



As a well-established integrated telecommunications services provider, China Motion will continue to develop its three core businesses, expand overseas markets and provide a vast of variety of premium, value-added telecommunications services to all Chinese communities over the globe.

## **Spreading Our Business**

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,

Led by the recovery of the world economy and strong growth in China, Hong Kong's economy gradually revived during the financial year under review. Yet competition in the telecommunications industry remained fierce and the operating environment continued to be challenging. China Motion Telecom International Limited ("China Motion" or "the Company"), together with its subsidiaries (collectively, "the Group"), placed its focus on maintaining steady growth and raising overall operational efficiency. Stringent cost-control measures were also implemented to improve overall business performance. During the financial year under review, turnover of the Group was recorded at HK\$764 million.

The Group implemented effective strategies for optimizing the performance of its existing core businesses. In particular, the international telecommunications services business returned to profitability on the back of enhanced business scale and operating efficiency. Also, the Group's Mobile Virtual Network Operator (MVNO) business recorded a profit for the first time since its launch in 2002. Only the distribution and retail business fell short of management's targets, recording a loss.

The Group's performance was adversely affected by the significant provision made in regard to the debts owed by China Motion Telecom Holdings Limited ("CMTH") and/or its subsidiaries ("CMTH Group"), a major strategic partner of the Group, as well as on the investment in the VOIP related business in the People's Republic of China (the "PRC"). CMTH, a Chinese company with an in-depth understanding of their local market, has been a close strategic partner of the Group



## Chairman's Statement .....

for over 10 years. Through the partnership with CMTH, the Group has been able to pursue many business opportunities and achieve desirable returns in China, which is the largest developing market in the world with a telecommunications market that has just started to open up. However, since CMTH is facing financial pressure and has indicated that they would have difficulty repaying the debts, the Group has decided after careful consideration and assessment to make provision on the debts owed by CMTH as well as on the investment in the VOIP related business in the PRC. Upon making the provision, the Group is now actively seeking legal and financial advice on remedies



relating to the debts and has appointed legal advisers to advise the Group in relation thereto. Moreover, the Group has continued discussions with CMTH regarding possible arrangements for the settlement of the outstanding debts. The Group reserves the right to pursue legal action to recover the debts with a view to serving the best interests of its shareholders.

### Financial Performance

In order to secure the continuous and healthy growth of our businesses, the Group must stay financially sound. Under these circumstances, the Board of Directors does not recommend the payment of a final dividend for the year ended 31 March 2005.

### Key Developments

During the financial year under review, improvement was seen in all three core businesses, which includes international telecommunications services, mobile communications services and the distribution and retail chain, with the turnaround of the international telecommunications services business being the most outstanding achievement.

Wholesale IDD services recorded significant growth in both local and overseas markets, while retail IDD services progressed satisfactorily. However, fierce market competition has led to erosion in profit margins. Nonetheless, the Group's successful strategy and its commitment to providing reliable and quality service paid off with stable growth for this business.

Mobile communications services continue to perform satisfactorily with encouraging development. Through the implementation of cost-effective marketing strategies, the Group successfully absorbed more quality customers and further enhanced its profitability.



The MVNO business broke even and recorded a profit after three years of development since its launch.

Although a host of business optimizing measures were introduced to the distribution and retail chain business during the year, performance in this sector still fell short of management's expectations, recording a loss.

### Business Strategy

#### Overseas Market Development

The Group is dedicated to providing a bridge for Chinese communities worldwide, something that has become a core development strategy. During the financial year under review, the Group geared up its efforts in developing the overseas markets. After careful study and assessment, the Group opened up new markets that show great potential, such as South Korea, and proactively developed the retail IDD services business. The Group's IDD network coverage has already expanded to cover Australia, Canada, Japan, South Korea, the United Kingdom, the United States and Vietnam. There are plans to further extend the



network to South America, Europe and other regions. In order to further open up the Japanese market, the Group set up a branch office in Tokyo. Another major achievement in the Group's overseas market development was becoming the first foreign enterprise to enter the Taiwan mobile virtual network market. The Group believes that expansion in overseas markets is crucial to its future development and will lay a good foundation for the development of the Next Generation Network (NGN) business.

#### **New Technology – Next Generation Network**

Understanding that technology is of paramount importance to telecommunications operators, the Group formed strategic partnerships with Vietnam Telecom International and Huawei Technologies Investment Co. Ltd. ("Huawei") to explore the telecommunications industry further and expand. The Group's collaboration with Huawei has aided the development of the NGN business, which during the financial year under review entered stage two with "CM Phone" services launched in Hong Kong and the United States. The Group plans further launches of its services through its overseas network in the near future.

#### **Cost Control**

In addition to its efforts in developing the core businesses, the Group also implemented a host of stringent cost-control measures in order to raise its operational efficiency. These measures proved to be effective in reducing operational expenses substantially and raising cost efficiency. The Group's efforts to improve its credit control were rewarded by a significant reduction of bad debts. The Group also

strived to enhance synergies among its different businesses as well as to optimize its business structure, and measures that are intended to raise overall cost efficiency.

#### **Prospects**

With the world economy reviving and more Mainland enterprises expanding their business outside the country, the Group expects that more telecommunications needs will be generated from such economic developments. The Group will continue to solidify its core businesses by leveraging its technological strength and experience in operating overseas telecommunications services.

Riding on the steady growth and synergistic relationships of the Group's three core businesses, as well as the effectiveness of its overseas development strategy, the Group is progressing towards a healthier and more promising future. The Group sees the Next Generation Network, a new focus in the telecommunications industry, as one of the growth drivers for the coming year.

On behalf of the Board of Directors, I would like to thank our staff for their dedication and hard work. I would also like to put on record the tremendous contribution of Mr. HU Tiejun, who resigned in April 2005 from the position of Alternate Director to Mr. LI Yi Sheng, and Mr. LI Kwok Ping and Mr. YUNG Yung Cheng, Frank who retired in August 2004 from their positions as Non-executive Director and Independent Non-executive Director respectively. In compliance with the Code on Corporate Governance Practices under the Listing Rules, I myself, as Chairman of the Board of Directors, resigned from the position of Chief Executive Officer and Dr. LI Bin is appointed as Chief Executive Officer. Mr. YIP Sam Lo and Mr. PANG Tsun Loy, Michael are appointed as Independent Non-executive Directors.

#### **HAU Tung Ying**

*Chairman*

20 July 2005