



潤 迅 通 信 國 際 有 限 公 司

**China Motion Telecom International Limited**

*(Incorporated in Bermuda with limited liability)*

(Stock Code : 989)

*Borderless Communications*

**2006/07** Interim Report

# Contents

Corporate Information	2
Condensed Consolidated Income Statement	3
Condensed Consolidated Balance Sheet	4
Condensed Consolidated Statement of Changes in Equity	5
Condensed Consolidated Cash Flow Statement	6
Notes to the Condensed Consolidated Financial Statements	7
Management Discussion and Analysis	23
Other Information	27

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

TING Pang Wan, Raymond (*Chairman*)

WU Chi Chiu (*Deputy Chairman and Chief Executive Officer*)

FAN Wei

### Independent Non-executive Directors

HUANG An Guo

LO Chi Ho, William

WONG Fei Tat

## AUDIT COMMITTEE

LO Chi Ho, William (*Chairman*)

HUANG An Guo

WONG Fei Tat

## REMUNERATION COMMITTEE

LO Chi Ho, William (*Chairman*)

HUANG An Guo

WONG Fei Tat

FAN Wei

## NOMINATION COMMITTEE

WU Chi Chiu (*Chairman*)

HUANG An Guo

LO Chi Ho, William

## QUALIFIED ACCOUNTANT

LUNG Yuet Kwan

## COMPANY SECRETARY

CHAN Siu Mei

## LEGAL ADVISORS

Tsun & Partners, Solicitors

Iu, Lai & Li, Solicitors & Notaries

Boase Cohen & Collins, Solicitors & Notaries

## AUDITORS

Moore Rowland Mazars

*Chartered Accountants*

*Certified Public Accountants*

## REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2604-08, 26th Floor

Harbour Centre

25 Harbour Road

Wanchai

Hong Kong

Tel : (852) 2209 2888

Fax : (852) 2209 1888

Website: <http://www.chinamotion.com>

## PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM08

Bermuda

## HONG KONG BRANCH SHARE REGISTRAR

Abacus Share Registrars Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Hong Kong

## SINGAPORE SHARE TRANSFER AGENT

Tricor Barbinder Share Registration Services

(A division of Tricor Singapore Pte Ltd)

8 Cross Street

#11-00 PWC Building

Singapore 048424

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking

Corporation Limited

DBS Bank (Hong Kong) Limited

# Condensed Consolidated Income Statement

For the six months ended 30 September 2006

The Board of Directors (the "Board") of China Motion Telecom International Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2006 together with the comparative figures. The unaudited condensed consolidated interim financial statements have been reviewed by the Audit Committee of the Company.

		<b>Six months ended 30 September</b>	
		<b>2006</b>	2005
		<b>(Unaudited)</b>	(Unaudited)
		<b>HK\$'000</b>	HK\$'000
	Note		
<b>Turnover</b>		<b>298,427</b>	419,524
Cost of sales and services		<b>(243,430)</b>	(372,418)
Gross profit		<b>54,997</b>	47,106
Other revenue		<b>5,453</b>	6,173
Other net income		<b>19,883</b>	1,732
Distribution costs		<b>(1,738)</b>	(2,483)
Administrative expenses		<b>(68,366)</b>	(105,019)
Provision for doubtful debts		–	(58,028)
Finance costs	4	<b>(2,752)</b>	(1,846)
Share of profits (losses) of associates		<b>33</b>	(46,347)
<b>Profit (loss) before taxation</b>	5	<b>7,510</b>	(158,712)
Taxation	6	–	(832)
<b>Profit (loss) for the period</b>		<b>7,510</b>	(159,544)
<b>Attributable to:</b>			
Equity holders of the Company		<b>7,646</b>	(142,147)
Minority interests		<b>(136)</b>	(17,397)
		<b>7,510</b>	(159,544)
Dividend	7	–	–
<b>Earnings (loss) per share</b>	8		
Basic		<b>1.44 HK cents</b>	(27.05) HK cents
Diluted		<b>N/A</b>	N/A

# Condensed Consolidated Balance Sheet

As at 30 September 2006

	Note	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
<b>Non-current assets</b>			
Investment properties		77,400	77,400
Property, plant and equipment	9	72,695	79,219
Interests in associates	10	5,457	5,424
Premium for land lease		81,703	82,759
Other non-current assets	11	3,739	3,739
		<b>240,994</b>	248,541
<b>Current assets</b>			
Inventories		7,799	4,229
Trade and other receivables	12	192,946	170,660
Pledged bank deposits		1,408	2,160
Bank balances and cash		22,628	35,202
		<b>224,781</b>	212,251
<b>Current liabilities</b>			
Trade and other payables	13	299,789	318,559
Borrowings due within one year	14	68,961	43,113
Obligations under finance leases	15	898	2,037
Taxation		5,877	6,246
		<b>375,525</b>	369,955
<b>Net current liabilities</b>		<b>(150,744)</b>	(157,704)
<b>Total assets less current liabilities</b>		<b>90,250</b>	90,837
<b>Non-current liabilities</b>			
Borrowings due after one year	14	25,510	37,799
Obligations under finance leases	15	712	378
		<b>26,222</b>	38,177
<b>NET ASSETS</b>		<b>64,028</b>	52,660
<b>CAPITAL AND RESERVES</b>			
Issued capital	16	5,505	394,107
Reserves		51,830	(348,276)
<b>Total capital and reserves attributable to equity holders of the Company</b>		<b>57,335</b>	45,831
<b>Minority interests</b>		<b>6,693</b>	6,829
<b>TOTAL EQUITY</b>		<b>64,028</b>	52,660

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2006

	Attributable to equity holders of the Company					
	Issued capital	Non-distributable	Contributed surplus	Accumulated losses	Minority interests	Total
		capital reserves				
(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	
Balance at 1 April 2006	394,107	541,261	–	(889,537)	6,829	52,660
Capital reduction	(388,852)	–	388,852	–	–	–
Share premium cancellation upon capital reduction	–	(455,573)	455,573	–	–	–
Transfer to set off accumulated losses and contributed surplus account upon capital reduction	–	–	(627,839)	627,839	–	–
Shares issued upon placement	250	4,415	–	–	–	4,665
Exchange difference	–	(807)	–	–	–	(807)
Profit for the period	–	–	–	7,646	(136)	7,510
<b>Balance at 30 September 2006</b>	<b>5,505</b>	<b>89,296</b>	<b>216,586</b>	<b>(254,052)</b>	<b>6,693</b>	<b>64,028</b>
Balance at 1 April 2005	394,107	540,243	–	(688,482)	32,977	278,845
Exchange difference	–	6,122	–	–	1,274	7,396
Loss for the period	–	–	–	(142,147)	(17,397)	(159,544)
Balance at 30 September 2005	394,107	546,365	–	(830,629)	16,854	126,697

# Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2006

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Net cash (used in) generated from operating activities	<b>(28,638)</b>	5,105
Net cash (outflow) inflow from investing activities	<b>(2,382)</b>	15,990
Net cash inflow (outflow) from financing activities	<b>8,570</b>	(24,901)
Net decrease in cash and cash equivalents	<b>(22,450)</b>	(3,806)
Exchange realignment	<b>274</b>	678
Cash and cash equivalents at 1 April	<b>35,202</b>	31,942
Cash and cash equivalents at 30 September	<b>13,026</b>	28,814
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<b>22,628</b>	28,814
Bank overdrafts	<b>(9,602)</b>	–
	<b>13,026</b>	28,814

# Notes to the Condensed Consolidated Financial Statements

## 1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

As at 30 September 2006, the Group had net current liabilities of HK\$150,744,000 (31 March 2006: HK\$157,704,000), as well as commitments that are payable in the next twelve months. Taking into account of the existing and available banking facilities, cash and bank balances of the Group and the historical payment patterns for the Group's liabilities together with the implementation of stringent control measures as stated in the annual report for the year ended 31 March 2006, the directors consider that the Group will be able to meet its liabilities as and when they fall due and accordingly, these unaudited condensed consolidated interim financial statements have been prepared on a going concern basis.

## 2. PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair value, as appropriate.

The accounting policies used in these unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's audited financial statements for the year ended 31 March 2006 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.



# Notes to the Condensed Consolidated Financial Statements

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 “Financial Reporting in Hyperinflationary Economies” <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>4</sup>
HK(IFRIC) – INT 10	Interim financial reporting and impairment <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006.

# Notes to the Condensed Consolidated Financial Statements

## 3. SEGMENT INFORMATION

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

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

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

Six months ended 30 September 2006	International telecommuni- cations services (Unaudited) HK\$'000	Mobile communi- cations services (Unaudited) HK\$'000	Distribution and retail chain (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Inter-segment elimination (Unaudited) HK\$'000	Group (Unaudited) HK\$'000
<b>Turnover</b>						
Revenue from external customers	194,080	57,650	46,697	-	-	298,427
Inter-segment revenue	11,494	-	1,589	-	(13,083)	-
Segment turnover	<u>205,574</u>	<u>57,650</u>	<u>48,286</u>	<u>-</u>	<u>(13,083)</u>	<u>298,427</u>
<b>Segment results</b>	<u>15,472</u>	<u>4,896</u>	<u>(4,982)</u>	<u>(5,157)</u>	<u>-</u>	<u>10,229</u>
Unallocated operating income and expenses						-
Finance costs						(2,752)
Share of profits of an associate						33
<b>Profit before taxation</b>						<u>7,510</u>
Taxation						-
<b>Profit for the period</b>						<u>7,510</u>

# Notes to the Condensed Consolidated Financial Statements

## 3. SEGMENT INFORMATION (continued)

### (a) Primary reporting format – business segments (continued)

Six months ended 30 September 2005	International telecommuni- cations services (Unaudited) (Restated) HK\$'000	Mobile communi- cations services (Unaudited) (Restated) HK\$'000	Distribution and retail chain (Unaudited) (Restated) HK\$'000	Others (Unaudited) (Restated) HK\$'000	Inter-segment elimination (Unaudited) (Restated) HK\$'000	Group (Unaudited) (Restated) HK\$'000
Turnover						
Revenue from						
external customers	312,000	54,274	53,250	-	-	419,524
Inter-segment revenue	13,973	-	1,906	-	(15,879)	-
Segment turnover	<u>325,973</u>	<u>54,274</u>	<u>55,156</u>	<u>-</u>	<u>(15,879)</u>	<u>419,524</u>
Segment results	<u>(42,840)</u>	<u>(4,380)</u>	<u>601</u>	<u>(8,145)</u>	<u>-</u>	<u>(54,764)</u>
Unallocated operating income and expenses						(55,755)
Finance costs						(1,846)
Share of losses of associates						(46,347)
Loss before taxation						(158,712)
Taxation						(832)
Loss for the period						<u>(159,544)</u>

# Notes to the Condensed Consolidated Financial Statements

## 3. SEGMENT INFORMATION (continued)

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

	Turnover		Segment results	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) (Restated) HK\$'000
The People's Republic of China ("PRC")	2,896	2,407	(1,370)	(3,752)
Hong Kong	161,165	236,537	7,300	(43,944)
Other Asia Pacific regions	42,753	63,088	7,413	(4,031)
North America and the United Kingdom	91,613	117,492	(3,114)	(3,037)
	<b>298,427</b>	419,524	<b>10,229</b>	(54,764)

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

## 4. FINANCE COSTS

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on bank and other borrowings:		
Wholly repayable within five years	2,075	813
Not wholly repayable within five years	623	942
Finance charges on obligations under finance leases	54	91
	<b>2,752</b>	1,846

# Notes to the Condensed Consolidated Financial Statements

## 5. PROFIT (LOSS) BEFORE TAXATION

This is stated after charging (crediting):

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Crediting:		
Write back of provision for trade receivables	<b>(19,883)</b>	–
Charging:		
Staff costs (include directors' emoluments)	<b>36,150</b>	52,639
Cost of inventories	<b>15,702</b>	16,477
Depreciation	<b>9,888</b>	22,109
Amortisation on premium for land lease	<b>1,057</b>	573
Operating lease charges: minimum lease payments		
Telecommunications equipment	<b>20,933</b>	25,056
Premises	<b>5,209</b>	8,525
Provision for doubtful trade and other receivables	–	1,603
Provision for impairment loss on goodwill		
of an associate	–	47,697
Provision for doubtful debts	–	58,028

# Notes to the Condensed Consolidated Financial Statements

## 6. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit arising from Hong Kong during the period. 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 period based on existing legislation, interpretations and practices in respect thereof.

	<b>Six months ended 30 September</b>	
	<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
Hong Kong Profits Tax	–	156
Deferred taxation	–	676
Total tax charge for the period	–	832

## 7. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2006 (2005: Nil).

## 8. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately HK\$7,646,000 (2005: loss of HK\$142,147,000) and the weighted average number of 532,579,398 (2005: 525,475,573) ordinary shares in issue during the six months ended 30 September 2006.

Diluted earnings per share for the six months ended 30 September 2006 and diluted loss per share for the six months ended 30 September 2005 have not been presented as the conversion of potential ordinary shares to ordinary shares would have anti-dilutive effect to the basic earnings (loss) per share.

## 9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2006, the Group invested approximately HK\$4,335,000 (2005: HK\$8,122,000) on property, plant and equipment.

# Notes to the Condensed Consolidated Financial Statements

## 10. INTERESTS IN ASSOCIATES

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
Share of net assets	<b>11,997</b>	11,964
Impairment loss	<b>(6,540)</b>	(6,540)
	<b>5,457</b>	5,424
Goodwill on acquisition	–	–
	<b>5,457</b>	5,424

## 11. OTHER NON-CURRENT ASSETS

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
Club debentures	<b>3,739</b>	3,739
Prepayment (Note)	–	–
Loans and receivables/long-term investments (Note 17(b))	–	–
	<b>3,739</b>	3,739

Note: The Group has reviewed the carrying amount of the prepayment as at 30 September 2006 and consider that it is not materially different from the carrying amount as at 31 March 2006.

# Notes to the Condensed Consolidated Financial Statements

## 12. TRADE AND OTHER RECEIVABLES

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
<b>Trade receivables</b>	<b>156,324</b>	134,124
<b>Other receivables</b>		
Deposits, prepayments and other receivables	<b>36,580</b>	36,496
Due from associates	<b>42</b>	40
	<b>36,622</b>	36,536
	<b>192,946</b>	170,660

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 at 30 September 2006 is as follows:

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
0 – 30 days	<b>43,176</b>	37,569
31 – 60 days	<b>23,633</b>	23,750
61 – 90 days	<b>16,265</b>	22,915
Over 90 days	<b>73,250</b>	49,890
	<b>156,324</b>	134,124



# Notes to the Condensed Consolidated Financial Statements

## 13. TRADE AND OTHER PAYABLES

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
<b>Trade payables</b>	<b>242,058</b>	246,852
<b>Other payables</b>		
Accrued charges and other creditors	<b>45,286</b>	59,477
Advance subscription fees received	<b>8,137</b>	8,042
Due to associates	<b>4,308</b>	4,188
	<b>57,731</b>	71,707
	<b>299,789</b>	318,559

The ageing analysis of trade payables as at 30 September 2006 is as follows:

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
0 – 30 days	<b>33,469</b>	41,999
31 – 60 days	<b>19,929</b>	33,068
61 – 90 days	<b>16,317</b>	33,403
Over 90 days	<b>172,343</b>	138,382
	<b>242,058</b>	246,852

## 14. INTEREST-BEARING BORROWINGS

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
Bank loans, secured	<b>84,869</b>	80,912
Bank overdrafts, secured	<b>9,602</b>	–
	<b>94,471</b>	80,912
Portion classified as current liabilities	<b>(68,961)</b>	(43,113)
Non-current portion	<b>25,510</b>	37,799

# Notes to the Condensed Consolidated Financial Statements

## 14. INTEREST-BEARING BORROWINGS (continued)

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

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
Bank loans and overdrafts:		
Within one year	<b>68,961</b>	43,113
In the second year	<b>4,088</b>	6,023
In the third to fifth years, inclusive	<b>13,048</b>	20,289
Over 5 years	<b>8,374</b>	11,487
	<b>94,471</b>	80,912

## 15. OBLIGATIONS UNDER FINANCE LEASES

The minimum lease payments are as follows:

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
Amount payable:		
Within one year	<b>957</b>	2,090
In the second to fifth years inclusive	<b>755</b>	394
	<b>1,712</b>	2,484
Future finance charges	<b>(102)</b>	(69)
Present value of lease obligations	<b>1,610</b>	2,415

# Notes to the Condensed Consolidated Financial Statements

## 15. OBLIGATIONS UNDER FINANCE LEASES (continued)

The present value of minimum lease payments is as follows:

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
Within one year	<b>898</b>	2,037
In the second year to fifth years inclusive	<b>712</b>	378
	<b>1,610</b>	2,415

## 16. ISSUED CAPITAL

	<b>30 September 2006</b>		31 March 2006	
	<b>Number of shares</b>	<b>(Unaudited) HK\$'000</b>	Number of shares	(Audited) HK\$'000
Authorised:				
Ordinary shares				
At 1 April 2006 and 2005, at HK\$0.75 each	<b>1,040,000,000</b>	<b>780,000</b>	1,040,000,000	780,000
Cancellation, diminution and increase as a result of capital reorganisation (Note (1)(b))	<b>76,960,000,000</b>	-	-	-
At 30 September 2006 at HK\$0.01 each and as at 31 March 2006 at HK\$0.75 each	<b>78,000,000,000</b>	<b>780,000</b>	1,040,000,000	780,000
Issued and fully paid:				
Ordinary shares				
At 1 April 2006 and 2005, at HK\$0.75 each	<b>525,475,573</b>	<b>394,107</b>	525,475,573	394,107
Capital Reduction from HK\$0.75 to HK\$0.01 each (Note (1)(a))	-	<b>(388,852)</b>	-	-
Share issued upon placements (Note (2))	<b>25,000,000</b>	<b>250</b>	-	-
	<b>550,475,573</b>	<b>5,505</b>	525,475,573	394,107

# Notes to the Condensed Consolidated Financial Statements

## 16. ISSUED CAPITAL (continued)

Notes:

- (1) On 22 May 2006, a special general meeting was convened and the shareholders approved the capital reorganization, involving capital reduction and authorised share capital cancellation, diminution and increase, which was implemented on 23 May 2006, as follows:

**(a) Capital Reduction**

The issued share capital of HK\$394,107,000 of the Company was reduced by HK\$388,852,000 to HK\$5,255,000 by (i) reducing the nominal value of every issued share from HK\$0.75 to HK\$0.01; and (ii) cancelling 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.

The amount arising the capital reduction in the amount of approximately HK\$844,425,000 shall be credited to the contributed surplus account of the Company, and part of credit amount of contributed surplus account was applied to set off in full against the Company's accumulated losses of approximately HK\$627,839,000 as at 31 March 2005.

**(b) Authorised Share Capital Cancellation, Diminution and Increase**

The unissued share capital of HK\$774,745,000 comprising HK\$385,893,000 immediately prior to the capital reduction and HK\$388,852,000 created by the capital reduction, in the authorised share capital of HK\$780,000,000 of the Company was cancelled and diminished resulting in the authorised and issued share capital of the Company becoming HK\$5,255,000.

Following such capital cancellation and diminution, the authorised share capital of the Company was increased from HK\$5,255,000 to HK\$780,000,000 by the creation of 77,474,524,427 shares of HK\$0.01 each.

- (2) On 10 August 2006, 25,000,000 shares was placed at HK\$0.189 per placing share with at least six independent investors.

# Notes to the Condensed Consolidated Financial Statements

## 17. RELATED PARTY TRANSACTIONS

- (a) The Group had the following material transactions with related parties, including minority shareholders of subsidiaries during the period, which were carried out in the normal course of business and on terms arranged by or between the parties concerned:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b><i>(Income) Expense</i></b>		
<b>Salaries and other short-term employee benefits paid to:</b>		
Key management personnel, including amounts paid to the Company's directors	<b>4,342</b>	12,014
<b>Rental income received from:</b>		
A company under control by a former director of the Company	–	(79)
<b>Rental expense paid to:</b>		
A company under control by the spouse of a former director of the Company	–	380
<b>Service fee paid to:</b>		
A minority shareholder of subsidiaries	<b>167</b>	312
A company under control by a former director of the Company	–	380
<b>Service fee income received from:</b>		
A company under control by a former director of the Company	–	(232)
<b>Sale of telecommunications equipment</b>		
A minority shareholder of subsidiaries	–	415

# Notes to the Condensed Consolidated Financial Statements

## 17. RELATED PARTY TRANSACTIONS (continued)

(b) As at 30 September 2006, the amounts due from China Motion Telecom Holdings Limited ("CMTH") and its subsidiaries are as follows:

### (i) Loans and receivables/Long-term investments

	HK\$'000
Others, unlisted	
Funding to a telecommunications project receivable	155,505
Less: provision for impairment losses	(155,505)
<b>At 30 September 2006 and 31 March 2006</b>	<b>–</b>

### (ii) Trade receivables

	HK\$'000
CMTH	88,863
China Motion Mobile Services Co., Limited	127,246
Shenzhen China Motion Telecom United Company Limited	102,599
	<b>318,708</b>
Less: provision for doubtful debts	(318,708)
<b>At 30 September 2006 and 31 March 2006</b>	<b>–</b>

# Notes to the Condensed Consolidated Financial Statements

## 18. COMMITMENTS UNDER OPERATING LEASES

At 30 September 2006, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
In respect of leased properties, including transmission sites:		
Within one year	<b>17,005</b>	16,129
In the second to fifth years inclusive	<b>7,818</b>	4,907
	<b>24,823</b>	21,036
In respect of leased lines:		
Within one year	<b>8,346</b>	4,939
In the second to fifth years inclusive	<b>2,482</b>	2,400
Over five years	<b>3,950</b>	4,200
	<b>14,778</b>	11,539

## 19. CHARGES ON ASSETS

As at 30 September 2006, the Group's leasehold buildings, premium for land lease and investment properties with aggregate carrying value of approximately HK\$205 million (31 March 2006: HK\$207 million) were pledged as security for banking facilities.

## 20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with the presentation of the current period.

# Management Discussion and Analysis

## REVIEW OF RESULTS AND OPERATIONS

For the six months ended 30 September 2006, the Group's overall business achieved a profit of HK\$7.5 million compared to a net loss of HK\$160 million for the same period last year. The turnaround was primarily attributable to an improvement of operating efficiency from increasing profit margin of 7% as a whole, a substantial reduction of HK\$36 million in administrative expenses resulting from stringent cost control measures and an extraordinary gain of HK\$20 million from write-back of provision for trade receivables during the period. A material provision of HK\$106 million for an investment in a VoIP related business in mainland China had been made during the last corresponding period, which had a temporary impact on the Group's profit at that time.

The turnover of the Group was HK\$298 million, a 29% reduction compared to HK\$420 million from the corresponding period last year. The reduction was mainly due to a decline in the turnover of the International Telecommunications Service business as a result of limited available capacity and increasing competition.

### International Telecommunications Services

For the six months ended 30 September 2006, International Telecommunications Services, the Group's largest business, recorded a turnover of HK\$194 million when compared with HK\$312 million for last corresponding period. The decrease in turnover was mainly attributable to limited capacity in the first half of this year and a change in business strategy to focus on high-margin products rather than volumes. In particular, Rest of the World (ROW) routes in China in the first quarter period were limited. Overall, the Group recorded 1,455 million minutes in IDD voice traffic.

For the six months ended 30 September 2006, the Hong Kong, Taiwan, Japan and Singapore markets sustained their business levels with no further expansion. Due to the competitive environment, IDD voice traffic declined when compared to the same period last year and the business sustained an operating loss of HK\$5 million. The operating loss was compensated by the write-back of provision for trade receivables of HK\$20 million. As such, the IDD business as a whole recorded a net profit of HK\$15 million for the period.



# Management Discussion and Analysis

## Mobile Communications Services

The Mobile Communications Services business did turnaround from loss which outperformed expectations and resulted in the business becoming the business driver of the Group during the period under review. For the six months ended 30 September 2006, the turnover of the business slightly increased by 6% to HK\$58 million when compared to HK\$54 million for last corresponding period. The Mobile Virtual Network Operator (“MVNO”) business, operating under the brand “CM Mobile”, made satisfactory progress during the period under review, mainly due to the contributions from improved credit control and premium customer base in value-added services such as dual SIM (“Dual-Number-One-SIM”). During the period, the business contributed a profit of HK\$5 million to the Group.

In view of intense local market competition, the Group is looking into opportunities for sales of mobile products and services in mainland China market. Management is cautiously optimistic about the potential for Mobile Communications Services and will launch more new products to meet customers’ needs.

## Distribution and Retail Chain

By introducing a series of measures to optimise the operational efficiency of the Group’s Distribution and Retail Chain business, the Group succeeded in keeping operating costs under control. For the six months ended 30 September 2006, the business reported a turnover decrease of 12% to HK\$47 million when compared with the last corresponding period, accounting for approximately 16% of the Group’s total turnover. The decrease was mainly due to a realignment of the Group’s target markets. During the period, there was a decrease in shop numbers due to closing down of shops with poor performance. As a result, the business suffered an operating loss of approximately HK\$5 million.

During the period, “CM Concept” was promoted as a one-stop-shop sales platform for telecommunications products and services and specifically as a specialty shop for cross-border communications in mainland China and Hong Kong. Following efforts to realign marketing strategies based on market trends, the Group achieved 65% growth in handset sales (cellular phone and fittings) over the last second half of the last reporting year while maintaining stable sales in telecommunications services during the period. The Group also relocated its retail outlets to areas with strong pedestrian flow and lower rental rates with a view to maximizing the cost-benefit. In addition, certain outlets were renovated to project a new energetic image to target mid-income level customers. As of the latest reporting date, the Group has twenty-two “CM Concept” outlets in Hong Kong.

# Management Discussion and Analysis

## PROSPECTS

Looking forward, the Group's current business may require the introduction of strategic partners in order to bring in synergies to improve efficiency and to release its working capital requirement. At the same time, the Group will look into feasible investment opportunities to diversify risk and broaden the sources of income in its core businesses.

The Group will also continue to discuss with debtors for the recovery of the outstanding debts with a view to serving the best interests of the shareholders.

## FINANCIAL POSITION

As at 30 September 2006, the Group's bank balances and cash amounted to approximately HK\$23 million. Total borrowings and obligations under finance leases amounted to approximately HK\$96 million. The Group's bank loans are repayable monthly and the last monthly instalment will be in May 2013. The gearing ratio of total borrowings as a percentage of the total capital and reserves attributable to equity holders of the Company was 168% (31 March 2006: 182%).

As at 30 September 2006, the Group had aggregate banking facilities of approximately HK\$75 million (excluding property mortgage loans), of which HK\$10 million were unutilized.

In August 2006, the Company raised net proceeds of approximately HK\$4.6 million through a placement of 25,000,000 shares at HK\$0.189 per placing share with at least six independent investors. Subsequently, the Company further raised proceeds of HK\$36 million from the subscription of 1,800,000,000 shares at HK\$0.02 per subscription share and obtained a standby facility of HK\$30 million from a substantial shareholder in October 2006. The net proceeds from the placement and the subscription have been retained for general working capital purpose.

The Group had rented out surplus office space as of the latest reporting date, which maximized the usage of the Group's properties and generated additional annual stable income of HK\$8 million for the Group.

With the proceeds from the placement and the subscription together with the Group's unutilized facilities and the rental income, the Group has significantly improved its liquidity. However, the Group will continue to implement stringent cost control measures and explore fund-raising opportunities in order to further enhance and strengthen its liquidity position and financial resources for operational requirements.

# Management Discussion and Analysis

## CONTINGENT LIABILITIES

As at 30 September 2006, the Group had contingent liabilities amounting to HK\$33 million (31 March 2006: HK\$39 million) in respect of guarantees given to third parties against non-performance of contractual obligations by subsidiaries.

In August 2006, one of the operating subsidiaries of the Company, namely, China Motion Telecom (HK) Limited (“CMTHK”) received from a supplier of the Company (the “Trade Creditor”) a letter before action (the “Letter Before Action”), alleging that CMTHK has failed and/or refused to pay the sum of HK\$49.7 million (the “Alleged Sum”), and unless the Alleged Sum is paid within 21 days from the date of the Letter Before Action, the Trade Creditor will commence legal proceedings against CMTHK for recovery thereof without further notice. In September 2006, the Company has issued a reply letter to the Trade Creditor to negotiate the repayment terms and schedule. Under subsequent negotiations between the parties, there was a material dispute on the Alleged Sum and both parties agreed to reconcile their accounting records and to finalise the amount as soon as practicable. Meanwhile, the business between the parties had not been affected and both traded normally with each other on a continual basis. No court documents issued by or on behalf of the Trade Creditor in furtherance of the Letter before Action has been received by the Company as at the date of this report.

## EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES

The Group is exposed to fluctuations in Renminbi and United States dollars as certain expenses payable by and trade receivables from customers are settled in these currencies.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2006, the Group had 246 full-time staff. Total staff costs (including directors’ emoluments) incurred for the period amounted to HK\$36 million (2005: HK\$52 million). The Group’s remuneration policy is in line with prevailing market practice and performance of individual staff.

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

## OTHER DISCLOSURE

The directors of the Company are not aware of any material changes from the information disclosed in the annual report of the Company for the year ended 31 March 2006, other than those disclosed in this report.

## Other Information

### DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2006, the directors and chief executive of the Company or their respective associates had the following interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which such director or chief executive was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Listing Rules, to be notified to the Company and the Stock Exchange:

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

<b>Name of director</b>	<b>No. of ordinary shares held</b>	<b>Nature of Interest</b>	<b>Position</b>	<b>Approximate shareholding percentage</b>
Mr. WU Chi Chiu	216,198,000 (Note)	Corporate	Long	39.27%

Note: The 216,198,000 shares were held by Oriental Base Limited ("Oriental"), a company of which is wholly and beneficially owned by Mr. Wu Chi Chiu. Mr. Wu was therefore deemed to be interested in the 216,198,000 shares held by Oriental.

## Other Information

### DIRECTORS' INTERESTS IN SECURITIES (continued)

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

As at 30 September 2006, details of share options granted to the directors of the Company, employees of the Group and others under the 1998 Share Option Scheme (as described under the section of "SHARE OPTION SCHEMES" below) were as follows:

Grantee	Number of share options			Outstanding as at 30 September 2006	Date of grant	Exercise period	Exercise price per share	Share price on date of grant (Note)	Share price on date of exercise
	Outstanding as at 1 April 2006	Granted during the period	Lapsed during the period						
							HK\$	HK\$	HK\$
<b>Director:</b>	-	-	-	-	-	-	-	-	-
<b>Employees and Others:</b>									
	51,496	-	-	51,496	29/06/1998	29/06/1999 – 17/03/2008	0.751	1.45	N/A
	597,359	-	-	597,359	19/08/1999	19/08/2000 – 17/03/2008	2.00	3.05	N/A
	839,392	-	(756,998)	82,394	25/02/2000	25/02/2001 – 17/03/2008	3.19	3.80	N/A
	1,792,075	-	(885,738)	906,337	17/10/2000	17/10/2001 – 17/03/2008	1.22	1.59	N/A
	13,500,000	-	(6,250,000)	7,250,000	20/03/2001	20/03/2002 – 19/03/2011	0.75	0.87	N/A
	200,000	-	-	200,000	28/01/2002	28/01/2003 – 27/01/2012	0.75	0.71	N/A
	<u>16,980,322</u>	<u>-</u>	<u>(7,892,736)</u>	<u>9,087,586</u>					

Note: The price of the shares disclosed as at the date of grant of share options refers to the closing price of the shares on the trading date immediately prior to the date of grant of share options.

All interests disclosed above represent long positions.

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

## Other Information

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

Save as disclosed above, as at 30 September 2006, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which such director or chief executive was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

## Other Information

### SUBSTANTIAL SHAREHOLDERS

As at 30 September 2006, the following persons or companies (other than the directors and chief executive of the Company) had or were deemed to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

<b>Name of shareholder</b>	<b>No. of ordinary shares held</b>	<b>Position</b>	<b>Approximate shareholding percentage</b>
Oriental	216,198,000 (Note 1)	Long	39.27%
Midsino International Limited ("Midsino")	54,049,500 (Note 2)	Long	9.82%
Mr. YANG Jun	54,049,500 (Note 2)	Long	9.82%
Ms. MA Lin	54,049,500 (Note 2)	Long	9.82%

Notes:

- (1) The 216,198,000 shares were held by Oriental, a company of which is wholly and beneficially owned by Mr. Wu Chi Chiu, a director of the Company. Mr. Wu was therefore deemed to be interested in the 216,198,000 shares held by Oriental. The interests disclosed represent the same interests as the corporate interest of Mr. Wu as disclosed under the section of "DIRECTORS' INTERESTS IN SECURITIES" above.
- (2) The 54,049,500 shares were held by Midsino, a company of which is beneficially owned as to 50% by Mr. Yang Jun and as to 50% by his spouse, Ms. Ma Lin. Each of Mr. Yang and Ms. Ma was therefore deemed to be interested in the 54,049,500 shares held by Midsino.

Save as disclosed above, there was no person known to the directors or chief executive of the Company who, as at 30 September 2006, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## Other Information

### SHARE OPTION SCHEMES

Pursuant to the share option scheme of the Company adopted on 18 March 1998 and subsequently amended on 19 February 2000 and 2 February 2001 (the “1998 Share Option Scheme”), the directors of the Company might at their discretion invite eligible employees of the Group, including executive directors of the Company, to take up options to subscribe for shares in the Company under the terms and conditions stipulated therein. The 1998 Share Option Scheme was subsequently terminated by the Company at a special general meeting held on 6 September 2002 but the share options granted and not yet exercised thereunder would however remain effective and are bound by the terms therein. Details of share options granted under the 1998 Share Option Scheme were disclosed under the section of “DIRECTORS’ INTERESTS IN SECURITIES” above.

On 6 September 2002, the Company adopted a new share option scheme (the “New Share Option Scheme”). No share options have ever been granted by the Company under the New Share Option Scheme since its adoption.

### AUDIT COMMITTEE

The Audit Committee has reviewed with management and the auditors of the Company the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including the review of the unaudited condensed consolidated interim financial statements for the six months ended 30 September 2006.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

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

### CORPORATE GOVERNANCE

During the six months ended 30 September 2006, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.



## Other Information

### CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

On 20 July 2005, the Company has adopted its own Code for Securities Transactions by Directors (the "Code") on terms no less exacting the required standard set out in the Model Code as contained in Appendix 10 of the Listing Rules. All Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standard as set out in the Code and the Model Code throughout the period.

### ADVANCES TO ENTITIES

In accordance with the requirement under Rule 13.20 of the Listing Rules, the directors of the Company report the details of advances to China Motion Telecom Holdings Limited and its subsidiaries as at 30 September 2006 as follows:

	<b>Total</b>
	HK\$'000
Trade receivables from	
China Motion Telecom Holdings Limited	88,863
China Motion Mobile Services Co., Limited	127,246
Shenzhen China Motion Telecom United Company Limited	102,599
	<hr/>
	318,708
GSM Trust Investment	155,505
Less: provision for doubtful debts at 31 March 2006	(474,213)
	<hr/>
At 30 September 2006 and 31 March 2006	–

## Other Information

### SUBSEQUENT EVENTS

- (a) By the approval of the shareholders of the Company at a special general meeting held on 16 October 2006, 1,800,000,000 new shares of the Company, representing approximately 76.58% of the issued share capital of the Company, were successfully subscribed by Marvel Bonus Holdings Limited ("Marvel Bonus"), a company of which is beneficially owned by Mr. Ting Pang Wan, Raymond, an executive director of the Company, and Mr. Yam Tak Cheung in equal shares, at the subscription price of HK\$0.02 per share on 18 October 2006 and HK\$29.7 million of a HK\$30 million standby facility was drawn down on 9 October 2006, pursuant to a subscription agreement dated 5 September 2006 (as supplemented by a supplemental subscription agreement dated 18 September 2006) entered into between Marvel Bonus and the Company.

Following the completion of the said subscription, Marvel Bonus was required to make an unconditional mandatory cash offers for all issued shares of the Company (other than those already owned by or agreed to be acquired by Marvel Bonus and parties acting in concert with it) at HK\$0.055 in cash per share and for cancellation of all outstanding share options of the Company at HK\$0.0001 in cash per share option pursuant to The Hong Kong Code on Takeovers and Mergers. Immediately after the closing of the unconditional mandatory offers on 13 November 2006, Marvel Bonus and parties acting in concert with it were interested in 1,801,167,578 shares, representing approximately 76.63% of the existing issued share capital of the Company. In compliance with the minimum requirement of 25% public float, Marvel Bonus completed to place 46,167,578 shares, representing approximately 1.96% of the issued share capital of the Company, through a placing agent to 32 independent placees at the placing price of HK\$0.57 per share on 20 November 2006, resulting a restoration of 25.33% public float of the Company.

## Other Information

### **SUBSEQUENT EVENTS (continued)**

- (b) On 20 October 2006, Oriental Base Limited, a company of which is wholly and beneficially owned by Mr. Wu Chi Chiu, an executive director of the Company, entered into the placing agreement with a placing agent for placing all its 216,198,000 shares, representing approximately 9.20% of the issued share capital of the Company, to 77 independent places at the placing price of HK\$0.55 per share.
  
- (c) As announced on 8 December 2006, the Board proposed to seek a voluntary delisting of the Company from the Official List of the Singapore Exchange Securities Trading Limited (the "SGX-ST") pursuant to the Listing Manual of the SGX-ST. Such voluntary delisting will be conditional upon the approval of the shareholders at a special general meeting to be convened for the shareholders to vote the relevant resolution, and the grant of approval from the SGX-ST for the delisting. A notice of the special general meeting and a circular containing further details of the delisting will be issued and despatched by the Company to its shareholders as soon as practicable.

By order of the Board

**Wu Chi Chiu**

*Director*

Hong Kong, 18 December 2006