



0000066791

ORIGINAL

ARIZONA CORPORATION COMMISSION

Application and Petition for Certificate of Convenience and Necessity to Provide Intra-state Telecommunications Services

Mail original plus 10 copies of completed application to:

For Docket Control Only: (Please Stamp Here)

Docket Control Center
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007-2927

ARIZONA CORPORATION COMMISSION
DOCUMENT CONTROL

Arizona Corporation Commission
DOCKETED

T-04185A-03-0388

JUN 09 2003

DOCKETED BY [Signature]

Please indicate if you have current applications pending in Arizona as an Interexchange reseller, AOS provider, or as the provider of other telecommunication services.

Type of Service: N/A

N/A

Docket No.: Date:

Date Docketed:

Type of Service:

Docket No.: Date:

Date Docketed:

A. COMPANY AND TELECOMMUNICATION SERVICE INFORMATION

(A-1) Please indicate the type of telecommunications services that you want to provide in Arizona and answer the appropriate numbered items:

- [X] Resold Long Distance Telecommunications Services (Answer Sections A, B, C).
[ ] Resold Local Exchange Telecommunications Services (Answer Sections A, B, C).
[ ] Facilities-Based Long Distance Telecommunications Services (Answer Sections A, B, D).
[ ] Facilities-Based Local Exchange Telecommunications Services (Answer Sections A, B, D, E)
[ ] Alternative Operator Services Telecommunications Services (Answer Sections A, B)

(A-2) The name, address, telephone number (including area code), facsimile number (including area code), e-mail address, and World Wide Web address (if one is available for consumer access) of the Applicant:

CM Tel (USA) LLC, 700 Wilshire Boulevard, 7th Floor, Los Angeles, California 90017
Tel: (213) 488-1951; Fax: (213) 488-1491; E-mail address: legal@cmtel-usa.com

(A-3) The d/b/a ("Doing Business As") name if the Applicant is doing business under a name different from that listed in Item (A-2):

(A-4) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Management Contact:

**Sean Luo**  
700 Wilshire Boulevard, 7<sup>th</sup> Floor  
Los Angeles, CA 90017  
Tel: 213-488-1951  
Fax: 213-488-1491  
E-mail: [sean.luo@china-motion.com](mailto:sean.luo@china-motion.com)

(A-5) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Attorney and/or Consultant:

**Eric Fishman, Esq., Holland & Knight LLP, 2099 Pennsylvania Avenue, NW, Washington, DC 20006**  
Phone: (202) 828-1849; FAX: (202) 955-5564; email address: [efishman@hklaw.com](mailto:efishman@hklaw.com)

(A-6) The name, address, telephone number (including area code), facsimile number (including area code), E-mail address of the Applicant's Complaint Contact Person:

**Robert Leon**  
700 Wilshire Boulevard, 7<sup>th</sup> Floor  
Los Angeles, CA 90017  
Tel: 213-488-1951  
Fax: 213-488-1491  
E-mail: [rob.leon@china-motion.com](mailto:rob.leon@china-motion.com)

(A-7) What type of legal entity is the Applicant?

- Sole proprietorship
- Partnership: \_\_\_\_\_ Limited, \_\_\_\_\_ General, \_\_\_\_\_ Arizona, \_\_\_\_\_ Foreign
- Limited Liability Company: \_\_\_\_\_ Arizona,  Foreign
- Corporation: \_\_\_\_\_ "S", \_\_\_\_\_ "C", \_\_\_\_\_ Non-profit, \_\_\_\_\_ Arizona, \_\_\_\_\_ Foreign
- Other, specify: \_\_\_\_\_

(A-8) Please include "Attachment A":

Attachment "A" must include the following information:

1. A copy of the Applicant's Certificate of Good Standing as a domestic or foreign corporation, LLC, or other entity in the State of Arizona.
2. A list of the names of all owners, partners, limited liability company managers (or if a member managed LLC, all members), or corporation officers and directors (specify).
3. Indicate percentages of ownership.

**See Attachment A and A-1.**

(A-9) Include your Tariff as "Attachment B".

Your Tariff must include the following information:

1. Proposed Rates and Charges for each service offered (reference by Tariff page number). See **Section 4, Page 16.**
2. Tariff Maximum Rate and Prices to be Charged (reference by Tariff page number). See **Section 4, Page 16.**
3. Terms and Conditions Applicable to provision of Service (reference by Tariff page number). See **Section 2, Page 7.**
4. Deposits, Advances, and/or Prepayments Applicable to provision of Service (reference by Tariff page number). **Applicant does not require deposits, advances or prepayments. See Section 2.7, Page 10.**
5. The proposed fee that will be charged for returned checks (reference by Tariff page number). **None.**

(A-10) Indicate the geographic market to be served:

- Statewide. (Applicant adopts statewide map of Arizona provided with this application).
- Other. Describe and provide a detailed map depicting the area.

(A-11) Indicate if the Applicant has been or if the Applicant is currently involved in any formal or informal complaint proceedings pending before any State or federal Regulatory Commission:

- Yes  No

If "Yes", please provide the following information:

1. States in which the Applicant has been or is involved in proceedings.
2. Detailed explanations of the Substance of the Complaints.
3. Commission Orders that resolved any and all Complaints.
4. Actions taken by the Applicant to remedy and/or prevent the Complaints from re-occurring.

(A-12) Indicate if the Applicant has been or is currently involved in any civil or criminal investigations AND/OR had judgment entered against it in any civil matter or been convicted of any criminal acts related to the delivery of telecommunications services within the last five (5) years:

- Yes  No

If "Yes", please provide the following information.

1. States involved in the judgments and/or convictions.
2. Reasons for the investigation and/or judgment.
3. Copy of the Court order, if applicable.

(A-13) Indicate if the Applicant's customers will be able to access alternative toll service providers or resellers via 1+101XXXX access.

Yes

No

(A-14) Is applicant willing to post a Performance Bond? Please check appropriate box(s).

For Long Distance Resellers, a \$10,000 bond will be recommended for those resellers who collect advances, prepayments or deposits.

Yes

No

If "No", continue to question (A-15).

For Local Exchange Resellers, a \$25,000 bond will be recommended.

Yes

No

If "No", continue to question (A-15).

For Facilities-Based Providers of Long Distance, a \$100,000 bond will be recommended.

Yes

No

If "No", continue to question (A-15).

For Facilities-Based Providers of Local Exchange, a \$100,000 bond will be recommended.

Yes

No

If "No", continue to question (A-15).

*Note: Amounts are cumulative if the Applicant is applying for more than one type of service.*

(A-15) If No to any of the above, provide the following information. Clarify and explain the Applicant's deposit policy (reference by tariff page number). Provide a detailed explanation of why the applicant's superior financial position limits any risk to Arizona consumers.

**Applicant does not collect or require deposits. See Applicant's proposed Tariff Section 2.7.**

(A-16) Submit copies of affidavits of publication that the Applicant has, as required, published legal notice of the Application in all counties where the services will be provided.

Prior to issuance of the CC&N, the Applicant must complete and submit an Affidavit of Publication Form. Refer to Attachment C - Legal Notice Material (Newspaper Information, Sample Legal Notice and Affidavit of Publication).

**SEE ATTACHMENT C.**

(A-17) Indicate if the Applicant is a switchless reseller of the type of telecommunications services that the Applicant will or intends to resell in the State of Arizona:

Yes  No

If "Yes", provide the name of the company or companies whose telecommunications services the Applicant resells.

**Global Crossing, Qwest, ChinaMotion**

(A-18) List the States in which the Applicant has had an application approved or denied to offer telecommunications services similar to those that the Applicant will or intends to offer in the State of Arizona:

**None**

(A-19) List the States in which the Applicant currently offers telecommunications services similar to those that the Applicant will or intends to offer in the State of Arizona.

**None**

(A-20) List the names and addresses of any alternative providers of the service that are also affiliates of the telecommunications company, as defined in R14-2-801.

**None**

### **B. FINANCIAL INFORMATION**

(B-1) Indicate if the Applicant has financial statements for the two (2) most recent years.

Yes  No

If "No," explain why and give the date on which the Applicant began operations.

(B-2) Include "Attachment D".

Provide the Applicant's financial information for the two (2) most recent years.

1. A copy of the Applicant's balance sheet.
2. A copy of the Applicant's income statement.
3. A copy of the Applicant's audit report.

4. A copy of the Applicant's retained earnings balance.
5. A copy of all related notes to the financial statements and information.

(B-3) Indicate if the Applicant will rely on the financial resources of its Parent Company, if applicable.

**Yes. A copy of a guaranty signed by an officer of the parent company of CM Tel is attached hereto as Attachment E.**

(B-4) The Applicant must provide the following information.

1. Provide the projected total revenue expected to be generated by the provision of telecommunications services to Arizona customers for the first twelve months following certification, adjusted to reflect the maximum rates for which the Applicant requested approval. Adjusted revenues may be calculated as the number of units sold times the maximum charge per unit.

**2000 subscribers x 20 = \$40,000**

2. Provide the operating expenses expected to be incurred during the first twelve months of providing telecommunications services to Arizona customers following certification.

**\$40,000**

3. Provide the net book value (original cost less accumulated depreciation) of all Arizona jurisdictional assets expected to be used in the provision of telecommunications service to Arizona customers at the end of the first twelve months of operation. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list.

**0**

4. If the projected value of all assets is zero, please specifically state this in your response.

**Net book value of Arizona assets = 0**

5. If the projected fair value of the assets is different than the projected net book value, also provide the corresponding projected fair value amounts.

**N/A**

**C. RESOLD LONG DISTANCE AND/OR LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES**

(C-1) Indicate if the Applicant has a resale agreement in operation

Yes  No

If "Yes", please reference the resale agreement by Commission Docket Number or Commission Decision Number.

**D. FACILITIES-BASED LONG DISTANCE AND/OR FACILITIES BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES**

(D-1) Indicate if the Applicant is currently selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services in the State of Arizona. This item applies to an Applicant requesting a geographic expansion of their CC&N:

Yes  No N/A

If "Yes," provide the following information:

1. The date or approximate date that the Applicant began selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services for the State of Arizona.
2. Identify the types of facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services that the Applicant sells in the State of Arizona.

If "No," indicate the date when the Applicant will begin to sell facilities-based long distance telecommunications AND/OR facilities-based local exchange telecommunications services in the State of Arizona:

**N/A - Applicant will not be a facilities-based provider in the State of Arizona.**

(D-2) Check here if you wish to adopt as your petition a statement that the service has already been classified as competitive by Commission Decision:

- Decision # 64178 Resold Long Distance N/A
- Decision # 64178 Resold LEC
- Decision # 64178 Facilities Based Long Distance
- Decision # 64178 Facilities Based LEC

**E. FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES**

(E-1) Indicate whether the Applicant will abide by the quality of service standards that were approved by the Commission in Commission Decision Number 59241:

- Yes  No N/A

(E-2) Indicate whether the Applicant will provide all customers with 911 and E911 service, where available, and will coordinate with incumbent local exchange carriers ("ILECs") and emergency service providers to provide this service:

- Yes  No N/A

(E-3) Indicate that the Applicant's switch is "fully equal access capable" (i.e., would provide equal access to facilities-based long distance companies) pursuant to A.A.C. R14-2-1111 (A):

- Yes  No N/A

I certify that the applicant is a foreign limited liability company. I certify that the company has authority to transact business in Arizona. I certify that all appropriate city, county, and/or State agency approvals have been obtained. Upon signing of this application, I attest that I have read the Commission's rules and regulations relating to the regulations of telecommunications services (A.A.C. Title 14, Chapter 2, Article 11) and that the company will abide by Arizona state law including the Arizona Corporation Commission Rules. I agree that the Commission's rules apply in the event there is a conflict between those rules and the company's tariff, unless otherwise ordered by the Commission. I certify that to the best of my knowledge the information provided in this Application and Petition is true and correct.

  
\_\_\_\_\_  
(Signature of Authorized Representative)

June 5, 2003  
\_\_\_\_\_  
(Date)

Eric Fishman  
\_\_\_\_\_  
(Print Name of Authorized Representative)

Assistant Secretary  
\_\_\_\_\_  
(Title)

SUBSCRIBED AND SWORN to before me this 5<sup>th</sup> day of June, 2003

  
\_\_\_\_\_  
NOTARY PUBLIC

My Commission Expires \_\_\_\_\_  
**Laura E. Ledet**  
Notary Public of the District of Columbia  
My Commission Expires 11/30/06



**Attachment A-1**

**Applicant's Certificate of Good Standing  
as a Foreign LLC in Arizona**

**(See attached)**

# STATE OF ARIZONA



Office of the  
**CORPORATION COMMISSION**

**CERTIFICATE OF REGISTRATION**

To all to whom these presents shall come, greeting:

I, James G. Jayne, Interim Executive Secretary of the Arizona Corporation Commission, do hereby certify that

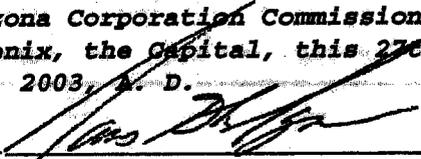
**\*\*\*CM TEL (USA) LLC\*\*\***

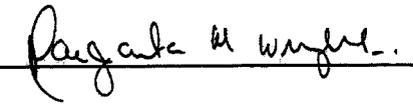
a foreign limited liability company organized under the laws of the jurisdiction of Delaware did obtain a Certificate of Registration in Arizona on the 20th day of May 2003.

This certificate relates only to the legal authority of the above named entity as of the date issued. This certificate is not to be construed as an endorsement, recommendation, or notice of approval of the entity's condition or business activities and practices.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission. Done at Phoenix, the Capital, this 27th Day of May, 2003, A. D.



  
Interim Executive Secretary

By 

**Attachment B**

**Proposed CM Tel (USA) LLC Tariff  
(see attached)**

**ARIZONA TELECOMMUNICATIONS TARIFF**

This tariff contains the descriptions, regulations, and rates applicable to the furnishing of service and facilities for telecommunications services provided by CM Tel (USA) LLC, with offices at 700 Wilshire Boulevard, 7<sup>th</sup> Floor, Los Angeles, CA 90017. This tariff applies for services furnished within the State of Arizona. This tariff is on file with the Arizona Corporation Commission, and copies may be inspected, during normal business hours, at the Company's place of business.

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Issued:

Effective:

Issued by: Eric Fishman, Assistant Secretary  
700 Wilshire Blvd., 7<sup>th</sup> Floor  
Los Angeles, CA 90017  
Telephone: 800-574-7521

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CHECK SHEET

Sheets 1 through 18 inclusive of this tariff are effective as of the date shown at the bottom of the respective page(s).

Title Page	Original
Page 2	Original
Page 3	Original
Page 4	Original
Page 5	Original
Page 6	Original
Page 7	Original
Page 8	Original
Page 9	Original
Page 10	Original
Page 11	Original
Page 12	Original
Page 13	Original
Page 14	Original
Page 15	Original
Page 16	Original
Page 17	Original
Page 18	Original

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SYMBOLS

The following are the only symbols used for the purposes indicated below:

**(DR)** - Discontinued rate

**(AT)** - Additions to text

**(RT)** - Removal of text

**(CR)** - Change in rate

**(CP)** - Change in practice

**(CT)** - Change in text

**(NR)** - New rate

**(C)** - A correction

**(MT)** - Move of text

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TARIFF FORMAT

- A. Sheet Numbering - Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the tariff. When a new sheet is added between sheets already in effect, a decimal is added.
- B. Sheet Revision Numbers - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current sheet version on file with the Commission. For example, the 4th revised Sheet 14 cancels the 3rd revised Sheet 14. Because of various suspension periods, deferrals, etc. the most current sheet number on file with the Commission is not always the tariff page in effect. Consult the Check Sheet for the sheet currently in effect.
- C. Paragraph Numbering Sequence - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:
- 2.1.
  - 2.1.1.
  - 2.1.1.A.
  - 2.1.1.A.1.
  - 2.1.1.A.1.(a).
  - 2.1.1.A.1.(a).I.
  - 2.1.1.A.1.(a).I.(i).
  - 2.1.1.A.1.(a).1.(i)(1)
- D. Check Sheets - When a tariff filing is made with the Commission, an updated check sheet accompanies the tariff filing. The check sheet lists the sheets contained in the tariff, with a cross reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk. There will be no other symbols used on this page if these are the only changes made to it (i.e., the format, etc. remains the same, just revised revision levels on some pages). The tariff user should refer to the latest check sheet to find out if a particular sheet is the most current on file with the Commission.

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**SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS**

Access Line - An arrangement which connects the customer's location to a CM Tel (USA) LLC network switching center.

Authorization Code - A numerical code, one or more of which are available to a customer to enable him/her to access the carrier, and which are used by the carrier both to prevent unauthorized access to its facilities and to identify the customer for billing purposes.

Company or Carrier - CM Tel (USA) LLC

Customer - The person, firm, corporation or other entity which orders service and is responsible for payment of charges due and compliance with the Company's tariff regulations.

Day - From 8:00 AM up to but not including 5:00 PM local time Monday through Friday.

Commission - Arizona Corporation Commission.

Evening - From 5:00 PM up to but not including 11:00 PM local time Sunday through Friday.

Holidays - CM Tel (USA) LLC's recognized holidays are New Year's Day, Martin Luther King, Jr. Day, Presidents Day, Memorial Day, July 4th, Labor Day, Thanksgiving Day, Christmas Day.

Night/Weekend - From 11:00 PM up to but not including 8:00 AM Sunday through Friday, and 8:00 AM Saturday up to but not including 5:00 PM Sunday.

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**SECTION 2 - RULES AND REGULATIONS****2.1 Undertaking of CM Tel (USA) LLC**

CM Tel (USA) LLC services and facilities are furnished for communications originating at specified points within the State of Arizona under terms of this Tariff. CM Tel (USA) LLC installs, operates, and maintains the communication services provided here under in accordance with the terms and conditions set forth under this Tariff. It may act as the customer's agent for ordering access connection facilities provided by other carriers or entities when authorized by the customer, to allow connection of a customer's location to the CM Tel (USA) LLC network. The customer shall be responsible for all charges due for such service arrangement. The Company's services and facilities are provided on a monthly basis unless ordered on a longer term basis, and are available twenty-four hours per day, seven days per week.

**2.2 Limitations**

- 2.2.1 Service is offered subject to the availability of facilities and the provisions of this tariff.
- 2.2.2 CM Tel (USA) LLC reserves the right to discontinue furnishing service, or limit the use of service necessitated by conditions beyond its control; or when the customer is using service in violation of the law or the provisions of this Tariff.
- 2.2.3 All facilities provided under this Tariff are directly controlled by CM Tel (USA) LLC and the customer may not transfer or assign the use of service or facilities, except with the express written consent of the Company. Such transfer or assignment shall only apply where there is no interruption of the use or location of the service or facilities.

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**SECTION 2 - RULES AND REGULATIONS****2.2 Limitations (Cont.)**

2.2.4 Prior written permission from the Company is required before any assignment or transfer. All regulations and conditions contained in this Tariff shall apply to all such permitted assignees or transferees, as well as small conditions for service.

2.2.5 The Company does not undertake to transmit messages, but offers the use of its facilities when available, and will not be liable for errors in transmission or for failure to establish connections.

**2.3 Use**

Services provided under this tariff may be used for any lawful purpose for which the service is technically suited.

**2.4 Liabilities of The Company**

2.4.1 CM Tel (USA) LLC's liability for damages arising out of mistakes, interruptions, omissions, delays, errors, or defects in the transmission occurring in the course of furnishing service or facilities, and not caused by the negligence of its employees or its agents, in no event shall exceed an amount equivalent to the proportionate charge to the customers for the period during which the aforementioned faults in transmission occur.

2.4.2 CM Tel (USA) LLC shall not be liable for and shall be held harmless by the customer against:

- (A) Claims for libel, slander, or infringement of copyright arising out of the material, data, information, or other content transmitted over the Company's facilities.

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**SECTION 2 - RULES AND REGULATIONS****2.4 Liabilities of The Company (Cont.)**

- (B) All other claims arising out of any act or omission of the customer in connection with any service or facility provided by CM Tel (USA) LLC.

**2.5 Interruption of Service**

- 2.5.1 Credit allowance for the interruption of service which is not due to the Company's testing or adjusting, negligence of the customer, or to the failure of channels or equipment provided by the customer, are subject to the general liability provisions set forth in 2.4 herein. It shall be obligation of the customer to notify the Company immediately of any interruption in service for which a credit allowance is desired. Before giving such notice, the customer shall ascertain that the trouble is not being caused by any action or omission by the customer within his control, or is not in wiring or equipment, if any, furnished by the customer and connected to the Company's facilities.
- 2.5.2 For purposes of credit computation, every month shall be considered to have 720 hours.
- 2.5.3 No credit shall be allowed for an interruption of a continuous duration of less than two hours.
- 2.5.4 The customer shall be credited for an interruption of two hours or more at the rate of 1/720th of the monthly charge for the facilities affected for each hour or major fraction thereof that the interruption continues.

Credit Formula:

$$\text{Credit} = \frac{A}{720} \times B$$

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**SECTION 2 - RULES AND REGULATIONS**2.5 Interruption of Service (Cont.)

"A" - outage time in hours

"B" - total monthly charge for affected facility

2.6 Restoration of Service

The use and restoration of service shall be in accordance with the priority system specified in part 64, Subpart D of the Rules and Regulations of the Federal Communications Commission.

2.7 Advance Payments

The Company does not require advance deposits.

2.8 Taxes

All state and local taxes (i.e., gross receipts tax sales tax, municipal utilities tax) are listed as separate line items and are not included in the quoted rates.

2.9 Cancellation by Customer

Customer may cancel service by providing written notice to the Company.

2.10 Refusal or Discontinuance by Company

Company may refuse or discontinue service under the following conditions and in accordance with Commission rules, if any. Unless otherwise stated, the Customer will

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**SECTION 2 - RULES AND REGULATIONS****2.10 Refusal or Discontinuance by Company (Cont.)**

be given 30 day's written notice and allowed a reasonable time to comply with any rule or remedy any deficiency.

- (a) For non-compliance with and/or violation of any State or municipal law, ordinance or regulation pertaining to telephone service.
- (b) For the use of telephone service for any other property or purpose other than that described in the application.
- (c) For failure or refusal to provide the Company with a deposit, if applicable, when requested, to insure payment of bills in accordance with the Company's regulations or failure to meet the Company's credit requirements.
- (d) For neglect or refusal to provide reasonable access to Company for the purpose of inspection and maintenance of Company-owned Equipment.
- (e) For non-compliance with and/or violation of the Commission's regulations or the Company's rules and regulations on file with the Commission, provided 30 days' written notice is given before termination.
- (f) For non-payment of bills for telephone service. Suspension or termination of service shall not be made without five (5) working days' written notice to the Customer, or otherwise, in compliance with Commission rules.
- (g) Without notice in the event of Customer use of equipment in such a manner as to adversely affect the Company's equipment or the Company's service to others.
- (h) Without notice in the event of tampering with the equipment furnished and owned by the Company.

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**Issued:****Effective:**

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**SECTION 2 - RULES AND REGULATIONS**

2.13 Refusal or Discontinuance by Company (Cont.)

- (i) Without notice in the event of unauthorized or fraudulent use of service. Whenever service is discontinued for fraudulent use of service, the Company may, before restoring service, require the Customer to make, at his own expense, all changes in facilities or equipment necessary to eliminate illegal use.
- (j) For failure of the Customer to make proper application for service.
- (k) When necessary for the Company to comply with any order or request of any governmental authority having jurisdiction.

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**SECTION 3 - DESCRIPTION OF SERVICE****3.1 Timing of Calls**

The customer's long distance usage charge is based on the actual usage of CM Tel (USA) LLC's network. Usage begins when the called destination returns answer supervision, determined through receipt of a signal sent by the local telephone company to the Company switch, or through software utilizing audio tone detection. When software answer supervision is employed, up to 60 seconds of ringing is allowed before it is billed as usage of the network. A call is terminated when the calling or called party hangs up.

**3.2 Minimum Grade of Service**

A customer can expect a minimum grade of service (successful access to non-Company networks) of not less than 90% during peak use periods for all Feature Group D services.

**3.3 Special Services**

For the purpose of this tariff, a Special Service is deemed to be any service requested by the customer for which there is no prescribed rate in this tariff. Special Service charges will be developed on an individual case basis and filed in this tariff.

**3.4 General Description of Company's Communication Services**

There are three types of service: Common shared access switched service, hereinafter referred to as Message Toll Service or MTS, inbound Wide Area Telecommunications Service (WATS), and Directory Assistance. The customer's total monthly use of Company's service is charged at the applicable rates per minute set forth herein.

---

**Issued:****Effective:**

Issued by: Eric Fishman, Assistant Secretary  
700 Wilshire Blvd., 7<sup>th</sup> Floor  
Los Angeles, CA 90017  
Telephone: 800-574-7521

---

**SECTION 3 - DESCRIPTION OF SERVICE****3.4.1 Message Toll Service (MTS)**

MTS service is a one-way direct dial service utilizing dial-up access, making use of common shared access lines connecting the customer with Company facilities. In central offices where equal access is not available, customers may use MTS service by dialing a 7-digit access number. MTS is available to business and residential Customers for direct dial calling from presubscribed telephones. There is no minimum commitment required. Calls are billed in six (6) second increments after the initial minimum period of eighteen (18) seconds, with the fraction, if any, of the last minute of each call rounded up to the next highest whole minute, unless stated otherwise.

**3.4.2 Inbound Wide Area Telecommunications Service (WATS)**

WATS service is a custom switched telecommunications service which permits inbound 800-number service from stations located in the State of Arizona to a station associated with a customer's local exchange telephone number. For each call under the WATS option the minimum charge shall be the applicable charge for one minute of use with use in excess of one minute during a call charged at the applicable rate per minute, with the fraction, if any, of the last minute of each call rounded up to the next highest tenth of one minute, unless stated otherwise. For plans that offer a volume discount, interstate, intrastate and international calls (except directory acceptance calls) will be aggregated to determine the Customer's volume level achieved in a monthly billing cycle.

**3.4.3 Directory Assistance**

Directory Assistance is available to customers of any of the Company's services. A charge will apply to each Directory Assistance call. The charge applies to each call regardless of whether the Directory Assistance Bureau is able to furnish the requested telephone number. Up to two requests may be made on each Directory Assistance call. Directory Assistance charges will not count towards any volume discounts.

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Los Angeles, CA 90017  
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**SECTION 4 - RATES**

4.1 Time of Day Rate Periods

For time of day sensitive products, the appropriate rates apply for day (DAY), evening (NON-DAY) and night/weekend (NON-DAY) calls based on the following chart.

	MON	TUES	WED	THUR	FRI	SAT	SUN	
8:00 AM TO 5:00 PM	DAYTIME RATE PERIOD							
5:00 PM TO 11:00 PM*	EVENING AND NON-DAY RATE PERIOD							EVE & N.D.
11:00 PM TO 8:00 AM*	NIGHT/WEEKEND AND NON-DAY RATE PERIOD							

\* to, but not including

Calls are billed based on the rate in effect for the actual time period(s) during which the call occurs. Calls that cross rate period boundaries are billed the rates in effect in that boundary for each portion of the call.

4.2 Rates and Charges

The Customer is charged individually for each call placed through the Carrier. Customers are billed based on their use of Company's service. Rates may vary by call duration, time of day, and product type.

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Los Angeles, CA 90017  
Telephone: 800-574-7521

**SECTION 4 - RATES**

4.2.1 MTS and WATS Services

Calls are billed in six (6) second increments after the initial minimum period of eighteen (18) seconds.

Mileage	DAYTIME		EVENING		NIGHT/WEEKEND	
	Initial 18 Sec.	Add'l 6 Sec.	Initial 18 Sec.	Add'l 6 Sec.	Initial 18 Sec.	Add'l 6 Sec.
All Miles	.0884	.0295	.0884	.0295	.0884	.0295

4.2.2 Directory Assistance

Directory Assistance is available to Customers of Company's MTS and WATS Services. Directory Assistance charge applies to each call to the Directory Assistance Bureau. Up to two requests may be made on each call to Directory Assistance. The Directory Assistance charge applies to each call regardless of whether the Directory Assistance Bureau is able to furnish the requested telephone number.

Per Call Charge: \$0.60

4.2 Special Promotions

The company will, from time to time, offer special promotions to its customers waiving certain charges. These promotions will be approved by the Commission with specific starting and ending dates and under no circumstances run for longer than 90 days in any 12 month period.

WAS1 #1148310 v1

Issued:

Effective:

Issued by: Eric Fishman, Assistant Secretary  
700 Wilshire Blvd., 7<sup>th</sup> Floor  
Los Angeles, CA 90017  
Telephone: 800-574-7521

## Attachment C

### Legal Notice Material

**[DRAFT – THE LEGAL NOTICE WILL BE PUBLISHED IN ACCORDANCE WITH COMMISSION RULES UPON THE RECEIPT OF A DOCKET CONTROL NUMBER]**

NOTICE OF APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE COMPETITIVE INTRASTATE TELECOMMUNICATIONS AS A LONG DISTANCE AND LOCAL EXCHANGE RESELLER BY CM TEL (USA) LLC.

CM TEL (USA) LLC (“Applicant”) has filed with the Arizona Corporation Commission (“Commission”) as application for a Certificate of Convenience and Necessity (“Certificate”) to provide competitive intrastate telecommunications services as a long distance reseller in the State of Arizona. Applicant will be required by the Commission to provide this service under the rates and charges and terms and conditions established by the Commission.

A.R.S. § 40-282 provides that the Commission may act on an application for a Certificate to provide resold telecommunications services without a hearing, or with a hearing. If one is requested by any party, Applicant or any other party must request a hearing within twenty-one (21) days from publication of this notice, or the Commission will rule on the application without a hearing.

The application, report of the Commission’s Utilities Division Staff, and any written exceptions to the Staff Report prepared by the applicant are available for inspection during regular business hours at the offices of the Commission located at 1200 West Washington Street, Phoenix, Arizona 85007, and at CM TEL (USA) LLC, 700 Wilshire Boulevard, 7<sup>th</sup> Floor, Los Angeles, CA 90017.

Under appropriate circumstances, interested parties may intervene in the proceedings and participate as a party. Intervention shall be in accordance with A.A.C., R14-3-105, except that all motions to intervene must be filed within twenty-one (21) days from the date of publication of this notice. You may have the right to intervene in the proceeding, or you may make a statement for the record. If you have any comments, mail them to the Commission and send a copy to CM TEL (USA) LLC.

The Arizona Corporation Commission Attention: Docket Control re: CM TEL (USA) LLC, T-\_\_\_\_\_-01-0441 1200 West Washington Street Phoenix, Arizona 85007.

All comments should be received within twenty-one (21) days from the date of publication of this notice.

If you have any questions about this application or have any objections to its approval, you may contact the Consumer Services Section of the Commission at 1200 West Washington Street, Phoenix, Arizona 85007 or call 1-800-222-7000.

The Commission does not discriminate on the basis of disability in admission to its public meetings.

Persons with a disability may request reasonable accommodations such as a sign language interpreter, as well as request this document in an alternative format, by contact Shelly Hood, ADA Coordinator, voice phone number 602/542-0832. E-Mail [shood@cc.state.az.us](mailto:shood@cc.state.az.us). Requests should be made as early as possible to allow time to arrange the accommodation.

**Attachment D**  
**Financial Information**  
**(See attached)**

## **Attachment D**

### **Financial Information (See attached)**

In support of its financial qualifications, CM Tel (USA) LLC ("CM Tel") has attached as Attachment E a Letter of Guarantee from its parent company, China Motion Telecom International Limited ("China Motion"). Also attached is the audited 2002 annual report for China Motion and the unaudited interim report for China Motion for the six months ended September 30, 2002. The next attachment is China Motion's audited Condensed Consolidated Profit and Loss Statement, Condensed Consolidated Balance Sheet, and Condensed Consolidated Statement of Changes in Equity.

CM Tel (USA) LLC does not have audited financial information. However, attached are copies of the Applicant's Balance Sheet as of March 2003 and March 2002, and Applicant's Profit and Loss Statement as of March 2003 and March 2002.

The Applicant respectfully submits that the attached materials adequately demonstrate CM Tel's financial qualifications to provide telecommunications services. To the extent that the format of the attached materials does not strictly comply with Commission rules, CM Tel hereby requests a limited waiver of the Commission's rules. Should the Commission staff require the submission of further financial information, CM Tel is willing to submit such other financial information as is available.



**Transformation  New Horizon**

A N N U A L R E P O R T 2 0 0 2



**潮迅通信國際有限公司**

**China Motion Telecom International Limited**

(Incorporated in Bermuda with limited liability)



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35	Balance Sheets	36	Statements of Changes in Equity	38	Consolidated Cash Flow Statement		
39	Notes to the Accounts	85	Notice of Annual General Meeting				

# A New Chapter

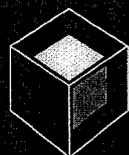
**Following its restructuring and resources consolidation, China**

**Motion is now poised to explore the golden opportunities unravelling**



**in the telecom business with focus on the development of cross-**

**border value-added services to broaden the market share.**



## Financial Highlights

### Financial Highlights

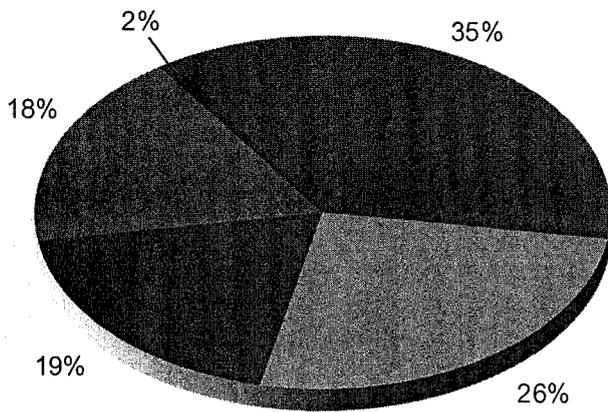
	2002	2001	2000	1999	1998
Turnover (HK\$ million)	<b>722.0</b>	768.4	891.2	863.6	780.8
Group (loss)/profit before tax and minority interests (HK\$ million)	<b>(115.0)</b>	(221.9)	62.6	71.8	92.7
Net (loss)/profit (HK\$ million)	<b>(131.0)</b>	(212.2)	40.0	2.1	80.2
(Loss)/earnings per share (HK\$)	<b>(24.9)</b>	(48.2)	12.3	0.7	26.4
Total assets (HK\$ million)	<b>1,109.2</b>	1,379.0	1,442.7	1,574.9	1,035.8
Total liabilities (HK\$ million)	<b>364.2</b>	503.0	648.3	1,037.8	481.7
Net assets (HK\$ million)	<b>745.0</b>	876.0	794.4	537.1	554.1
Net asset value per share (HK\$)	<b>1.4</b>	1.7	2.1	1.8	1.8
Working capital ratio	<b>2.2</b>	1.9	1.0	0.8	1.5
Long term debt to equity	<b>0.13</b>	0.13	0.18	0.54	0.29

Note: (1) The financial information for the year ended 31 March 2002 has been prepared in accordance with Statements of Standard Accounting Practice issued by The Hong Kong Society of Accountants while the financial information of the preceding financial years have been prepared in accordance with International Accounting Standards ("IAS"). There is no material impact to the Group's consolidated accounts as a result of the change in the adoption of accounting standards for the preparation of the accounts. Please refer to note 1(a) to the accounts for details.

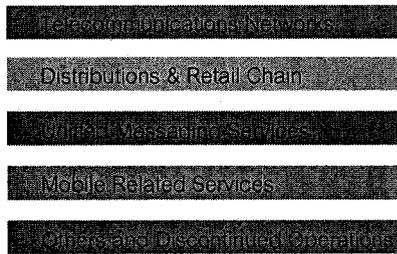
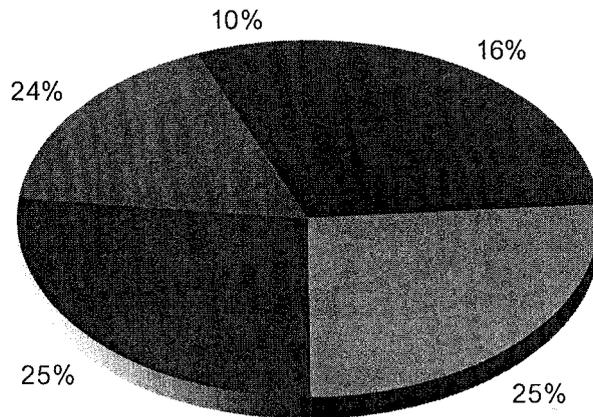
(2) The financial information for the years ended 31 March 1998, 1999 and 2000 have not been adjusted for the effect arising from the adoption of IAS 38 and IAS 10 (revised 1999) which became effective for the financial year ended 31 March 2001 and onwards.

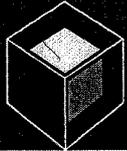
## Turnover by Core Businesses

2002



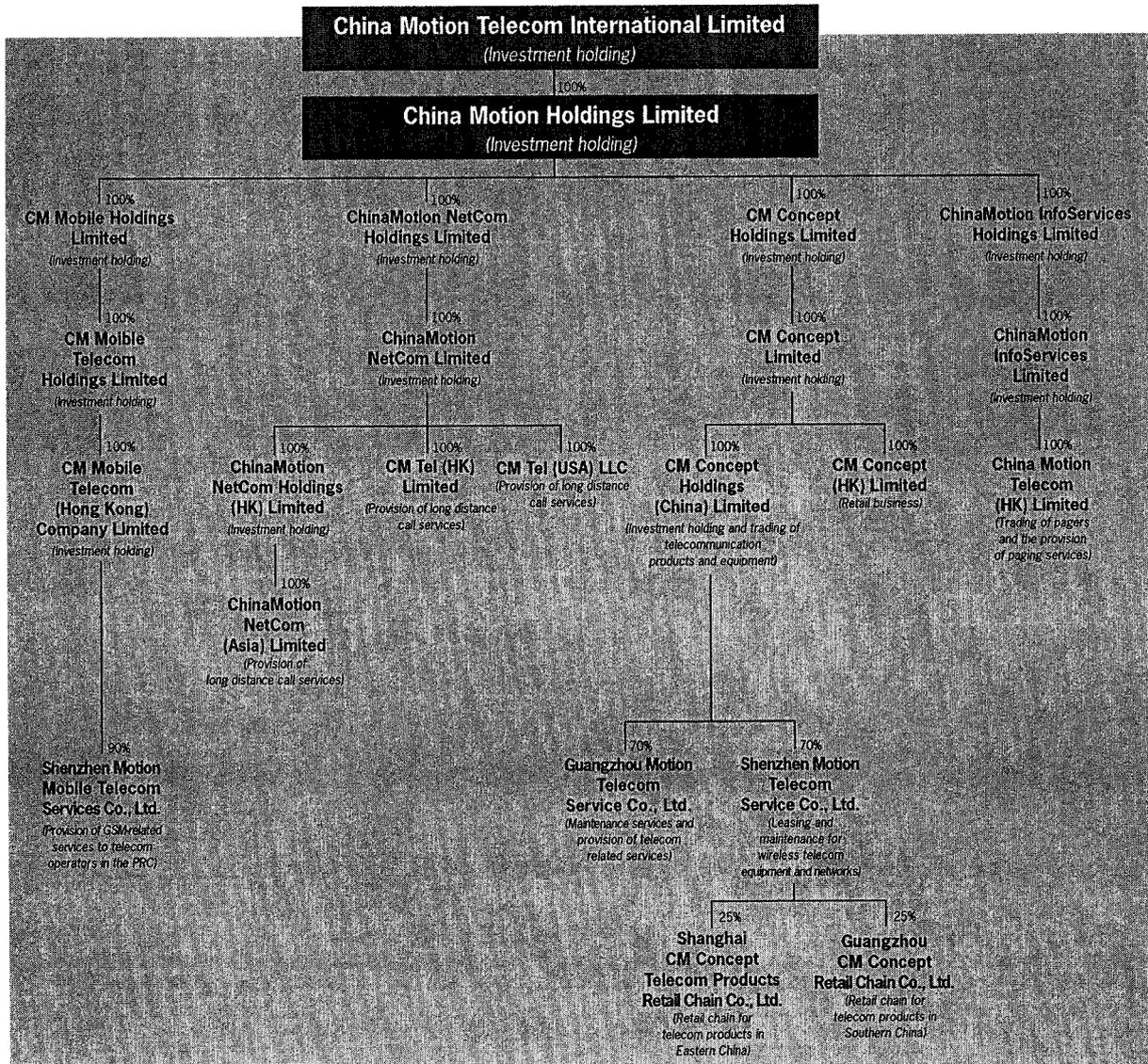
2001





# Group Structure

The following chart shows the principal subsidiaries and associated companies of the Group and their principal activities :





## Corporate Information

### Board of Directors

#### Executive Directors

HAU Tung Ying (Chairman)  
SHUI Ming Hua  
CHAN Wai Lun

#### Non-Executive Directors

YANG Jun (Vice-Chairman)  
LI Yi Sheng  
Timothy Allen BRIDGEWATER  
YUNG Yung Cheng, Frank\*  
HO Chung Tai, Raymond\*  
HU Tiejun (Alternate Director to LI Yi Sheng)

\*Independent Non-Executive Directors

### Head Office and Principal Place of Business

20th Floor, Tower II & III  
Enterprise Square  
9 Sheung Yuet Road  
Kowloon Bay  
Hong Kong  
Tel: (852) 2209 2888  
Fax: (852) 2827 9883  
Homepage: <http://www.chinamotion.com>

### Registered Office

Clarendon House  
Church Street  
Hamilton HM 11  
Bermuda

### Company Secretary

KWOK Mei Fan

### Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited  
1 Queen's Road Central  
Hong Kong

Bank of China (Hong Kong) Limited  
1 Garden Road  
Hong Kong

### Principal Share Registrar in Bermuda

Butterfield Corporate Services Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke  
Bermuda

### Hong Kong Branch Share Registrar

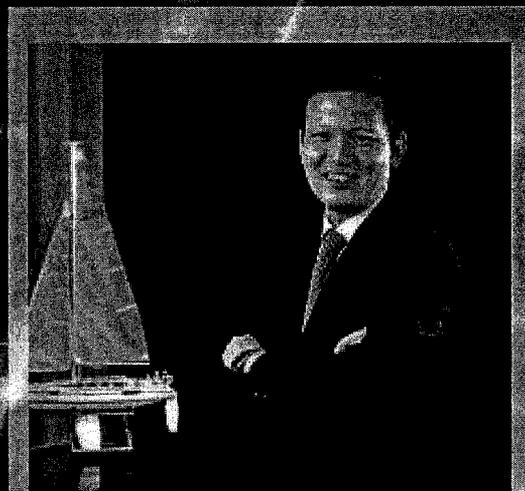
Abacus Share Registrars Limited  
5th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

### Singapore Share Transfer Agent

Barbinder & Co Pte Ltd  
8 Cross Street  
#11-00 PWC Building  
Singapore 048424

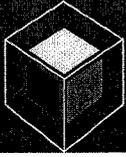
### Auditors

PricewaterhouseCoopers, Hong Kong  
Certified Public Accountants  
Audit Partner : IP Koon Wing, Ernest  
22nd Floor, Prince's Building  
Central  
Hong Kong



Despite of all the unrest in global telecom sector, China Motion had managed to transform itself into a stronger, more flexible and more competitive player

Metamorphosis:



## Chairman's Statement

### **An Innovative High Value Added Telecom Services Provider**

I would like to present the result of China Motion Telecom International Limited ("China Motion" or "the Company") and its subsidiaries (collectively, "the Group") for the year ended 31 March 2002. In the year under review, performance of the Group improved following its restructuring and focused efforts on the development of cross-border value-added telecom businesses. The Group's consolidated turnover for the financial year under review was HK\$721,988,000, representing a decrease of 6.0% over the previous year. The decrease was mainly attributable to the continuous decline of paging subscribers and the reduced revenue from mobile related services, with part of the decrease offset by higher turnover from the Group's IDD business.

The Group's gross profit for the year amounted to HK\$344,238,000 with a gross margin of 47.7%, which approximates the previous year's gross margin of 48.0%.

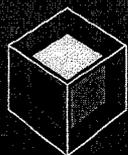
Loss attributable to shareholders for the year amounted to HK\$130,963,000 and has significantly reduced by 38.3% over the previous year. The loss was mainly attributable to the aggregate provision of HK\$188,632,000 for the Group's properties and obsolete telecommunications equipment in the first half year. Excluding the provision for properties and obsolete telecommunications equipment, the Group's operating performance was profitable during both the first and second half years.

As there is a loss per share of 24.92 HK cents, the Board of Directors does not recommend the payment of a final dividend.

### **Seizing Opportunities with Well Defined Market Position**

Basing on its well established foundation, the Group is now poised to explore the golden opportunities unraveling in the telecommunication business. Since 1 June 2002, the Group has resolved to withdraw from its paging operations in Hong Kong and concentrate resources on developing cross-border value-added telecom services. With the Group's operational experience in the telecom markets in China and Hong Kong, and its established brand name and customer base, the Group is confident that it is in a good position to capture cross-border telecom service opportunities.

With the formal accession of China to the World Trade Organization in December 2001, China is poised to speed up the opening of its telecom market. One can envisage that the China telecom services market will develop in various directions. Telecom operators, local and foreign, will aggressively tap the market and compete for market share and return.



## Chairman's Statement

Since commencement of its restructuring in 2000, the Group has concentrated its efforts in becoming a value added service operator and IDD service provider in the Greater China region. The Group's management and staff are apprised of this corporate vision and are committed to the following development strategies:

1. **Development of current core businesses;**
2. **Launching of high value added telecom services according to market demands, with emphasis on cross-border features;**
3. **Development and maintenance of long-term mutually beneficial relationships with network operators and equipment manufacturers.**

### **Sustained Development of Core Businesses**

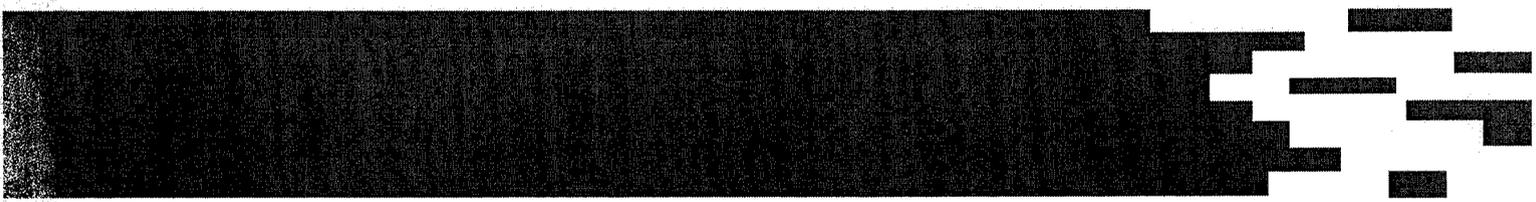
During the year, the Group restructured its businesses and discontinued non-profitable telecare and Internet operations. Besides, due to the continuously shrinking paging market in Hong Kong, a major business decision was made to dispose of its paging operation which took effect from 1 June 2002. Consequent to the restructure, the Group will allocate more resources to develop value-added IDD and mobile related businesses with long-term growth potential.

IDD business contributed a growing turnover and profit since its inception in early 2000 and will remain a strong driver of the Group's future business turnover.

In December 2001, the Group successfully obtained the Mobile Virtual Network Operator licence in Hong Kong, and the preparatory work to launch mobile related services is in progress. It is expected that the mobile related services mainly focused on cross-border features will be launched shortly.

### **Optimize Distribution Channels in Both Hong Kong and China**

"CM Concept", the main retail and distribution channels of the Group, provides the link to distribute products and service our customers. While keen market competition of mobile related products and services persists, "CM Concept" will continue to enhance its market coverage and provide a wider range of value-added services and telecom products.



## Prospects

### **Consolidate Resources, Maintain Alliances and be Innovative - China Motion towards a New Era**

Global telecom businesses, including China and Hong Kong markets, are moving in the direction of mobility, value addition and customisation. The Group, staying in the forefront of market trend, has formulated commensurate strategies and measures to achieve a bigger market share in the fast growing telecom markets.

**Consolidation** - In recent years, income from paging business accounted for a diminishing proportion of the Group's revenue. After disposal of the paging business, the Group will consolidate its resources and focus on the development of high value-added new businesses, such as MVNO and IDD businesses.

**Alliances** - The Group has a good reputation in the China telecom market with profound understanding of the telecom markets in the region. Following China's accession to the WTO and the gradual opening of China's telecom market, the Group can become an ideal partner to international telecom companies and product manufacturers intending to enter the market.

**Innovation** - Amid ever-increasing telecom market competition, innovative services is the key in becoming a successful virtual network operator. The Group will develop relationship with other operators on a mutually beneficial and non-competitive basis to provide them with an ideal sales platform.

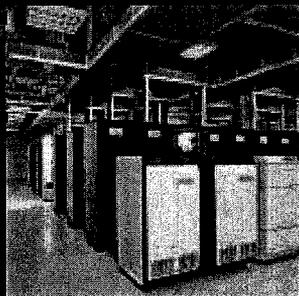
Looking ahead, the Group believes that as the telecom market of China becomes more relaxed, more value-added services are required by the customers, including a corresponding growth in cross-border telecom services.

Finally, I would like to take this opportunity to thank our members of staff for their hard work and dedication in the past year and our shareholders for their support to the Company. The success of China Motion depends on your continuous support. Going forward, the management of the Group will use their best endeavors to achieve better results for all. ■

## **Hau Tung Ying**

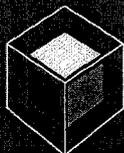
Chairman

22 July 2002



## New Outlook:





## Management Discussion and Analysis

### Market Overview

The aftermath of the global telecom bubble of 2001 is many unsolved after-effects: the notable ones are the questionable profitability of 3G mobile phone businesses; high debt level telecom companies; short technology cycles and sluggish demand for telecom services. The poor results announced by some major telecom companies in the first half of 2002 evinced the challenging operating environment of the telecom industry. There is no sign of improvement in sight. Investors are pessimistic about the earning potential of telecom companies, rendering the prices of most telecom companies shares under pressure.

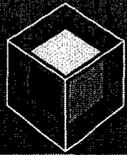
During last year, cut-throat competition amongst mobile network operators in Hong Kong abated. Operators were beginning to be aware of the fact that short-term price competition would result in long-term losses; they resorted to the generation of more revenue from each customer by providing value-added services. It is beyond expectation that the official granting of 3G mobile phone operator licenses in Hong Kong has not led to the tide of acquisition and merger in the market as anticipated.

The boom of mobile phone market caused the paging market in Hong Kong to continue to decline. The information released by the Office of Telecommunications Authority of Hong Kong showed that over the past year the number of paging subscribers in Hong Kong dropped at an average rate of 2.3% per month. The consensus of the telecom industry is that the paging industry will continue to wither in the foreseeable future until the number of paging subscribers drops to a much lower level.

Amidst the uncertain operating environment, the telecom market in China keeps mushrooming. Low penetration rate, high growth rate and large operating scale in the China telecom market compares favorably with other developed regions. These are also the major factors attracting the attention of the global investors. However, despite China's formal accession to the WTO and the promise to gradually open up its domestic telecom market to foreign investors, no substantial progress for foreign investment into the China telecom market has materialized due to the delay in the formulation of relevant laws and regulations.

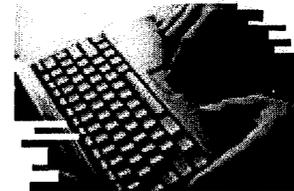
During the year, the China telecom market maintains its high growth rate. By the end of 2001, domestic mobile phone subscribers numbered 189 million, an increase of 31% over the previous year, while fixed line subscribers increased to 207 million, up 16% over the previous year. As for revenue growth, mobile related services again out-performed fixed line communication services, with a growth rate of 14% and 9% respectively during the year.





## Management Discussion and Analysis

Driven by the measures taken by the Ministry of Information Industry of China to further enhance competition in the domestic telecom industry, the China Telecom Group, the only fixed line operator in China, was finally split into two, marking the opening of the domestic telecom market and the intensification of competition.



In recent years, as major network operators in China become aware of the importance of gaining market share, they gradually take marketing measures to secure customer base through cooperation with third party value-added service providers. As one of the most experienced providers of mobile related services and value-added services in China, China Motion is in a good position over other competitors in securing relevant business opportunities.

### Business Review

During the year, the sluggish global economy showed no sign of significant improvement. Although there was evidence of economic data improvements in the United States, it served only as short-term stimulation of the economy of Hong Kong. High unemployment rate and ongoing economic transformation had adversely affected the local market, with the telecom businesses being one of the hard-hit sectors.

In view of the market changes, the Group restructured its businesses and discontinued non-profitable telecare and Internet operations. Besides, given the continuous decline of the paging market of Hong Kong, and the fact that China Motion Telecom Holdings Limited ("CMTH"), a strategic partner of the Group in China, has disposed of its domestic paging business earlier this year, the Group made a major business

decision to dispose of its paging operation which took effect from 1 June 2002. The Group will allocate more resources for the development of value-added telecom business with long-term growth potential. At the end of 2001, the Group successfully obtained the mobile virtual network operator licence, and the preparation to launch this new business is at full speed, with new services expected to be launched formally in the third quarter of the year.

Among existing businesses, IDD business, which commenced operation in 2000, showed remarkable performance and has become a major revenue contributor for the Group, with turnover surging from HK\$16,129,000 in the first year of operation to HK\$229,515,000 for the year, representing a 13 times increase and comprised 31.8% of the Group's total turnover. However, the growth was offset by

the decrease in turnover from mobile related services and paging business. Accordingly, the Group recorded a slight decrease in turnover for the year, down 6.0% to HK\$ 721,988,000.



Mr. Anthony S. K. WONG, Director-General of OFTA, visit to China Motion's exhibition booth in early March, as accompanied by Mr. Hau Tung-ying, the Group's Chairman

Due to the poor economic sentiment and property market, the Group decided, as a prudent step, to make a one-off provision of HK\$106,842,000 for impairment and revaluation deficit on properties, and a provision of HK\$81,790,000 for obsolete telecom equipment and other fixed assets in the first half of the year. The Group believes that these provisions will more truly reflect the operational position of the overall business. To cope with the needs of its core businesses (IDD and mobile related services), the Group has also completed restructuring its management and operation resources respectively.

## Performance of Core Businesses

### IDD Business

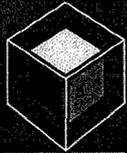
As China in-bound traffic continue to expand coupled with excellent strategies and cooperative partners, IDD operation continued to show strong growth and became the Group's major growth contributor. During the year, IDD charges continue to decline while the call traffic volume recorded a significant growth. By the end of March 2002, the Group's IDD voice traffic exceeded 70 million minutes per month, with the volume growth trend continues.

Apart from the increasing usage volume stimulated by the reducing tariff, the Group's geographical network coverage of IDD business also continues its expansion. Besides Mainland China, Hong Kong and North America, newly opened regions for services included Singapore and South Korea. During the year, turnover from the Group's IDD operation was HK\$229,515,000, representing a remarkable growth of 133.7% over the previous year.

To further enhance the quality and efficiency of the Group's voice services to cope with the increasing traffic, the Group announced on 16 May 2002 the installation of Nortel Networks' DMS global service platform and related facilities, including Passport\* 7480 ATM multi-function switcher.

Beside wholesale voice operations, the Group also launched its IDD product for retail consumers during the year. On 20 May 2002 at the eve of the 2002 FIFA World Cup Korea Japan, the Group announced the introduction of phone cards for roaming services across the China (Hong Kong)-Japan-Korea region in partnership with China Telecom. Due to its unique design and the World Cup effect, the product enjoyed overwhelming market response upon its launch to the market. Given the success, the Group plans to continue to introduce more IDD products for end-users in the foreseeable future in order to explore new revenue sources.

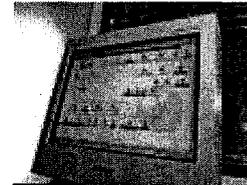




## Management Discussion and Analysis

### Mobile Related Services

Turnover from mobile related services was HK\$ 131,070,000 during the year, representing a decrease of 28.9% as compared with the previous year. The decrease was mainly due to the decline in service revenue resulting from the drop of average revenue per user, which is common with the market trend.



In December 2001, the Group successfully obtained the Mobile Virtual Network Operator licence in Hong Kong. The Group expects to launch the new services shortly to attract new sources of revenue. The gradual opening up of China's telecom market is only a matter of time with mobile related services being a new business opportunity for the Group. The Group, together with its strategic partner CMTH, is exploring to participate in mobile related operations in other provinces outside Guangdong. The Group sees an opportunity to become a value-added service supplier in the mobile related business in the Greater China region with cross-border services as its main driver of business.



### Distributions and Retail Chain

Despite a poor market sentiment, consumers' desire to purchase and replace mobile phones was not much affected. More mobile service subscribers tended to transfer to other service providers upon expiry of original contracts for better terms. The introduction of more varieties of stylish mobile phone products and accessories, together with the introduction of new products such as prepaid phone cards also contributed to an increase in the revenue for the Group's retail shops. As a result, sales for the year from the Group's distributions and retail chain increased by 12.2% to HK\$165,336,000.

The turnover of repair services for mobile phones and pagers declined by 58.0% to HK\$19,376,000 in line with the consumers' demand.

### Unified Messaging Services

As the demand for paging services in Hong Kong continues to shrink, the Group made a series of positive adjustments to consolidate resources and transform its businesses. Paging business is no longer the core business of the Group, and the corresponding income is declining. The performance of the Group's paging operations continue to deteriorate and recorded a turnover of HK\$136,901,000, representing a decrease of 28.1%. Nevertheless, the paging operations remained profitable for the year despite the continuous drop in turnover and subscribers.



[REDACTED]

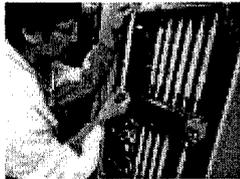
In the circumstances, the Group finally resolved to dispose of its paging business in Hong Kong which took effect from 1 June 2002.

### Discontinued Operations

During the year, telecare service recorded a turnover of HK\$4,053,000, a decrease of 68.3% over the previous year, while turnover from Internet and e-commerce operations was HK\$1,429,000, a decrease of 94.9% over the previous year. These two operations were discontinued and disposed of by the Group with effect from December 2001.

### Long-Term Investment

The Group's long-term investment of HK\$247,733,000 in mobile services related project in Guangdong as at 31 March 2002 had been contributing stable revenue and profits to the Group in the past five years. It is anticipated that no additional funding is required for this investment



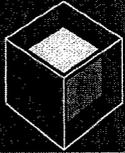
which will continue to make contributions in future turnover and profits.

New investments of HK\$80,159,000 in VoIP project in China was made during the year. It is anticipated that this project will make contributions in the long term as China's telecom market opens. The funds required for the initial phase will be provided from the Group's existing resources and internally generated cash flows. Further investments with greater geographical coverage will depend on the pace of relaxation of telecom rules in China.

### Prospects

China's official accession to the WTO announced in December 2001 marks a new era for the development of the telecom industry in the PRC. Based on the Group's solid background and profound understanding of the China's domestic telecom industry, together with the close strategic relationship with CMTH and other major PRC network operators, the Group will explore the opportunities available to it to develop China's domestic telecom business. The Group will play an active role to bridge China and foreign parties in investment, technological and marketing aspects.

Meanwhile, building on its current foundation, the Group will enlarge its market share, improve the profit margin and operational efficiency and strengthen its business development efforts. The Group will also explore new distribution channels and develop more innovative value-added services and leverage on its strategic partnerships to increase the benefits for its customers, employees and shareholders.



## Management Discussion and Analysis

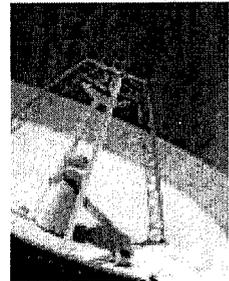
For the Group's IDD business, the reduction in tariff in recent years has stimulated a significant growth in IDD call volume. However, this growth in volume has been partially offset by the decline in charges. To maintain growth in revenue and market share, the Group is actively expanding its network coverage from Greater China to other Asian countries, North America and Europe. It is expected that the Group's IDD call volume will continue to grow.

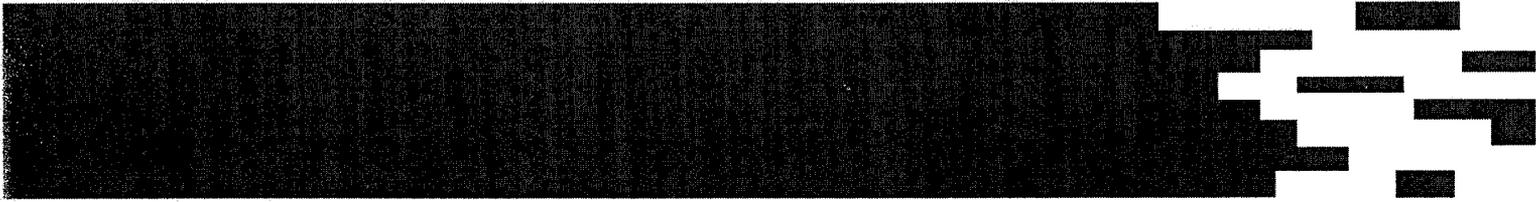
For the mobile related business, the Group plans to launch mobile services in the third quarter of 2002, following its obtaining of the Mobile Virtual Network Operator licence at the end of 2001. China Motion will leverage its experience in cross-border services to provide mobile services to its customers.

Meanwhile, the cut-throat price war in the Hong Kong mobile telecom market has come to an end after network operators recorded losses. Recently, most major network operators have increased the basic voice services fees and charge their customers for various new fees. It is expected that this will help stabilize the Hong Kong mobile telecom market while providing a different start-up environment for the Group's mobile virtual network operations to be launched.

It is expected that the number of China mobile phone subscribers will maintain steady growth in the coming year, while average income from each subscriber will continue to decline. However, the relatively lower penetration rate in the mobile telecom service market in China and the intensifying competition among leading operators will provide growth space for value-added telecom operators, including China Motion. The Group is actively identifying new opportunities in the domestic mobile telecom projects in different provinces in China and will participate in such projects subject to relevant domestic regulations. The management believes that there are opportunities available to the Group based on its past experiences in investment, technological and sales aspects in China's mobile telecom market.

As for distributions and retail chain, consumers' desire to purchase and to replace mobile phones was not much affected by the sluggish economy and mobile service subscribers tend to change their service providers frequently. Such phenomenon is expected to continue. With the advent of more mobile virtual network operators, it is expected that more innovative value-added services will be launched. Shorter life cycle of such new products will stimulate the consumers' interest for more new products and services. It is expected that these factors will benefit the business of the CM Concept retail chain.





## Financial Position

The Group adopts prudent and stable financial strategy. The management aims at deploying the Group's resources effectively and practically to achieve the best use of funds. As at 31 March 2002, cash and bank balances of the Group amounted to HK\$118,159,000. Total bank borrowings were HK\$127,157,000, out of which HK\$123,595,000 was denominated in Hong Kong dollars while HK\$3,562,000 was denominated in US dollars. The bank loans are repayable by monthly instalments and the maturity date for the last instalment is August 2013. As at 31 March 2002, the total borrowings as a percentage of shareholders' funds were maintained at healthy gearing ratio of 17% which is similar to last year's level.

During the year, the Group financed its operation with internally generated cash flows, banking facilities and the proceeds from two corporate fund raising activities in the financial year ended 31 March 2001. Net proceeds from those fund raising activities was HK\$303,000,000, most of which was utilized as proposed, while the balance of HK\$54,309,000 will be used in the coming financial years in the acquisition of other telecom equipment and for enhancement of network quality as planned.

As at 31 March 2002, the Group had aggregate banking facilities of approximately HK\$93,000,000, of which HK\$12,000,000 was utilized. Cash and bank balances together with unutilized banking facilities at the balance sheet date is sufficient for the Group to discharge its debts and to fund its operational expenditures.

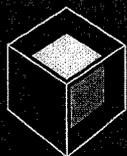
## Exposures to Fluctuations in Exchange Rates

The Group has exposure to the fluctuations in Renminbi and United States dollars as certain expenses payable and trade receivables from customers are settled in these currencies respectively.

## Staff and Remuneration Policies

As at 31 March 2002, the Group employed a workforce of approximately 605. Total staff costs incurred during the year was HK\$148,704,000, representing a decrease of 22.7% over the previous year. The Group's remuneration policy has been in line with the prevailing market practice including discretionary bonus and remunerates its employees based on their performance and contribution.

In addition to remuneration, the Group offers a welfare package to its employees, including provident fund, medical insurance, travel and personal accident insurance coverage. The Group also grants share options to directors and certain employees of the Group for retention and motivation. ■



## Biographical Details of Directors & Senior Management

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### Executive Director



#### **HAU Tung Ying (Chairman)**

HAU Tung Ying, aged 48, is the founder, Chairman and Co-CEO of the Group. He is currently the Chairman of Internet and Telecom Association of Hong Kong. As the Chairman, he is mainly responsible for strategic planning and corporate policies as well as overseeing the Group's operations. Mr. Hau comes with more than 25 years of working experience in the telecom industry, including over 10 years in Guangzhou Telecommunications Bureau and, from 1985 to 1989, as the Director and General Manager of Shenda Telephone Company Limited, a joint venture between Cable & Wireless Plc and Shenzhen Municipal Government. Mr. Hau graduated from Zhong Shan University with a Bachelor's degree in Physics.



#### **SHUI Ming Hua**

SHUI Ming Hua, aged 63, is the Executive Director of the Company. Mr. Shui has over 30 years of experience in accounting, finance and management in companies established in the PRC and has worked as a financial controller of a large Chinese enterprise in Hong Kong. He also holds directorships in various subsidiaries of the Company.



#### **CHAN Wai Lun**

CHAN Wai Lun, aged 50, is the Executive Director and COO of the Group. Before joining the Group in 1997, Mr. Chan has over 24 years of experience in electronic industry and trading fields. Mr. Chan graduated from Zhong Shan University with a Bachelor's degree in Physics.

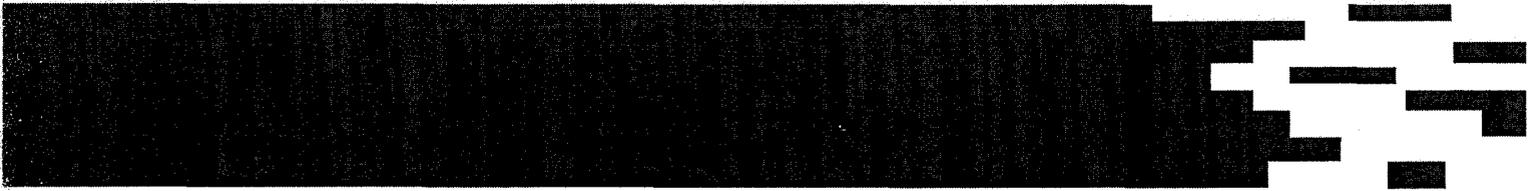
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### Non-Executive Director



#### **YANG Jun (Vice-Chairman)**

YANG Jun, aged 38, is the Vice-Chairman of the Group and Co-CEO of China Motion Telecom Holdings Limited (formerly known as China Motion Telecom Development Company), which is the Company's major business partner of several joint venture companies in the PRC. Mr. Yang has over 10 years of experience in the telecom industry in the PRC.



**LI Yi Sheng**

LI Yi Sheng, aged 66, was formerly the head of Guangdong Posts and Telecommunications Administrative Bureau and held the position of Director and General Manager of Telco Communications (Group) Limited. Mr. Li has over 40 years of experience in the telecom industry.



**Timothy Allen BRIDGEWATER**

Timothy Allen BRIDGEWATER, aged 41, is the Co-Founder of Interlink Management Corporation. Mr. Bridgewater has developed numerous deals between Asian and US businesses for clients including CP Group, Telecom Asia, and Ford Motor Company. Mr. Bridgewater serves on various advisory and executive boards and is currently the CEO of TurboWave, Inc., a broadband wireless technology company. Mr. Bridgewater holds a Bachelor of Science in Business Finance from Brigham Young University and Post Graduate Studies in International Economics from the University of Utah.



**YUNG Yung Cheng, Frank**

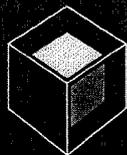
YUNG Yung Cheng, Frank, aged 68, is the Chairman of the Audit Committee of the Company. He was in senior management and Chief Executive Officer of a number of listed companies in Singapore. He has also been active in public services in Singapore, having served as Chairman of the Telecommunications Authority of Singapore (1974-1986). He is currently an independent director of several listed companies in Singapore.



**HO Chung Tai, Raymond**

Dr. the Hon. Raymond HO Chung Tai, MBE, JP, aged 63, is a member of the Legislative Council (Engineering Functional Constituency) and Past President of Hong Kong Institution of Engineers, former Chairman of Transport Advisory Committee and Hong Kong Technology Committee of the ITDC, former Council Chairman of the City University of Hong Kong.

Dr. Ho has had 39 years of wide-ranging, large magnitude and complex infrastructure projects in Hong Kong and United Kingdom. Dr. Ho obtained his degrees at The University of Hong Kong, University of Manchester and the City University of London. He has also been awarded Hon. Doctor Degree in Business Administration by the City University of Hong Kong and Hon. Doctor Degree of Laws of Manchester University of UK.



## Biographical Details of Directors & Senior Management

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### Alternate Director



#### **HU Tiejun**

HU Tiejun, aged 51, joined the Group in 1993 and serves as the Chief Scientist of the Group. Currently, Mr. Hu is responsible for the Group's technology research and development, specialising in system design and global data network management. Mr. Hu brings to the Group more than 20 years of experience specialising in areas of computer systems and data communication networking. Mr. Hu graduated from Zhong Shan University with a Bachelor's degree in Physics.

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### Senior Management

**CHEN Xiaodan**, aged 41, joined the Group in 1994. She is the Executive Vice President of Corporate Management Division. Holder of a Master degree, Ms. Chen is responsible for corporate development, business planning and analysis, resources planning, operational management and MIS of the Group. Ms. Chen has over 18 years of experience in the telecom field. Before joining the Group, she has been working in telecom college and government authority of telecom in the PRC.

**CHENG Lun Ton**, aged 51, joined the Group in 2001. He is the Executive Vice President of Human Resources Division. Mr. Cheng is responsible for the human resources development and management functions of the Group. Mr. Cheng has over 30 years of working experience with the last 21 years in human resources management. Before joining the Group, Mr. Cheng held a key position in human resources management in PCCW.

**PAN Rubo**, aged 42, joined the Group in 1996. He is the Executive Vice President of Business Relationship Division. Mr. Pan holds a Bachelor's degree and is responsible for the corporate relations, business coordination and development functions of the Group. He has over 21 years of experience in the telecom industry. Before joining the Group, Mr. Pan has 13 years experience in the Guangdong Posts and Telecommunications Administrative Bureau.

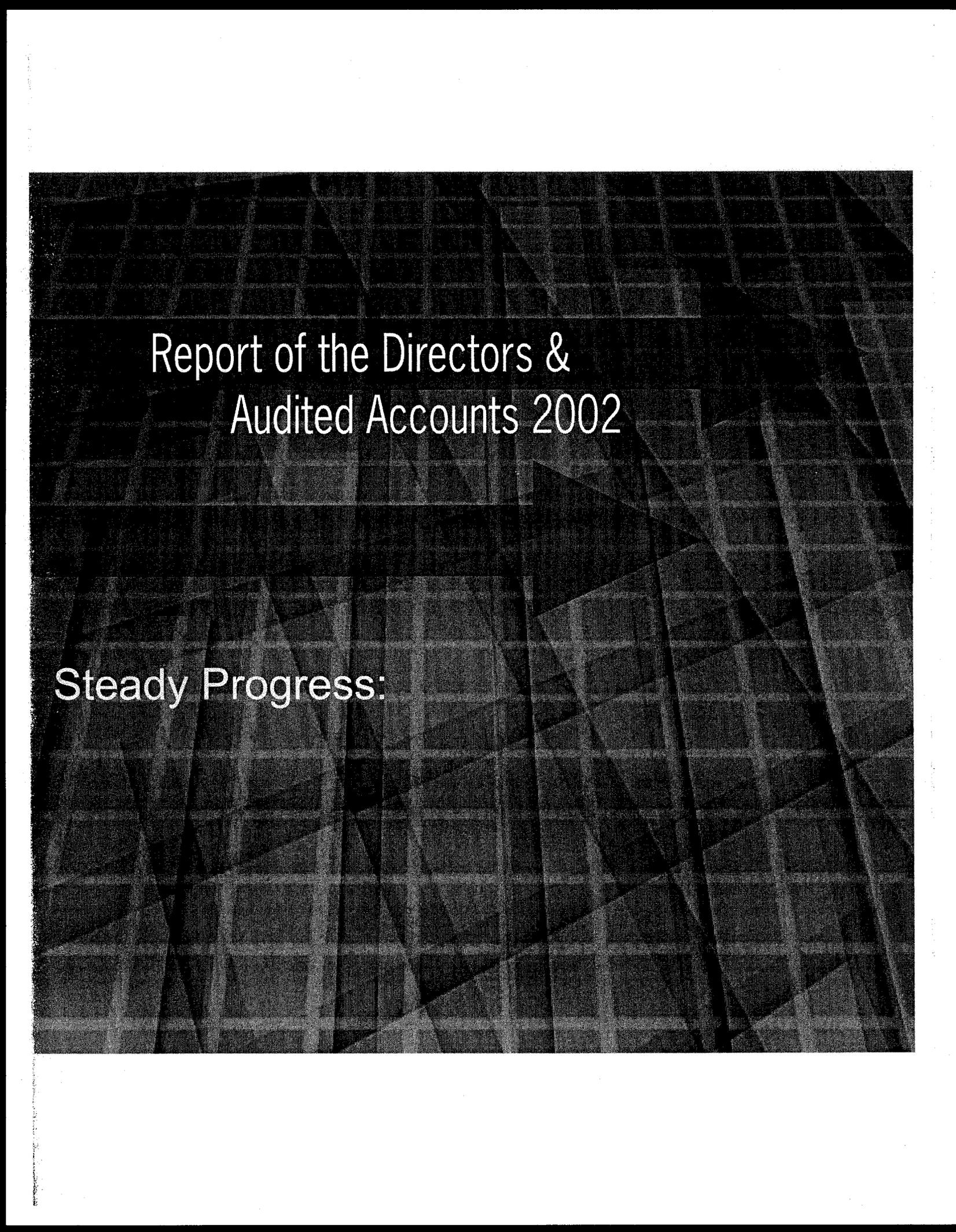
**TONG Kay Tak, Tom**, aged 54, joined the Group in 2001. He is the Vice President of Legal Affairs Division. Mr. Tong is a solicitor of the High Court of Hong Kong and holds a Ph.D degree in civil laws. He is responsible for the legal affairs of the Group. Before joining the Group, Mr. Tong held a senior position in Business Development for Greater China in PCCW.



**WU Ying Keung**, aged 46, re-joined the Group in 2001. He is the Executive Vice President of Corporate Finance Division. Mr. Wu is responsible for the Group's overall corporate finance functions. He has over 23 years of experience in the Finance and Corporate Finance field. Before re-joining the Group, Mr. Wu held key positions in finance and management in various companies and professional firms in Hong Kong and overseas.

**ZHAO Wenzhong**, aged 45, joined the Group in 1998. He is the Vice President of General Affairs Division. Mr. Zhao is responsible for the property management, procurement and general administration functions of the Group. He has over 26 years of working experience in various institutions in the PRC. Before joining the Group, Mr. Zhao held a key position in general management in one of the largest international corporations in Shenzhen.

**ZHU Hongbo**, aged 40, joined the Group in 2000. He is the Executive Vice President of Corporate Communications Division and Chief Executive Officer of CM Concept retail business, responsible for brand development and marketing affairs. Mr. Zhu has over 12 years of experience in media and communications field. Before joining the Group, Mr. Zhu held a key position in sales and marketing in a Hong Kong listed company.



# Report of the Directors & Audited Accounts 2002

Steady Progress:

## Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 March 2002.

### **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

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

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

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year are set out in the consolidated profit and loss account on page 34.

The directors do not recommend the payment of a final dividend.

### **RESERVES**

Movements in the reserves and accumulated losses of the Group and the Company during the year are set out on pages 36 to 37.

### **DISTRIBUTABLE RESERVES**

In accordance with the Companies Act 1981 of Bermuda (as amended) and the Company's Bye-Laws, the Company has no distributable reserve as at 31 March 2002.

### **FIXED ASSETS**

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

### **SHARE CAPITAL AND WARRANTS**

Details of the movements in share capital and warrants of the Company are set out in note 25 to the accounts.

### **FIVE-YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 2.

### **PRE-EMPTIVE RIGHTS**

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

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

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

## Report of the Directors

### DIRECTORS

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

Mr HAU Tung Ying

Mr SHUI Ming Hua

Mr CHAN Wai Lun

Mr YANG Jun\*

Mr LI Yi Sheng\*

Mr Timothy Allen BRIDGEWATER\*

Mr YUNG Yung Cheng, Frank\*\*

Dr HO Chung Tai, Raymond\*\*

(appointed on 1 August 2001)

Mr YUNG Ha Kuk Victor\*\*

(resigned on 1 August 2001)

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

\* Non-executive directors

\*\* Independent non-executive directors

In accordance with Bye-law 85(2) of the Bye-Laws of the Company, Dr HO Chung Tai, Raymond retires from office and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 86(1) of the Bye-Laws of the Company, Mr CHAN Wai Lun, Mr LI Yi Sheng and Mr YUNG Yung Cheng, Frank retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

### DIRECTORS' SERVICE CONTRACTS

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

### DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group had transactions with Liking Industrial Limited ("Liking") and First Active Investments Limited ("First Active") as disclosed in note 32(a) to the accounts. Mr HAU Tung Ying was interested in these transactions to the extent that he is a beneficial shareholder of Liking and First Active respectively.

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

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 18 to 21.

## Report of the Directors

### DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31 March 2002, the interests of the directors and chief executive in the shares of the Company or any associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register required to be kept under Section 29 of the SDI Ordinance were as follows:

	Number of ordinary shares held			
	Personal interests	Family Interests	Corporate Interests (Note)	Other interests
HAU Tung Ying	-	-	270,247,500	-
SHUI Ming Hua	250,000	-	-	-
CHAN Wai Lun	267,000	-	-	-
HU Tiejun	292,000	-	-	-

Note: The 270,247,500 shares are legally and beneficially owned by Goldtop Holdings Limited ("Goldtop"). Mr HAU Tung Ying and his wife, Madam TING Yat Shuk, are both directors of Goldtop in which they hold 30,000 and 20,000 ordinary shares respectively, representing 60% and 40% of the entire issued share capital of Goldtop.

Save as disclosed above, as at 31 March 2002, none of the directors and chief executive (including their spouse and children under 18 years of age) had any other interests in shares in or debentures of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which had been entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance.

Apart from the shares as disclosed above, share options to subscribe for ordinary shares of the Company have been granted to HAU Tung Ying, SHUI Ming Hua, CHAN Wai Lun, YANG Jun and HU Tiejun pursuant to the approved China Motion Employees' Share Option Scheme. Information in relation to their share options during the year were shown in the following section under the heading "Information on Share Options".

## Report of the Directors

### INFORMATION ON SHARE OPTIONS

1. Movements of share options, which have been granted under China Motion Employees' Share Option Scheme, during the year are listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Date of grant	Exercise price HK\$	Exercise period	Vesting period	No. of outstanding options at 1 April 2001	No. of options granted during the year	No. of options lapsed during the year	No. of outstanding options at 31 March 2002
<b>Directors:</b>								
HAU Tung Ying	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	-	-	2,000,000
SHUI Ming Hua	25 February 2000	3.19	25/02/01 – 17/03/08	N/A	378,499	-	-	378,499
	17 October 2000	1.22	17/10/01 – 17/03/08	N/A	432,570	-	-	432,570
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	-	-	2,000,000
CHAN Wai Lun	25 February 2000	3.19	25/02/01 – 17/03/08	N/A	378,499	-	-	378,499
	17 October 2000	1.22	17/10/01 – 17/03/08	N/A	432,570	-	-	432,570
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	-	-	2,000,000
YANG Jun	29 June 1998	0.751	29/06/99 – 17/03/08	N/A	257,483	-	-	257,483
	25 February 2000	3.19	25/02/01 – 17/03/08	N/A	252,333	-	-	252,333
	17 October 2000	1.22	17/10/01 – 17/03/08	N/A	288,380	-	-	288,380
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	-	-	2,000,000
HU Tiejun	19 August 1999	2.00	19/08/00 – 17/03/08	N/A	252,333	-	-	252,333
	17 October 2000	1.22	17/10/01 – 17/03/08	N/A	288,380	-	-	288,380
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	2,000,000	-	-	2,000,000

## Report of the Directors

### INFORMATION ON SHARE OPTIONS (continued)

Category	Date of grant	Exercise price HK\$	Exercise period	Vesting period	No. of outstanding options at 1 April 2001	No. of options granted during the year	No. of options lapsed during the year	No. of outstanding options at 31 March 2002
<b>Continuous Contract</b>								
<b>Employees of</b>								
<b>the Group:</b>	29 June 1998	0.751	29/06/99 – 17/03/08	N/A	329,576	-	(102,993)	226,583
	19 August 1999	2.00	19/08/00 – 17/03/08	N/A	1,627,287	-	(406,822)	1,220,465
	25 February 2000	3.19	25/02/01 – 17/03/08	N/A	82,394	-	-	82,394
	17 October 2000	1.22	17/10/01 – 17/03/08	N/A	2,685,541	-	(599,936)	2,085,605
	20 March 2001	0.75	20/03/02 – 19/03/11	20/03/02 – 20/03/04	23,600,000	-	(7,400,000)	16,200,000
	28 January 2002	0.75	28/01/03 – 27/01/12	28/01/03 – 28/01/05	-	1,850,000	-	1,850,000
		(Note (1))						

**Notes:**

- (1) The closing price of the shares of the Company immediately before the date on which the options were granted was HK\$0.71.
- (2) During the year, no options were exercised or cancelled.

2. In assessing the value of the share options granted on 28 January 2002, the Black-Scholes option pricing model (the "Black-Scholes Model") has been used. The Black-Scholes Model is one of the most generally accepted methodologies used to calculate the value of options and is one of the recommended option pricing models as set out in Chapter 17 of the Listing Rules. The variables of the Black-Scholes Model include, expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company.

In assessing the value of the share options granted during the year to employees, the following variables have been applied to the Black-Scholes Model:

- (a) The expected life is estimated to be 5 years from the date of grant (the "Measurement Date").
- (b) The risk-free rate applied to the Black-Scholes Model is 5.11%, which represents the yield of the Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the Measurement Date.
- (c) The expected volatility used in the calculation is 64.20% and represents the standard deviation of the daily closing share prices of the Company in The Stock Exchange of Hong Kong Limited for the last twelve months from the Measurement Date.
- (d) The expected dividend is estimated to be 1.73% based on the average dividend yield of past 5 years.

## Report of the Directors

### INFORMATION ON SHARE OPTIONS (continued)

Using the Black-Scholes Model in assessing the value of share options granted during the year, the options would have an aggregate value of approximately HK\$721,500 represented as follows:

	Number of share options granted during the year	Estimated value per option HK\$	Estimated value of options granted during the year HK\$
Employees	1,850,000	0.39	721,500
		Total	<u>721,500</u>

In assessing the aggregate value of the share options, no adjustment has been made for possible future forfeiture of the options. No charge is recognised in the profit and loss account in respect of the value of options granted during the year. The share options granted will be recognised in the balance sheet at the time when the share options are exercised. Share capital will be credited at par for each share issued upon the exercise of share options, with share premium credited at the excess of net proceeds received over total share capital credited.

It should be noted that the value of options calculated using the Black-Scholes Model is based on various assumptions and is only an estimate of the value of share options granted during the year. It is possible that the financial benefit accruing to the grantee of an option will be considerably different from the value determined under the Black-Scholes Model.

3. Summary of China Motion Employees' Share Option Scheme (the "Scheme") adopted on 18 March 1998 (as latest amended on 2 February 2001) disclosed in accordance with the Listing Rules was as follows:

- Purpose of the Scheme: As incentive to employees
- Participants of the Scheme: Eligible employees including executive directors
- Total number of share available for issue under the Scheme and % on issued share capital at 31 March 2002: 34,626,094 (6.59%)
- Maximum entitlement of each participant under the Scheme: 25% of the total number of shares in respect of which the Company may grant options under the Scheme and subject to Chapter 17 of the Listing Rules
- The period within which the shares must be taken up under an option:
  - For options granted before 20 March 2001:
    - At any time after the first anniversary of the Date of Grant and before the tenth anniversary of the Date of Grant or the expiry of the Scheme, whichever is earlier
  - For options granted on/after 20 March 2001:
    - At any time after the first anniversary of the Date of Grant and before the tenth anniversary of the Date of Grant

## Report of the Directors

### INFORMATION ON SHARE OPTIONS (continued)

6. The minimum period for which an option must be held before it can be exercised
- For options granted before 20 March 2001:  
The first anniversary of the Date of Grant
- For options granted on/after 20 March 2001:  
33% – first anniversary of the Date of Grant  
33% – second anniversary of the Date of Grant  
34% – third anniversary of the Date of Grant
7. The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid
- HK\$1.00; within 21 days from the Offer Date
8. The basis of determining the exercise price
- For options granted before 1 September 2001, the exercise price is determined by a committee and being the higher of:
- (a) A price being not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited ("SEHK") as stated on the SEHK's daily quotation sheets for the 5 consecutive trading days immediately preceding the Offer Date; and
- (b) The nominal value of a share
- For options granted on/after 1 September 2001, the exercise price is determined by a committee and subject to Chapter 17 of the Listing Rules
9. The remaining life of the Scheme
- The Scheme Period will end on 17 March 2008

### SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that, as at 31 March 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the issued share capital of the Company.

Name of shareholder	Number of shares held	% of the issued share capital
Goldtop Holdings Limited (Note (1))	270,247,500	51.43
HAU Tung Ying (Note (2))	270,247,500	51.43
TING Yat Shuk (Note (3))	270,247,500	51.43

- Notes: (1) Goldtop Holdings Limited ("Goldtop") is owned as to 60% by Mr HAU Tung Ying and 40% by Madam TING Yat Shuk.
- (2) Mr HAU Tung Ying is deemed to be interested in the 270,247,500 shares held by Goldtop due to his 60% direct interest in Goldtop.
- (3) Madam TING Yat Shuk is deemed to be interested in the 270,247,500 shares held by Goldtop due to her 40% direct interest in Goldtop.

Save as disclosed above, as at 31 March 2002, no other person or corporation had any interest in the share capital of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company.

## Report of the Directors

### MANAGEMENT CONTRACTS

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

### CONNECTED TRANSACTIONS

In addition to that disclosed in note 16(a) to the accounts, the Group had the following transactions with connected parties which were carried out in the normal course of business and on terms arranged by or between the parties during the year ended 31 March 2002:

	Group	
	2002 HK\$'000	2001 HK\$'000
Income/(expenses)		
(a) China Motion Telecom Holdings Limited ("CMTH")		
Net sales of pagers and telecommunications equipment	5,692*	16,312*
Maintenance service income	14,332	35,307
Leasing income	9,342	26,579
Airtime income	2,640	2,640
Commission income	-	727
Disposal of microwave telecommunications equipment	61,495	-
Recharge of paging service expenses, operator's cost and dataline rental	(6,902)	(33,714)
Dataline expenses	(1,101)	(1,121)
(b) China Motion Netcom Services Co. Ltd. (formerly known as China Motion Mobile Telecom Services Co. Ltd.) ("CM Netcom")		
Provision of technical consultancy and maintenance services	131,070	184,261
(c) Liking Industrial Limited		
Rental expenses	(316)	(1,546)
(d) First Active Investments Limited		
Disposal of Internet and telecare businesses	15,000	-

\* Included in the amount are net sales of HK\$5,073,000 (2001: HK\$5,073,000) to Shenzhen China Motion Telecom United Company Ltd. ("SCMTU"), a subsidiary of CMTH.

The above transactions have also been disclosed as related party transactions in note 32(a) to the accounts.

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

## Report of the Directors

### CONNECTED TRANSACTIONS (continued)

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

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

### MAJOR CUSTOMERS AND SUPPLIERS

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

#### Sales

– the largest customer	18.2%
– five largest customers combined	37.9%

#### Purchases

– the largest supplier	17.5%
– five largest suppliers combined	49.5%

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

### AUDIT COMMITTEE

The Group has established an Audit Committee since 26 September 1996. At the date of this report, the Audit Committee comprises two independent non-executive directors, namely Mr YUNG Yung Cheng, Frank and Dr HO Chung Tai, Raymond and a non-executive director, Mr LI Yi Sheng.

During the current financial year, 3 meetings were held. The Audit Committee has discretion to convene meeting or hold discussion with the external auditors without the presence of executive directors. It is empowered to investigate activities within its terms of reference. It has discretion to seek information from any employee or obtain outside legal or other independent professional advice if it considers necessary.

## Report of the Directors

### COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The directors are pleased to confirm that throughout the year ended 31 March 2002, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the non-executive directors are not appointed for a specific term as recommended therein. However, all the directors are subject to retirement by rotation and re-election at the annual general meeting of the Company.

### DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with the requirement under paragraph 3.2.1 of Practice Note 19 of the Listing Rules, the directors of the Company report the details of advances to CMTH and its subsidiaries as at 31 March 2002 as follows:

	<b>Total HK\$'000</b>
Trade receivables from	
CMTH	32,401
CM Netcom	166,721
SCMTU	68,756
	<hr/>
	267,878
	<hr/>

The advances were trade receivables arising from the Group's normal and ordinary course of business and were unsecured, interest-free with credit term of 30 - 90 days.

### POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 34 to the accounts.

### AUDITORS

PricewaterhouseCoopers, Hong Kong and PricewaterhouseCoopers, Singapore were the joint auditors of the Company for the year ended 31 March 2000.

On 21 August 2000, the Singapore Exchange Securities Trading Limited (the "SGX-ST") has granted in-principle approval for the conversion of the Company's primary listing on the SGX-ST to a secondary listing. Accordingly, the accounts of the Company and of the Group are not required to be audited by Certified Public Accountants in Singapore with effect from the financial year ended 31 March 2001. Therefore, PricewaterhouseCoopers, Singapore retired as joint auditors and did not seek re-appointment in the annual general meeting held on 28 September 2000.

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

On behalf of the Board

**HAU Tung Ying**  
Director

Hong Kong, 22 July 2002

## Report of the Auditors

**TO THE SHAREHOLDERS OF  
CHINA MOTION TELECOM INTERNATIONAL LIMITED**  
*(incorporated in Bermuda with limited liability)*

We have audited the accounts on pages 34 to 84 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### **OPINION**

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2002 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 22 July 2002

## Consolidated Profit and Loss Account

for the year ended 31 March 2002

	Note	2002 HK\$'000	2001 HK\$'000
Turnover	2	721,988	768,433
Cost of sales and services		(377,750)	(399,466)
Gross profit		344,238	368,967
Other revenues	2	16,856	24,613
Distribution expenses		(20,013)	(32,358)
Administrative expenses		(258,070)	(335,396)
Other operating expenses			
Deficit on revaluation of investment properties		(13,842)	(2,910)
Write-off of goodwill		-	(40,968)
Impairment loss on fixed assets	13(b)&(c)	(176,922)	(195,266)
Operating loss	4	(107,753)	(213,318)
Finance costs	5	(7,515)	(15,376)
Share of profits before taxation of associated companies		216	6,778
Loss before taxation		(115,052)	(221,916)
Taxation	6(a)	(14,170)	(18,620)
Loss after taxation		(129,222)	(240,536)
Minority interests		(1,741)	28,333
Loss attributable to shareholders		(130,963)	(212,203)
Dividends	8	-	-
Loss per share	9		
- Basic		(24.92) HK cents	(48.22) HK cents
- Diluted		N/A	N/A

## Balance Sheets

As at 31 March 2002

	Note	Group		Company	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Goodwill	12	10,298	19,350	-	-
Fixed assets	13	264,232	481,811	-	-
Investments in a subsidiary	14	-	-	622,552	409,833
Investments in associated companies	15	2,444	2,228	-	-
Other long-term investments	16	346,832	266,676	-	-
<b>Current assets</b>					
Inventories	17	8,248	7,063	-	-
Receivables and prepayments	18	357,898	390,110	2,903	586,394
Marketable securities	19	1,107	2,940	-	-
Pledged bank deposits		6,355	6,377	-	-
Bank and cash balances	20	111,804	202,401	106	20,283
		<b>485,412</b>	<b>608,891</b>	<b>3,009</b>	<b>606,677</b>
<b>Current liabilities</b>					
Trade and other payables	21	180,300	284,434	962	114,806
Taxation payables	6(b)	7,360	16,107	-	-
Borrowings	22	30,543	27,270	-	-
		<b>218,203</b>	<b>327,811</b>	<b>962</b>	<b>114,806</b>
Net current assets		<b>267,209</b>	<b>281,080</b>	<b>2,047</b>	<b>491,871</b>
Total assets less current liabilities		<b>891,015</b>	<b>1,051,145</b>	<b>624,599</b>	<b>901,704</b>
<b>Financed by:</b>					
Share capital	25	394,107	394,107	394,107	394,107
Non-distributable capital reserves	26	530,951	517,059	456,023	456,023
Contributed surplus	27	-	-	52,854	52,854
Accumulated losses		(180,067)	(35,212)	(278,385)	(1,280)
Shareholders' funds		<b>744,991</b>	<b>875,954</b>	<b>624,599</b>	<b>901,704</b>
Minority interests		<b>49,064</b>	<b>57,506</b>	-	-
<b>Non-current liabilities</b>					
Borrowings	22	96,614	117,339	-	-
Deferred taxation	6(c)	346	346	-	-
		<b>96,960</b>	<b>117,685</b>	-	-
		<b>891,015</b>	<b>1,051,145</b>	<b>624,599</b>	<b>901,704</b>

On behalf of the Board

HAU Tung Ying  
Director

SHUI Ming Hua  
Director

## Statements of Changes in Equity

For the year ended 31 March 2002

	Group			Total HK\$'000
	Share capital HK\$'000 (note 25)	Non- distributable capital reserves HK\$'000 (note 26)	Accumulated losses HK\$'000	
<b>Balance at 1 April 2000</b>				
As previously reported	281,498	312,167	200,758	794,423
Effect of adopting HKSSAP 29	-	-	(10,076)	(10,076)
As restated	281,498	312,167	190,682	784,347
Issue of shares, net of expenses	112,609	190,847	-	303,456
Exchange differences arising from investments in PRC subsidiaries	-	354	-	354
Transfer	-	13,691	(13,691)	-
Loss for the year	-	-	(212,203)	(212,203)
<b>Balance at 31 March 2001</b>	<b>394,107</b>	<b>517,059</b>	<b>(35,212)</b>	<b>875,954</b>
<b>Balance at 1 April 2001</b>	<b>394,107</b>	<b>517,059</b>	<b>(35,212)</b>	<b>875,954</b>
Transfer	-	13,892	(13,892)	-
Loss for the year	-	-	(130,963)	(130,963)
<b>Balance at 31 March 2002</b>	<b>394,107</b>	<b>530,951</b>	<b>(180,067)</b>	<b>744,991</b>

## Statements of Changes in Equity

For the year ended 31 March 2002

	Company				Total HK\$'000
	Share capital HK\$'000 (note 25)	Non- distributable capital reserves HK\$'000 (note 26)	Contributed surplus HK\$'000 (note 27)	Accumulated losses HK\$'000	
Balance at 1 April 2000	281,498	265,176	52,854	1,202	600,730
Issue of shares, net of expenses	112,609	190,847	-	-	303,456
Loss for the year	-	-	-	(2,482)	(2,482)
Balance at 31 March 2001	394,107	456,023	52,854	(1,280)	901,704
Balance at 1 April 2001	394,107	456,023	52,854	(1,280)	901,704
Loss for the year	-	-	-	(277,105)	(277,105)
Balance at 31 March 2002	394,107	456,023	52,854	(278,385)	624,599

## Consolidated Cash Flow Statement

For the year ended 31 March 2012

	Note	2002 HK\$'000	2001 HK\$'000
<b>Cash outflow from operating activities</b>	28(a)	<b>(50,288)</b>	(35,165)
Interest paid		(7,321)	(14,934)
Interest received		1,834	6,556
Interest element of finance leases		(194)	(442)
Income tax paid		(22,917)	(11,929)
<b>Net cash outflow from operating activities</b>		<b>(78,886)</b>	(55,914)
<b>Cash flows from investing activities</b>			
Proceeds from disposal of fixed assets		63,626	1,820
Proceeds from disposal of marketable securities		-	3,081
Disposal of subsidiaries	28(c)	13,939	-
Dividend from listed investments		-	73
Purchase of fixed assets		(48,199)	(59,738)
Capital contribution to other investment		(24,299)	(14,018)
Purchase of marketable securities		(121)	(4,500)
Proceeds from disposal of associated companies		-	553
Decrease in pledged bank deposits		22	6,900
<b>Net cash inflow/(outflow) from investing activities</b>		<b>4,968</b>	(65,829)
<b>Cash flows from financing activities</b>	28(b)		
Issue of ordinary shares		-	320,310
Draw-down of revolving loan		10,000	-
Repayment of bank loans		(22,741)	(28,643)
Payment of capital element of finance leases		(1,818)	(3,668)
Capital contribution from minority shareholders		773	9,360
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(13,786)</b>	297,359
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(87,704)</b>	175,616
Cash and cash equivalents at the beginning of year		199,508	23,538
Effect of exchange rate changes		-	354
<b>Cash and cash equivalents at the end of year</b>	29	<b>111,804</b>	199,508

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong ("HKGAAP") and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). This represents a change in the adoption of accounting standards for the preparation of accounts from prior years when the accounts were prepared in accordance with International Accounting Standards. The directors consider that the financial year ended 31 March 2002 was the first full financial year of the Company since its conversion of listing status and it is an opportune moment to effect such change and the investment community in Hong Kong is more familiar with HKGAAP which presents the financial position fairly in accordance with market perception. There is no material financial impact to the consolidated accounts for the year ended 31 March 2002 as a result of the change in the adoption of accounting standards for the preparation and no adjustments to the comparative figures presented in the consolidated accounts in prior periods are considered necessary.

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties and marketable securities as disclosed in the accounting policies below.

In current year, the Group early adopted the following revised Statements of Standard Accounting Practice ("HKSSAP") issued by HKSA, which will be effective in next financial year and are applicable to the Group:

HKSSAP 1 (revised):	"Presentation of financial statements"
HKSSAP 11 (revised):	"Foreign currency translation"
HKSSAP 15 (revised):	"Cashflow statement"

Early adoption of these accounting standards has no material impact on the Group's accounts.

HKSSAP 1 (revised) has been revised to present, as a separate component of its accounts, the statement of changes in equity. It has replaced the requirement for presenting the statement of recognised gains and losses. Although the adoption is required for periods beginning on or after 1 January 2002, the Group has opted the revised standard in its 2002 accounts.

HKSSAP 15 (revised) has been revised to classify cash flows under operating, investing or financing activities. Although adoption is required for periods beginning on or after 1 January 2002, the Group has opted the revised standard in its 2002 accounts.

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

The principal accounting policies adopted in the preparation of these accounts are set out below:

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities whose financial and operating policies are controlled, directly or indirectly, by the Company so that the Company is able to benefit from their activities that are controlled by the Group.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and exchange difference and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the profit and loss account and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves. Upon disposal of an overseas subsidiary or associated company, the related cumulative exchange difference is included in the profit and loss account as part of the gain or loss on disposal.

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associated company at the date of acquisition. Goodwill is amortised using the straight-line method over its estimated useful life of five years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

(e) Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Leasehold land is depreciated over the unexpired periods of leases. Depreciation of leasehold buildings and improvements is calculated to write off their cost on a straight-line basis over the unexpired periods of the leases or their estimated useful lives to the Group, whichever is shorter. The annual rates used for this purpose are 2% and 20% respectively.

During the year, the Group revised the estimated useful lives of telecommunications equipment. This resulted in a change in accounting estimate to the Group and accordingly, the Group has recognised the effect of change in depreciation rate of HK\$2,311,000 in the consolidated profit and loss account. Depreciation of other fixed assets is calculated to write off their cost on a straight-line basis over their estimated useful lives. The principal annual rates are as follows:

Telecommunications equipment	20%
Furniture, fixtures and office equipment	20%
Motor vehicles	30%

Major costs incurred in restoring telecommunications equipment components to their normal working condition to allow continued use of the overall asset are capitalised and depreciated over the remaining useful lives.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Fixed assets (continued)

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed, and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent professional valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(g) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Assets under leases (continued)

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain within the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(h) Investments

Investments held for long-term purposes other than those in subsidiaries and associated companies are stated at cost less provision for any permanent diminution in value.

Marketable securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of marketable securities are recognised in the profit and loss account. Profits and losses on disposal of marketable securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the first-in, first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds in the ordinary course of business, less estimated selling expenses.

(j) Trade receivables

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks net of bank overdrafts and trust receipts loans which have original maturities of three months or less at the date of acquisition.

(l) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(m) Retirement benefit costs

The Group operates a Mandatory Provident Fund Scheme ("MPF") for the eligible employees in Hong Kong. The Group's contributions to the MPF are expensed as incurred.

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the profit and loss account when they are incurred.

(o) Revenue recognition

(i) Paging subscription fee income is recognised on a straight-line basis over the period of the paging service contracts. Revenue received in advance for the provision of paging services for an agreed period of time is deferred and amortised on a straight-line basis over the contract period.

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

(iii) Maintenance and technical consultancy service income from service agreements is recognised on an accrual basis when the service is performed.

(iv) Trunking service income and advertising income are recognised when the services are rendered.

(v) International communications and Internet related services provided to customers are recognised upon the delivery of services.

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

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

(viii) Interest income is recognised on a time proportion basis, taking into account the principals outstanding and interest rates applicable.

(ix) Dividend income is recognised when the right to receive payment is established.

(x) Management service fee income is recognised on an accrual basis in accordance with the terms of the agreements.

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

## Notes to the Accounts

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Unallocated assets represent assets not dedicated to a particular segment, consist primarily of cash and bank balances, investments in securities, investment properties and other receivables. Segment liabilities comprise operating liabilities and corporate borrowings. Unallocated liabilities represent liabilities not dedicated to a particular segment, consist primarily of short-term and long-term loans and other payables. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

## Notes to the Accounts

### 2 TURNOVER AND REVENUES

The Group is principally engaged in the provision of paging services, technical consultancy services, and repair and maintenance services for telecommunications equipment, international communications services and trunking radio services. It is also engaged in the distributions and retail sales of telecommunications equipment and the leasing and trading of telecommunications equipment and products. Revenues recognised during the year are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Turnover		
International communications income	170,378	90,539
Paging subscription fee and related service income	138,897	200,617
Technical consultancy service income	131,607	185,077
Sale of telecommunications products	112,165	112,626
Leasing income	68,205	26,579
Commission income	64,666	90,041
Maintenance service income	19,075	42,789
Trunking service income	16,322	16,091
Internet related services income	673	4,074
	721,988	768,433
Other revenues		
Rental income	8,135	4,563
Advertising income	3,518	11,586
Airtime income	2,640	-
Interest income	1,834	6,556
Management service fee income	-	1,731
Dividend income from listed investments	-	73
Others	729	104
	16,856	24,613
Total revenues	738,844	793,046

## Notes to the Accounts

### 3 SEGMENT INFORMATION

The Group's principal activities can be categorised into six business segments:

<b>Business segments</b>	<b>Nature of business activities</b>	<b>Places of operation</b>
1. Telecommunications Network Services	Provision of trunking radio services, sales of trunking related equipment, international calling services and income from lease line rental	Hong Kong/ Canada and USA
2. Distributions and Retail Chain Services	Retail sales of telecommunications related equipment and products, provision of maintenance and repair services and commission income	Hong Kong/ People's Republic of China ("PRC")
3. Unified Messaging Services	Provision of paging services and sales of telecommunications equipment	Hong Kong/PRC
4. Mobile Related Services Operation	Provision of technical advisory, maintenance and accounts management services to telecommunications operations	PRC
5. Other Operations	Leasing and trading of telecommunications equipment and products	PRC
6. Discontinued Operations*	Provision of call center services, Internet related services	Hong Kong

\* On 3 December 2001, the call center services and Internet related services operations were disposed of to First Active Investments Limited ("First Active"), an associate of the ultimate holding company, Goldtop Holdings Limited, at a cash consideration of HK\$15 million.

Transactions between the business segments and geographical segments have been eliminated.

## Notes to the Accounts

### 3 SEGMENT INFORMATION (continued)

(a) Primary reporting format – business segments

	Telecom- munications Network Services HK\$'000	Distributions and Retail Chain Services HK\$'000	Unified Messaging Services HK\$'000	Mobile Related Services Operation HK\$'000	Other Operations HK\$'000	Discontinued Operations HK\$'000	Unallocated Items HK\$'000	Group HK\$'000
<b>2002</b>								
Turnover	254,244	184,712	136,901	131,070	9,579	5,482	-	721,988
Segmental profit/(loss)	4,857	12,550	14,216	93,222	(42,395)	(8,085)	(183,952)	(109,587)
Net finance costs								(5,681)
Share of profits before taxation of associated companies								216
Loss before taxation								(115,052)
Taxation								(14,170)
Loss after taxation								(129,222)
Minority interests								(1,741)
Loss attributable to the shareholders								(130,963)
Segment assets	266,868	182,114	15,847	368,993	57,709	-	215,243	1,106,774
Investments in associated companies								2,444
Consolidated total assets								1,109,218
Segment liabilities	82,007	23,492	37,083	66,894	15,540	-	139,211	364,227
Capital expenditure	38,118	1,843	1,180	1,029	-	26	6,003	48,199
Depreciation	4,285	4,735	7,173	1,913	78	1,405	12,037	31,626
Amortisation	-	-	-	8,843	-	-	209	9,052
Impairment loss on fixed assets	26,092	-	4,616	-	47,315	-	98,899	176,922
Other non-cash expenses/(income), net	(44)	(1,036)	(1,254)	-	678	-	15,331	13,675

## Notes to the Accounts

### 3 SEGMENT INFORMATION (continued)

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

	Telecom- munications Network Services HK\$'000	Distributions and Retail Chain Services HK\$'000	Unified Messaging Services HK\$'000	Mobile Related Services Operation HK\$'000	Other Operations HK\$'000	Discontinued Operations HK\$'000	Unallocated Items HK\$'000	Group HK\$'000
<b>2001</b>								
Turnover	122,153	193,495	190,383	184,261	37,511	40,630	-	768,433
Segmental profit/(loss)	(16,190)	1,327	(104,930)	139,657	(82,991)	(59,762)	(96,985)	(219,874)
Net finance costs								(8,820)
Share of profits before taxation of associated companies								6,778
Loss before taxation								(221,916)
Taxation								(18,620)
Loss after taxation								(240,536)
Minority interests								28,333
Loss attributable to the shareholders								(212,203)
Segment assets	154,253	135,106	37,075	408,121	174,653	59,146	408,374	1,376,728
Investments in associated companies								2,228
Consolidated total assets								1,378,956
Segment liabilities	125,267	54,332	47,376	68,394	28,471	12,651	166,511	503,002
Capital expenditure	6,546	5,576	6,458	4,589	857	19,181	26,987	70,194
Depreciation	2,177	6,163	8,165	1,361	15,162	2,090	10,698	45,816
Amortisation	536	-	5,337	8,843	-	598	700	16,014
Impairment loss on fixed assets/ write off of goodwill	26,381	2,599	103,390	-	93,144	10,720	-	236,234
Other non-cash expenses, net	9,835	4,945	17,398	-	385	1,120	2,910	36,593

## Notes to the Accounts

### 3 SEGMENT INFORMATION (continued)

(b) Secondary reporting format – geographical segments

	Turnover		Segmental profit/(loss)		Total assets		Capital expenditure	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	220,725	372,824	96,858	97,701	691,525	665,434	2,090	9,259
Hong Kong	474,013	367,365	(24,784)	(224,784)	392,901	687,110	29,273	60,245
Canada and USA	27,250	28,244	2,291	4,194	24,792	26,412	16,836	690
	<b>721,988</b>	768,433	<b>74,365</b>	(122,889)	<b>1,109,218</b>	1,378,956	<b>48,199</b>	70,194
Unallocated items	-	-	(183,952)	(96,985)	-	-	-	-
	<b>721,988</b>	768,433	<b>(109,587)</b>	(219,874)	<b>1,109,218</b>	1,378,956	<b>48,199</b>	70,194

## Notes to the Accounts

### 4 OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	Group	
	2002 HK\$'000	2001 HK\$'000
<b>Crediting</b>		
Net gain/(loss) on disposal of fixed assets	33,999	(651)
Gain on dilution of interests in subsidiaries	-	2,666
<b>Charging</b>		
Auditors' remuneration	1,500	1,500
Staff costs (excluding directors' emoluments)	148,704	192,297
Depreciation of fixed assets		
– owned assets	26,054	28,242
– owned assets (telecommunications equipment) leased out under operating leases	5,102	15,162
– assets under finance leases	470	2,412
Loss on disposal of marketable securities	-	313
Operating lease charges for land and buildings	63,753	72,875
Operating lease charges for telecommunications equipment	88,663	43,354
Amortisation of goodwill (included in administrative expenses)	9,052	16,014
Loss on disposal of subsidiaries/associated companies	26,328	2,378
Cost of inventories sold	94,118	132,379
Impairment loss on fixed assets	176,922	195,266
Deficit on revaluation of investment properties	13,842	2,910
Diminution in value of marketable securities	1,954	1,560

## Notes to the Accounts

### 4 OPERATING LOSS (continued)

The future minimum lease incomes receivable under non-cancellable operating leases are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	6,276	17,580
Between two and five years	585	52,740
More than five years	-	52,363
	<u>6,861</u>	<u>122,683</u>

### 5 FINANCE COSTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts		
- wholly repayable within five years	2,449	6,289
- not wholly repayable within five years	4,231	8,189
Interest on other loans wholly repayable within five years	641	456
Interest element of finance leases	194	442
	<u>7,515</u>	<u>15,376</u>

## Notes to the Accounts

### 6 TAXATION

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong profits tax		
– underprovision in previous years	442	50
PRC taxation		
– current year	13,728	18,570
	<u>14,170</u>	<u>18,620</u>

Hong Kong profits tax is calculated at a rate of 16% (2001: 16%) on the estimated assessable profit for the year. The provision for Hong Kong profits tax has been reduced by the availability of tax losses to set off against assessable profit for the year and the tax savings from the utilisation of such losses amounted to HK\$5,502,000 for the year ended 31 March 2002 (2001: HK\$5,772,000).

PRC taxation represents income tax payable by the subsidiaries operating in the PRC at the applicable rates ranging from 15 per cent to 33 per cent.

(b) The amount of taxation in the consolidated balance sheet represents:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong profits tax recoverable	-	(91)
PRC income tax payable	7,360	16,198
	<u>7,360</u>	<u>16,107</u>

(c) The aggregate potential deferred tax asset of HK\$87,551,000 (2001: HK\$68,643,000) relating to tax losses available to be carried forward and other timing differences related to accelerated depreciation allowance as at 31 March 2002 has not been recognised as the crystallisation of the asset in the foreseeable future is uncertain.

## Notes to the Accounts

### 7 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$277,105,000 (2001: HK\$2,482,000).

### 8 DIVIDENDS

The directors do not recommend the payment of a final dividend for the year ended 31 March 2002 (2001: Nil).

### 9 LOSS PER SHARE

	Group	
	2002	2001
	HK\$'000	HK\$'000
Loss attributable to shareholders	<u>(130,963)</u>	<u>(212,203)</u>
Weighted average number of ordinary shares in issue	525,475,573	440,027,564
Adjustments for share options and warrants	<u>93,531,570</u>	<u>59,060,944</u>
Weighted average number of ordinary shares for diluted loss per share	<u>619,007,143</u>	<u>499,088,508</u>
Basic loss per share	<u>(24.92) HK cents (48.22) HK cents</u>	
Diluted loss per share (note (b))	<u>N/A</u>	<u>N/A</u>

(a) Basic loss per share is calculated based on weighted average number of issued ordinary shares and the related income amount. For the diluted loss per share, the weighted average number of issued ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares. The number of incremental shares from assumed exercise of share options and warrants has been determined using the treasury stock method.

(b) Diluted loss per share for the years ended 31 March 2002 and 2001 has not been presented as the conversion of potential ordinary shares to ordinary shares would have anti-dilutive effect to the basic loss per share.

## Notes to the Accounts

### 10 RETIREMENT BENEFIT COSTS

The Group's contributions to the MPF are at 5% of employees basic salaries up to a maximum of HK\$1,000 per employee per month. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

The Group has contributed HK\$3,992,000 to the MPF for the year ended 31 March 2002 (2001: HK\$1,724,000).

The assets of MPF are held separately from those of the Group in independent administered funds.

### 11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of the emoluments payable to directors of the Company during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	1,535	2,090
Basic salaries, housing allowances, other allowances and benefits in kind	13,767	12,373
Retirement benefit costs	48	335
	<hr/>	<hr/>
	15,350	14,798

Directors' fees disclosed above include HK\$351,666 (2001: HK\$311,000) paid to the independent non-executive directors.

No director waived any emoluments during the year (2001: Nil). During the year, no amounts have been paid by the Group to the directors as an inducement to join the Group or as compensation for loss of office (2001: Nil).

## Notes to the Accounts

### 11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2002	2001
HK\$Nil – HK\$1,000,000	6	10
HK\$1,500,001 – HK\$2,000,000	2	1
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$3,000,001 – HK\$3,500,000	1	1
HK\$5,000,001 – HK\$5,500,000	–	1
HK\$6,500,001 – HK\$7,000,000	1	–
	<b>10</b>	<b>14</b>

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2001: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2001: two) individuals during the year are as follows:

	2002	2001
	HK\$'000	HK\$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	5,004	3,283
Bonuses	31	376
Retirement benefit costs	23	3
	<b>5,058</b>	<b>3,662</b>

## Notes to the Accounts

### 11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals (continued)

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2002	2001
HK\$1,500,001 – HK\$2,000,000	-	2
HK\$2,000,001 – HK\$2,500,000	1	-
HK\$2,500,001 – HK\$3,000,000	1	-

(c) The share options held by the directors (including non-executive directors of the Company) under the China Motion Employees' Share Option Scheme are set out in the report of the directors on pages 26 to 29.

### 12 GOODWILL

	Group	
	2002 HK\$'000	2001 HK\$'000
Cost		
At 1 April	47,940	105,964
Additions	-	10,456
Disposals	-	(68,480)
At 31 March	47,940	47,940
Accumulated amortisation		
At 1 April	28,590	37,639
Amortisation charge	9,052	16,014
Disposals	-	(25,063)
At 31 March	37,642	28,590
Net book value	10,298	19,350

## Notes to the Accounts

### 13 FIXED ASSETS – GROUP

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Furniture, fixtures and office equipment HK\$'000	Telecom- munications equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost or valuation</b>							
At 1 April 2001	90,240	218,570	57,516	437,191	55,259	9,742	868,518
Additions	-	-	6,183	37,429	4,466	121	48,199
Disposal of subsidiaries	-	-	(8,698)	(10,908)	(1,062)	(419)	(21,087)
Transfers	9,882	(23,423)	-	-	-	-	(13,541)
Revaluation (note (d))	(13,842)	-	-	-	-	-	(13,842)
Disposals/write-off	-	-	(10,642)	(72,771)	(6,041)	(1,194)	(90,648)
<b>At 31 March 2002</b>	<b>86,280</b>	<b>195,147</b>	<b>44,359</b>	<b>390,941</b>	<b>52,622</b>	<b>8,250</b>	<b>777,599</b>
<b>Accumulated depreciation and impairment</b>							
At 1 April 2001	-	13,349	27,744	312,338	25,626	7,650	386,707
Charge for the year	-	3,255	7,361	10,765	9,337	908	31,626
Impairment charge (note (b) & (c))	-	95,132	944	76,763	4,083	-	176,922
Disposal of subsidiaries	-	-	(2,236)	(3,985)	(1,014)	(91)	(7,326)
Transfers	-	(13,541)	-	-	-	-	(13,541)
Disposals/write-off	-	-	(8,080)	(47,590)	(4,481)	(870)	(61,021)
<b>At 31 March 2002</b>	<b>-</b>	<b>98,195</b>	<b>25,733</b>	<b>348,291</b>	<b>33,551</b>	<b>7,597</b>	<b>513,367</b>
<b>Net book value or valuation</b>							
<b>At 31 March 2002</b>	<b>86,280</b>	<b>96,952</b>	<b>18,626</b>	<b>42,650</b>	<b>19,071</b>	<b>653</b>	<b>264,232</b>
At 31 March 2001	90,240	205,221	29,772	124,853	29,633	2,092	481,811

## Notes to the Accounts

### 13 FIXED ASSETS – GROUP (continued)

- (a) As at 31 March 2002, the net book value of fixed assets pledged as security for banking facilities of the Group amounted to approximately HK\$183,232,000 (2001: HK\$205,221,000).
- (b) In light of the severe competition in the telecommunications market in Hong Kong and the rapid change of technology, the Group has reviewed the carrying value of all telecommunications equipment and other fixed assets based on the recoverable value of these assets and an impairment charge of HK\$81,790,000 (2001: HK\$195,266,000) has been made in current year.
- (c) In view of the change in the property market, the Group has made an impairment charge of HK\$95,132,000 (2001: Nil) on the leasehold land and buildings in current year.
- (d) The investment properties are valued at open market value by DTZ Debenham Tie Leung Limited, independent professional valuers, as at 31 March 2002. The revaluation deficit is charged to the profit and loss account.

The investment properties of the Group are pledged as security for banking facilities granted to the Group.

- (e) The analysis of the net book value of the Group's leasehold land and buildings and valuation of the Group's investment properties as at 31 March 2002 is as follows:

	Group			
	Leasehold land and buildings in Hong Kong	Investment properties		
	in Hong Kong HK\$'000	Hong Kong HK\$'000	PRC HK\$'000	Total HK\$'000
Period unexpired				
Leases between 10 to 50 years				
At net book value	80,728	-	-	-
At valuation	-	20,100	5,000	25,100
Leases not less than 50 years				
At net book value	16,224	-	-	-
At valuation	-	61,180	-	61,180
	<b>96,952</b>	<b>81,280</b>	<b>5,000</b>	<b>86,280</b>

## Notes to the Accounts

### 13 FIXED ASSETS - GROUP (continued)

(f) As at 31 March 2002, the net book value of fixed assets held under finance leases are as follows:

	Group	
	2002	2001
	HKS'000	HKS'000
Telecommunications equipment	-	6,462
Motor vehicles	424	879
	<u>424</u>	<u>7,341</u>

### 14 INVESTMENTS IN A SUBSIDIARY

	Company	
	2002	2001
	HKS'000	HKS'000
Unlisted investment, at cost (note (a))	113,115	113,115
Amount due from a subsidiary (note (b))	784,437	296,718
Provision for amount due from a subsidiary	(275,000)	-
	<u>622,552</u>	<u>409,833</u>

(a) Particulars of principal subsidiaries are set out in note 36 to the accounts.

(b) The amount due from a wholly-owned subsidiary is unsecured, interest free and has no fixed terms of repayment but repayment is not expected to be within twelve months from the balance sheet date.

## Notes to the Accounts

### 15 INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	<u>2,444</u>	<u>2,228</u>

Particulars of principal associated companies are set out in note 37 to the accounts.

### 16 OTHER LONG-TERM INVESTMENTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost less amounts written off	14,178	14,178
Club debentures	4,762	4,765
Others, unlisted (note (a))	327,892	247,733
	<u>346,832</u>	<u>266,676</u>

- (a) This includes an amount of HK\$247,733,000 invested by the Group in a telecommunications project in Guangdong province in the PRC. This investment has been undertaken on behalf of the Group by a related party, China Motion Netcom Services Co. Ltd (formerly known as China Motion Mobile Telecom Services Co. Ltd) ("CM Netcom"). CM Netcom is a minority shareholder of a subsidiary. The amount is repayable by CM Netcom to a subsidiary of the Company before or upon expiry of a service agreement between that subsidiary and CM Netcom in March 2004. HK\$40 million has been repaid subsequent to the year ended 31 March 2002 on 11 July 2002.

During the year, the Group provided HK\$80,159,000 as capital expenditure funding to CM Netcom for developing CM Netcom's VoIP long distance call services business. The capital expenditure funding is repayable on demand and the directors expect that the funding will be fully repaid by CM Netcom within 5 years after the date of entering the VoIP service agreement on 16 October 2001. In the opinion of the directors, no demand for repayment is expected within twelve months from the balance sheet date.

## Notes to the Accounts

### 17 INVENTORIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Finished goods	<b>8,248</b>	7,063

As at 31 March 2002, the carrying amount of inventories that are carried at net realisable value amounted to HK\$7,972,000 (2001: HK\$6,193,000).

### 18 RECEIVABLES AND PREPAYMENTS

	Note	Group		Company	
		2002	2001	2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Trade</b>					
Trade receivables, net of provision	18(a), 32(b)	<b>316,419</b>	273,436	-	-
<b>Non-trade</b>					
<b>Due from:</b>					
Subsidiaries		-	-	<b>2,903</b>	586,390
Associated companies	18(b)	<b>16,503</b>	7,280	-	-
Related companies	18(c)	<b>1,717</b>	366	-	-
An investee company		-	2,581	-	-
Other receivables and prepayments	32(c)	<b>23,259</b>	106,447	-	4
		<b>357,898</b>	390,110	<b>2,903</b>	586,394

## Notes to the Accounts

### 18 RECEIVABLES AND PREPAYMENTS (continued)

(a) The ageing analysis of the trade receivables as at 31 March 2002 is as follows:

	2002	2001
	HK\$'000	HK\$'000
0 - 30 days	36,600	49,348
31 - 60 days	26,177	35,269
61 - 90 days	15,722	29,390
Over 90 days	237,920	159,429
Total	<u>316,419</u>	<u>273,436</u>

The Group has a defined credit policy. The general credit term is 30-60 days. The trade debtors with ageing over 61 days comprise amounts due from China Motion Telecom Holdings Limited ("CMTH") and its subsidiaries, all are related parties of the Group, totalling HK\$243,441,000 (2001: HK\$176,398,000). The information in respect of the total outstanding trade receivables due from such related parties as at year end has been disclosed in note 32(b).

(b) As at 31 March 2002, the amounts due from associated companies are unsecured, interest-free and have no fixed terms of repayment.

(c) As at 31 March 2002, the amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment.

### 19 MARKETABLE SECURITIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Equity securities, listed in Hong Kong at market value	<u>1,107</u>	<u>2,940</u>

## Notes to the Accounts

### 20 BANK AND CASH BALANCES – GROUP

- (a) Included in bank and cash balances of the Group is HK\$70,511,000 (2001: HK\$61,217,000) which represents bank balances denominated in Renminbi placed with banks in the PRC. Renminbi is not a freely convertible currency.
- (b) Included in bank and cash balances of the Group are fixed deposits with financial institutions amounting to HK\$35,327,000 (2001: HK\$125,811,000). The weighted average effective interest rate on fixed deposits for the year ended 31 March 2002 was 2% (2001: 4.37%).

### 21 TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>Trade</b>					
Bills payable		1,999	341	-	-
Trade payables	21(a)	59,943	65,022	-	-
Advance subscription fees received		14,969	25,389	-	-
<b>Non-trade</b>					
Due to:					
Subsidiaries		-	-	-	113,001
Associated companies	21(b)	7,859	65,563	-	-
An investee company		5,272	-	-	-
Directors		97	555	-	-
Other payables and accrued liabilities	32(d)	90,161	127,564	962	1,805
		<b>180,300</b>	<b>284,434</b>	<b>962</b>	<b>114,806</b>

## Notes to the Accounts

### 21 TRADE AND OTHER PAYABLES (continued)

(a) Trade payables

The ageing analysis of trade payables as at 31 March 2002 is as follows:

	2002 HK\$'000	2001 HK\$'000
0 - 30 days	24,795	14,775
31 - 60 days	8,506	5,453
61 - 90 days	6,431	512
Over 90 days	20,211	44,282
Total	<u>59,943</u>	<u>65,022</u>

(b) As at 31 March 2002, amounts due to associated companies are unsecured, interest-free and have no fixed terms of repayment. The balance mainly represents rental fee on telecommunications equipment payable to an associated company.

### 22 BORROWINGS

		Group	
	Note	2002 HK\$'000	2001 HK\$'000
<b>Non-current</b>			
Bank loans – secured	23	96,476	116,948
Obligations under finance leases	24	138	391
		<u>96,614</u>	<u>117,339</u>
<b>Current</b>			
Trust receipt loans – secured		–	2,893
Bank loans – secured	23	30,335	22,604
Obligations under finance leases	24	208	1,773
		<u>30,543</u>	<u>27,270</u>
Total borrowings		<u>127,157</u>	<u>144,609</u>

## Notes to the Accounts

### 23 BANK LOANS – SECURED

	Group	
	2002	2001
	HK\$'000	HK\$'000
Secured bank loans are repayable:		
- within one year (included in current liabilities)	30,335	22,604
- between one and two years	19,578	19,022
- between two and five years	34,746	44,255
- over five years	42,152	53,671
	96,476	116,948
	126,811	139,552

The bank loans are secured by the Group's investment properties, leasehold land and buildings and certain bank deposits, and are repayable by monthly instalment. The maturity date for the last instalment is August 2013. The weighted average effective interest rate for the year ended 31 March 2002 was 5.08% per annum (2001: 8.79% per annum) and the interest rate exposure of the bank loans of the Group was as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
At floating rates		
- Hong Kong dollar denominated loans	123,249	135,545
- US dollar denominated loans	3,562	4,007
	126,811	139,552

## Notes to the Accounts

### 24 OBLIGATIONS UNDER FINANCE LEASES

As at 31 March 2002, the Group's finance lease liabilities were repayable as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	257	1,975
In the second year	172	314
In the third to the fifth year	-	172
	<hr/>	<hr/>
Future finance charges on finance leases	429 (83)	2,461 (297)
	<hr/>	<hr/>
Present value of finance lease liabilities	346	2,164
	<hr/>	<hr/>

The present value of finance lease liabilities is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year (included in current liabilities)	208	1,773
	<hr/>	<hr/>
In the second year	138	253
In the third to the fifth year	-	138
	<hr/>	<hr/>
	138	391
	<hr/>	<hr/>
	346	2,164
	<hr/>	<hr/>

## Notes to the Accounts

### 25 SHARE CAPITAL

	Company			
	2002	2001		
	HK\$'000	HK\$'000		
Authorised:				
1,040,000,000 ordinary shares of HK\$0.75 each	<b>780,000</b>	780,000		
	2002	2001		
	Number of shares	Number of shares	Issued and fully paid HK\$'000	Issued and fully paid HK\$'000
Ordinary shares of HK\$0.75 each				
At 1 April	525,475,573	375,330,459	394,107	281,498
Issue of shares				
- placement	-	45,000,000	-	33,750
- rights issue	-	105,095,114	-	78,821
- share option scheme (note (a))	-	50,000	-	38
At 31 March	<b>525,475,573</b>	525,475,573	<b>394,107</b>	394,107

## Notes to the Accounts

### 25 SHARE CAPITAL (continued)

(a) Share option scheme

Pursuant to an ordinary resolution passed on 18 March 1998 and subsequently modified pursuant to ordinary resolutions passed on 19 February 2000 and 2 February 2001, a share option scheme known as "China Motion Employees' Share Option Scheme" (the "Scheme") was adopted. A committee comprising directors of the Company who were duly appointed by the board of directors is authorised to grant options to eligible employees including executive directors of the Company to subscribe for shares not exceeding 10% of the issued share capital of the Company.

The movements of share options under the Scheme during the year were as follows:

Date of grant	Exercise price HK\$	Balance outstanding as at 1 April 2001	Options granted during the year	Options exercised during the year	Options lapsed during the year	Balance outstanding as at 31 March 2002
29 June 1998	0.751	587,059	-	-	(102,993)	484,066
19 August 1999	2.00	1,879,620	-	-	(406,822)	1,472,798
25 February 2000	3.19	1,091,725	-	-	-	1,091,725
17 October 2000	1.22	4,127,441	-	-	(599,936)	3,527,505
20 March 2001	0.75	33,600,000	-	-	(7,400,000)	26,200,000
28 January 2002	0.75	-	1,850,000	-	-	1,850,000
		41,285,845	1,850,000	-	(8,509,751)	34,626,094

The aforesaid share options are exercisable at any time after the date of grant and before the tenth anniversary of the date of grant. Exercise in full of all outstanding share options would result in the issue of an additional 34,626,094 ordinary shares with estimated proceeds of HK\$32,133,000.

(b) Warrants

On 1 April 2000, 55,804,270 units of unlisted warrants were issued to certain third parties as part of the consideration for the acquisition of additional interests in CM Mobile Telecom Holdings Limited, a wholly-owned subsidiary of the Company. The warrants confer the holders the right to subscribe for 55,804,270 new fully paid shares in the Company at an initial subscription price of HK\$2.184 per share at any time from 1 April 2000 and subsequently adjusted to HK\$2.12 per share on 23 January 2001 up to and including 31 March 2004. Exercise in full of all outstanding warrants would result in the issue of an additional 55,804,270 shares with estimated proceeds of HK\$118,305,000. No warrants were exercised during the year.

## Notes to the Accounts

### 26 NON-DISTRIBUTABLE CAPITAL RESERVES

	Group													
	2002						2001							
	Reserves		Exchange reserve	Capital redemption reserve		Enterprise expansion reserve	Total	Reserves		Exchange reserve	Capital redemption reserve		Enterprise expansion reserve	Total
	Share premium	on consolidation		Share premium	on consolidation			Share premium	on consolidation					
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 April	455,573	4,900	1,697	450	54,439	517,059	264,726	4,900	1,343	450	40,748	312,167		
Transfer from retained profits	-	-	-	-	13,892	13,892	-	-	-	-	-	13,691	13,691	
Issue of shares, net of expenses	-	-	-	-	-	-	190,847	-	-	-	-	-	190,847	
Exchange differences arising from investments in PRC subsidiaries	-	-	-	-	-	-	-	-	354	-	-	-	354	
At 31 March	455,573	4,900	1,697	450	68,331	530,951	455,573	4,900	1,697	450	54,439	517,059		

	Company							
	2002			2001				
	Share premium		Capital redemption reserve	Total	Share premium		Capital redemption reserve	Total
	HK\$'000	HK\$'000			HK\$'000	HK\$'000		
At 1 April	455,573	450	456,023	264,726	450	265,176		
Issue of shares, net of expenses	-	-	-	190,847	-	190,847		
At 31 March	455,573	450	456,023	455,573	450	456,023		

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

## Notes to the Accounts

### 27 CONTRIBUTED SURPLUS

	Company	
	2002	2001
	HK\$'000	HK\$'000
Brought forward and carried forward	<u>52,854</u>	<u>52,854</u>

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 may 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; (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.

## Notes to the Accounts

### 28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to cash outflow from operating activities:

	Note	2002 HK\$'000	2001 HK\$'000
Loss before taxation		(115,052)	(221,916)
Depreciation of owned fixed assets		31,156	43,404
Depreciation of fixed assets held under finance leases		470	2,412
Impairment loss on fixed assets		176,922	195,266
Amortisation of goodwill		9,052	16,014
Write-off of goodwill		-	40,968
Deficit on revaluation of investment properties		13,842	2,910
Share of profits before taxation of associated companies		(216)	(6,778)
Net (gain)/loss on disposal of fixed assets		(33,999)	651
Gain on dilution of interests in subsidiaries		-	(2,666)
Loss on disposal of subsidiaries	28 (c)	26,328	-
Loss on disposal of other investment		-	150
Loss on disposal of associated companies		-	2,378
Interest paid		7,321	14,934
Interest element of finance leases		194	442
Interest received		(1,834)	(6,556)
Dividend received from listed investments		-	(73)
Changes in working capital			
(Increase)/decrease in inventories		(1,185)	30,085
Increase in trade receivables, other receivables including amounts due from associated companies, related companies, an investee company, diminution in value and loss on disposal of marketable securities		(60,004)	(127,641)
Decrease in trade payables, other payables and accrued liabilities, bills payable, advance subscription fees received including amounts due to associated companies		(103,283)	(19,149)
Cash outflow from operating activities		(50,288)	(35,165)

## Notes to the Accounts

### 28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital		Minority interests		Loans and obligations under finance leases	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	<b>394,107</b>	281,498	<b>57,506</b>	72,447	<b>141,716</b>	174,027
Dilution of interest in subsidiaries	-	-	-	3,914	-	-
Issue of new shares	-	112,609	-	-	-	-
Share of profits/(losses) by minority shareholders	-	-	<b>1,741</b>	(28,333)	-	-
Cash outflow from financing	-	-	-	-	<b>(14,559)</b>	(32,311)
Capital contribution from minority shareholders	-	-	<b>773</b>	9,360	-	-
Disposal of subsidiaries (28(c))	-	-	<b>727</b>	-	-	-
Dividends paid to minority shareholders (note 28(d)(iii))	-	-	<b>(11,683)</b>	-	-	-
Acquisition of subsidiaries	-	-	-	118	-	-
At 31 March	<b>394,107</b>	394,107	<b>49,064</b>	57,506	<b>127,157</b>	141,716

## Notes to the Accounts

### 28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of subsidiaries

	2002 HK\$'000
Net assets disposed of:	
Fixed assets	13,761
Trade and other receivables	26,630
Cash and bank balances	1,061
Other payables and accruals	(851)
Minority interests	727
	<u>41,328</u>
Loss on disposal	<u>(26,328)</u>
Satisfied by cash	<u>15,000</u>
Net inflow of cash and cash equivalents	<u>13,939</u>

(d) Major non-cash transactions

- (i) Pursuant to the VoIP Services Agreement entered into between Shenzhen Motion Mobile Telecom Services Co. Ltd. ("SMMT"), a 90% owned subsidiary of the Group, and CM Netcom, a wholly-owned subsidiary of CMTH, SMMT has agreed to provide CAPEX funding to CM Netcom for developing CM Netcom's VoIP long distance call services business. CAPEX funding provided to CM Netcom by the Group during the year amounted to HK\$80,159,000. Within all, HK\$24,299,000 was provided to CM Netcom by cash and the remaining balance of HK\$55,860,000 was provided through current account with CMTH.
- (ii) During the year, SMMT had declared dividend amounted to HK\$116,830,000. Among all, HK\$11,683,000 was paid to CMTH, a minority shareholder of SMMT. The amount was settled through a current account with CMTH.

## Notes to the Accounts

### 29 CASH AND CASH EQUIVALENTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Bank and cash balances	111,804	202,401
Trust receipt loans	-	(2,893)
	<u>111,804</u>	<u>199,508</u>

### 30 CONTINGENT LIABILITIES

As at 31 March 2002, the Group and the Company had contingent liabilities not provided for in the accounts as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees in respect of banking facilities of subsidiaries	-	-	275,131	275,131
Guarantees to suppliers in respect of purchase of telecommunications equipment	-	20,108	-	20,108
Guarantees given to third parties against non-performance of contractual obligations by subsidiaries	35,474	28,700	31,474	25,700
	<u>35,474</u>	<u>28,700</u>	<u>31,474</u>	<u>25,700</u>

## Notes to the Accounts

### 31 COMMITMENTS

As at 31 March 2002, the Group had the following commitments:

(a) Operating lease commitments

(i) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
In respect of land and buildings, including transmission sites:		
Within one year	23,014	38,987
Between two and five years	17,237	13,326
More than five years	1,635	2,930
	41,886	55,243
In respect of leased lines:		
Within one year	27,110	49,997
Between two and five years	10,419	50,749
	37,529	100,746

(b) Capital commitments for purchase of fixed assets

	Group	
	2002	2001
	HK\$'000	HK\$'000
Contracted but not provided for	17,354	5,691
Authorised but not contracted for	36,955	69,005
	54,309	74,696

## Notes to the Accounts

### 32 RELATED PARTY TRANSACTIONS

- (a) In addition to that disclosed in note 16(a), the Group had the following transactions with related parties, including minority shareholders of subsidiaries which were carried out in the normal course of business and on terms arranged by or between the parties during the year:

	Group	
	2002 HK\$'000	2001 HK\$'000
<b>Income/(expenses)</b>		
Rental payable to a related party (note (i))	(316)	(1,546)
<b>Significant transactions with associated companies</b>		
Wanbao Telecom (H.K.) Company, Limited		
Purchase of ISP business	-	(7,183)
Purchase of fixed assets	-	(2,817)
Network service fee	-	(622)
Goodfine Holdings Limited		
Network service fee	-	(2,220)
<b>Significant transactions with minority shareholders of subsidiaries</b>		
CMTH		
Sale of microwave telecommunications equipment	61,495	-
Net sales of pagers and telecommunications equipment	619	11,239
Maintenance service income	14,332	35,307
Leasing income	9,342	26,579
Airtime income	2,640	2,640
Commission income	-	727
Recharge of paging service expenses, operator's cost and dataline rental	(6,902)	(33,714)
Dataline expenses	(1,101)	(1,121)
Shenzhen China Motion Telecom United Company ("SCMTU")		
Sales of telecommunications equipment	5,073	5,073

## Notes to the Accounts

### 32 RELATED PARTY TRANSACTIONS (continued)

	Group	
	2002 HK\$'000	2001 HK\$'000
CM Netcom		
Provision of technical consultancy and maintenance services	131,070	184,261
First Active		
Disposal of subsidiaries	15,000	-

Note:

- (i) This represents rental paid to Liking Industrial Limited, a company beneficially owned by a director of the Company in respect of a property utilised by the aforesaid director.
- (b) As at 31 March 2002, outstanding trade receivables due from minority shareholders of subsidiaries are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
CMTH	32,401	50,063
CM Netcom	166,721	100,933
SCMTU	68,756	65,469
	<b>267,878</b>	<b>216,465</b>

## Notes to the Accounts

### 32 RELATED PARTY TRANSACTIONS (continued)

(c) As at 31 March 2002, outstanding non-trade receivables due from minority shareholders of subsidiaries are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
CMTH	-	21,540
SCMTU	-	12,692
China Motion Internet Services Limited	-	3,768
Sheen Line Investments Limited	-	9,750
Red Flag Finance Limited	-	5,850
Brilliant Eagle Group Limited	-	1,950
Portishead Holdings Limited	-	780
Double Happy Limited	-	585
Money Concept Investment Limited	-	3,315
		<hr/>
	-	60,230

(d) As at 31 March 2002, outstanding non-trade payables included payables to minority shareholders of subsidiaries are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
CMTH	-	2,921
Guangdong Mobile Communication Company Limited	827	827
SCMTU	-	1,160
CM Netcom	-	13,185
		<hr/>
	827	18,093

### 33 ULTIMATE HOLDING COMPANY

The Company is a subsidiary of Goldtop Holdings Limited, a company incorporated in the British Virgin Islands, which is also regarded by the directors as being the ultimate holding company.

## Notes to the Accounts

### 34 POST BALANCE SHEET EVENTS

On 28 May 2002, a sale and purchase agreement (the "Agreement") was entered into between China Motion Telecom (HK) Limited, a wholly-owned subsidiary of the Group, and Telecom Digital Data Limited (the "Purchaser"). Under which, the Group would dispose of its business of operating paging networks and providing paging services in Hong Kong presently carried on by the Group and, where the context permits, shall include the Business Assets (the "Business") to the Purchaser.

Under the term of the Agreement, the Business shall include the licences, the equipment and other benefits of the subscriber contracts, sites contracts and the Agreement.

The consideration for the disposal of the Business would be equal to the total gross revenues (and pro rata where necessary) of the Business that are actually received by the Purchaser from the subscribers for the paging services provided to the subscribers for the months of June, August and October 2002.

### 35 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 22 July 2002.

### 36 PRINCIPAL SUBSIDIARIES

The principal subsidiaries as at 31 March 2002 are as follows:

Name	Country/ place of establishment/ operation	Particulars of issued share capital/ registered capital	Percentage of effective equity held*	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	100%	Provision of long distance call services

## Notes to the Accounts

### 36 PRINCIPAL SUBSIDIARIES (continued)

Name	Country/ place of establishment/ operation	Particulars of issued share capital/ registered capital	Percentage of effective equity held*	Principal activities
ChinaMotion NetCom (Canada) Ltd.	Canada	1 ordinary share of C\$1.00 each	100%	Provision of long distance call services
China Motion Properties Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
China Motion Telecom (HK) Limited	Hong Kong	1 million ordinary shares of HK\$1.00 each	100%	Trading of pagers and the provision of paging services
China Motion United Telecom Limited	Hong Kong	66.8 million 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 and trading of telecommunication products and equipment
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	100%	Provision of long distance call services
CM Tel (USA) LLC	United States	US\$10,000	100%	Provision of long distance call services
Eagle Heights Limited	British Virgin Islands	1 ordinary share of US\$1.00 each	100%	Provision of long distance call services

## Notes to the Accounts

### 36 PRINCIPAL SUBSIDIARIES (continued)

Name	Country/ place of establishment/ operation	Particulars of issued share capital/ registered capital	Percentage of effective equity held*	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.	People's Republic of China	HK\$2,660,000	70%	Maintenance services and provision of telecom related services
Jackie Industries Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding
Prime Target International Limited	British Virgin Islands	1 ordinary share of US\$1.00 each	100%	Provision of roaming paging services
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.	People's Republic of China	US\$12,000,000	90%	Provision of GSM-related services to telecom operators in the PRC
Shenzhen Motion Telecom Service Co., Ltd.	People's Republic of China	RMB25,000,000	70%	Leasing and maintenance for wireless telecommunication equipment and networks
Shenzhen Motion Trunked Radio Co., Ltd.	People's Republic of China	Paid-up capital US\$5,000,000 Registered capital US\$9,000,000	49%	Provision of telecommunication equipment leasing

## Notes to the Accounts

### 36 PRINCIPAL SUBSIDIARIES (continued)

Name	Country/ place of establishment/ operation	Particulars of issued share capital/ registered capital	Percentage of effective equity held*	Principal activities
Townlink Limited	Hong Kong	2 million ordinary shares of HK\$1.00 each	70%	Provision of telecommunication services and the sale of mobile transceivers and related accessories
World Sheen Properties Limited	Hong Kong	2 ordinary shares of HK\$1.00 each	100%	Property holding

\* 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.

## Notes to the Accounts

### 37 PRINCIPAL ASSOCIATED COMPANIES

The principal associated companies as at 31 March 2002 are as follows:

Name	Country/ place of establishment/ operation	Particulars of issued shares held	Percentage of effective equity interest indirectly held	Principal activities
CM Mobile Investment Limited	British Virgin Islands	Ordinary shares US\$1.00 each	38%	Investment holding
Thinker Communications Technology (HK) Co., Limited	Hong Kong	Ordinary shares HK\$1.00 each	48%	Agency services
T-Tel Communications Technology (HK) Co., Limited	Hong Kong	Ordinary shares HK\$1.00 each	48%	Agency services
Wanbao Telecom Investment Limited	Hong Kong	Ordinary shares HK\$1.00 each	48%	Trading of telecommunication equipment and provision of paging network services

The above table includes the associated companies of the Group 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 associated companies would, in the opinion of the directors, result in particulars of excessive length.

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of China Motion Telecom International Limited will be held at Fung Shui Room, 6/F., The Marco Polo HongKong Hotel, Harbour City, Kowloon, Hong Kong on Friday, 6 September 2002 at 9:30 a.m. for the following purposes:

### As Ordinary Business

- (Resolution 1) 1. To receive and adopt the Directors' Report and the Audited Accounts for the year ended 31 March 2002, together with the Auditors' Report thereon.
2. To re-elect the following Directors retiring under Bye-law 85(2) and by rotation under Bye-law 86(1):
- (Resolution 2) (i) Dr. HO Chung Tai, Raymond
- (Resolution 3) (ii) Mr. CHAN Wai Lun
- (Resolution 4) (iii) Mr. LI Yi Sheng
- (Resolution 5) (iv) Mr. YUNG Yung Cheng, Frank
- (Resolution 6) 3. To authorise the Directors to fix the Directors' remuneration for the ensuing year.
- (Resolution 7) 4. To re-appoint Messrs. PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration.
5. To transact any other ordinary business.

### As Special Business

To consider and, if thought fit, to pass the following as Ordinary Resolutions:

- (Resolution 8) 6. **"THAT** the maximum number of Directors be fixed at twenty (20) and that the Directors be authorised to appoint additional Directors (including alternate Directors) up to such maximum number or such other maximum number as may be determined from time to time by shareholders of the Company (the "Shareholders") in general meeting."

## Notice of Annual General Meeting

(Resolution 9) 7. **THAT:**

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors pursuant to Bye-law 3(2) of the Bye-Laws of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase its own issued ordinary shares of HK\$0.75 each in the capital of the Company (the "Shares") on The Stock Exchange of Hong Kong Limited (the "SEHK") and the Singapore Exchange Securities Trading Limited (the "SGX-ST") or any other stock exchange on which the Shares are listed at any time, upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, and subject to and in accordance with all applicable laws and regulations for the repurchase of the Shares, be and is hereby generally and unconditionally approved;
- (b) the aggregate amount of the Shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed ten per cent. (10%) of the aggregate amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and
- (c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:
  - (i) the conclusion of the next Annual General Meeting of the Company;
  - (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; or
  - (iii) the time upon which the authority set out in this Resolution is revoked or varied by ordinary resolution of the Shareholders in general meeting."

## Notice of Annual General Meeting

(Resolution 10) 8. **“THAT:**

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors pursuant to Bye-law 12 of the Bye-Laws of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to issue and allot additional Shares be and is hereby generally and unconditionally approved;
- (b) the aggregate amount of share capital to be issued and allotted or agreed conditionally or unconditionally to be issued and allotted by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a bonus issue; (ii) an issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrant; or (iii) an issue of Shares under any option scheme or similar arrangement for the grant or issue to Directors or employees of the Company and/or any of its subsidiaries and/or any of its associated companies of Shares or rights to acquire Shares, shall not exceed twenty per cent. (20%) of the aggregate amount of the issued share capital of the Company as at the date of the passing of this Resolution, and the said approval shall be limited accordingly; and
- (c) for the purposes of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:
  - (i) the conclusion of the next Annual General Meeting of the Company;
  - (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; or
  - (iii) the time upon which the authority set out in this Resolution is revoked or varied by ordinary resolution of the Shareholders in general meeting.”

(Resolution 11) 9. **“THAT** conditional upon the passing of Resolutions 9 and 10 of the notice convening this meeting, the general mandate granted to the Directors to exercise the powers of the Company to allot and issue additional Shares pursuant to the resolution set out in Resolution 10 of the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate amount of Shares which has been purchased by the Company pursuant to the exercise by the Directors of the powers of the Company to purchase such Shares, provided that such amount shall not exceed ten per cent. (10%) of the aggregate amount of the share capital of the Company in issue as at the date of the passing of this Resolution.”

By Order of the Board

**KWOK Mei Fan**  
Company Secretary

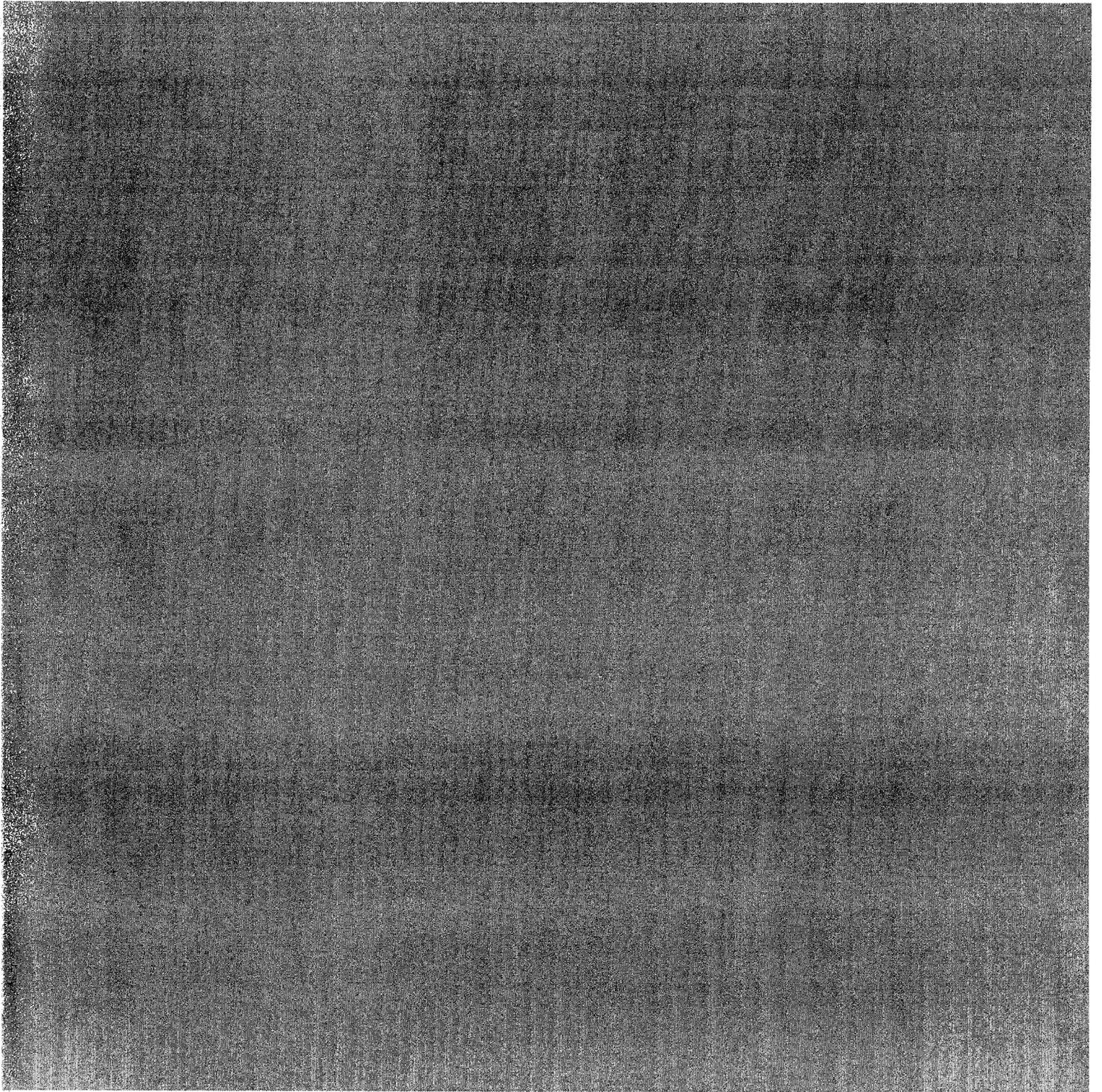
31 July 2002

## Notice of Annual General Meeting

Notes:

1. With the exception of The Central Depository (Pte) Limited and Hong Kong Securities Clearing Company Limited (who may appoint more than two proxies), a member of the Company entitled to attend and vote at the above meeting is entitled to appoint no more than two proxies to attend and vote on his behalf and such proxy need not be a member of the Company.
2. To be valid, the instrument appointing the proxy or proxies together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be deposited with the Company's share transfer agent/registrars as follows:
  - (i) in the case of those members registered on the principal register: at the office of the Company's Singapore share transfer agent, Barbinder & Co Pte Ltd at 8 Cross Street, #11-00 PWC Building, Singapore 048424; and
  - (ii) in the case of those members registered on the Hong Kong branch register: at the office of the Hong Kong branch share registrar, Abacus Share Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.

in both cases, not less than 48 hours before the meeting or at any adjournment thereof.
3. The Ordinary Resolution proposed in item 6 above, if passed, will empower the Directors to appoint additional Directors to the existing Board of Directors provided that the total number of Directors does not exceed 20.
4. The Ordinary Resolution proposed in item 7 above, if passed, will, subject to any applicable laws and regulations, empower the Directors from the date of the above meeting until the next Annual General Meeting to exercise the power of the Company to purchase the Shares up to 10 per cent. (10%) of the issued share capital of the Company as at the date of the passing of the said Ordinary Resolution for such purposes as they consider would be in the interests of the Company. This authority will continue in force until the conclusion of the next Annual General Meeting of the Company, unless previously revoked or varied at a general meeting of the Company.
5. The Ordinary Resolutions proposed in items 8 and 9 above, if passed, will empower the Directors from the date of the above meeting until the next Annual General Meeting to issue and allot Shares up to the aggregate of (i) 20 per cent. (20%) of the issued share capital of the Company as at the date of the passing of the said Ordinary Resolution and (ii) the total number of Shares repurchased by the Company pursuant to the authority granted to the Directors under the Ordinary Resolution proposed in item 7 above for such purposes as they consider would be in the interests of the Company. This authority will continue in force until the conclusion of the next Annual General Meeting of the Company, unless previously revoked or varied at a general meeting of the Company.
6. An explanatory statement containing information with respect to matters set out in Ordinary Resolutions 9 to 11 of the notice of the above meeting will be sent to all Shareholders of the Company together with the 2002 Annual Report of the Company.





# Interim Report

For The Six Months Ended 30.9.2002



潤迅通信國際有限公司

China Motion Telecom International Limited

Incorporated in Bermuda with limited liability

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## China Motion Telecom International Limited

The Board of Directors of China Motion Telecom International Limited (the "Company") is pleased to present the interim report and condensed accounts of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2002. The Group's consolidated profit and loss account, statement of changes in equity and consolidated cash flow statement for the six months ended 30 September 2002, and the consolidated balance sheet of the Group as at 30 September 2002, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 1 to 16 of this report.

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 September 2002

	Note	Unaudited Six months ended 30 September	
		2002 HK\$'000	2001 HK\$'000
Turnover	2	353,658	378,743
Cost of sales		(239,459)	(204,611)
Gross profit		114,199	174,132
Other revenues		20,165	11,977
Distribution expenses		(3,682)	(9,188)
Administrative expenses		(115,412)	(138,310)
Revaluation deficit and provision for impairment of fixed assets and investment properties		-	(188,632)
Operating profit/(loss)	3	15,270	(150,021)
Finance costs		(2,771)	(4,746)
Share of profits before taxation of associated companies		853	208
Profit/(loss) before taxation		13,352	(154,559)
Taxation	5	(6,120)	(8,333)
Profit/(loss) after taxation		7,232	(162,892)
Minority interests		(2,093)	12,559
Profit/(loss) attributable to shareholders		5,139	(150,333)
Dividends	6	-	-
Earnings/(loss) per share	7		
- Basic		HK0.98 cents	HK(28.61) cents
- Diluted		N/A	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2002 and 31 March 2002

		Unaudited 30 September 2002 HK\$'000	Audited 31 March 2002 HK\$'000
Goodwill	8	5,771	10,298
Fixed assets	9	286,184	264,232
Investment in associated companies		28,297	2,444
Other long-term investments		306,645	346,832
Current assets			
Inventories		6,858	8,248
Receivables and prepayments	10	429,593	357,898
Marketable securities		543	1,107
Pledged bank deposits		8,923	6,355
Bank and cash balances		117,544	111,804
		<u>563,461</u>	<u>485,412</u>
Current liabilities			
Trade and other payables	11	217,005	180,300
Taxation payables		7,843	7,360
Borrowings and overdrafts	12	67,903	30,543
		<u>292,751</u>	<u>218,203</u>
Net current assets		<u>270,710</u>	<u>267,209</u>
Total assets less current liabilities		<u>897,607</u>	<u>891,015</u>
Financed by:			
Share capital		394,107	394,107
Non-distributable capital reserves		530,951	530,951
Accumulated losses		(174,928)	(180,067)
Shareholders' funds		<u>750,130</u>	<u>744,991</u>
Minority interests		<u>50,981</u>	<u>49,064</u>
Non-current liabilities			
Borrowings	12	91,982	96,614
Trade payable	14	4,168	-
Deferred taxation		346	346
		<u>96,496</u>	<u>96,960</u>
		<u>897,607</u>	<u>891,015</u>

**CONDENSED CONSOLIDATED STATEMENT OF  
CHANGES IN EQUITY**

For the six months ended 30 September 2002

	Share capital HK\$'000	Unaudited Non- distributable capital reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 April 2002	394,107	530,951	(180,067)	744,991
Profit for the period	-	-	5,139	5,139
Balance at 30 September 2002	394,107	530,951	(174,928)	750,130
Balance at 1 April 2001	394,107	517,059	(35,212)	875,954
Loss for the period	-	-	(150,333)	(150,333)
Balance at 30 September 2001	394,107	517,059	(185,545)	725,621

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2002

	Unaudited	
	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Cash outflow from operating activities	(10,806)	(87,783)
Cash flows from investing activities		
Loan to an associated company	(25,000)	—
Receipt from repayment of other long-term investments	40,187	—
Purchase of fixed assets	(20,449)	(16,616)
Net proceeds from disposal of discontinued operation	1,150	—
Proceeds from disposal of fixed assets	56	815
Increase in pledged bank deposits	(2,568)	—
Net cash outflow from investing activities	(6,624)	(15,801)
Cash flows from financing activities		
Draw-down of revolving loan	28,000	—
Repayment of bank loans	(13,403)	(10,657)
Repayment of capital element of finance leases	(864)	(646)
Net cash inflow/(outflow) from financing activities	13,733	(11,303)
Net decrease in cash and cash equivalents	(3,697)	(114,887)
Cash and cash equivalents at the beginning of period	111,804	199,508
Cash and cash equivalents at the end of period	108,107	84,621
Analysis of balances of cash and cash equivalents:		
Bank and cash balances	117,544	84,621
Bank overdrafts	(9,437)	—
	108,107	84,621

## NOTES TO CONDENSED ACCOUNTS

### 1 Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

These condensed accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31 March 2002 except that the Group has adopted the new SSAP 33 "Discontinuing Operations" and SSAP 34 "Employee Benefits" which became effective on 1 January 2002. The adoption of these new SSAPs has no material effect on the Group's results.

### 2 Segmental information

The Group is principally engaged in telecommunications networks, mobile related services and distribution and retail chain.

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

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

(Unaudited)

	Six months ended 30 September 2002						Group HK\$'000
	Telecom- munications networks HK\$'000	Mobile related services HK\$'000	Distribution and retail chain HK\$'000	Other operations HK\$'000	Discontinued operations HK\$'000	Unallocated items HK\$'000	
Turnover	209,926	49,820	73,183	56	20,673	-	353,658
Segmental profit/(loss)	10,295	17,246	(4,195)	114	28,890	(37,527)	14,823
Net finance costs							(2,324)
Share of profits before taxation of associated companies							853
Profit before taxation							13,352
Taxation							(6,120)
Profit after taxation							7,232
Minority interests							(2,093)
Profit attributable to shareholders							5,139

## 2 Segmental information (continued)

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

(Unaudited)

	Six months ended 30 September 2001						Group HK\$'000
	Telecom- munications networks	Mobile related services	Distribution and retail chain	Other operations	Discontinued operations	Unallocated items	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover	118,866	71,514	98,083	9,409	80,871	-	378,743
Segmental profit/(loss)	(13,685)	49,151	9,731	(43,726)	952	(153,870)	(151,447)
Net finance costs							(3,320)
Share of profits before taxation of associated companies							208
Loss before taxation							(154,559)
Taxation							(8,333)
Loss after taxation							(162,892)
Minority interests							12,559
Loss attributable to shareholders							(150,333)

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

(Unaudited)

	Six months ended 30 September			
	Turnover		Segmental profit/(loss)	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
People's Republic of China ("PRC")	61,226	153,340	29,319	18,014
Hong Kong	227,670	220,665	22,411	(16,319)
Canada and USA	64,762	4,738	620	728
	353,658	378,743	52,350	2,423
Unallocated items	-	-	(37,527)	(153,870)
	353,658	378,743	14,823	(151,447)

**China Motion Telecom International Limited**

**3 Operating profit/(loss)**

Operating profit/(loss) is stated after crediting and charging the following:

	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Crediting:		
Dividend income from listed securities	5	-
Gain on disposal of discontinued operation	15,902	-
	<hr/>	<hr/>
Charging		
Depreciation of fixed assets	14,603	19,859
Amortization of goodwill	4,527	4,525
Cost of inventories sold	50,239	48,892
Provision for doubtful debts	749	-
Provision for slow moving inventories	1,108	-
Impairment of fixed assets		
- continuing operations	-	184,016
- discontinued operation	-	4,616
	<hr/>	<hr/>

**4 Staff costs**

	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Wages and salaries	52,475	75,920
Termination benefits	4,928	2,080
Pension costs - defined contribution benefits	3,519	4,689
	<hr/>	<hr/>
	60,922	82,689
	<hr/>	<hr/>

## 5 Taxation

No provision for Hong Kong profits tax has been made as there is no estimated assessable profit for the period (2001: 16%). PRC taxation represents income tax payable by the Group's subsidiaries operating in the PRC at the applicable rates ranging from 15% to 33%. Overseas taxation has been provided for at the applicable rate on the estimated assessable profit for the period.

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Current taxation:		
Hong Kong profits tax	-	224
PRC taxation	4,778	8,109
Overseas taxation	3,311	-
Over provision in prior years	(1,969)	-
	<u>6,120</u>	<u>8,333</u>

## 6 Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2002 (2001: Nil).

## 7 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the Group's profit attributable to shareholders of HK\$5,139,000 (2001: loss of HK\$150,333,000) and the weighted average of 525,475,573 ordinary shares in issue during the period.

Diluted earnings/(loss) per share for the period ended 30 September 2002 and 2001 has 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.

**China Motion Telecom International Limited**

<b>8 Goodwill</b>	<b>Six months ended 30 September 2002 HK\$'000</b>
Opening net book amount	10,298
Amortization	<u>(4,527)</u>
Closing net book amount	<u>5,771</u>

<b>9 Fixed assets</b>	<b>Six months ended 30 September 2002 HK\$'000</b>
Opening net book amount	264,232
Additions	37,649
Disposals	(1,094)
Depreciation	<u>(14,603)</u>
Closing net book amount	<u>286,184</u>

**10 Receivables and prepayments**

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

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
0 - 30 days	48,900	36,600
31 - 60 days	34,349	26,177
61 - 90 days	24,554	15,722
Over 91 days	290,853	237,920
Total	<u>398,656</u>	<u>316,419</u>

The Group has a defined credit policy. The general credit term is 30 - 60 days. The trade debtors with ageing over 61 days is mainly the amount due from connected parties.

## 11 Trade and other payables

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

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
0 - 30 days	29,128	24,795
31 - 60 days	26,022	8,506
61 - 90 days	19,359	6,431
Over 91 days	34,781	20,211
Total	<u>109,290</u>	<u>59,943</u>

## 12 Borrowings and overdrafts

	Note	30 September 2002 HK\$'000	31 March 2002 HK\$'000
<b>Non-current</b>			
Bank loans - secured		86,516	96,476
Obligations under finance leases	13	5,466	138
		<u>91,982</u>	<u>96,614</u>
<b>Current</b>			
Bank overdrafts - secured		9,437	-
Bank loans - secured		54,892	30,335
Obligations under finance leases	13	3,574	208
		<u>67,903</u>	<u>30,543</u>
Total		<u>159,885</u>	<u>127,157</u>

**China Motion Telecom International Limited**

**12 Borrowings and overdrafts (continued)**

The movement in the borrowings and overdrafts can be analysed as follows:

	Six months ended 30 September 2002 HK\$'000
Opening balance	127,157
Additions	46,995
Repayments	<u>(14,267)</u>
Closing balance	<u>159,885</u>

At 30 September 2002, the Group's borrowings and overdrafts (excluding finance lease liabilities) were repayable as follows:

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Within one year	64,329	30,335
In the second year	18,238	19,578
In the third to fifth year	30,145	34,746
After the fifth year	38,133	42,152
	<u>150,845</u>	<u>126,811</u>

### 13 Obligations under finance leases

As at 30 September 2002, the Group's finance lease liabilities were repayable as follows:

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Within one year	3,614	257
In the second year	3,401	172
In the third to fifth year	2,518	-
	<u>9,533</u>	<u>429</u>
Future finance charges on finance leases	(493)	(83)
Present value of finance lease liabilities	<u>9,040</u>	<u>346</u>

The present value of finance lease liabilities is as follows:

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Within one year (included in current liabilities)	3,574	208
In the second year	3,256	138
In the third to fifth year	2,210	-
	<u>5,466</u>	<u>138</u>
	<u>9,040</u>	<u>346</u>

### 14 Non-current trade payable

The amount is non-interest bearing, unsecured and not repayable within twelve months from the balance sheet date.

## China Motion Telecom International Limited

### 15 Discontinued operation

On 28 May 2002, a sale and purchase agreement (the "Agreement") was entered into between China Motion Telecom (HK) Limited, a wholly-owned subsidiary of the Group, and Telecom Digital Data Limited (the "Purchaser"). Under which, the Group disposed of its business of operating paging networks and providing paging services in Hong Kong and, where the context permits, included the Business Assets (the "Business") to the Purchaser.

Under the term of the Agreement, the Business included the licences, the equipment and other benefits of the subscriber contracts and transmission sites contracts.

The consideration for the disposal of the Business would be equal to the total gross revenues (and pro rata where necessary) of the Business that are actually received by the Purchaser from the subscribers for the paging services provided to the subscribers for the months of June, August and October 2002.

This operation was sold and discontinued with effect from 1 June 2002. The sales, results, cash flows and net assets of the paging operation were as follows:

	Six months ended	
	30 September	
	2002	2001
	HKS'000	HKS'000
Turnover	20,673	76,399
Other revenues	77	1,415
Operating costs	(7,762)	(64,788)
Impairment of fixed assets	-	(4,616)
Operating profit	12,988	8,410
Net finance income	4	92
Profit before taxation	12,992	8,502
Taxation	1,779	(20)
Profit after taxation	14,771	8,482
Cash inflow in respect of:		
Operating activities	2,845	17,995
Investing activities	(106)	(308)
Financing activities	4	101
Total cash inflow	2,743	17,788

**15 Discontinued operation (continued)**

	31 May 2002 HK\$'000	31 March 2002 HK\$'000
Fixed assets	1,001	4,056
Current assets	942	18,856
Total assets	1,943	22,912
Total liabilities	-	(112,428)
Net assets/(liabilities)	1,943	(89,516)

The gain on disposal to be recognised in the year ending 31 March 2003 is determined as follows:

	HK\$'000
Net assets sold	1,943
Severance payment	2,492
Proceeds from sale	4,435
	(20,337)
Gain on disposal of discontinued operation	(15,902)
Taxation thereon	-
After-tax gain on disposal of discontinued operation	(15,902)

The net cash inflow on sale is determined as follows:

	HK\$'000
Proceeds from sale	20,337
Less: accounts receivable	(9,296)
advance subscription income received	(7,399)
severance payment	(2,492)
Net cash inflow on sale	1,150

**16. Contingent liabilities**

The Group had contingent liabilities not provided for in the accounts as follows:

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Guarantees given to third parties against non-performance of contractual obligations by subsidiaries	35,874	35,474

**17. Commitments**

(a) *Operating leases commitments*

At 30 September 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
In respect of land and buildings, including transmission sites:		
Within one year	14,990	23,014
In the second to fifth year	8,522	17,237
After the fifth year	-	1,635
	<u>23,512</u>	<u>41,886</u>

In respect of leased lines:

Within one year	34,125	27,110
In the second to fifth year	1,146	10,419
	<u>35,271</u>	<u>37,529</u>

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

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Contracted but not provided for	3,540	17,354
Authorised but not contracted for	-	36,955
	<u>3,540</u>	<u>54,309</u>

## 18 Related party transactions

- (a) Significant transactions during the period between the Group and related parties and also 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 are as follows:

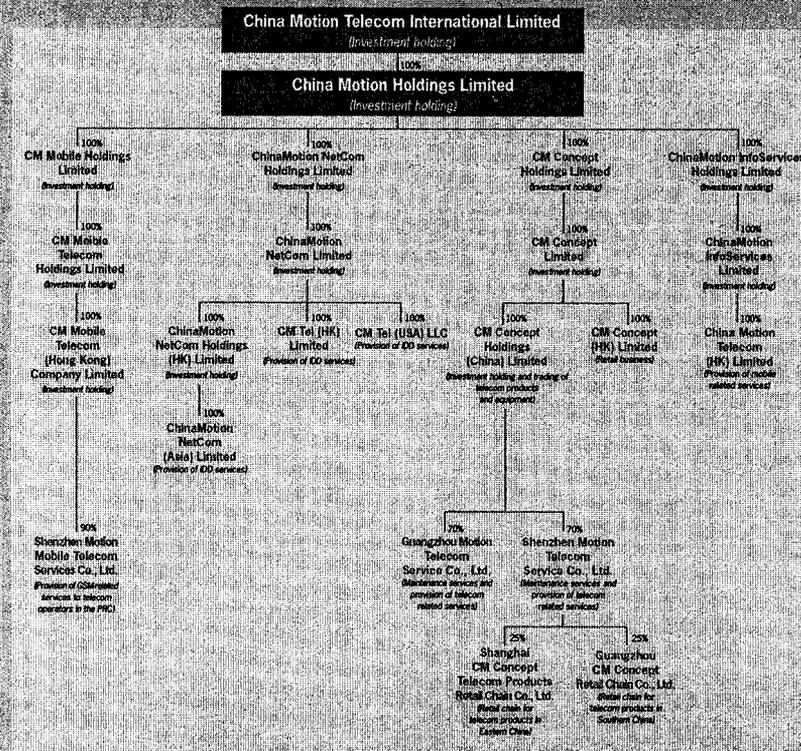
	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Income/(expense)		
Rental payable to a related party	-	(316)
Significant transactions with associated company		
Goodfine Holdings Limited		
Network service fee	-	(632)
Significant transactions with minority shareholders of subsidiaries		
China Motion Telecom Holdings Limited ("CMTH")		
Net sales of pagers and telecommunications equipment	-	619
Maintenance service income	-	10,004
Leasing income	-	9,066
Airtime income	-	1,320
Recharge of paging service expenses, operators' cost and dataline rental	-	(5,177)
Dataline expenses	-	(561)
Shenzhen China Motion Telecom United Company Limited		
Sales of telecommunications equipment	2,526	2,976
China Motion Netcom Services Co. Ltd.		
Provision of technical consultancy and maintenance services	46,515	71,514
VoIP service fee income	1,142	-

- (b) Included in receivables and prepayments is an amount due from CMTH and its subsidiaries of HK\$294,985,000.

**China Motion Telecom International Limited**

**GROUP CHART**

The following chart shows the principal subsidiaries and associated companies of the Group and their principal activities:



## RESULTS AND OPERATIONS REVIEW

During the period under review, the global economy still suffered from high volatility and poor sentiment. Under such global influences, the outlook of telecom industry, one of the most hard hit sectors, remains pessimistic. The prevailing economic conditions in Hong Kong during the same period was no better, as indicated by poor consumer and investment confidence and continued deflation. In China, however, the economy has proved an exception with positive economic growth in exports and foreign investments, and China is emerging as a new economic power – the “manufacturing powerhouse” of the world. China’s demand for telecom services, domestically and internationally, has increased tremendously in light of these economic changes.

For the six months ended 30 September 2002, despite these adversities and a slight decrease in turnover of 6.6% to HK\$353.7 million when compared to the same period last year, the Group stayed on course with stable development of its core businesses. The Group’s financial results turned around from a loss attributable to shareholders of HK\$150.3 million to a net profit of HK\$5.1 million.

The encouraging improvement was made possible by various business strategies which included the expansion of IDD business especially the in-bound China traffic, the introduction of further value-added services, and consolidation of capital and staff resources. Additionally, the discontinuance of non-profitable businesses and the divestment of paging operations, also helped realign the Group’s operations and resources to focus on developing its core businesses, namely, telecommunications networks, mobile related services, and distribution and retail chain.

### Telecommunications Networks

This is predominantly wholesale IDD services which has shown outstanding growth. During the period under review, the segmental turnover increased to HK\$209.9 million, representing an increase of 76.6% when compared to the same period last year.

A 91.0% rise in the turnover of IDD services to HK\$204.4 million was a result of voice traffic volume reaching an average of 106 million minutes per month. The profit contribution also increased from HK\$28.7 million to HK\$37.4 million. The gross margin of IDD services continued to trend downwards due to market conditions. However, growing traffic attracted to the Group’s network as its geographical expansion into new locations, and an expected increase in China-related traffic worldwide will compensate for this pressure on our gross margin. In the near future, the newly activated regions such as Singapore, Taiwan and Vietnam will become revenue contributors. IDD services will be our mainstay of revenue and profit contribution in the foreseeable future.

## RESULTS AND OPERATIONS REVIEW (continued)

### Mobile Related Services

For the period under review, revenue from Mobile Virtual Network Operator ("MVNO") business was reflected for the first time since its commencement in August 2002. The overall mobile related service results, which included also the mobile related services in Guangdong, reported a total revenue of HK\$49.8 million, representing a 30.3% decrease when compared with last year. The decrease was caused by ARPU reduction in Guangdong, which was in line with the market trend. New opportunities in mobile businesses are emerging as the Group continues to closely work with its strategic partners in China especially in the southern provinces.

Within the period under review, the MVNO business in Hong Kong was launched for a short duration, hence only a small revenue contribution was recorded. The growth in subscriber base is in line with the Group's business plan. The Group expects the subscriber base to increase by leveraging on its existing cross-border strength and by providing innovative value-added services.

### Distribution and Retail Chain

Revenue from distribution and retail chain operations was HK\$73.2 million, representing a decrease of 25.4%. The decrease in revenue was attributable to poor local retail market caused by a saturated penetration rate of the mobile market and continued economic recession. The Group is currently introducing more varieties of telecom products and value-added services, while consolidating the shops in Hong Kong to improve operating performance. Currently, there are a total of 27 CM Concept stores in Hong Kong.

While the current consumer and retail market sentiment is still poor, the Group anticipates better performance ahead through the introduction of more own brand products and services in the shops and better resource management.

### Discontinued Operations

In May 2002, the Group disposed of its paging operations and related assets, as it is anticipated that the paging market and subscriber base will continue to shrink and be cannibalized by the mobile phone and related services. Before disposal, paging operations recorded a revenue of HK\$20.7 million.

The consideration for the disposal was based on the revenue received by the purchaser for the months of June, August and October. The gain arising therefrom has been included under profit before taxation. With the cessation of paging operations, the Group's resources become more focused on the other core businesses which are anticipated to provide revenue growth and increasing profit contributions.

## **PROSPECTS**

Despite China's formal accession to the World Trade Organization ("WTO") in December 2001, its telecom market will take stages to open. The Group views China's entry into WTO with great enthusiasm and has been seeking investment and co-operation opportunities in China such as the projects in VoIP, mobile and retail businesses. These projects, when they become implemented, will provide synergy with the Group's existing businesses as China's market opens up.

With fair amount of ground work in place, IDD revenue is expected to increase appreciably. In the second half of the financial year, barring unforeseen circumstances, the directors anticipate the operations will be profitable.

## **FINANCIAL POSITION**

The Group has always maintained a stable financial position. The gearing ratio remained at a healthy level of 21% as at 30 September 2002 as compared with 17% as at 31 March 2002.

As at 30 September 2002, the Group had cash balance of HK\$126.5 million and unutilized banking facilities of HK\$24.2 million. The Group is confident in meeting its future capital expenditure and business development requirements.

## **EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES**

The Group has exposure to the fluctuations in Renminbi and United States dollars as certain expenses payable and trade receivables from customers are settled in these currencies respectively.

### **STAFF AND REMUNERATION POLICIES**

As at 30 September 2002, the Group had a total number of 472 full-time staff. Total staff cost incurred for the period amounted to HK\$60.9 million. The Group's remuneration policy has been in line with the prevailing market practice and remunerated its employees based on performance and experience.

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

### **OTHER DISCLOSURE**

Apart from above, other areas which are required to be disclosed under the requirements of paragraph 40 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") either have no material changes from the information disclosed in the annual report of the Company for the year ended 31 March 2002 or are considered not significant to the Group's operations, and hence no additional disclosure has been made in this report.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SHARES**

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

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30 September 2002, the interests of the directors and chief executive in the shares of the Company or any associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register required to be kept under Section 29 of the SDI Ordinance were as follows:

### (a) Ordinary Shares

	Number of ordinary shares held			
	Personal Interests	Family Interests	Corporate Interests	Other Interests
Hau Tung Ying	—	—	270,247,500 (Note)	—
Shui Ming Hua	250,000	—	—	—
Chan Wai Lun	267,000	—	—	—
Hu Tiejun	292,000	—	—	—

Note: The 270,247,500 shares are legally and beneficially owned by Goldtop Holdings Limited ("Goldtop"). Mr. Hau Tung Ying and his wife, Madam Ting Yat Shuk, are both directors of Goldtop in which they hold 30,000 and 20,000 shares respectively, representing 60% and 40% of the entire issued share capital of Goldtop.

### (b) Share Options

- (i) In accordance with a share option scheme known as "China Motion Employees' Share Option Scheme" (the "Share Option Scheme") adopted on 18 March 1998, the directors of the Company may 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 Share Option Scheme was subsequently terminated by the Company in a special general meeting held on 6 September 2002 but the share options granted and not yet exercised thereunder would however remain effective and are bound by the terms therein.

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (continued)

### (b) Share Options (continued)

- (ii) On 6 September 2002, the Company adopted a new share option scheme (the "New Share Option Scheme"), pursuant to which the directors may at their discretion grant share options to any employee, director or chief executive, supplier, sales agent, customer, joint venture partner, accountant, legal adviser, business development and technological consultant, substantial shareholders of the Company or of its subsidiaries under the terms and conditions stipulated therein. No share options have ever been granted by the Company under the New Share Option Scheme since adoption.

In accordance with the Share Option Scheme mentioned in (i) above, no share options were granted, exercised or cancelled during the period. Details of the share options granted to the directors or eligible employees under the Share Option Scheme remaining outstanding as at 30 September 2002 were as follows:

Category	Date of grant	Exercise price HK\$	Exercise period	Vesting period	No. of outstanding options at 1 April 2002	No. of options lapsed during the period	No. of outstanding options at 30 September 2002
<b>Directors:</b>							
Hau Tong Ying	20 March 2001	0.75	20/03/02 - 19/03/11	20/03/02 - 20/03/04	2,000,000	-	2,000,000
Shui Ming Hua	25 February 2000	3.19	25/02/01 - 17/03/08	N/A	378,499	-	378,499
	17 October 2000	1.22	17/10/01 - 17/03/08	N/A	432,570	-	432,570
	20 March 2001	0.75	20/03/02 - 19/03/11	20/03/02 - 20/03/04	2,000,000	-	2,000,000
Chan Wai Lun	25 February 2000	3.19	25/02/01 - 17/03/08	N/A	378,499	-	378,499
	17 October 2000	1.22	17/10/01 - 17/03/08	N/A	432,570	-	432,570
	20 March 2001	0.75	20/03/02 - 19/03/11	20/03/02 - 20/03/04	2,000,000	-	2,000,000
Yang Jun	29 June 1998	0.751	29/06/99 - 17/03/08	N/A	257,483	-	257,483
	25 February 2000	3.19	25/02/01 - 17/03/08	N/A	252,333	-	252,333
	17 October 2000	1.22	17/10/01 - 17/03/08	N/A	288,380	-	288,380
	20 March 2001	0.75	20/03/02 - 19/03/11	20/03/02 - 20/03/04	2,000,000	-	2,000,000
Hu Tiejun	19 August 1999	2.00	19/08/00 - 17/03/08	N/A	252,333	-	252,333
	17 October 2000	1.22	17/10/01 - 17/03/08	N/A	288,380	-	288,380
	20 March 2001	0.75	20/03/02 - 19/03/11	20/03/02 - 20/03/04	2,000,000	-	2,000,000
<b>Continuous Contract Employees of the Group:</b>							
	29 June 1998	0.751	29/06/99 - 17/03/08	N/A	226,583	-	226,583
	19 August 1999	2.00	19/08/00 - 17/03/08	N/A	1,220,465	(97,844)	1,122,621
	25 February 2000	3.19	25/02/01 - 17/03/08	N/A	82,394	-	82,394
	17 October 2000	1.22	17/10/01 - 17/03/08	N/A	2,085,605	(72,096)	2,013,509
	20 March 2001	0.75	20/03/02 - 19/03/11	20/03/02 - 20/03/04	16,200,000	(1,050,000)	15,150,000
	28 January 2002	0.75	28/01/03 - 27/01/12	28/01/03 - 28/01/05	1,850,000	(350,000)	1,500,000

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (continued)

Save as disclosed above, at no time during the period was the Company or its holding company a party to any arrangement 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.

## SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that, as at 30 September 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the issued share capital of the Company:

Name	Number of shares held	% of issued share capital
Goldtop Holdings Limited (Note 1)	270,247,500	51.43
Hau Tung Ying (Note 2)	270,247,500	51.43
Ting Yat Shuk (Note 3)	270,247,500	51.43

- Notes: (1) Goldtop Holdings Limited ("Goldtop") is owned as to 60% by Mr. Hau Tung Ying and 40% by Madam Ting Yat Shuk.  
(2) Mr. Hau Tung Ying is deemed to be interested in the 270,247,500 shares held by Goldtop due to his 60% direct interest in Goldtop.  
(3) Madam Ting Yat Shuk is deemed to be interested in the 270,247,500 shares held by Goldtop due to her 40% direct interest in Goldtop.

Save as disclosed above, as at 30 September 2002, no other person or corporation was recorded in the register kept by the Company pursuant to Section 16(1) of the SDI Ordinance as having an interest of 10% or more of the issued share capital of the Company.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

### AUDIT COMMITTEE

The Group has established an Audit Committee since 1996. The Audit Committee at the date of this report comprises two independent non-executive directors and one non-executive director.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited consolidated condensed accounts for the six months ended 30 September 2002.

### DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with the requirement under paragraph 3.2.1 of Practice Note 19 of the Listing Rules, the directors of the Company report the details of advances to China Motion Telecom Holdings Limited ("CMTH") and its subsidiaries as at 30 September 2002 as follows:

	<b>Total HK\$'000</b>
Trade receivables from	
CMTH	32,139
China Motion Netcom Services Co. Ltd.	191,599
Shenzhen China Motion Telecom United Company Limited	71,247
	<hr/>
	294,985

The advances were trade receivables arising from the Group's normal and ordinary course of business and were unsecured, interest-free with credit term of 30 - 90 days.

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

Hong Kong, 3 December 2002

## **CORPORATE INFORMATION**

### **Board of Directors**

#### *Executive Directors*

Hau Tung Ying (Chairman)

Shui Ming Hua

Chan Wai Lun

#### *Non-Executive Directors*

Yang Jun (Vice-Chairman)

Li Yi Sheng

Yung Yung Cheng, Frank\*

Ho Chung Tai, Raymond\*

Hu Tiejun (Alternate Director to Li Yi Sheng)

\* Independent Non-Executive Directors

### **Head Office and Principal Place of Business**

20th Floor, Tower II & III

Enterprise Square

9 Sheung Yuet Road

Kowloon Bay

Hong Kong

Tel: (852) 2209 2888

Fax: (852) 2827 9883

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

### **Registered Office**

Clarendon House

Church Street

Hamilton HM 11

Bermuda

### **Company Secretary**

Kwok Mei Fan

**CORPORATE INFORMATION**

**Principal Bankers**

The Hongkong and Shanghai Banking Corporation Limited  
1 Queen's Road Central  
Hong Kong

Bank of China (Hong Kong) Limited  
1 Garden Road  
Hong Kong

**Principal Share Registrar in Bermuda**

Butterfield Fund Services (Bermuda) Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke  
Bermuda

**Hong Kong Branch Share Registrar**

Abacus Share Registrars Limited  
5th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

**Singapore Share Transfer Agent**

Barbinder & Co Pte Ltd  
8 Cross Street  
#11-00 PWC Building  
Singapore 048424

**Auditors**

PricewaterhouseCoopers, Hong Kong  
Certified Public Accountants  
22nd Floor, Prince's Building  
Central  
Hong Kong

The Board of Directors of China Motion Telecom International Limited (the "Company") is pleased to present the interim report and condensed accounts of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2002. The Group's consolidated profit and loss account, statement of changes in equity and consolidated cash flow statement for the six months ended 30 September 2002, and the consolidated balance sheet of the Group as at 30 September 2002, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 1 to 16 of this report.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the six months ended 30 September 2002

	Six months ended	
	30 September 2002	2001
Turnover	HK\$700 353,658	HK\$009 378,743
Cost of sales	(239,459)	(204,611)
Gross profit	114,199	174,132
Other revenues	20,165	11,977
Distribution expenses	(3,682)	(9,188)
Administrative expenses	(115,412)	(138,310)
Revaluation deficit and provision for impairment of fixed assets and investment properties	-	(188,632)
Operating profit/loss	15,270	(150,021)
Finance costs	(2,771)	14,746
Share of profits before taxation of associated companies	853	208
Profit/loss before taxation	13,352	(154,559)
Taxation	(6,120)	(8,333)
Profit/loss after taxation	7,232	(162,892)
Minority interests	(2,093)	12,559
Profit/loss attributable to shareholders	5,139	(150,333)
Dividends	-	-
Earnings/loss per share		
-- basic	HK0.98 cents	HK(28.61) cents
-- diluted	N/A	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**

As at 30 September 2002 and 31 March 2002

	Unaudited		Audited	
	30 September 2002	2002	31 March 2002	2002
Goodwill	5,771	10,298		
Fixed assets	286,184	264,232		
Investment in associated companies	28,297	2,444		
Other long-term investments	306,645	346,832		
Current assets				
Inventories	6,858	8,248		
Receivables and prepayments	429,593	357,898		
Marketable securities	543	1,107		
Pledged bank deposits	8,923	6,355		
Bank and cash balances	117,544	111,804		
	563,461	485,412		
Current liabilities				
Trade and other payables	217,005	180,300		
Taxation payables	7,843	7,360		
Borrowings and overdrafts	67,903	30,543		
	292,751	218,203		
Net current assets	270,710	267,209		
Net assets less current liabilities	897,607	891,015		
Financed by:				
Share capital	394,107	394,107		
Non-distributable capital reserves	530,951	530,951		
Accumulated losses	(174,928)	(180,067)		
Shareholders' funds	750,130	744,991		
Minority interests	50,981	49,064		
Non-current liabilities				
Borrowings	91,982	96,614		
Trade payable	4,168	346		
Deferred taxation	346	346		
	96,496	96,960		
	897,607	891,015		

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 September 2002

	Unaudited			
	Share capital		Non-distributable capital reserves	
	HKS'000	HKS'000	HKS'000	Total HKS'000
Balance at 1 April 2002	394,107	530,951	(180,067)	744,991
Profit for the period	-	-	5,139	5,139
Balance at 30 September 2002	<u>394,107</u>	<u>530,951</u>	<u>(174,928)</u>	<u>750,130</u>
Balance at 1 April 2001	394,107	517,059	(35,212)	875,954
Loss for the period	-	-	(150,333)	(150,333)
Balance at 30 September 2001	<u>394,107</u>	<u>517,059</u>	<u>(185,545)</u>	<u>725,621</u>

k/s



CM Tel (USA) LLC		
Balance Sheet as at the end of Mar 2003		
<b>(Unaudited)</b>		
	<i>HKD</i>	<i>US\$</i>
<b>Fixed assets</b>		
Telecom equipment	20,366,450.07	2,611,083.34
Leasehold improvement	592,906.43	76,013.64
Furniture & office equipment	853,895.17	109,473.74
Motor vehicles	210,116.18	26,937.97
	22,023,367.85	2,823,508.70
	-	-
<b>Pre-operating expenses</b>	-	-
	-	-
<b>Investments</b>	-	-
	-	-
<b>Goodwill</b>	-	-
	-	-
<b>Deferred expenditure</b>	-	-
	-	-
<b>Current assets</b>		
Due from CM group companies	28,149,254.56	3,608,878.79
Due from associated companies	-	0.00
Due from connected parties	-	0.00
Accounts Receivable	(106,888.70)	(13,703.68)
Other Receivable & prepayment	7,002,330.57	897,734.69
Cash and bank balances	5,082,671.64	651,624.57
	40,127,368.07	5,144,534.37
	-	-
<b>Current Liabilities</b>		
Due to CM group companies	(8,853,991.21)	(1,135,127.08)
Due to associated companies	-	0.00
Due to connected parties	(74.26)	(9.52)
Accounts payable	(44,443,738.35)	(5,697,915.17)
Accruals and other payable	(5,651,400.64)	(724,538.54)
Advance income received	-	0.00
Provision for Tax	-	0.00
	(58,949,204.46)	(7,557,590.32)
	-	-
	-	-
<b>Net current assets</b>	(18,821,836.39)	(2,413,055.95)
	-	-
<b>Total Net Assets</b>	3,201,531.46	410,452.75
	-	-
<b>Capital employed</b>		
	-	-
<b>Share capital</b>	78,000.00	10,000.00
<b>Reserves</b>	-	0.00
Retained profits	3,109,259.53	398,623.02
Profit for the year	14,271.93	1,829.73
<b>Total capital and reserves</b>	3,201,531.46	410,452.75
	-	-
<b>Minority interests</b>	-	-
	-	-
<b>Total Capital Employed</b>	3,201,531.46	410,452.75
	-	-

**CM Tel USA LLC**  
**BALANCE SHEET (unaudited)**  
**AS AT 31 MARCH 2002**  
**(Exchange rate: HK : US = 7.8 : 1)**

	HK\$	US\$
	Dr/(Cr)	Dr/(Cr)
<b>NON-CURRENT ASSETS</b>		
Fixed assets	14,541,129	1,864,247
	<u>14,541,129</u>	<u>1,864,247</u>
<b>CURRENT ASSETS</b>		
Cash and bank	2,694,745	345,480
Due from group companies	19,365,275	2,482,728
Accounts receivable	2,579,265	330,675
Prepayment, deposits and other receivables	1,130,972	144,996
	<u>25,770,256</u>	<u>3,303,879</u>
<b>CURRENT LIABILITIES</b>		
Due to group companies	10,136,886	1,299,601
Accounts payable	23,985,008	3,075,001
Accrued expenses and other payables	3,002,232	384,902
	<u>37,124,125</u>	<u>4,759,503</u>
<b>NET CURRENT LIABILITIES</b>	(11,353,869)	(1,455,624)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>3,187,260</u>	<u>408,623</u>
<b>CAPITAL AND RESERVES</b>		
Issued capital	78,000	10,000
Retained profit	886,448	113,647
Profit for the year	2,222,812	284,976
	<u>3,187,260</u>	<u>408,623</u>

CM Tel (USA) LLC  
**Profit & Loss Account for Mar 2003**  
**(Unaudited)**

	<u>HKD</u>	<u>US\$</u>
<b>A TURNOVER</b>	143,639,128.03	18,415,272.82
<b>Sales</b>	187,423,885.02	24,028,703.21
<b>Sales Discount</b>	(43,784,756.99)	(5,613,430.38)
<b>B Cost</b>	(125,046,092.42)	(16,031,550.31)
<b>GP</b>	<u>18,593,035.61</u>	<u>2,383,722.51</u>
<b>Service Income</b>	-	
<b>C Direct Cost</b>	-	
<b>GP</b>	<u>-</u>	
<b>Total GP</b>	18,593,035.61	2,383,722.51
<b>Dividend Income</b>	-	
<b>D Other Income</b>	388,273.32	49,778.63
<b>E Selling Expenses</b>	(1,268,842.24)	(162,672.08)
<b>F Financial Expenses</b>	(17,227.13)	(2,208.61)
<b>G General &amp; Administrative Expenses</b>	(15,599,178.83)	(1,999,894.72)
<b>Other Expenses</b>	-	
<u>- Dividend</u>	-	
<u>- Tax</u>	(2,081,788.80)	(266,896.00)
Tax	-	
Profit Tax	(2,081,788.80)	(266,896.00)
Share of profits less losses of associated companies	-	
Net Profit / (Loss) after Tax	<u>14,271.93</u>	<u>1,829.73</u>

**CM Tel USA LLC**  
**PROFIT AND LOSS ACCOUNTS (unaudited)**  
**FOR THE YEAR ENDED 31 MARCH 2002**  
 (Exchange rate: HK : US = 7.8 : 1)

	HK\$ Dr/(Cr)	US\$ Dr/(Cr)
<b>TURNOVER</b>	60,478,724	7,753,683
<b>COST OF SALES</b>	<u>(49,121,746)</u>	<u>(6,297,660)</u>
<b>GROSS PROFIT</b>	11,356,978	1,456,023
<b>Other income</b>	127,255	16,315
General and administrative expenses	7,673,475	983,779
Financial expenses	21,682	2,780
Selling expenses	1,105,667	141,752
<b>TOTAL EXPENSES</b>	<u>8,800,823</u>	<u>1,128,311</u>
<b>PROFIT BEFORE TAXATION</b>	2,683,409	344,027
<b>TAXATION</b>	<u>460,598</u>	<u>59,051</u>
<b>PROFIT AFTER TAXATION</b>	<u><u>2,222,812</u></u>	<u><u>284,976</u></u>

**Attachment E**

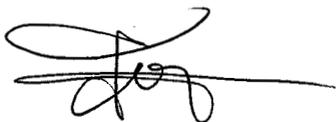
**Guaranty of CM Tel's Parent Company  
(See attached)**

WAS1 #1146771 v2

**LETTER OF GUARANTEE**

I, Hau Tung Ying, am Chairman of China Motion Telecom International Limited ("China Motion"), the parent company of CM Tel (USA) LLC ("CM Tel"). I hereby certify that China Motion shall fully and unconditionally guarantee the operations of CM Tel for a period of two (2) years from the date of this letter of guarantee. For this purpose, China Motion will provide CM Tel with the resources necessary to support CM Tel's financial requirements and any other business opportunities that may arise, and will provide CM Tel with any funding CM Tel needs to pay CM Tel's debts when they fall due and to otherwise finance CM Tel's operations. I further certify that I am authorized to execute this Letter of Guarantee on behalf of China Motion.

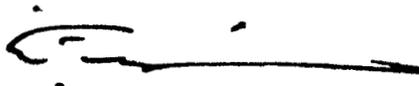
Executed on the 30th day of May, 2003, at 15/F., Hang Seng Building, 77 Des Voeux Road Central, Hong Kong.



---

Name: Hau Tung Ying  
Title: Chairman

The foregoing instrument was acknowledged before me this the 30th day of May, 2003, by Hau Tung Ying on behalf of China Motion Telecom International Limited.



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**KENNETH CHI LAM SIAO**

Notary Public, Hong Kong SAR  
15th Floor, Hang Seng Building,  
77 Des Voeux Road, Central,  
Hong Kong.

**N.B. The Notary Public is acting as an attesting witness to the signature(s) appearing hereon only. No advice has been sought and given, and the attesting Notary Public accepts no responsibility for the contents of this document.**