



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

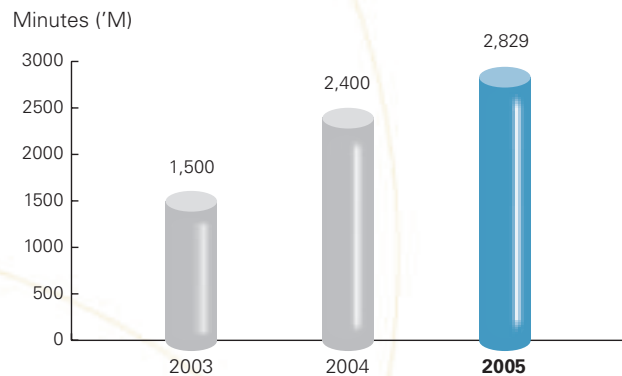
Amplify
Our Networks

Business Overview

During the financial year under review, the Group placed focus on both a stringent cost control policy and sound business development strategy. The commitment to rigorous cost control has delivered a significant reduction in operating expenses.

The Group continues its efforts to strengthen and optimize its three core businesses: international telecommunications services, mobile communications services, and the distribution and retail chain. The international telecommunications services business returned to profitability on the back of enhanced business scale and operating efficiency. Despite the service contract expiry of 70,000 mobile subscribers in China, the mobile communications services business regained growth momentum through a successful repositioning. Only the distribution and retail chain business fell short of management's targets, recording a loss. The Group reported a loss of HK\$460 million after making material provision of HK\$461 million for the debts owed by China Motion Telecom Holdings Limited ("CMTH") and/or its subsidiaries ("CMTH Group"), as well as investment in the VOIP related business in the People's Republic of China (the "PRC").

IDD Voice Traffic



China Motion Global Network Coverage



paid off with the extension of its global network and coverage in key markets such as Australia, Canada, Japan, South Korea, the United Kingdom, the United States and Vietnam. Encouraged by the progress made in overseas markets, the Group plans to expand the business to South America, Europe and other regions.

"ChinaOne", China Motion's global retail IDD brand, has gained popularity over the years due to continued enhancement in service quality. Not only did the retail IDD business perform well in Hong Kong, but it also successfully penetrated and won recognition from overseas Chinese communities in Canada, Singapore and the United States. A host of retail IDD services and products tailored for specific overseas markets was launched during the year. As of 31 March 2005, the number of "ChinaOne" subscribers exceeded 130,000, an increase of 10% over the preceding year.



International Telecommunications Services

The international telecommunications services business covers wholesale and retail IDD services. In the financial year under review, the Group's international telecommunications services business achieved a turnaround. IDD voice traffic rose steadily to 2,829 million minutes, representing an 18% increase over the previous year, and turnover grew by 8% to HK\$540 million.

During the year under review, the wholesale IDD business recorded a growth on the back of increasing voice traffic and turnover. The Group's overseas strategy



Mobile Communications Services

In the financial year under review, mobile communications services posted a turnover of HK\$97 million, a 43% reduction compared to last year. This

was due to the full-year impact on the business' turnover and profitability caused by the service contract expiry of 70,000 mobile subscribers in March 2004. Still, the Group began to reap return on its investments in the MVNO business. "CM Mobile", the brand of the Group's MVNO business, outperformed the management's forecast in local as well as in overseas markets and contributed a net profit of HK\$9 million for the first time since its launch in 2002.



products and services, and the opening of a flagship store in Tsimshatsui with an aim to enhancing the level of customer service both for local and Mainland customers. Despite these measures, the business recorded a loss of HK\$7 million. As of 31 March 2005, there are 25 "CM Concept" stores in operation. In view of the unsatisfactory performance, it is the top priority of the Group to improve this business going forward.



The Group substantially strengthened the efficiency and yield of its MVNO business through more effective marketing strategies, which combined the redefining of target customers and the customization of product strategy and promotions intended to reach targeted customers. As a result of these efforts, the number of subscribers increased 17% to 70,000.

After being awarded an MVNO license in Taiwan in 2004, the Group launched the service in early 2005 and became the first foreign enterprise to operate in Taiwan's MVNO market.



Distribution and Retail Chain

In the financial year under review, the management initiated and implemented a host of business optimization measures to re-engineer the distribution and retail chain business. These included the repositioning of "CM Concept" from a distribution outlet of data and digital electronics products to a 'one-stop shop' featuring a full suite of telecommunications

Property Disposal

The Group believes in the benefit of staying focused on its core telecommunications businesses so as to create shareholder value in the long term. As part of this commitment, the Group disposed of several properties during the year. In August 2004, two shops, one in Mongkok and one in Causeway Bay, were sold, which contributed a profit of HK\$10 million and a cash inflow of HK\$38 million for the Group. In March 2005, the Group disposed of the car parking spaces located on the 2/F and 3/F of Enterprise Square, No. 9 Sheung Yuet Road, Kowloon, which will contribute a cash inflow of HK\$17 million for the Group in the coming year.

Provision

The Group made material provision related to the debts owed by CMTH Group, as well as investment in the VOIP related business in the PRC. The provision of HK\$461 million had a significant material impact on the Group's financial results; yet, such provision do not materially adversely affect the daily operations and working capital of the Group. Upon making the provision, the Group is 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.

Prospects and Conclusion

The management has seen continued improvement in the major core business: international telecommunications services. Wholesale and retail IDD services complement each other, adding to the Group's competitiveness in overseas markets. The Group will also cement its position in the vibrant Asia Pacific telecommunications market through a consistent focus on overseas expansion and cost control.



The Group embarked on business planning early in the financial year and launched the Next Generation Network (NGN) in late 2004. By virtue of the network, the Group then launched its broadband phone services, "CM Phone", in Hong Kong and the United States in 2005. The Group expects that it will be able to leverage the introduction of new regulatory regimes in overseas markets to gain first-mover advantage with a view to expanding its NGN related business – a new growth area for the telecommunications industry.

The Group maintained steady development in its three core business areas and remained committed to its expansion priorities. The Group will build on its overseas network and existing customer base to grow the three core businesses and will speed up the development of NGN. At the same time, the Group will continue to strengthen its relationship with Mainland China and overseas partners and gain solid access to the

increasingly liberal and growing telecommunications market in Mainland China. Looking forward, the Group will also continue to pursue its business development strategy in an aggressive yet cautious manner while controlling costs and optimizing operations to create value for its shareholders.

Financial Position

As at 31 March 2005, the Group's cash and bank balances amounted to approximately HK\$43 million. Total bank borrowings were approximately HK\$101 million. The Group's bank loans are repayable monthly and the last monthly installment will be in August 2013. The current total borrowings as a percentage of shareholders' funds were at a gearing ratio of 41% (2004: 18%).

As at 31 March 2005, the Group had aggregate banking facilities of approximately HK\$62 million (excluding property mortgage loans), of which HK\$45 million was utilized. It is anticipated that the Group's cash and bank balances, as at the balance sheet date, together with the unused banking facilities, will be sufficient to discharge its debts and to fund its operations.

Exposures to Fluctuations in Exchange Rates

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

Employees and Remuneration Policies

As at 31 March 2005, the Group had 357 full-time staff. Total staff costs (including directors' emoluments) incurred for the year amounted to HK\$111 million. The Group's remuneration policy is in line with prevailing market practice and its employees are remunerated based on performance and experience.

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