p>For options granted after 2 February 2001, the subscription price shall be the higher of</p> <ul style="list-style-type: none"> <li>(a) a price being not less than 80% of the average of the closing price 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</li> <li>(b) the nominal value of a share</li> </ul>	<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"> <li>(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;</li> <li>(b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date on which an option is offered; or</li> <li>(c) the nominal value of the shares</li> </ul>
(9)	<p>Life</p> <p>The scheme shall continue to be in force for a maximum period of 10 years commencing from the adoption date, ie 18 March 1998</p>	<p>The scheme shall be valid and effective for a period of 10 years commencing on 6 September 2002 and expiring on 5 September 2012</p>

## 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 2005:

(1) Income/(expenses)

	<b>2005</b>
	HK\$'000
<hr/>	
ChinaMotion Telecare (HK) Limited, a company owned by a director	
Rental income	392
Significant transactions with minority shareholders of subsidiaries	
China Motion Telecom Holdings Limited ("CMTH")	
Call center service fee	(3,046)
Interest income	7,425
Maintenance service fee	(1,055)
Shenzhen China Motion Telecom United Company Limited ("SCMTU")	
Sales of telecommunications equipment	1,608

- (2) On 9 July 2003, the Company entered into a repayment agreement with CMTH, pursuant to which the Company conditionally agreed to reschedule the repayment dates for the debts owing by CMTH and its subsidiaries (collectively the "CMTH Group") in aggregate amount of HK\$373,422,000 (the "Debt") by 5 yearly instalments. Details of the transactions are set out in note 35(b) to the accounts.

Prior to the 2nd instalment due on 14 July 2005, CMTH indicated to the directors of the Company that CMTH Group would have difficulty in repaying the outstanding balance of the 2nd instalment and the other outstanding balances of the Debt in the near future in accordance with the repayment schedule. The Company is actively seeking legal and financial advice and working with CMTH in formulating the remedies and alternatives available to the Company and the Company had appointed legal advisers to advise the Company in relation to thereto.

However, the Company has taken a conservative approach to make full provision for the outstanding balance of the Debt in amount of HK\$334,331,000 in the accounts for the year ended 31 March 2005. Details of the provision made are set out in note 4 to the accounts.

## Connected transactions (continued)

- (3) On 30 January 2003, Shenzhen Motion Mobile Telecom Services Co., Ltd. ("SMMT"), China Motion Netcom Services Co., Ltd. ("CM NetCom") and CMTH entered into an acquisition agreement, pursuant to which SMMT conditionally agreed to purchase in two stages, a total of 50% of the registered capital of CM NetCom, being 25% at stage 1 and 25% at stage 2, for an aggregate consideration of RMB276,000,000 (equivalent to approximately HK\$258,000,000). CM Netcom is principally engaged in the VOIP business of providing long distance call related services in the PRC. The stage 1 was completed before 31 December 2003 and the completion date of stage 2 has been extended from 31 December 2004 to 31 December 2005 pursuant to a second supplemental agreement to the acquisition agreement dated 23 December 2004. Details of the transactions are set out in note 35(b) to the accounts.

After considering the funding requirement of CMTH to establish the network for VOIP business, the valuation of the VOIP business prepared by American Appraisal HK Ltd and assessing the financial position of CMTH including its ability to provide the necessary funding to establish the VOIP network, the Company has taken a conservative approach to make provision for impairment on investment of HK\$72,599,000 and impairment of goodwill in an associated company of HK\$54,000,000. Details of the provision made are set out in note 4 to the accounts.

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

All the above transactions are disclosed in accordance with Chapter 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 CMTH Group did not exceed the respective percentage limit specified in the conditional waivers granted to the Company by the Stock Exchange.

## 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	14.9%
– five largest customers combined	25.7%

### Purchases

– the largest supplier	20.1%
– five largest suppliers combined	38.7%

None of the directors, their respective associates nor 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 at any time during the year.

## Audit committee

The Group has established an Audit Committee since 26 September 1996. As at the date of this report, the Audit Committee comprises three independent non-executive directors, namely Mr. YIP Sam Lo, Dr. HO Chung Tai, Raymond and Mr. PANG Tsun Loy, Michael 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, including the review of the interim and annual reports for the financial year and had provided advices and recommendation to the board of directors.

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

## Compliance with the Code of Best Practice of the Listing Rules

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not throughout the year ended 31 March 2005, in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules in force prior to 1 January 2005, 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.

The Code was replaced by the Code on Corporate Governance Practices (the "New Code") which has become effective for accounting periods commencing on or after 1 January 2005. Appropriate actions are being taken by the Company for complying with the New Code.

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## Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standard as set out in the Model Code throughout the year ended 31 March 2005.

## Nomination Committee

The Company has established a Nomination Committee on 20 July 2005. Members of the Nomination Committee are three independent non-executive directors, namely Mr. YIP Sam Lo, Dr. HO Chung Tai, Raymond and Mr. PANG Tsun Loy, Michael and an executive director, Dr. LI Bin. The committee is to review the nomination of directors and to make recommendation to the board on such appointments.

## Remuneration Committee

The Company has established a Remuneration Committee in June 2000. As at the date of this report, the Remuneration Committee comprises two independent non-executive directors, namely Mr. YIP Sam Lo and Mr. PANG Tsun Loy, Michael, a non-executive director, Mr. LI Yi Sheng and an executive director, Dr. LI Bin. The committee is to review the remuneration policy of the directors and the senior management of the Company.

## Advances to Entities

In accordance with the requirement under paragraph 13.20 of the Listing Rules, the directors of the Company report the details of advances to CMTH Group as at 31 March 2005 as follows:

	Note	Total HK\$'000
Trade receivables from		
CMTH		30,357
CMM		123,566
SCMTU		101,862
	1	255,785
GSM Trust Investment	2	207,546
Less: provision for doubtful debts	3	(406,930)
At 31 March 2005		56,401

### Notes:

1. The balances of the trade receivables from CMTH Group which are with interest bearing at 2.25% per annum had been included under the Debt as defined in and to be repaid pursuant to the repayment agreement entered into between the Company and CMTH on 9 July 2003. Details of the transaction are set out in note 35(b) to the accounts.

## **Advances to Entities (continued)**

2. The GSM Trust Investment included (i) HK\$129,000,000 to be set off against the consideration payable for the acquisition of further 25% in CM Netcom in stage 2 to be completed by 31 December 2005 and (ii) HK\$78,546,000 being part of the Group's capital expenditure funding made to the GSM project in 1997 which are with interest bearing at 2.25% per annum had been included under the Debt as defined and to be repaid pursuant to the repayment agreement entered into between the Company and CMTH on 9 July 2003. Details of the transaction are set out in note 35(b) to the accounts.
3. The provision for doubtful debts included the provision made for (i) the debts of HK\$334,331,000 owing by CMTH Group under the repayment agreement entered into between the Company and CMTH on 9 July 2003; and (2) impairment on investment in the VOIP business in amount of HK\$72,599,000. Details of the provision made are set out in note (4) to the accounts.

## **Personal guarantee by director and substantial shareholder**

On 10 March 2005, Mr. HAU Tung Ying, an executive director and the chairman of the Company, and Goldtop, a substantial shareholder of which is beneficially owned as to 60% by Mr. HAU and as to 40% by his spouse, Madam TING Yat Shui, respectively entered into guarantees in favour of a bank in the PRC whereby Mr. HAU and Goldtop, as guarantors, shall unconditionally and irrevocably guarantee the repayment obligations of CMTH, as borrower, in favour of the bank, as lender, respectively in respect of a loan in the sum of approximately RMB376,000,000 lent by the bank to CMTH together with the interest and expenses in relation thereto.

## **Subsequent event**

Referring to the repayment agreement dated 9 July 2003 made between the Company and CMTH in relation to the Debt owing by CMTH Group to the Group in the aggregate amount of HK\$373,422,000, CMTH has duly repaid the 1st instalment of HK\$40,000,000 and HK\$2,190,000 out of the sum of HK\$50,000,000 under the 2nd instalment. Prior to the 2nd instalment due on 14 July 2005, CMTH indicated to the directors of the Company that CMTH Group would have difficulty in repaying the outstanding balance of HK\$47,810,000 under the 2nd instalment and the other outstanding balances of the Debt in the near future in accordance with the repayment schedule. The Company is actively seeking legal and financial advice and working with CMTH in formulating the remedies and alternatives available to the Company and the Company had appointed legal advisers to advise the Company in relation to thereto. Details of the transaction are set out in note 35(b) to the accounts.

## **Public float**

As at the date of the report, based on the information that is publicly available to the Company and within the knowledge of the directors, there is sufficient public float of not less than 25% of the Company's total issued share capital as required under the Listing Rules.

## **Auditors**

The accounts have been audited by PricewaterhouseCoopers, Hong Kong who retire and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

### **Hau Tung Ying**

*Director*

Hong Kong, 20 July 2005