

# CHAIRMAN'S STATEMENT

Amidst the outbreak of SARS and increased market competition, SmarTone delivered encouraging improvements in its results. Net profit increased 3.5 times to \$408 million. Your company continues to focus on improving the three key pillars of its business — products and services; network performance; and customer service — while establishing a leading position in mobile data services. It has also strengthened its branding in the market.

## Financial Highlights

Group turnover was \$2,832 million, an increase of 18 per cent. on \$2,401 million for the previous year. Mobile services revenue registered a 4 per cent. growth and reached \$2,263 million.

Group earnings before interest, tax, depreciation and amortisation ("EBITDA") of \$753 million was up 33 per cent. on last year. Earnings before interest and tax ("EBIT") increased substantially to \$335 million.

Profit attributable to shareholders increased 3.5 times to \$408 million on \$115 million for the previous year. Earnings per share amounted to \$0.70.

## Dividend

Your Board recommends a final dividend of \$0.27 per share. Together with the interim dividend of \$0.20 per share, dividend for the year will be \$0.47 per share, representing a substantial increase on \$0.07 per share for last year. To achieve a more efficient capital structure for the Group and to reward shareholders for their support, your Board proposes a special cash dividend of \$3.50 per share. After the distribution of the proposed dividends, your company still retains sufficient cash resources for expected operational needs.

## Business Review

### Hong Kong Mobile Business

#### Business strategy

SmarTone has been pursuing a two-pronged strategy:

- Continual service quality improvement — Your company strives to increase revenue market share by enhancing customer satisfaction through the delivery of the best customer propositions in the market. To achieve this strategic objective, your company has been focusing on continual enhancements of the three key pillars of its business — products and services; network performance; and customer service.
- Competitive pricing — In a deflationary economy, customers are becoming increasingly price-sensitive. To increase its revenue market share in this environment, SmarTone has adopted a competitive pricing strategy.

To enable this strategy, your company has improved its productivity and competitiveness. This is being achieved by enhancing the effectiveness and efficiency of its organisation, systems and processes.

#### Performance

Blended ARPU for the year increased by 7 per cent. to \$183, with postpaid ARPU growing moderately to \$213 from \$210 for the previous year. The outbreak of SARS and increased market competition exerted significant downward pressure on roaming usage and local tariffs in the fourth quarter of the year, and counteracted the improvements in ARPU and service revenue achieved in the first half. Postpaid churn rate improved to 2.6 per cent. in June 2003 from 3.0 per cent. in June 2002. Operating expenses were reduced during the year, notwithstanding an increased number of key marketing and services initiatives. As at 30 June 2003, there were 966,000 customers.

# CHAIRMAN'S STATEMENT

## Business operations



### *Branding*


SmarTone has been strengthening its market positioning and appeal while reinforcing its customer proposition — *helping customers get closer to the people, the information and the entertainment that is important to them.*





Your company's effort in progressively advancing its branding has started to yield results. SmarTone was selected as one of Asia's Top 20 Brands in the annual "Top Asian Brands" survey conducted by *Media* magazine in June 2003. SmarTone was the only mobile operator to be included in the Top 20 alongside other major international brands.

### *Products and services*

SmarTone continues to lead in bringing innovative products and services to market, meeting different customers' needs. It has marketed mobile data services that offer clear and compelling propositions, which are easy-to-use, and deliver a superior total customer experience.

- SmarTone  is the first mobile portal in Hong Kong capable of delivering true mobile multimedia experience. It offers convenient access to a wide variety of rich information and entertainment content and services, targeting different customers' needs. With continually updated and enhanced content and services, SmarTone  has been well-received by customers. It has stimulated a substantial increase in data traffic and the usage of different mobile data services, including mobile games, images and music downloads, as well as content for information, fun and entertainment.

SmarTone introduced the CJSP Java engine, which is optimised for the best mobile gaming experience, in conjunction with rich game content sourced from the world's leading games providers. SmarTone's leading role in mobile gaming is further enhanced by its recently launched , the first mobile on-line role-play game in Hong Kong, allowing live interaction among players.

- SmarTone  is a suite of mobile business tools designed for busy and frequently travelled executives to enhance their productivity and competitiveness, and to better manage their working and personal lives.
- Your company provides the most sophisticated, yet simple-to-use, messaging services in Hong Kong. Its picture  offers a picture messaging service that provides customers with a range of unique benefits, including assured message delivery for non-MMS phones; best-fit-to-screen picture rendition; full storage and replay of MMS messages, including slideshows, on personal computers; and personalisation of MMS messages with picture frames. SmarTone's  delivers the best-in-class video messaging with its GX22 CameraPhone.
- SmarTone has partnered with manufacturers to develop advanced handsets in order to bring the most compelling data services to market. Your company introduced GX12, the first GSM handset with superior xHTML browsing capability, enabling customers to enjoy the true mobile multimedia experience of SmarTone . The GX series of mobile phones was voted the "Best Wireless Handset" for 2003 by the GSM Association. SmarTone has just launched GX22, the first GSM handset in the world with Continuous Grain Silicon screen, providing the highest resolution and best colour rendition of images.

### *Network performance*

To enable the best mobile experience for its customers, SmarTone continues to invest in its radio, core and service networks to deliver superior availability, reliability and speed in all its services. Properly integrating sophisticated and intelligent infrastructure is key to providing data services which are simple and easy-to-use for customers.

### *Customer service*

SmarTone continues to deliver the best customer service in the industry. Your company has been winning numerous major industry and service awards, which validates SmarTone as a leader in customer service, not only amongst telecom operators, but also across all service industries in Hong Kong. A notable achievement was the winning of the Best Team Performance Award for the second year running at the 2002 Service and Courtesy Awards of the Hong Kong Retail Management Association, the major association representing Hong Kong's retail industry. Your company's unprecedented achievement in this competition reflects the consistent high standard achieved by its whole front-line team. The recognition of SmarTone's excellence in customer service was elevated to regional level with its winning of three awards from the Asia Pacific Customer Service Consortium, including the overall winner of the 2002 Customer Relationship Excellence Awards.

### **Macau Mobile Business**

The mobile business in Macau incurred a marginal loss in the year, due to the impact of SARS on roaming revenue.

### **Prospects**

While the Hong Kong mobile market has now recovered from SARS, customers are expected to remain price-sensitive and there is no sign of abatement in competition. SmarTone will continue to pursue its strategy and accelerate the pace of bringing new services to market, aiming to create new revenue streams and to reinforce its leadership in mobile data services. Concurrently, your company will further improve productivity and competitiveness to maximise value for shareholders.

With saturated mobile penetration in Hong Kong, further growth from voice services would be limited. Nevertheless, as mobile phones have evolved into mobile networked PCs, operators could capture new growth opportunities by stimulating additional demand through mobile data services. SmarTone is implementing very substantial changes in its management focus and operational practices in order to capitalise on this changing environment. It has put strong emphasis on satisfying customers' needs on offering compelling, easy-to-use services that can exploit the uniqueness of mobile media and deliver real benefits and value to customers. Your company is making good progress in 3G preparation and is likely to put its 3G network into commercial service, probably sometime in 2004. I am confident that SmarTone is on the right track going forward.

Your company enjoys a strong balance sheet, giving it substantial flexibility going forward.

### **Appreciation**

On behalf of the Board, I would like to thank you, our shareholders, for your faith in SmarTone and look forward to sharing with you greater success in the future. I would also like to express my gratitude to our customers for their continual support, and to our staff for their commitment and hard work in delivering another set of encouraging results.

### **Raymond Kwok Ping-luen**

*Chairman*

Hong Kong, 23 September 2003



## Stay ahead of the game

Instant access to corporate and personal emails together with real-time financial quotes and information help you better manage business and personal lives.