

Chairman's Statement



The Group remains cautiously optimistic about the market outlook. Focus will be placed on the strengthening of China Motion's product and service portfolio.

Dear Shareholders,

In the year under review, China Motion Telecom International Limited ("China Motion" or "the Company"), together with its subsidiaries (collectively, "the Group"), demonstrated remarkable resilience amidst global economic downturn and fierce market competition in the telecommunications industry.

Notwithstanding the unfavourable market conditions, the Group continued to strengthen its three core businesses and posted a turnover of HK\$801 million, representing an increase of 9% over the previous year.

The Group made good progress in the development of overseas markets. Turnover from overseas markets increased by 78% as compared to last year. Wholesale IDD business has been further expanded to Japan, Vietnam and the United Kingdom. In Taiwan, a trial operating licence for the provision of MVNO (Mobile Virtual Network Operator) services was obtained in April 2004.

The wholesale IDD business accounted for a significant portion of the Group's turnover and profit. The retail IDD product - "ChinaOne 0050", launched in May 2003, boosted the retail IDD business. Meanwhile, the Group's MVNO business, launched in 2002, continued to build its market share. Our distribution network, comprising of 27 "CM Concept" shops and over 1,500 dealers in Hong Kong, remains as one of the leading distribution and retail chains for telecommunications products and services.

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Financial Performance

The Group's performance improved in the second half of the year under review as a result of the steady development of its businesses, strict cost control and the gradual recovery of the economies after the Severe Acute Respiratory Syndrome (SARS) outbreak. A loss attributable to shareholders of HK\$47 million was recorded.

In order to ensure continuous and healthy growth of our businesses, the Group must stay financially sound. Against this background, the Board of Directors does not recommend the payment of a final dividend for the year ended 31 March 2004.

Key Developments

The Group provides a host of telecommunications services with its three core businesses - international telecommunications services, mobile communications services and distribution and retail chain. Its services have expanded beyond Hong Kong to overseas markets.

Turnover of the international telecommunications services business grew 14% to HK\$501 million. The new overseas markets contributed towards the doubling of the Group's total IDD voice traffic to 2,400 million minutes for the financial year under review.

On the retail IDD front, the number of subscribers increased to 120,000 as at the end of March 2004 with the launch of "ChinaOne 0050". Retail IDD, in its early development stage, is yet to achieve break-even. The loss incurred by the retail IDD business was partly offset by the profit from wholesale IDD business.

The mobile communications services business posted a turnover of HK\$172 million, up 38% over the previous year, despite of the service contract expiry of 30,000 mobile subscribers in September 2003 (remaining 70,000 service contracts have expired in March 2004). The increase in turnover was attributable to the Group's continuous focus on market share expansion through service and product enhancement. "CM Mobile" launched a host of new products including prepaid and postpaid local mobile services and expansion of "Dual-Number Single SIM Mobile Service" beyond Guangdong province to include Shanghai. "CM Mobile" also pioneered the provision of "Dual-Network Mobile Service" in the local mobile market in January 2004.

The Group's distribution and retail chain business was hit amid last year's depressed retail market. This was aggravated by the outbreak of SARS. Turnover of the distribution and retail chain business decreased by 14% to HK\$129 million. In early 2003, as



soon as the market showed signs of further weakness, proactive steps were taken to rationalise the "CM Concept" network and strengthen its profitability. These include the relocation of "CM Concept" shops to high traffic areas and an adjustment in the mix of revenue from "CM Concept" shops. To date, "CM Concept" focuses on the retailing of China Motion's proprietary products and services, sales of mobile phone handsets and digital products, and distribution of other mobile network operators' products.

Prospects

The gradual economic turnaround, the trend for Hong Kong's corporations to set up operations in the mainland and the increase in mainland tourist arrivals will present the Group with new business opportunities. The Group remains cautiously optimistic about the market outlook. Focus will be placed on the strengthening of our product and service portfolio.

Our development in overseas market will continue in the coming years. Since 2000, the Group has established IDD network coverage from Hong Kong to China, the United States, Canada, Singapore, Taiwan, Japan, Vietnam and the United Kingdom. The Group's technical expertise and experience in the operation of cross-border telecommunications services were proven an invaluable asset to its ability to secure our overseas partners. Strong management teams have also been

put in place in those markets in order to develop and execute market entry and expansion strategies.

The Group intends to focus on the development of its overseas markets by leveraging its experience with operating cross-border telecommunications services and the strategic relationships it has with the four main telecommunications operators in China. Emphasis will be placed on the acquisition of market share in the overseas markets. Meanwhile, in Hong Kong, China Motion will continue to grow the three core businesses.

On behalf of the Board of Directors, I would like to thank our staff for their dedication and hardwork. I would also like to put on record the tremendous contribution of Mr. YANG Jun and Mr. CHAN Wai Lun who resigned from the Board of Directors in April 2004. Mr. LI Yi Sheng is now Deputy Chairman of the Company. Dr. LI Bin is appointed as an Executive Director of the Company and the Chief Operating Officer of the Group. Mr. LI Kwok Ping is appointed as Non-executive Director of the Company.

HAU Tung Ying

Chairman

23 June 2004



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Partnership

Our cross-border telecommunications operating experience and strategic relationships with various network operators position China Motion well to expand our telecommunications services to overseas markets.