



Metamorphosis:

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



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