

Chairman's Statement

This year marked SmarTone's return to profitability, with earnings before interest, tax, depreciation and amortisation ("EBITDA") of HK\$568 million: over seven times last year's EBITDA. A dividend of 7 HK cents per share is proposed. In the current saturated mobile market and given the continued economic downturn, both in Hong Kong and globally, this is a strong affirmation of SmarTone's strategies and operations over the past twelve months. These positive results have been delivered through a dual strategy.

- * First, through a revitalised focus on its core mobile business

Non-core businesses have been pruned and conservative write-downs have been made and absorbed in the results

- * Second, by reorganising its core mobile business activities behind three key business principles: customer orientation, effectiveness and efficiency

Driven by a constant frame of reference of customers' needs, the organisation has striven to improve the effectiveness and efficiency of all the constructs of its core business: its goals and strategy development, its structures, its processes, its systems and its policies. This is beginning to deliver a more productive organisation that is better able to identify and deliver against customer needs in a timely manner

SmarTone's engine of growth will continue to be the identification and delivery of services that enrich and enhance its customers' business and social lives.

Financial highlights

The Group's EBITDA, comprising both mobile and Internet service provider ("ISP") businesses, was HK\$568 million, 7.6 times that of last year's HK\$75 million. The Group's turnover for the year ended 30 June 2002 decreased marginally by 3% to HK\$2,401 million.

EBITDA of the mobile business was HK\$573 million, compared with HK\$228 million for the year ended 30 June 2001. EBITDA loss of the ISP business has also been reduced to HK\$5 million from the loss of HK\$153 million in the last financial year.

The Group's earnings before interest and tax ("EBIT"), before the write-downs of non-core businesses and investments, was HK\$145 million, a significant improvement from a loss of HK\$321 million in the previous year.

The Group's profit attributable to shareholders for the year amounted to HK\$115 million, recovering from a loss of HK\$284 million for the year ended 30 June 2001. Earnings per share was 20 HK cents, as compared to the previous year's loss per share of 47 HK cents.

SmarTone's financial position continues to be strong. Cash, bank balance and fixed income investments increased by 3% to HK\$3,587 million as at 30 June 2002. The Group had no outstanding debt at the end of the year.

Dividend

In view of the return to profitability, the Directors recommend the payment of a final dividend of 7 HK cents per share (2001: Nil) with a scrip dividend alternative. Dividend for the full year is equal to the same amount as no interim dividend was declared during the year.

Business review

Hong Kong Mobile Business

Amidst a difficult operating environment, SmarTone delivered an encouraging operating performance during the year. There has been strong growth in the Hong Kong mobile business EBITDA in this financial year. Average net ARPU for the year remained stable at HK\$210. Monthly churn rate dropped significantly to 3.0% in June 2002 from 5.9% in June 2001; as a consequence, sales and marketing costs were substantially reduced. Other operating costs also decreased significantly, resulting from continuing cost reduction measures. It is also encouraging to note that revenue in the second half of the financial year increased as compared to the first half. As at 30 June 2002, the total number of SmarTone customers stood at 984,000.

With a renewed emphasis on customer orientation, SmarTone has delivered a wide range of programmes to further enhance its services and customer service levels.

SmarTone has been investing in improvements to its radio network, which are:

- * Enhancing in-building coverage
- * Increasing capacity to handle growing traffic
- * Improving delivery of both voice and non-voice services

SmarTone has made significant enhancements to its voice services to create more value for its customers.

- * SmarTone activated automatic international roaming for all customers and waived all registration and deposit requirements. SmarTone's ***131*PhoneHome** service was also upgraded, allowing customers to enjoy substantial savings in making IDD calls to Hong Kong and other countries when roaming. SmarTone has enjoyed increased roaming traffic and revenue as a result
- * SmarTone's "Stealth Roaming Service" was launched to enable customers to maintain the confidentiality of their roaming status when travelling overseas, by presenting a Hong Kong-style ringtone to callers. An encouraging proportion of roaming customers now regularly uses this service
- * A range of personalised services was introduced at SmarTone's retail outlets to help customers tailor the settings of their mobile phones, helping them adopt and enjoy the full benefits of the latest technology

SmarTone is paving the way to capture future market opportunities brought about by emerging data-centric services. In addition to the launch of inter-operator SMS and international SMS in December 2001, a number of services encouraging customers to use their mobile phones for non-voice communication were introduced during the year.

- * **email on the go**— Enabling customers to access their business and personal emails, calendar and contacts list from their mobile phones or PDAs anywhere, including overseas. This is the most complete, flexible and cost-effective mobile email service in the market
- * **picturemail**— Enabling customers with Multimedia Messaging Service (MMS) CameraPhones to create their own multimedia messages by combining voice, text and photos, to be shared instantly with friends. SmarTone was also the first to provide comprehensive legacy phone support to ensure that recipients of multimedia messages, without MMS-enabled mobile phones, can retrieve their messages on the web or through WAP mobile phones
- * **sms via email**— Enabling customers to send SMS from their PCs to any GSM mobile phone users. Recipients of the messages can also reply back to the senders' PCs

A number of other data-centric initiatives were implemented to ensure that customers could increasingly enjoy the benefits of data services through greater convenience.

- * SmarTone commenced GPRS roaming in China, as well as other countries in Asia and Europe
- * SmarTone completed the world's first inter-operator and cross-border MMS demonstration with China Mobile

- * SmarTone made GPRS automatically available to all customers with GPRS-enabled phones, removing the need for any registration. As a result, customers can enjoy a growing range of GPRS-enabled data-centric services with ease

SmarTone received unmatched industry recognition for its service excellence during the year by winning the largest number of major service awards amongst mobile operators in Hong Kong.

- * SmarTone won two out of the four annual service and courtesy awards presented by the Hong Kong Retail Management Association (HKRMA)
- * SmarTone was named Services Category Leader in the Electronic and Electrical Appliances / Telecommunications industry under the HKRMA's Mystery Shoppers Programme
- * All five SmarTone-nominated staff members won the 34th Distinguished Salesperson Award presented by the Hong Kong Management Association


Other Businesses

The Group's operation in Macau earned positive EBITDA in the second half of the financial year. The Group has aligned its scale of operations in Macau with what it considers viable business opportunities.

In view of the difficult operating environment and the outlook of the broadband Internet access market, the Group has scaled down its ISP business significantly, to minimise operating losses and preserve shareholder value. As a result, EBITDA was close to breakeven. In the first half of this financial year, the Group made a charge of HK\$68 million to fully write down assets of the ISP business, as well as all capital expenditure required to duly meet the outstanding milestones stipulated in its licence by end 2002.

Prospects

We believe our focus on the ongoing improvement in the basics of our operations will continue to yield significant returns in coming years. SmarTone is developing a strong base from which to face the challenges and capture the opportunities of a changing industry.

That is why SmarTone is continuing to make significant investments in upgrading all areas of its core mobile business. We continue to improve our network infrastructure to enhance radio coverage as well as to ensure the smooth delivery of data-centric services. We also continue to enhance our back-end systems to support increasingly effective and efficient operations. SmarTone is resolved to deepen relationships with its customers and to offer the best services in the market, not 'first to market', where 'best' means best meeting customers' needs. **email on the go**[™], **picturemail**[™] and  are examples of services delivering additional value to customers versus competitive

offerings with ease of use, flexibility and cost-effectiveness, which customers can appreciate. Over the coming year, you will see increasing evidence of this approach.

We also recognise and are embracing the changing technological landscape with the potential opportunities which that brings. The true revolution in mobile communications has already taken place with the change from 2G circuit-switched to 2.5G packet-switched, allowing more efficient delivery of data-centric services. The rollout of these services has already begun: over the last year, SmarTone launched services based on its 2.5G network, namely **email on the go**[™], and **picturemail**[™]; targeted respectively at business users and consumers. Services like these are likely to be the key drivers of our future growth and most of them will work on both 2.5G and 3G networks. SmarTone strongly believes in 3G, which will become critical when capacity demand from wide take-up of data-centric services appears. SmarTone considers 3G to be an evolutionary step from 2.5G. The timing of the rollout of the 3G network is dependent on a sufficiently stable 3G network technology and an attractive choice of dual-mode mobile devices, compatible with both 2.5G and 3G. SmarTone has already completed the installation of the first phase of its pilot 3G network and is testing extensively. It is intended that the pilot network will eventually become part of a commercially operational 3G network.

Appreciation

I would like to take this opportunity to express my gratitude to our shareholders and fellow directors for their ongoing support. Mr. Tang Yet San, Rick and Dr. Lo Wing Yan, William resigned as non-executive directors and I would like to thank them for their advice and valuable contribution to the Group. I would also like to extend my appreciation to our staff for their commitment and diligence in producing a very encouraging set of results for the year. But most of all, I would like to thank our customers who have continued to recognise the value that SmarTone provides. Their loyalty will increasingly be rewarded with services that bring them closer to the people they seek, the information they need and the entertainment they desire.

Kwok Ping Luen, Raymond

Chairman

Hong Kong, 24 September 2002