1. GENERAL INFORMATION

China Motion Telecom International Limited (the "Company") and its subsidiaries (collectively, the "Group") are principally engaged in the provision of international telecommunications services, mobile communications services, distribution and retail sales, repair and maintenance services for telecommunications equipment and trunking radio services. The Company is a limited liability company incorporated in Bermuda and primarily listed on The Stock Exchange of Hong Kong Limited and secondarily listed on The Singapore Exchange Securities Trading Limited. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

2. PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have carefully assessed the working capital and financing requirements of the Group in the foreseeable future, as the current liabilities of the Group exceeded its current assets by HK$157,704,000 *(2005: net current liabilities of HK$100,248,000)* at the balance sheet date as well as commitments that are payable in the next twelve months as stated in note 37 to the financial statements. The directors of the Company are aware of the Group's liquidity position and thus critically evaluate the assets and liabilities of the Group and operating structure of various business segments. The directors are introducing stringent measures as set out below to enhance and strengthen the liquidity position of the Group.

(1) Streamlining operating structure of various business segments for maximum efficiency, and exercising stringent control over capital expenditure in order to minimise requirement on cash flow. Accordingly, the Group has optimised the staff levels and closed down certain non-profit making retail shops. Besides, the Group has been establishing a new remuneration scheme to all employees.

(2) Considering to source for other revenues from non-core business, including renting out of those parts of its office space that are surplus to its existing operational requirements to raise funds for its working capital.

(3) Actively seeking new sources of funding on both equity and debt financing to cover the temporary operating deficit. Subsequent to the balance sheet date, the Group had successfully obtained additional banking facilities of approximately HK$40 million.

Taking into account the existing and available banking facilities, cash and bank balances of the Group, the historical payment patterns for the Group's liabilities and those measures mentioned above, the directors are satisfied that the Group has sufficient resources to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

(b) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost, except for investment properties and financial assets at fair value through profit or loss, which have been measured at fair value as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions and balances within the Group are eliminated on consolidation. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interest is that part of profit or loss and net assets of a subsidiary attributable to equity interest that are not owned, directly or indirectly through subsidiaries, by the Company.

(d) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is taken to the income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Buildings	2%
Furniture, fixtures and office equipment	20%
Telecommunications equipment	20%
Leasehold improvements	Over the unexpired term of leases
Motor vehicles	30%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

(e) Construction in progress

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction in progress until it is completed and available for use.

(f) Investment properties

Investment properties are land and/or building that are held by owner or lessee under finance lease, either to earn rental income and/or for capital appreciation, which include property interest held under operating lease that are carried at fair value and land held for a currently undetermined future use. Investment properties are stated at fair value at the balance sheet date. Any gain or loss arising from a change in fair value is recognised in the income statement. Profit or loss on disposal of investment properties is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement upon disposal.

The fair value of investment property is based on a valuation by an independent valuer who holds a recognised professional qualification and has recent experience in the location and category of property being valued. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Investment properties (continued)

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

(g) Premium for land lease

Premium for land lease are up-front payments to acquire interests in lessee-occupied leasehold land. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

(h) Subsidiaries

A subsidiary is an entity, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of each of the investments in subsidiaries is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(i) Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The Group's interests in associates are accounted for under the equity method of accounting. The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. The consolidated balance sheet includes the Group's share of the net assets of associates and any goodwill. Unless the Group has incurred obligations or guaranteed obligations in respect of the associates, equity accounting is discontinued when the Group's share of the losses of an associate equals or exceeds the carrying amount of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of assets transferred.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Goodwill

Goodwill on acquisition of subsidiaries and associates is initially measured at cost, being the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill on acquisition of subsidiaries is recognised as a separate asset. Goodwill on acquisition of associates is included in the interests in associates. Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment test and determination of gain or loss on disposal. An impairment loss on goodwill is not reversed.

(k) Financial instruments

Financial assets and financial liabilities are recognised when the Group become a party to the contractual provisions of the instruments and on a trade date basis. Financial assets and financial liabilities are measured as follows:

Financial assets or financial liabilities at fair value through profit or loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss include financial assets or financial liabilities that are held for trading or derivatives do not qualify for hedge accounting, and those designated at fair value through profit or loss at inception. They are measured at fair value with changes in fair value recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be immaterial. In such case, the loans and receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Amortisation of cost and any gains and losses are recognised in the income statement.

Trade receivables and payables

Trade receivables and payables are recognised at fair value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of provision is recognised in the income statement.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Interest-bearing borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of associated costs. After initial recognition, loans and borrowings are measured at amortised cost using the effective interest method.

A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or the Group transfers the contractual rights to future cash flows to a third party. The Group derecognises financial liability when, and only when the liability is extinguished.

(l) Cash equivalents

For the purpose of cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts which is included in current liabilities on the balance sheet.

(m) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases.

(i) International telecommunications services and mobile communications services income are recognised upon the rendering of services.

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

(iii) Commission income is recognised in accordance with the terms of agency agreements which is generally when the agency services are rendered.

(iv) Trunking radio service income and roadshow sponsorship income are recognised when the services are rendered.

(v) Repair and maintenance service income from service agreements is recognised on an accrual basis when the service is performed.

(vi) Rental and leasing revenue is recognised on a straight-line basis over the period of the respective leases.

(vii) Interest income is recognised as the interest accrues using the effective interest method to the net carrying amount of the financial asset.

(viii) Airtime income is recognised on an accrual basis in accordance with the terms of the agreements.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Foreign currency translation

Items included in the financial statements of each of the group entities, including subsidiaries and associates are measured using the currency of the primary economic environment in which the group entities operate ("functional currency"). The consolidated financial statements are presented in Hong Kong Dollars (HK$), which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

On consolidation, the results and financial position of all the group entities that have a functional currency different from the presentation currency are translated as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates;

(c) all resulting exchange differences are recognised as a separate component of equity;

(d) upon disposal of a group entity, exchange differences relating thereto and previously recognised in reserves are recognised in the income statement as part of the gain or loss on disposal; and

(e) goodwill arising on acquisition of a foreign entity is treated as assets of foreign entity and translated at the closing rate.

(o) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first in, first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Impairment losses

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amount of its property, plant and equipment, investments in subsidiaries, investments in associates and premium for land leases have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

(q) Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

(r) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as finance lease obligation. Finance charges, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Lease incentives are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(s) Employee benefits

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the share of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Company at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(t) Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

(u) Related parties

A party is related to the Group if

(a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(b) the party is an associate of the Group;

(c) the party is a joint venture in which the Group is a venturer;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services with a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Inter-segment pricing are principally on a cost plus basis.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, bank balances and cash, interest-bearing borrowings, borrowings, tax balances, corporate and financing expenses.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are based on where the assets are located. Unallocated expenses consist of those that cannot be allocated on a reasonable basis to a geographical segment.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(w) Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of new/revised HKFRS that are not yet effective and the Group has not early adopted. Except for the following amendments, which will be effective from the next financial year, the directors anticipate that the adoption of these new/revised HKFRS in the future accounting periods will have no significant impact on the result of the Group.

HKAS 39 and HKFRS 4 (Amendments): Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are accounted for as financial instruments under HKAS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with *HKAS 37 Provisions, contingent liabilities and contingent assets* and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

The Group is not yet in a position to reasonably estimate the impact on the adoption of the above amendments in the period of initial application to the Group and the Company's financial position.

4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In this year, the Group adopted the following new/revised HKFRS issued by the HKICPA, which are generally effective for accounting periods beginning on or after 1 January 2005. The comparatives have been amended as required, in accordance with the relevant requirements. The major effects on the changes in accounting policies are summarised below:

(a) HKAS 1 Presentation of financial statements

HKAS 1 has affected the presentation of minority interest, share of net post-tax results of associates, and other disclosures. Comparative figures have been restated accordingly.

(b) HKAS 24 Related party disclosures

HKAS 24 has expanded the definition and the level of disclosure of related party transactions. The adoption of HKAS 24 has not resulted in material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosure made in the current year.

4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) HKAS 17 Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and accumulated impairment losses. Under HKAS 17 leasehold land is classified as an operating lease because the title of the land is not expected to be passed to the Group by the end of the lease term. Accordingly, leasehold land is reclassified from property, plant and equipment to premium for land lease and amortised over the lease term. Buildings are continued to be classified as part of property, plant and equipment. The change in accounting policy has no effect on the previously reported accumulated losses and net assets.

(d) HKAS 40 Investment properties and HKAS-Int 21 Income tax – Recovery of revalued non-depreciable assets

The adoption of HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values of investment properties are recorded in the income statement. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, deferred tax consequences in respect of revalued investment properties were accessed on the basis of tax consequence that would follow from the recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation (SSAP-Interpretation 20).

The changes in accounting policies have been applied retrospectively and has no significant effect on the previously reported accumulated losses and net assets as the Group's investment properties had a net revaluation deficit position as at 1 April 2005 and the changes in fair value during the current and prior years would be recognised in income statement irrespective whether the old policy or the new policy is applied.

4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(e) HKAS 32 Financial instruments: Disclosure and presentation and HKAS 39 Financial instruments: Recognition and measurement

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Until 31 March 2005, the Group classified investments into long-term investments and marketable securities. Long-term investments were carried at cost less provision for impairment losses that was expected to be other than temporary. Marketable securities were stated at their fair value. Changes in fair value were recognised in income statement as they arose.

In accordance with the provisions of HKAS 39, financial instruments have been classified into financial assets or financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Upon the adoption of HKAS 32 and HKAS 39, the Group re-designated its investments in long-term investments, club debentures and marketable securities as loans and receivables and financial assets at fair value through profit or loss respectively. Details of their accounting policies are set out in note 3 to the financial statements. The change in accounting policy has no effect on the previously reported accumulated losses and net assets.

(f) HKFRS 2 Share-based payment

The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. Prior to this, the provision of share options to employees did not result in a charge to the income statement. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods to the income statement. Details of accounting polices are set out in note 3 to the financial statements. As a transitional provision, the cost of share options granted after 7 November 2002 and not yet vested on 1 April 2005 was expensed retrospectively in the income statement of the respective periods. However, since all share options to employees were granted by the Group before 7 November 2002, the adoption of HKFRS 2 has no effect on the current year and the previously reported accumulated losses and net assets.

4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(g) HKFRS 3 Business combination and HKAS 36 Impairment of assets

The adoption of HKFRS 3 has resulted in a change in accounting policy for business combinations on a prospective basis and has impacted the followings:

- The Group ceased amortisation of goodwill from 1 April 2005 and goodwill is tested annually for impairment as well as when there are indications of impairment. The impaired goodwill shall not be reversed in the subsequent period. The opening balance of accumulated amortisation of goodwill has been eliminated with the corresponding decrease in respect of the cost of goodwill at the beginning of the current year.

- Any goodwill previously recognised as a deduction from equity will not be recognised in the calculation of gain or loss upon disposal of all or part of the business associates to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired.

The adoption of HKFRS 3 has resulted in a decrease of goodwill amortisation expense of approximately HK$12,485,000 for the year ended 31 March 2006.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are currently evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Apart from information disclosed elsewhere in these financial statements, the following summarise estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment for interests in an associate and amount due from China Motion Telecom Holdings Limited ("CMTH")

In preparing the financial statements of the Group, management are required to make estimates and assumptions in relation to the determination of possible impairment for interests in an associate and recoverability of amounts due from CMTH. These estimates and assumptions affect the reported amounts of assets as well as expenses. Actual results could differ from these estimates, and the differences could be significant. The determination of whether or not a decline in value of the investments in telecommunications projects has occurred and the recoverability of the amounts due from CMTH requires the exercise of significant judgement by management. It also depends on the success of the telecommunications projects undertaken by CMTH including but not limited to VoIP related business of China Motion Netcom Services Co., Ltd ("CM Netcom") (see note 35).

Given the inherent risk associated with CMTH and the telecommunications projects, management believes that it has made reasonable judgements based on all relevant and available facts and information about CMTH including the telecommunications projects, undertaken by CMTH and the financing facilities available for these projects in assessing the recoverability of carrying amounts of the funding provided to a telecommunications project receivable. Adjustments to management's estimates will be made as the Group receives updated information about the business performance of CMTH and the telecommunications projects in which it is involved.

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of the accounts receivables and on management's judgment. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Useful lives and impairment of property, plant and equipment

The directors evaluated the residual value and useful lives of property, plant and equipment on an annual basis, through careful consideration with regards to expected usage, wear-and-tear and potential technical obsolescence to usage of the assets.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the directors have to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

6. TURNOVER AND REVENUE

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 41 to the financial statements.

The Group's turnover and revenue recognised by category are as follows:

	2006 **HK$'000**	2005 HK$'000 (restated)
International telecommunications services income	**675,583**	577,353
Sale of telecommunications products	**32,163**	62,882
Commission income	**26,009**	29,402
Mobile communications services income	**94,050**	84,965
Trunking radio services income	**7,419**	7,110
Repair and maintenance services income	**4,998**	2,779
Turnover	**840,222**	764,491
Rental income	**2,198**	3,111
Interest income	**3,951**	7,798
Others	**6,504**	3,416
Other revenue	**12,653**	14,325
Revenue	**852,875**	778,816

7. OTHER NET INCOME

	2006 HK$'000	2005 HK$'000 (restated)
Change in fair value of investment properties	**3,947**	23,000
Gain on disposal of premium for land lease and buildings	**2,024**	10,380
Extinguishment of liabilities related to an expired contract (note)	**–**	23,847
Reversal of impairment loss of premium for land lease	**34,970**	–
Reversal of impairment loss of buildings	**20,370**	–
Sundry income	**917**	511
	62,228	57,738

Note:

In 2005, after extended negotiations with the contracting party (being CMTH and/or its subsidiaries (collectively, the "CMTH Group")) on a telecommunications contract that expired in 2004, it was confirmed that certain liabilities under the expired contract would not need to be paid. Consequently, an amount of HK$23,847,000 was reversed into the consolidated income statement for the year ended 31 March 2005.

8. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Primary reporting format – Business segments

The Group's principal activities comprise the following main business segments:

	Business segments	Nature of business activities	Place of operation
1	International telecommunications services	Provision of international calling services and income from lease line rental	Hong Kong / North America and the United Kingdom / other Asia Pacific regions
2	Mobile communications services	Provision of mobile communications services, provision of maintenance and accounts management services to telecommunications operators, and provision of trunking radio services	Hong Kong / the People's Republic of China ("PRC")
3	Distribution and retail chain	Retail sales of telecommunications related equipment and products, provision of maintenance and repair services and provision for mobile service subscription service to mobile operators	Hong Kong / PRC
4	Others	The Company and other businesses	Hong Kong

Certain comparative figures for segment information have been restated and reclassified to conform with current year's presentation. In the opinion of the Company's directors, such classifications provide a more appropriate presentation of the Group's business segment.

8. SEGMENT INFORMATION (continued)

Primary reporting format – Business segments (continued)

2006

	International telecommuni-cations services HK$'000	Mobile Communi-cations services HK$'000	Distribution and retail chain HK$'000	Others HK$'000	Inter-segment elimination HK$'000	Group HK$'000
Turnover						
Revenue from external customers	638,170	105,824	96,228	–	–	840,222
Inter-segment revenue	28,436	–	3,464	–	(31,900)	–
Segment turnover	666,606	105,824	99,692	–	(31,900)	840,222
Segment results	(111,286)	5,409	(4,081)	(64,079)	–	(174,037)
Unallocated operating income and expenses						(51,943)
Finance costs						(4,355)
Share of profits of an associate						780
Loss before taxation						(229,555)
Taxation						1,077
Loss for the year						(228,478)
Assets						
Segment assets	145,951	33,105	25,614	209,959		414,629
Interests in associates						5,424
Unallocated assets						40,739
Total assets						460,792
Liabilities						
Segment liabilities	208,394	86,757	15,033	6,680		316,864
Unallocated liabilities						91,268
Total liabilities						408,132
Other information						
Capital expenditure	7,156	1,229	1,256	960		10,601
Depreciation	32,577	3,752	4,008	5,612		45,949
Amortisation						
Premium for land lease	–	–	–	1,127		1,127
Other non-current assets	1,029	–	–	–		1,029
Significant non-cash expenses (other than depreciation and amortisation)						
Business segment	91,862	2,030	9,836	–		103,728
Unallocated items						116,050

8. SEGMENT INFORMATION (continued)

Primary reporting format – Business segments (continued)

2005

	International telecommuni-cations services HK$'000 (restated)	Mobile Communi-cations services HK$'000 (restated)	Distribution and retail chain HK$'000 (restated)	Others HK$'000 (restated)	Inter-segment elimination HK$'000 (restated)	Group HK$'000 (restated)
Turnover						
Revenue from external customers	540,010	97,214	127,267	–	–	764,491
Inter-segment revenue	22,718	–	5,591	–	(28,309)	–
Segment turnover	562,728	97,214	132,858	–	(28,309)	764,491
Segment results	11,735	29,123	(6,983)	(94,643)	–	(60,768)
Unallocated operating income and expenses						(397,428)
Finance costs						(3,516)
Share of losses of associates						(8,764)
Loss before taxation						(470,476)
Taxation						(1,463)
Loss for the year						(471,939)
Assets						
Segment assets	466,130	35,360	96,082	181,558		779,130
Interests in associates						61,044
Unallocated assets						46,478
Total assets						886,652
Liabilities						
Segment liabilities	416,556	36,377	20,186	21,004		494,123
Unallocated liabilities						113,684
Total liabilities						607,807
Other information						
Capital expenditure	67,214	2,061	3,762	485		73,522
Depreciation	24,541	4,167	4,622	6,838		40,168
Amortisation						
Premium for land lease	–	–	–	1,448		1,448
Other non-current assets	1,029	–	–	–		1,029
Significant non-cash expenses (other than depreciation and amortisation)						
Business segment	2,285	3,372	–	–		5,657
Unallocated items						460,930

8. SEGMENT INFORMATION (continued)

Secondary reporting format – Geographical segments

During the year, the Group changed its geographical segment classification by separating the operation in Hong Kong from Asia Pacific regions. Comparative figures have been restated for presentation purpose.

	Turnover HK$'000	Segment results HK$'000	Total assets HK$'000	Capital expenditure HK$'000
2006				
PRC	**4,998**	**(6,336)**	**4,775**	**942**
Hong Kong	**483,010**	**(122,724)**	**401,579**	**6,412**
Other Asia Pacific regions	**120,717**	**(29,465)**	**27,116**	**2,251**
North America and the United Kingdom	**231,497**	**(15,512)**	**27,322**	**996**
	840,222	**(174,037)**	**460,792**	**10,601**

	Turnover HK$'000 (restated)	Segment results HK$'000 (restated)	Total assets HK$'000 (restated)	Capital expenditure HK$'000 (restated)
2005				
PRC	2,779	17,766	61,038	1,181
Hong Kong	465,758	(64,236)	727,030	65,764
Other Asia Pacific regions	98,728	(5,617)	29,538	3,239
North America and the United Kingdom	197,226	(8,681)	56,486	3,338
	764,491	(60,768)	874,092	73,522
Unallocated items	–	–	12,560	–
	764,491	(60,768)	886,652	73,522

9. PROVISION FOR DOUBTFUL DEBTS AND IMPAIRMENT ON OTHER NON-CURRENT ASSETS AND INTERESTS IN ASSOCIATES

(a) Provision for doubtful debts

On 9 July 2003, the Company entered into an agreement with CMTH, a minority shareholder of subsidiaries of the Company, to reschedule the repayment of receivables in the amount of HK$373,422,000 (the "Debt") due from CMTH, China Motion Mobile Services Co., Ltd ("CMM") and Shenzhen China Motion Telecom United Company Limited ("SCMTU"). Under the agreement, the aggregate amount of the Debt owing by CMTH, comprising technical consultancy and maintenance fees, sales of telecommunications equipment, maintenance service income and leasing income and invest in GSM project, will be returned to the Group over a period of 5 years.

At 31 March 2005, the outstanding balance of the Debt amounted to HK$334,331,000. Prior to 14 July 2005, the due date of the second scheduled repayment, CMTH informed the Group that CMTH would be unable to repay the outstanding debts in the near future due to financial pressure it was experiencing unless there would be a material change in its external finance environment. The Company's management has performed an assessment, based on all relevant and available facts and information including information about the CMTH Group, the telecommunications projects undertaken by the CMTH Group and the financing available for these projects, and concluded that the recoverability of the Debt owing by CMTH is remote. Accordingly, the Group has made a full provision for the Debt for the years ended 31 March 2005 and 2006.

By reason of CMTH's breach of the acquisition agreement resulting that CMTH was not able to transfer the stage two acquisition of its 25% equity interest in CM Netcom (details in note 9(b) below), the Group issued a notice of rescission regarding the acquisition agreement to CMTH on 19 December 2005. Accordingly, the remaining balances of the consideration designated for stage two acquisition as mentioned in note 9(b) below was reclassified as amount due from CMTH. In view of the current financial position of CMTH, the Group has made full provision on the amount due from CMTH of HK$58,028,000 for the year.

(b) Impairment on other non-current assets and interests in associates

On 30 January 2003, Shenzhen Motion Mobile Telecom Services Co., Ltd ("SMMT"), a subsidiary of the Company, entered into an acquisition agreement with CMTH to acquire 50% equity interest in CM Netcom which is engaged in a VoIP business providing long distance call related services in the PRC in two stages at an aggregate consideration of RMB276,000,000 (equivalent to approximately HK$258,000,000). Stage one of the acquisition was completed in August 2003. The stage two acquisition of 25% equity interest in CM Netcom of HK$129,000,000 was to be completed in December 2005. The consideration for the stage two acquisition was to be paid for by offsetting against part of the receivables from CMTH included in "Other non-current assets" in the balance sheet (notes 22 and 35). At 31 March 2005, the Group recognised an impairment charge of approximately HK$72,599,000 against the carrying value of the receivables from CMTH which has been designated for use in making the stage two acquisition and an impairment charge of approximately HK$54,000,000 for goodwill included in the carrying value of the Group's share of its equity interest in CM Netcom.

9. PROVISION FOR DOUBTFUL DEBTS AND IMPAIRMENT ON OTHER NON-CURRENT ASSETS AND INTERESTS IN ASSOCIATES (continued)

(b) Impairment on other non-current assets and interests in associates (continued)

The Group continued to monitor the recoverable value of its interests in CM Netcom during the year ended 31 March 2006. An updated valuation, of the business of CM Netcom, which took account of various assumptions including the availability of financing to CM Netcom and the future discounted cash flows of the VoIP business of CM Netcom, was performed to assess the recoverable amount and, as a result, a further impairment charge of approximately HK$6,540,000 and HK$51,482,000 against the Group's share of net assets of CM Netcom and the goodwill arising from the stage one acquisition respectively, were made during the year ended 31 March 2006. The Group's investment in CM Netcom is included in interests in associates in the financial statements (note 20).

10. IMPAIRMENT LOSS ON PROPERTY, PLANT AND EQUIPMENT AND OTHER NON-CURRENT ASSETS

In view of the operating losses incurred for the international telecommunications services segment during the year, the Group conducted a review of the carrying amount of the relevant assets. Based on the valuation report prepared by Grant Sherman Appraisal Limited, an independent, professional qualified valuers, as of 31 March 2006, the Group has recognised an impairment loss of HK$63,767,000 for the telecommunications equipment and related assets in relation to this segment.

11. FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
Interest on bank and other borrowings:		
Wholly repayable within five years	**2,015**	1,351
Not wholly repayable within five years	**2,154**	2,039
Finance charges on obligations under finance leases	**186**	126
	4,355	3,516

12. LOSS BEFORE TAXATION

This is stated after charging (crediting):

	2006 HK$'000	2005 HK$'000 (restated)
Staff costs (include directors' emoluments)		
Salaries, wages and other benefits	**96,151**	108,790
Contributions to defined contribution plans	**2,090**	2,561
	98,241	111,351
Auditors' remuneration		
Current year	**1,982**	2,380
Underprovision in prior years	**1,935**	–
	3,917	2,380
Provision for doubtful debts and impairment on other non-current assets and interests in associates		
Impairment loss on goodwill of an associate (notes 9 and 20)	**51,482**	54,000
Impairment loss on interests in an associate (notes 9 and 20)	**6,540**	–
Provision for impairment against the carrying value of the receivable from CMTH designated for use in making the stage two acquisition (notes 9 and 35)	**–**	72,599
Provision for amounts due from CMTH Group (notes 9 and 35)	**58,028**	334,331
	116,050	460,930
Impairment loss on assets in relation to international telecommunications services segment (note 10)		
Other non-current assets	**12,767**	–
Property, plant and equipment	**51,000**	–
	63,767	–
Cost of inventories	**29,119**	58,290
Depreciation	**45,949**	40,168
Amortisation		
Premium for land lease	**1,127**	1,448
Other non-current assets	**1,029**	1,029
Operating lease charges: minimum lease payments		
Telecommunications equipment	**41,178**	44,259
Premises	**32,318**	33,415
Provision for doubtful trade and other receivables	**40,203**	5,658
Reversal of inventories write-down	**(95)**	(166)
Realised and unrealised loss on financial assets at fair value through profit or loss	**128**	1,575
Rental income from investment properties less direct outgoings of HK$1,192,000 *(2005: HK$709,000)*	**(1,006)**	(2,402)
Loss on disposal of property, plant and equipment	**1,360**	163

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The aggregate amounts of emoluments received or receivable by the Company's directors are as follows:

	Note	Directors' fees HK$'000	Salaries, allowances and benefits in kinds HK$'000	Retirement scheme contributions HK$'000	Inducement or compensation fees HK$'000	2006 Total HK$'000
Executive directors:						
Wu Chi Chiu	(a)	–	132	2	–	134
Fan Wei	(a)	–	149	2	–	151
Jeffrey Wang	(a)	–	132	2	–	134
Hau Tung Ying	(b)	–	4,704	9	–	4,713
Shui Ming Hua	(c)	–	2,193	12	105	2,310
Li Bin	(d)	–	1,884	9	–	1,893
Non-executive directors:						
Huang An Guo*	(a)	–	–	–	–	–
Lo Chi Ho, William*	(a)	–	–	–	–	–
Wong Fei Tat*	(a)	–	–	–	–	–
Hau Tung Ying	(b)	–	–	–	–	–
Li Yi Sheng	(c)	83	–	–	–	83
Yip Sam Lo*	(c)	83	–	–	–	83
Ho Chung Tai, Raymond*	(c)	149	–	–	–	149
Pang Tsun Loy, Michael*	(c)	83	–	–	–	83
		398	**9,194**	**36**	**105**	**9,733**

* Independent Non-executive directors

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

	Directors' fees HK$'000	Salaries, allowances and benefits in kinds HK$'000	Retirement scheme contributions HK$'000	Inducement or compensation fees HK$'000	2005 Total HK$'000
Executive directors:					
Hau Tung Ying	–	5,383	12	–	5,395
Shui Ming Hua	–	2,318	12	–	2,330
Li Bin	–	1,890	12	–	1,902
Non-executive directors:					
Li Yi Sheng	90	–	–	–	90
Yip Sam Lo*	54	–	–	–	54
Ho Chung Tai, Raymond*	160	–	–	–	160
Pang Tsun Loy, Michael*	54	–	–	–	54
Li Kwok Ping	325	–	7	–	332
Yung Yung Cheng, Frank	80	–	–	–	80
Hu Tiejun (alternate director to Li Yi Sheng)	–	1,365	12	–	1,377
	763	10,956	55	–	11,774

* Independent Non-executive directors

Notes:

(a) Appointed on 9 February 2006.

(b) Re-designated as Non-executive director on 6 March 2006 and resigned as director on 10 April 2006.

(c) Resigned on 6 March 2006.

(d) Resigned on 31 December 2005.

No directors have waived emoluments in respect of the years ended 31 March 2006 and 2005.

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

The five individuals whose emoluments were the highest in the Group for the year include three directors *(2005: four)* whose emoluments are reflected in the analysis presented above. Details of the emoluments of the remaining two individuals *(2005: one)* are as follows:

	2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kinds	**1,647**	914
Discretionary bonus	**–**	18
Retirement scheme contributions	**23**	12
Inducement or compensation fees	**271**	–
	1,941	944

The emoluments were paid to individuals as follows:

	Number of individuals	
Emoluments band	**2006**	2005
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	–
	2	1

14. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% *(2005: 17.5%)* on the estimated assessable profits arising from Hong Kong during the year. The income tax provision in respect of operations in the PRC and overseas is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

	2006 HK$'000	2005 HK$'000 (restated)
Hong Kong Profits Tax	**100**	248
PRC income tax	**–**	2,703
Overseas taxation	**–**	(524)
Deferred taxation	**(1,177)**	(964)
Total tax (credit) charge for the year	**(1,077)**	1,463

14. TAXATION (continued)

Reconciliation of tax expense

The tax on the Group's loss before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits (losses) of the consolidated companies as follows:

	2006 **HK$'000**	2005 HK$'000 (restated)
Loss before taxation	**(229,555)**	(470,476)
Income tax at domestic tax rates applicable in the respective countries	**(40,172)**	(81,380)
Non-deductible expenses	**41,012**	71,418
Tax exempt revenue	**(6,442)**	(7,570)
Utilisation of previously unrecognised tax losses	**(7,568)**	(1,598)
Tax effect of unused tax losses not recognised	**10,420**	22,191
Under (Over) provision in prior years	**80**	(1,598)
Unrecognised temporary differences	**3,429**	–
Reversal of previously unrecognised temporary differences	**(2,443)**	–
Others	**607**	–
Tax (income) expense for the year	**(1,077)**	1,463

The weighted average applicable tax rate was 17.5% *(2005: 17.3%)*.

15. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of loss of HK$229,574,000 *(2005: HK$514,470,000)*.

16. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of HK$201,055,000 *(2005: HK$459,699,000)* and the weighted average number of 525,475,573 *(2005: 525,475,573)* ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 March 2006 and 2005 have not been presented as the conversion of potential ordinary shares to ordinary shares would have an anti-dilutive effect to the basic loss per share.

17. INVESTMENT PROPERTIES

	Group 2006 HK$'000	2005 HK$'000
At fair value		
At beginning of year	**89,500**	66,500
Transfer from premium for land lease upon change of use *(note 21)*	**819**	–
Transfer from buildings upon change of use *(note 18)*	**334**	–
Disposals	**(17,200)**	–
Change in fair value	**3,947**	23,000
At balance sheet date	**77,400**	89,500

Investment properties of the Group are held under the following lease terms:

	Group 2006 HK$'000	2005 HK$'000
Land in Hong Kong:		
Long lease	**66,300**	61,800
Medium-term lease	**6,400**	23,000
Land outside Hong Kong:		
Medium-term lease	**4,700**	4,700
	77,400	89,500

The investment properties were valued at market value by independent, professional qualified valuers, DTZ Debenham Tie Leung Limited, as at 31 March 2006.

All of the Group's investment properties with an aggregate carrying value at the balance sheet date of HK$77,400,000 *(2005: HK$89,500,000)* were pledged to secure banking facilities granted to the Group.

18. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Furniture, fixtures and office equipment HK$'000	Telecommuni-cations equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Reconciliation of carrying amount – year ended 31 March 2005							
At beginning of year							
As previously reported	109,879	13,728	94,757	9,347	192	–	227,903
Effect of adopting HKAS 17 (note 21)	(79,836)	–	–	–	–	–	(79,836)
As restated	30,043	13,728	94,757	9,347	192	–	148,067
Additions	–	2,564	19,021	2,012	379	49,546	73,522
Reclassification	–	13	(13)	–	–	–	–
Disposals	–	(465)	340	(149)	(243)	–	(517)
Depreciation	(679)	(5,650)	(28,375)	(5,396)	(68)	–	(40,168)
At balance sheet date	29,364	10,190	85,730	5,814	260	49,546	180,904
Reconciliation of carrying amount – year ended 31 March 2006							
At beginning of year							
As previously reported	82,039	10,190	85,730	5,814	260	49,546	233,579
Effect of adopting HKAS 17 (note 21)	(52,675)	–	–	–	–	–	(52,675)
As restated	29,364	10,190	85,730	5,814	260	49,546	180,904
Additions	–	2,396	6,970	349	886	–	10,601
Transfer to investment properties upon change of use (note 17)	(334)	–	–	–	–	–	(334)
Transfer upon completion	–	–	17,652	–	–	(17,652)	–
Impairment reversed	20,370	–	–	–	–	–	20,370
Impairment recognised	–	–	(51,000)	–	–	–	(51,000)
Disposals	(2,043)	(416)	(123)	(1,036)	(218)	(31,894)	(35,730)
Depreciation	(622)	(4,490)	(36,471)	(4,043)	(323)	–	(45,949)
Exchange differences	–	23	266	16	52	–	357
At balance sheet date	**46,735**	**7,703**	**23,024**	**1,100**	**657**	**–**	**79,219**

18. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings	Furniture, fixtures and office equipment	Telecommunications equipment	Leasehold improvements	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2005							
Cost	62,571	49,956	498,488	51,658	7,104	49,546	719,323
Accumulated depreciation and impairment losses	(33,207)	(39,766)	(412,758)	(45,844)	(6,844)	–	(538,419)
	29,364	10,190	85,730	5,814	260	49,546	180,904
At 31 March 2006							
Cost	55,336	50,466	522,793	49,828	7,272	–	685,695
Accumulated depreciation and impairment losses	(8,601)	(42,763)	(499,769)	(48,728)	(6,615)	–	(606,476)
	46,735	7,703	23,024	1,100	657	–	79,219

The net book value of the Group's property, plant and equipment includes an amount of HK$658,000 *(2005: HK$12,738,000)* in respect of assets held under finance leases.

Property, plant and equipment with an aggregate net book value at the balance sheet date of HK$46,735,000 *(2005: HK$29,364,000)* were pledged to secure banking facilities granted to the Group.

As mentioned in note 10 to the financial statements, the Group has recognised impairment charges on telecommunications equipment for the international telecommunications services segment. These assets were revalued at 31 March 2006 by independent, professional qualified valuers, Grant Sherman Appraisal Limited. The recoverable amount of these assets is determined by reference to the value in use of the relevant assets using the discount rate of 15.34%.

19. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**113,115**	113,115
Impairment loss	**(60,045)**	–
	53,070	113,115
Due from subsidiaries	**1,078,855**	1,079,564
Provision for doubtful debts	**(1,078,855)**	(919,000)
	–	160,564
Due to subsidiaries	**(6,925)**	–
	46,145	273,679

The amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed term of repayment but repayment is not expected to be within twelve months from the balance sheet date. The carrying amounts of the amounts due approximate their fair values.

Particulars of the Company's principal subsidiaries at the balance sheet date, which in the opinion of the directors principally affect the results for the year or form a substantial portion of the net assets, are set out in note 41 to the financial statements.

20. INTERESTS IN ASSOCIATES

		Group	
		2006	2005
	Note	**HK$'000**	HK$'000
			(restated)
Share of net assets		**11,964**	10,999
Impairment loss		**(6,540)**	–
		5,424	10,999
Goodwill on acquisition	(a)	**–**	50,045
		5,424	61,044

20. INTERESTS IN ASSOCIATES (continued)

(a) Goodwill on acquisition

	HK$'000
Goodwill on acquisition	
At 1 April 2004 and 31 March 2005	124,853
At 1 April 2005	124,853
Opening balance adjustment to eliminate accumulated amortisation	(20,808)
At 1 April 2005 (as restated)	104,045
Exchange differences	3,000
At 31 March 2006	**107,045**
Accumulated amortisation and impairment losses	
At 1 April 2004	8,323
Amortisation	12,485
Impairment loss	54,000
At 31 March 2005	74,808
At 1 April 2005	74,808
Eliminated against goodwill on acquisition at 1 April 2005	(20,808)
At 1 April 2005 (as restated)	54,000
Impairment loss (note 9(b))	51,482
Exchange differences	1,563
At 31 March 2006	**107,045**
Carrying value	
At 31 March 2006	**–**
At 31 March 2005	50,045

Note:

During the year, the Group has performed an impairment assessment on the share of net assets and goodwill arising from the stage one acquisition in an associate and accordingly, impairment charges of HK$6,540,000 and HK$51,482,000 were recognised respectively. Details of the impairment assessment are set out in note 9(b) to the financial statements.

20. INTERESTS IN ASSOCIATES (continued)

Particulars of the Group's principal associates at the balance sheet date, which in the opinion of the directors principally affect the results for the year or form a substantial portion of the net assets, are as follows:

Name	Place of incorporation/ operation	Particulars of class of issued and paid up shares/ registered capital	Proportion of ownership interest indirectly held	Principal activity
China Motion Netcom Services Co., Ltd.*	PRC	RMB30,000,000	22.5%	Provision of VoIP related services in the PRC
Goodfine Holdings Limited*	Hong Kong	100 ordinary shares of HK$1 each	48%	Investment holding

* All the associates are unlisted corporate entity and are not audited by Messrs. Moores Rowland Mazars.

Summary of financial information of associates is as follows:

	2006 HK$'000	2005 HK$'000
Non-current assets	**14,098**	37,758
Current assets	**160,910**	155,672
Non-current liabilities	**–**	(610)
Current liabilities	**(141,585)**	(161,930)
Revenue	**14,897**	46,175
Profits for the year	**1,170**	11,467

21. PREMIUM FOR LAND LEASE

	Group	
	2006	2005
	HK$'000	HK$'000
		(restated)
At beginning of year		
As previously reported	**–**	–
Effect of adopting HKAS17 (note 18)	**52,675**	79,836
As restated	**52,675**	79,836
Transfer to investment properties upon change of use (note 17)	**(819)**	–
Impairment loss reversed	**34,970**	–
Disposals	**(2,940)**	(25,713)
Amortisation	**(1,127)**	(1,448)
	82,759	52,675

Premium for land lease of the Group represents cost paid for the following lease terms:

	Group	
	2006	2005
	HK$'000	HK$'000
		(restated)
Land in Hong Kong		
Long lease	**5,363**	4,507
Medium-term lease	**77,396**	48,168
	82,759	52,675

The cost of premium for land lease is amortised over the lease period. The amount to be amortised within the next twelve months after the balance sheet date amounting to HK$1,872,000 *(2005: HK$1,127,000)*.

All premium for land lease with an aggregate net book value at the balance sheet date of HK$82,759,000 *(2005: HK$52,675,000)* were pledged to secure banking facilities granted to the Group.

22. OTHER NON-CURRENT ASSETS

	Group 2006 HK$'000	Group 2005 HK$'000
Financial assets at fair value through profit or loss / Club debentures	**3,739**	3,739
Prepayment (note 10)	**–**	12,768
Loans and receivables / Long-term investments (note 9 and 35(b))	**–**	56,401
	3,739	72,908

23. INVENTORIES

	Group 2006 HK$'000	Group 2005 HK$'000
Finished goods	**4,229**	4,939

The amount of inventories, included in above, carried at fair value less costs to sell is HK$145,000 *(2005: HK$2,707,000)*.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS / MARKETABLE SECURITIES

	Group 2006 HK$'000	Group 2005 HK$'000
Held for trading		
Equity investment listed in Hong Kong	**–**	334

25. TRADE AND OTHER RECEIVABLES

	Note	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
Trade receivables	(a)	**134,124**	326,942	**–**	–
Other receivables					
Deposits, prepayments and other receivables		**36,496**	48,261	**–**	–
Due from subsidiaries	(b)	**–**	–	**–**	2,965
Due from associates	(b)	**40**	37	**–**	–
Due from related companies	(b)	**–**	4,947	**–**	–
		36,536	53,245	**–**	2,965
		170,660	380,187	**–**	2,965

25. TRADE AND OTHER RECEIVABLES (continued)

(a) Trade receivables

The Group has established credit policies for customers in each of its core businesses. The average credit period granted for trade receivables ranges from 30 to 60 days. The carrying amount of the amounts due approximates their fair values.

The ageing analysis of the trade receivables (net of impairment losses for bad and doubtful debts) as of the balance sheet date is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
		(restated)
0 – 30 days	**37,569**	76,391
31 – 60 days	**23,750**	33,656
61 – 90 days	**22,915**	27,773
Over 90 days	**49,890**	189,122
	134,124	326,942

(b) Due from subsidiaries / associates / related companies

The amounts due are unsecured, interest-free and have no fixed term of repayment. The carrying amount of the amounts due approximates their fair values.

26. CASH AND CASH EQUIVALENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Bank balances and cash as stated in the consolidated balance sheet	**35,202**	33,919
Bank overdrafts	**–**	(1,977)
	35,202	31,942

27. TRADE AND OTHER PAYABLES

		Group		Company	
		2006	2005	**2006**	2005
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Trade payables	(a)	**246,852**	360,407	**–**	–
Other payables					
Accrued charges and other creditors		**55,782**	86,792	**1,000**	1,245
Advance subscription fees received		**8,042**	9,288	**–**	–
Deposits received		**3,695**	6,936	**–**	–
Due to subsidiaries	(b)	**–**	–	**–**	445
Due to associates	(b)	**4,188**	8,725	**–**	–
Due to a director	(b)	**–**	(149)	**–**	–
		71,707	111,592	**1,000**	1,690
		318,559	471,999	**1,000**	1,690

(a) Trade payables

	Group	
	2006	2005
	HK$'000	HK$'000
Trade payables	**246,852**	385,179
Portion classified as current liabilities	**(246,852)**	(360,407)
Non-current portion	**–**	24,772

The trade payables are unsecured and interest-free. The ageing analysis of trade payables as at the balance sheet date is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
0 – 30 days	**41,999**	49,379
31 – 60 days	**33,068**	39,964
61 – 90 days	**33,403**	25,948
Over 90 days	**138,382**	245,116
	246,852	360,407

(b) Due to subsidiaries / associates / a director

The amounts due are unsecured, interest-free and have no fixed term of repayment. The carrying amount of the amounts due approximates their fair values.

28. INTEREST-BEARING BORROWINGS

	Group	
	2006	2005
	HK$'000	HK$'000
Bank loans, secured	**80,912**	93,697
Bank overdrafts, secured	**–**	1,977
	80,912	95,674
Portion classified as current liabilities	**(43,113)**	(45,328)
Non-current portion	**37,799**	50,346

The maturity profile of the interest-bearing borrowings is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Bank loans and overdrafts:		
Within one year	**43,113**	45,328
In the second year	**6,023**	8,224
In the third to fifth years, inclusive	**20,289**	21,162
Over 5 years	**11,487**	20,960
	80,912	95,674

The effective interest rate of the bank loans at the balance sheet date is 5.37% *(2005: 3.15%)*.

28. INTEREST-BEARING BORROWINGS (continued)

An analysis of the carrying amounts of the total borrowings by type and currency is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
At floating rates		
HK$	**79,609**	93,751
US$	**1,303**	1,923
	80,912	95,674

29. OBLIGATIONS UNDER FINANCE LEASES

Group

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amount payable:				
Within one year	**2,090**	4,211	**2,037**	4,078
In the second to fifth years inclusive	**394**	1,666	**378**	1,643
	2,484	5,877	**2,415**	5,721
Future finance charges	**(69)**	(156)	**–**	–
Present value of lease obligations	**2,415**	5,721	**2,415**	5,721

The average lease term is two years. The effective interest rate of the finance lease obligations is 4.57% *(2005: 2.09%)*.

30. DEFERRED TAXATION

	Group 2006 HK$'000	2005 HK$'000
At beginning of year	**(1,177)**	(2,141)
Income statement credit	**1,177**	964
At the balance sheet date	**–**	(1,177)

Recognised deferred tax assets (liabilities)

	Group 2006		2005	
	Assets HK$'000	**Liabilities HK$'000**	Assets HK$'000	Liabilities HK$'000
Accelerated depreciation allowance	**–**	**(519)**	–	(7,931)
Tax losses	**519**	**–**	6,258	–
Others	**–**	**–**	496	–
Deferred tax assets (liabilities)	**519**	**(519)**	6,754	(7,931)
Offset deferred tax assets and liabilities	**(519)**	**519**	(5,699)	5,699
Net tax assets (liabilities)	**–**	**–**	1,055	(2,232)

Deferred income tax assets and liabilities are set off when there is legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Unrecognised deferred tax assets arising from

	Group 2006 HK$'000	2005 HK$'000
Deductible temporary differences	**31,400**	38,960
Tax losses	**689,903**	699,269
At the balance sheet date	**721,303**	738,229

The Group has not recognised deferred tax assets in respect of tax losses and deductible temporary differences as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

31. ISSUED CAPITAL

	2006 No. of shares	2006 HK$'000	2005 No. of shares	2005 HK$'000
Authorised:				
Ordinary shares of HK$0.75 each	**1,040,000,000**	**780,000**	1,040,000,000	780,000
Issued and fully paid:				
Ordinary shares of HK$0.75 each	**525,475,573**	**394,107**	525,475,573	394,107

32. EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

On 6 September 2002, the Company adopted a new share option scheme (the "New Share Option Scheme"). No share options have ever been granted by the Company under the New Share Option Scheme since it was adopted. A summary of the New Share Option Scheme is disclosed in the Directors' Report on pages 15 to 19.

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

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

(a) After the first anniversary of the date of grant, 33% of the options are exercisable.

(b) After the second anniversary of the date of grant, 33% of the options are exercisable.

(c) After the third anniversary of the date of grant, 34% of the options are exercisable.

32. EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

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

	2006		2005	
	No. of share options	**Weighted average exercise price HK$**	No. of share options	Weighted average exercise price HK$
At 1 April	**20,489,477**	**0.95**	25,860,781	0.96
Lapsed	**(3,509,155)**	**0.89**	(5,371,304)	0.98
At 31 March	**16,980,322**	**0.96**	20,489,477	0.95

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 5.39 years *(2005: 4.39 years)*. Details of the range of exercise price of these options outstanding at the end of year are set out in the Directors' Report on page 13.

33. CAPITAL AND RESERVES

(a) Group

		Reserves attributable to equity holders of the Company								
	Issued capital HK$'000	Share premium HK$'000	Reserves on consolidation HK$'000	Exchange reserve HK$'000	Capital Redemption reserve HK$'000	Enterprise expansion reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interest HK$'000	Total capital and reserves HK$'000
At 1 April 2004	394,107	455,573	4,900	1,697	450	77,623	(228,783)	311,460	45,217	750,784
Loss for the year	–	–	–	–	–	–	(459,699)	(459,699)	(12,240)	(471,939)
At 31 March 2005	394,107	455,573	4,900	1,697	450	77,623	(688,482)	(148,239)	32,977	278,845
At 1 April 2005	394,107	455,573	4,900	1,697	450	77,623	(688,482)	(148,239)	32,977	278,845
Exchange difference	–	–	–	1,018	–	–	–	1,018	1,275	2,293
Loss for the year	–	–	–	–	–	–	(201,055)	(201,055)	(27,423)	(228,478)
At 31 March 2006	**394,107**	**455,573**	**4,900**	**2,715**	**450**	**77,623**	**(889,537)**	**(348,276)**	**6,829**	**52,660**

The accumulated losses of the Group include profits of HK$4,503,000 *(2005: HK$3,723,000)* accumulated by associates of the Group.

33. CAPITAL AND RESERVES (continued)

(b) Company

	Issued capital HK$'000	Reserves: Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000	Total capital and reserves HK$'000
At 1 April 2004	394,107	455,573	450	52,854	(113,369)	395,508	789,615
Loss for the year	–	–	–	–	(514,470)	(514,470)	(514,470)
At 31 March 2005	394,107	455,573	450	52,854	(627,839)	(118,962)	275,145
At 1 April 2005	394,107	455,573	450	52,854	(627,839)	(118,962)	275,145
Loss for the year	–	–	–	–	(229,574)	(229,574)	(229,574)
At 31 March 2006	**394,107**	**455,573**	**450**	**52,854**	**(857,413)**	**(348,536)**	**45,571**

Note:

As at 31 March 2006 and 2005, the Company has no reserve available for cash distribution as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$455,573,000 *(2005: HK$455,573,000)* may be distributed in the form of fully paid bonus shares.

Enterprise expansion reserve

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

Contributed surplus

The contributed surplus of the Company, which arose from a corporate reorganisation in March 1995 represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of China Motion Holdings Limited and the value of net assets of the underlying subsidiaries acquired as at 31 March 1995. Under the Companies Act 1981 of Bermuda (as amended), a company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account. On 6 September 1996, HK$9,344,832 was transferred to share capital upon a special bonus issue. At Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.

Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and is dealt with in accordance with the accounting policies adopted for foreign currency translation.

34. CASH (USED IN) GENERATED FROM OPERATIONS

	2006 HK$'000	2005 HK$'000 (restated)
Loss before taxation	**(229,555)**	(470,476)
Interest expenses	**4,169**	3,390
Finance charges on obligations under finance leases	**186**	126
Interest income	**(3,951)**	(7,798)
Depreciation	**45,949**	40,168
Amortisation on premium for land lease	**1,127**	1,448
Amortisation on other non-current assets	**1,029**	1,029
Change in fair value of investment properties	**(3,947)**	(23,000)
Provision for doubtful debts and other non-current assets	**58,028**	406,930
Impairment loss on goodwill in an associate	**51,482**	54,000
Impairment loss on interests in an associate	**6,540**	–
Impairment loss on other non-current assets	**12,767**	–
Impairment loss on property, plant and equipment	**51,000**	–
Reversal of impairment loss of buildings	**(20,370)**	–
Reversal of impairment loss of premium for land lease	**(34,970)**	–
Loss on disposal of property, plant and equipment	**1,360**	163
Gain on disposal of premium for land lease and buildings	**(2,024)**	(10,380)
Extinguishment of liabilities related to an expired contract	**–**	(23,847)
Share of (profits) losses of associates	**(780)**	8,764
Exchange difference arising on translation	**3,582**	–
Realised and unrealised loss on financial assets at fair value through profit or loss	**69**	1,298
Decrease in inventories	**710**	1,636
Decrease (Increase) in trade and other receivables	**203,604**	(111,519)
(Decrease) Increase in trade and other payables	**(146,318)**	142,879
Cash (used in) generated from operations	**(313)**	14,811

35. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions in the ordinary course of the Group's business.

	2006 **HK$'000**	2005 HK$'000 (restated)
(Income) Expenses		
Salaries and other short-term employee benefits paid to:		
Key management personnel, including amounts paid to the Company's directors as disclosed in note 13	**17,696**	19,840
Rental income received from:		
A company under control by a substantial shareholder of the Company	**–**	(392)
Rental expense paid to:		
A company under control by the spouse of a director of the Company	**1,140**	–
Service fee paid to:		
Minority shareholders of subsidiaries	**1,350**	–
Call centre service fee income received from:		
A minority shareholder of subsidiaries	**–**	(3,046)
Interest expense paid to:		
A minority shareholder of subsidiaries	**–**	7,425
Maintenance service income received from:		
A minority shareholder of subsidiaries	**–**	(1,055)
Sale of telecommunications equipment		
A minority shareholder of subsidiaries	**–**	(1,608)

35. RELATED PARTY TRANSACTIONS (continued)

(b) As at 31 March 2006, the amounts due from CMTH and its subsidiaries are as follows:

(i) Loans and receivables / Long-term investments

	2006 HK$'000	2005 HK$'000
Others, unlisted		
Funding to a telecommunications project receivable	**155,505**	207,546
Less: provision for impairment losses	**(155,505)**	(151,145)
At balance sheet date	**–**	56,401

(ii) Trade receivables

	2006 HK$'000	2005 HK$'000 (restated)
CMTH	**88,863**	30,357
CMM	**127,246**	123,566
SCMTU	**102,599**	101,862
	318,708	255,785
Less: provision for doubtful debts	**(318,708)**	(255,785)
At balance sheet date	**–**	–

This represents the remaining balance of funding in an original amount of HK$341,192,000 originally provided by the Group to a telecommunications project in the Guangdong province in the PRC in 1997. This project was entered into on behalf of the Group by a subsidiary of CMTH. The amount was to be returned by that company to the subsidiary of the Company before or upon expiry of a service agreement between the subsidiaries of CMTH and the Company in March 2004 when the service agreement expired.

As mentioned in note 9(a), on 30 January 2003, SMMT, CM Netcom and CMTH entered into an acquisition agreement to purchase in two equal stages, a total of 50% equity interest in CM Netcom for a consideration of RMB276,000,000 (equivalent to approximately HK$258,000,000).

35. RELATED PARTY TRANSACTIONS (continued)

(b) (ii) Trade receivables (continued)

Stage one of the acquisition was completed on 5 August 2003. The total consideration of HK$128,973,000 was satisfied by a cash payment of HK$2,085,000 and by the offsetting the receivable arising from the provision of capital expenditure funding of HK$80,159,000 and a deposit of HK$46,729,000 paid in previous years. In prior years, the resulting goodwill of approximately HK$124,853,000 has been amortised on a straight-line basis over a period of 10 years. Following the adoption of HKFRS 3, the Group ceased amortisation of goodwill from 1 April 2005. The investment in CM Netcom is classified as interests in associates (note 20).

Stage two of the acquisition of an interest in CM Netcom of HK$129,000,000 was expected to be completed in December 2005. The consideration for the stage two acquisition was to be paid for by set off against a portion of the funding to the telecommunications project receivable of HK$207,546,000. The remaining balance of HK$78,546,000 would be returned according to the rescheduling agreement entered into between CMTH and the Company dated 9 July 2003.

In 2005, in assessing the recoverability of the funding to the telecommunications project receivable, the Group had made reference to the value of VoIP business of CM Netcom and the ability of CMTH to repay the rescheduled Debt and has concluded that a provision for recoverability of the receivable of approximately HK$151,145,000 is required and of which HK$78,546,000 is included in the provision of the Debt.

A letter issued by CMTH to the Company dated 8 November 2005, confirmed to the Company that they have pledged all its equity interest in CM Netcom to a financial institution established in the PRC, an independent third party. As a result of the aforesaid pledge, CMTH would not be able to transfer the 25% equity interest in CM Netcom to SMMT free from encumbrances by 31 December 2005. By reason of CMTH's breach of the relevant acquisition agreement, SMMT issued a notice of rescission to CMTH on 19 December 2005 to rescind the acquisition agreement. Accordingly, the remaining balance of the consideration designated for stage two acquisition as mentioned in note 9 to the financial statements was reclassified as amount due from CMTH. In view of the current financial position of CMTH, the Group has made full provision on the amount due from CMTH of HK$58,028,000 for the year. The Company has been advised by its PRC legal advisers that SMMT shall not be able to seek specific performance of the acquisition agreement. SMMT has reserved the right to claim damages against CMTH as a result of the rescission.

35. RELATED PARTY TRANSACTIONS (continued)

(c) As at 31 March 2006, outstanding non-trade payables included payables to minority shareholders of subsidiaries are as follows:

	2006	2005
	HK$'000	HK$'000
Guangdong Mobile Communication Corporation	–	827

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk factors

Exposure to credit, liquidity, and market (including foreign currency and interest rate) risks arises in the normal course of the Group's business. The Group's risk management objectives and policies mainly focus on minimising the potential adverse effects of these risks on the Group by closely monitoring the individual exposure as follows:

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and cash transactions entered into for risk management purposes.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Debtors who have overdue are requested to settle all outstanding balances before any further credit is granted. In addition, the Group reviews the recoverable amount of each individual debtor regularly to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is considered minimal as such amounts are placed with banks with good credit rating.

(b) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing borrowings. As at 31 March 2006, certain borrowings of the Group amounting to HK$37,799,000 would be mature in more than one year *(2005: HK$50,346,000)*. Detail of the Group's borrowings are disclosed in note 28 to the financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risk factors (continued)

(c) Interest rate risk

The Group has exposure to interest rate risk through the impact of the rate changes on bank balances and bank borrowings. It is the Group's policy to maintain the proportion of borrowings in fixed rates and floating rates within an appropriate range. Management considers the interest rate risk exposure is limited and will consider hedging significant interest rate exposure should the need arise.

(d) Foreign currency risk

The Group's foreign currency risk exposure arise mainly from the exchange rate movements of Hong Kong dollars and United State dollars. The Group does not enter into any derivative contracts to hedge its foreign currency risk. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

37. COMMITMENTS

(a) Commitments under operating leases

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
In respect of leased properties, including transmission sites:		
Within one year	**16,129**	22,511
In the second to fifth years inclusive	**4,907**	14,471
	21,036	36,982
In respect of leased lines:		
Within one year	**4,939**	9,293
In the second to fifth years inclusive	**2,400**	3,127
Over five years	**4,200**	4,800
	11,539	17,220

37. COMMITMENTS (continued)

(b) Future operating lease arrangements

At the balance sheet date, the Group had future aggregate minimum lease income under non-cancellable operating leases, which are receivable as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**152**	606

38. CONTINGENT LIABILITIES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees in respect of banking facilities of subsidiaries	**–**	–	**284,008**	243,731
Guarantees given to third parties against non-performance of contractual obligations by subsidiaries	**38,673**	40,463	**31,585**	25,843

39. POST BALANCE SHEET EVENTS

On 30 March 2006, the directors proposed to the shareholders of the Company the capital reorganisation which involved:

(a) a reduction of the share capital of the Company by (i) reducing the nominal value of every issued share from HK$0.75 to HK$0.01, and a credit of approximately HK$388,852,000 to be arisen from such reduction on the basis of 525,475,573 shares in issue; and (ii) canceling the entire amount standing to the credit of the share premium account of the Company as at 31 March 2005 of approximately HK$455,573,000;

(b) a transfer of the credits of approximately HK$844,425,000 arising from the capital reduction to the contributed surplus account of the Company, and part of such contributed surplus shall be applied to set off in full against the Company's accumulated losses of approximately HK$627,839,000 as at 31 March 2005;

39. POST BALANCE SHEET EVENTS (continued)

(c) a cancellation of the unissued capital in the authorised share capital of the Company in the sum of HK$385,893,000 upon the capital reduction becoming effective, resulting in the authorised and issued share capital of the Company becoming HK$5,255,000 with the subsequent increase in the authorised share capital of the Company to HK$780,000,000 divided into 78,000,000,000 new shares. The new shares will rank pari passu in all respects with the then existing shares.

The capital reorganisation was approved by the shareholders of the Company in the special general meeting on 22 May 2006 and took effect from 23 May 2006. Details of the capital reorganisation are set out in the circular issued by the Company dated 26 April 2006.

40. COMPARATIVE FIGURES

As further explained in note 3 to the financial statements, due to the adoption of HKFRS during the year, the accounting treatment and the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior period adjustments and opening balance adjustments have been made and related comparative amounts have been restated.

41. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries are as follows:

Name	Country/place of incorporation/ operation and kind of legal entity in the PRC	Particulars of issued share capital/ registered capital	Percentage of effective equity interest held[1]	Principal activities
Best Class International Limited	Hong Kong	2 ordinary shares of HK$1.00 each	100%	Property holding
China Motion Data System Limited	Hong Kong	2 ordinary shares of HK$1.00 each	100%	Property holding
China Motion Holdings Limited	British Virgin Islands	100 ordinary shares of US$1.00 each	100%	Investment holding
ChinaMotion NetCom (Asia) Limited	Hong Kong	2 ordinary shares of HK$1.00 each	96.25%	Provision of long distance call services
ChinaMotion NetCom (Canada) Ltd.	Canada	1 common share	96.25%	Provision of long distance call services
China Motion Properties Limited	Hong Kong	2 ordinary shares of HK$1.00 each	100%	Property holding

41. PRINCIPAL SUBSIDIARIES (continued)

Name	Country/place of incorporation/ operation and kind of legal entity in the PRC	Particulars of issued share capital/ registered capital	Percentage of effective equity interest held[1]	Principal activities
China Motion (Australia) Pty Limited	Australia	1 ordinary share of A$1.00 each	96.25%	Provision of long distance call services
China Motion (Japan) Limited	Japan	200 shares of Yen 50,000.00 each	96.25%	Provision of long distance call services
China Motion (Singapore) Pte. Ltd.	Singapore	100,000 shares of S$1.00 each	96.25%	Provision of long distance call services
China Motion (Taiwan) Limited	Taiwan	NT$5,000,000	96.25%	Provision of long distance call services
China Motion (UK) Limited	United Kingdom	2 shares of £1.00 each	96.25%	Provision of long distance call services
China Motion Telecom (HK) Limited	Hong Kong	1,000,000 ordinary shares of HK$1.00 each	100%	Provision of mobile communications services
China Motion United Telecom Limited	Hong Kong	66,800,000 ordinary shares of HK$1.00 each	70%	Investment holding and provision of roaming trunked radio services
CM Concept Holdings (China) Limited	Hong Kong	100 ordinary shares of HK$1.00 each and 500 non-voting deferred shares of HK$10,000.00 each	100%	Investment holding
CM Concept (HK) Limited	Hong Kong	2 ordinary shares of HK$1.00 each	100%	Retail business
CM Tel (HK) Limited	Hong Kong	2 ordinary shares of HK$1.00 each	96.25%	Provision of long distance call services
CM Tel (Canada) Ltd	Canada	100 common shares of C$1.00 each	96.25%	Provision of long distance call services
CM Tel (USA) LLC	United States	US$10,000	96.25%	Provision of long distance call services
Digital Pacific Limited	Hong Kong	2 ordinary shares of HK$1.00 each	96.25%	Provision of long distance call services and retail business

41. PRINCIPAL SUBSIDIARIES (continued)

Name	Country/place of incorporation/ operation and kind of legal entity in the PRC	Particulars of issued share capital/ registered capital	Percentage of effective equity interest held[1]	Principal activities
Express Lane Investment Limited	Hong Kong	2 ordinary shares of HK$1.00 each	100%	Property holding
Guangzhou Motion Telecom Service Co., Ltd	PRC, equity joint venture	Paid-up capital HK$2,660,000 Registered capital HK$3,800,000	70%	Maintenance services and provision of telecommunications related services
Jackie Industries Limited	Hong Kong	2 ordinary shares of HK$1.00 each	100%	Property holding
Sheen Metro Investment Limited	Hong Kong	2 ordinary shares of HK$1.00 each	100%	Property holding
Sheen Sino Investment Limited	Hong Kong	2 ordinary shares of HK$1.00 each	100%	Property holding
Shenzhen Motion Mobile Telecom Services Co., Ltd	PRC, equity joint venture	Paid-up capital US$12,000,000 Registered capital US$29,000,000	90%	Provision of GSM-related services to telecommunications operator in the PRC
Shenzhen Motion Telecom Services Co., Ltd	PRC, equity joint venture	Paid-up and registered capital RMB25,000,000	70%	Maintenance for telecommunications equipment
Townlink Limited	Hong Kong	2,000,000 ordinary shares of HK$1.00 each	70%	Provision of telecommunications services and sale of mobile transceivers and related accessories
World Sheen Properties Limited	Hong Kong	2 ordinary shares of HK$1.00 each	100%	Property holding

1. All interests are held indirectly by the Company except for China Motion Holdings Limited which is directly owned by the Company.

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.