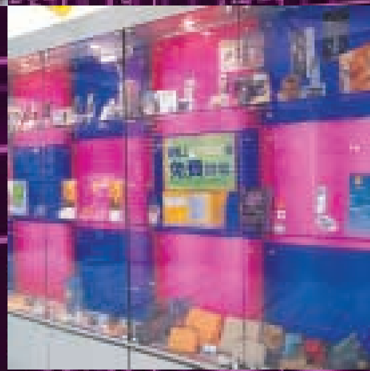


New Outlook:

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.

The Group entered into MOU agreement with Ericsson to join forces in developing MVNO business

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.

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

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.

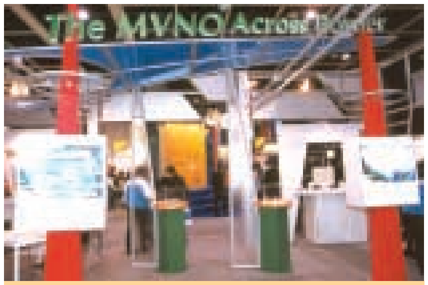
Due to the poor economic sentiment and property market, the Group decided, as a prudent step, to make a one-off provision of HK$106,842,000 for impairment and revaluation deficit on properties, and a provision of HK$81,790,000 for obsolete telecom equipment and other fixed assets in the first half of 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.



China Motion at Hong Kong Information Infrastructure Expo 2002

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.

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.

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

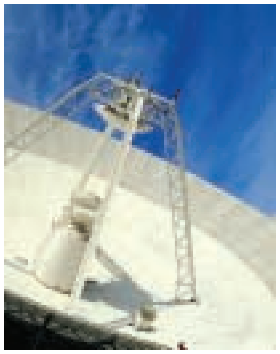
The Group's long-term investment of HK$247,733,000 in mobile services related project in Guangdong as at 31 March 2002 had been contributing stable revenue and profits to the Group in the past five years. It is anticipated that no additional funding is required for this investment which will continue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



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. ■