

CHAIRMAN'S STATEMENT

Dear Shareholders,

For the six months ended 31 December 2002, SmarTone achieved a net profit of \$238 million, representing a 54 per cent. increase on \$155 million for the preceding six months and a turnaround from a loss of \$39 million for the same period last year. Your Board announces a doubling of the dividend payout ratio to two-thirds of full year net profit. An interim dividend of 20 cents per share is declared.

FINANCIAL HIGHLIGHTS

Group turnover for the six months ended 31 December 2002 amounted to \$1,454 million, compared with \$1,260 million for the previous six months and \$1,141 million for the same period last year. Earnings before interest, tax, depreciation and amortisation ("EBITDA") amounted to \$394 million, representing a 9 per cent. growth on EBITDA of \$362 million for the preceding six months and 91 per cent. growth on EBITDA of \$206 million for the same period last year.

Group earnings before interest and tax ("EBIT") rose by 71 per cent. to \$197 million on \$115 million for the previous six months.

Group profit attributable to shareholders for the period under review reached \$238 million, an increase of 54 per cent. on \$155 million for the preceding six months and a recovery from a loss of \$39 million for the same period last year. Earnings per share amounted to 41 cents, compared to a loss of 7 cents for the same period last year.

DIVIDEND

In view of SmarTone's improving financial position, the Directors announce that its dividend payout ratio is being doubled to two-thirds of full year net profit. The Directors declare the payment of an interim dividend of 20 cents per share for the six months ended 31 December 2002 (2001: Nil).

MANDATORY GENERAL OFFER BY CELLULAR 8 HOLDINGS LIMITED

On 16 November 2002, Cellular 8 Holdings Limited ("Cellular 8"), a wholly-owned subsidiary of Sun Hung Kai Properties Limited ("SHKP"), and SHKP jointly announced a mandatory general offer by Cellular 8 for all the SmarTone's shares and outstanding share options not already owned by Cellular 8 and the parties acting in concert with it. Terms of the offer were subsequently revised on 30 December 2002. The offer was declared unconditional on 7 January 2003 and closed on 21 January 2003. Immediately after the closing of the offer, Cellular 8 together with its concert parties were interested in 299,389,975 shares, representing approximately 51.24 per cent. of the issued share capital of SmarTone.

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REVIEW OF OPERATIONS

HONG KONG MOBILE BUSINESS

In a continuing competitive environment, SmarTone's core mobile business in Hong Kong achieved an encouraging growth in both revenue and profit. Average postpaid ARPU for the first half of the year was \$222, a 6 per cent. increase on \$210 for the preceding six months. With the growing convergence of postpaid and prepaid services in Hong Kong, and to be consistent with international practice, SmarTone now also calculates ARPU on a blended basis. Blended ARPU for the first half, representing the Hong Kong mobile services revenue divided by the aggregate number of postpaid and prepaid customers, registered a 7 per cent. growth to \$189, against \$176 for the preceding six months. Operating expenses of the business increased modestly as compared to the second half of last financial year, due mainly to the rise in advertising and promotion spending. Churn rate improved further from 3.0 per cent. in June 2002 to 2.5 per cent. in December 2002. As at 31 December 2002, SmarTone had 952,000 customers.

Business Strategy

SmarTone pursues the strategic objective of increasing revenue market share through the continual focus on developing and marketing new products and services, while further enhancing network quality and upgrading its customer service.

Your company is increasingly targeting specific customer segments with more tailored offerings which encompass both voice and data services. Many ground-breaking products and services have been launched, with favourable customer response and much excitement in the market.

Substantial improvements have been made in the network and customer service - this is being reflected in favourable customer feedback as well as the service awards being won in open competitions. Overall expenditure has only been allowed to increase modestly in undertaking all those activities, including much increased marketing of new services. This has been made possible through continuing cost reduction across the board.

SmarTone provides the widest choice of the latest handsets coming to the market in order to speed up the adoption of advanced GPRS handsets in Hong Kong. SmarTone is also working closely with handset manufacturers to define specifications and product development roadmaps to ensure that its data services are complemented by the new handsets.








Re-centering Campaign

Started in July 2001, the Re-centering campaign is an on-going process, aiming at steering SmarTone's whole organisation towards focusing on its core mobile business and customer orientation. SmarTone's customer-oriented strategy is encapsulated in its "Get Closer" customer proposition - helping its customers get closer to the people, the information and the entertainment that is important to them - which will be the key driving force for its business growth.

The Re-centering campaign entered a new phase in October 2002 with the launch of the new corporate identity. Not only does the new logo, a colourful sketch-like representation of a hand, an ear and an eye, portray the essential components of effective communication and the essence of strong and enduring relationships, it also reflects the on-going process of re-centering SmarTone around customers' needs and points to an increasingly data-driven future.

Products and Services

A host of new products and services have been introduced to cater to customers' changing needs and to encourage adoption of mobile data services.

- **SmarTone ** - It provides customers with the only true mobile multimedia experience in Hong Kong. With **SmarTone **, customers can conveniently access a wide variety of rich information and entertainment through numerous content channels, each targeting different customer segments. This totally revamped mobile portal is available to all customers with WAP-enabled handsets, while the best user experience comes from handsets with the latest xHTML/WAP 2.0 browser. The content of **SmarTone ** is continually updated and expanded to encourage discovery by customers and to meet the ever-changing customer needs.
- GX12 - Your company introduced to Hong Kong the , the first advanced GSM handset with xHTML browser in the market. SmarTone has participated in specifying the features development priority and the user interface of the GX12, allowing customers to enjoy true mobile multimedia experience provided by **SmarTone **. The handset, exclusive to SmarTone, has generated wide-spread interest and strong demand from customers.
- Mobile Games - SmarTone offers the largest variety of mobile games compatible with the different MIDP Java engines specified by different brands of mobile phones. Additionally, SmarTone has also adopted a specialised Java engine that is optimised for mobile gaming, and which has been installed in the GX12. This specialised Java engine and the Java games riding on it offer a far superior mobile gaming experience than previously possible. Customer response has been enthusiastic.

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- **moviemail** - This is a new video messaging service enabling our customers with video-enabled MMS phones to create their own unique video clips and send them to friends and families. SmarTone is the first in Hong Kong to provide true non-video phone support - SmarTone recipients of **moviemail** and who do not own video-enabled MMS phones, will receive a SMS notification containing an Internet address and a unique message identification number for their viewing of the video clip via WAP or the Internet.
- **Connecting Tone** - This is a new voice-based service enabling customers to personalise their connecting tones with a variety of musical tunes and greetings. This voice-based service has been integrated with the browsing capability of **SmarTone 300** so that interactive and menu-driven preview of the connecting tones become possible - thus enabling an intuitive user-friendly customer experience.

SmarTone has also enhanced the features of its existing data services:

- **picturemail** - With the implementation of full inter-operator MMS in Hong Kong, SmarTone's customers can now communicate with subscribers of all other networks using MMS. However, SmarTone's **picturemail** offers more than just MMS by eliminating the inconsistent presentation of MMS between different brands and models of MMS mobile phones. SmarTone is the first in the world to automatically adjust, in real time, MMS messages received by all of its customers, ensuring they can receive optimised presentation of multimedia content.
- **email on the go** - The service is recently enhanced with new features to further empower customers with greater productivity and convenience. Major new features include sending and replying emails by voice attachments; viewing of attachments; forwarding emails and attachments to fax for printout; and remote access to self-created PC folders.

Network

Your company embarked on an aggressive network improvement plan some 15 months ago with the aim of substantially improving coverage everywhere, particularly inside buildings. An example is the full indoor coverage, including lifts, of all Hongkong Land's office buildings in Central. The number of transmission sites now exceeds 2,000. The network enhancements have resulted in dramatic improvement in general customer feedback.

A parallel aim of SmarTone's network expansion is to ensure a smooth GPRS delivery of data services over its network. The improvement plan resulted in a consistently high performance in data services delivery.

Customer Service

Customer service is one of the three pillars of SmarTone's business. We are the only operator providing the full complement of services at all retail outlets which are furnished with data corners, allowing customers to experience the new world of data services.

There has been a major shift in SmarTone's distribution mix to own-controlled channels, as our front-line staff, with rigorous training on provisioning of data services, can serve our customers far better than third parties.



SmarTone continues to receive industry-wide recognition for best customer service, beating all other mobile operators in winning numerous major industry and service awards. In particular, your company has won key awards presented by the Hong Kong Retail Management Association (“HKRMA”) which is the leading authoritative body representing the whole retail industry in Hong Kong. The notable achievement was the winning of the Best Team Performance Award for the second year running at the 2002 Service and Courtesy Award - an unprecedented record in this competition. This reflects the broad consistent high standard achieved by SmarTone’s whole front-line team. Other awards that your company received from the HKRMA include:

- Award for Junior Frontline Level - Specialty Stores Category at the 2002 Service and Courtesy Award
- Service Retailer of the Year 2002 in the Electronic & Electrical Appliances / Telecommunications category
- Service Category Leader in the Electronic & Electrical Appliances / Telecommunications category under the HKRMA’s Mystery Shoppers Programme (Nov 2002 - Jan 2003)

OTHER BUSINESSES

The mobile business in Macau began to make a modest contribution to SmarTone’s net profit in the first half. The ISP business achieved break-even in the period under review.

PROSPECTS

Going forward, SmarTone strives to become the preferred brand in Hong Kong by helping our customers get closer to the people, the information and the entertainment that is important to them. With the strategic objective of increasing revenue market share, SmarTone will continue to focus on the three pillars of its business: products and services, network and customer service. We will develop new revenue streams through innovative data and voice services as well as meeting the needs of different market segments with more targeted offerings. Revenue from data services will eventually be a key growth driver for SmarTone as we continue to launch new compelling data services.

SmarTone believes services speak louder than technology, as mobile phones become personal multimedia infotainment communication devices, and not just handsets for voice and text. Developing and marketing new compelling data services has always been the real challenge for our industry, and your company is making real progress in this area. SmarTone is ready for the transition from 2.5G to 3G and has the wherewithal to implement 3G as and when required.

Your Board is reviewing options, including the possibility of special cash dividend distribution, to optimise the Group’s capital structure with the twin objectives of ensuring adequate flexibility going forward and enhancing shareholders’ value.

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APPRECIATION

Mr. Graham Goodfellow Moore, Mr. Peter Francis Cross and Mr. Mario Michael resigned as non-executive Directors of your company. I would like to thank them for their advice and valuable contribution to SmarTone in the past year. I would also like to take this opportunity to express my gratitude to our customers and shareholders for their continual support, to our Directors for their guidance, and to all our staff for their dedication and hard work.

Raymond Kwok Ping-luen
Chairman

Hong Kong, 11 March 2003