

## Chairman's Statement

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In the half year under review, the local mobile market has remained challenging and competitive. The realignment of the Group's business to focus on its core mobile operation and cost control has brought a positive impact on the overall performance. Looking forward, SmarTone will continue to sharpen its focus on its core values: customer orientation, effectiveness and efficiency.

### Financial Highlights

The Group's loss attributable to shareholders for the six months ended 31 December 2001 was HK\$39 million, compared with HK\$113 million in the same period last year.

Group earnings before interest, tax, depreciation and amortisation (EBITDA) was a profit of HK\$206 million for the six months ended 31 December 2001, compared with a loss of HK\$19 million in the corresponding period last year.

EBITDA profit of the Mobile business increased to HK\$208 million for the period ended 31 December 2001 compared with HK\$82 million for the same period last year. The LMDS business recorded a substantial reduction in EBITDA loss to HK\$2 million compared with the HK\$101 million loss for the same period last year.

Cash and bank balances, together with fixed income investments, of the Group stood at HK\$3,408 million as at 31 December 2001. The Group has no borrowings.

### Interim Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2001 (2000: Nil).

### Business Review

#### *Mobile*

The Hong Kong mobile market remained as competitive as ever during the period. Market penetration has peaked and voice tariffs are still amongst the lowest in the world. Since July 2001, SmarTone introduced a series of new competitive tariff plans which proved attractive in the market place. The customer base has increased from 980,000 in June 2001 to over a million as at 31 December 2001. Net ARPU also increased slightly from HK\$202 as of 30 June 2001 to HK\$207.

The churn rate in December 2001 was 4.0%, reduced from 5.5% in June 2001. SmarTone's subscriber acquisition cost has also been reduced, following increased emphasis on its own sales channels through enhanced service standards.

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The Group's commitment towards customer service has gained recognition by the Hong Kong retail industry. SmarTone won two of the four 2001 Service & Courtesy Awards, namely the Best Team Performance Award and the Best Supervisor Award. Just recently, SmarTone has also been named Service Category Leader under the Electronic & Electrical Appliances/Telecommunications category in the Mystery Shopper Programme of the Hong Kong Retail Management Association for the period of November 2001 to January 2002.

SmarTone is committed to providing customer-oriented services, offering its customers mobile applications that combine broad appeal and user convenience. Recently, SmarTone launched the "Stealth Roaming Service" which protects the confidentiality of the customer's roaming status while abroad. Initial customers' response has been encouraging. In December 2001, the industry commenced providing inter-operator SMS. To educate customers the benefits of SMS as an alternative, and in certain circumstances, a superior way of communication, SmarTone has launched a series of marketing initiatives. While SMS usage is still largely event-driven, SmarTone recorded reasonable growth in SMS traffic since the launch of inter-operator SMS.

GPRS service was commercially launched in August 2001 and a greater choice of GPRS capable handsets is just appearing in the market. SmarTone is now targeting to market new data-centric services for corporate and consumer customers which will ride on this technology. SmarTone considers it important to utilise GPRS to familiarise customers with data-centric services accessible via their handsets and other devices.

In August 2002, SmarTone expects to commence trial of its pilot 3G network and devices, and will launch its 3G service when it is commercially justified.

### *Macau*

The Macau operation commenced service in July 2001. As the operation is still at start-up stage, it has yet to achieve critical mass. However, the operation is proceeding according to plan and is within the Group's expectation.

### *LMDS*

Having gone through reorganisation, the LMDS operation has been merged into the mobile operation to attain greater efficiency. LMDS' EBITDA loss was further reduced to HK\$2 million from HK\$101 million in the same period of the last financial year. The Group has made a charge of HK\$68 million to write down assets of the LMDS operation. The Group expects that going forward, there will be no further write off related to this business.

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On 11 January 2002, the Telecommunications Authority announced full liberalisation of the fixed line telecommunications network services (FTNS) market in Hong Kong. As a result, all performance commitments of existing FTNS licensees that will be due on or after 1 January 2003 will be waived. This released HK\$45 million worth of performance bond for the LMDS business. The Group will continue to roll out its network to meet the remaining milestones for 2002.

### **Prospects**

The year ahead will continue to be challenging for the Group. In the short term, SmarTone sees no sign that the severe competition in the mobile market is abating and market dynamics remain unfavourable. Also, there appears to be little prospect of an industry consolidation that is accretive to SmarTone's shareholders' value. However, with a focused management and a strong balance sheet, the Group is best positioned to take advantage of the new challenges.

SmarTone remains confident in the long-term prospects of mobile communications. Despite market saturation, mobile communications have become an indispensable part of life for Hong Kong consumers. While data-centric services are still at their early stages of development, the Group believes that in the long run they will become the mainstay of mobile communications. With its expertise and resources, SmarTone is committed to deliver compelling and competitive services which will create value for its customers as well as its shareholders.

### **Kwok Ping Luen, Raymond**

*Chairman*

Hong Kong, 11 March 2002