

# CHAIRMAN'S STATEMENT

I am pleased to announce a set of improved results and encouraging progress at your company.

Profit attributable to shareholders increased to \$235 million, on the back of the recovery in roaming, increase in multimedia services usage and continual focus on enhancing operational effectiveness and efficiency. Your company has made good progress in strengthening its brand and extending its leadership in service quality, laying a robust foundation for establishing a sustainable competitive advantage over the long term.

## FINANCIAL HIGHLIGHTS

Group turnover increased to \$1,549 million, compared with \$1,378 million for the previous six months and \$1,454 million for the same period last year.

Group earnings before interest, tax, depreciation and amortisation ("EBITDA") of \$448 million was up 25 per cent. on the preceding six months and 14 per cent. on the corresponding period last year. Earnings before interest and tax ("EBIT") of \$243 million rose by 76 per cent. and 24 per cent. on the previous six months and the same period last year respectively.

The Group has adopted the new accounting policy for deferred taxation in compliance with the revised Hong Kong Statement of Standard Accounting Practice 12, "Income taxes". As a result, a deferred tax charge of \$39 million has been recognised for the six months ended 31 December 2003 and the accounts for the previous year have been restated.

Profit attributable to shareholders amounted to \$235 million, a 52 per cent. increase on \$155 million for the preceding six months and a 5 per cent. increase on \$223 million for the corresponding period last year. Earnings per share for the period was \$0.40, representing a 5 per cent. growth compared with \$0.38 for the same period last year.

## DIVIDEND

The Board declares an interim dividend of \$0.20 per share (2002: \$0.20).



## BUSINESS REVIEW

### HONG KONG MOBILE BUSINESS

The period under review saw a strong recovery in roaming revenue from the SARS epidemic and a healthy growth in multimedia services revenue. As a result, blended ARPU for the period increased by 6 per cent. to \$188 on \$178 for the preceding six months. Postpaid ARPU of \$207 registered a 2 per cent. growth on \$203 for the previous six months. Customer loyalty further improved as postpaid churn rate reduced to 2.4 per cent. in December 2003, compared with 2.6 per cent. in June 2003. Operating expenses declined modestly, reflecting your company's continuing efforts in productivity enhancement. Total customer number increased during the period to 1,043,000 as at 31 December 2003.

# CHAIRMAN'S STATEMENT

SmarTone continues to improve its service quality and customer satisfaction. Your company has been strengthening its brand and improving all its business pillars — products and services; network performance; and customer service. These initiatives allow your company to improve its customer mix and create a broad platform for revenue growth and profitability.

- SmarTone launched a brand advertising campaign to bring alive its “Get Closer” customer proposition by demonstrating how **SmarTone**  and **picturemail** enable customers to communicate more effectively. The campaign takes the high ground of focusing on the emotional benefits of more effective communications and building closer relationships. We believe that it would establish a stronger customer affinity for the SmarTone brand.
- To grow new revenues, SmarTone offers best-in-class multimedia services with **SmarTone**  for consumers, and **SmarTone BIZ** for business users, both providing ease of use and broad selections of services. A growing portfolio of partnerships with content and applications providers has also been established, enabling your company to constantly enrich its content and services.
- SmarTone has been providing the widest choice of the latest handsets from leading brands to encourage adoption of multimedia services. Working closely with Sharp, your company brings to market the GX series of handsets with the best-in-market features such as high-quality camera and superior LCD display. These features, together with superb ease of use, make the GX series very popular with customers. GX32, the latest model from the GX series to be available soon, makes another breakthrough with its 1 mega pixel CCD camera, producing photographs with high enough resolution for larger prints. Together with the superior imaging quality of its CG Silicon high definition QVGA display, this new handset model again demonstrates your company's lead in bringing the best to market.
- SmarTone offers the best network performance in Hong Kong for both voice and multimedia services, validated by the results of a network quality study conducted by The Chinese University of Hong Kong. This enables your company to deliver a superior mobile experience to customers.
- SmarTone's frontline operations are being strengthened to assist individual customers to gain first-hand experience in the use of multimedia services, as well as to enhance your company's general service quality. During the period, your company received a good number of retail and service awards, the most noteworthy of which was the Best Team Performance Award for the third consecutive year at the 2003 Service and Courtesy Award of the Hong Kong Retail Management Association. This unprecedented achievement exemplifies your company's commitment to the highest level of service quality and consistency.

## MACAU MOBILE BUSINESS

Mobile business in Macau recovered well from the impact of SARS and made a modest contribution to the Group's net profit.



## PROSPECTS

SmarTone is making investments in its brand, business pillars and people to improve service quality and enhance customer satisfaction. It is also effecting significant changes in its organisation and business operations to further improve its productivity and competitiveness, as well as to meet the operational requirements of the emerging business model for multimedia services. All these initiatives aim to differentiate SmarTone from competitors and to establish a sustainable competitive advantage over the long term.

Market environment has become more conducive to a wider adoption of multimedia services. Consumer confidence has improved in parallel with the economic recovery. Penetration of multimedia-enabled handsets and awareness of multimedia services have also increased significantly over the past two years. More content and applications providers are emerging, allowing your company to offer more compelling multimedia services to customers.

Focusing on customer needs, benefits and value, SmarTone has established a proven record in providing best-in-class multimedia services. It has also accumulated the know-how in optimising end-to-end service delivery to offer a superior customer experience. SmarTone is well-positioned to drive revenue growth and enhance profitability through multimedia services.

SmarTone's 3G will be a seamless transition for our customers and will deliver significant improvement on the existing 2.5G multimedia experience. The 3G radio network is being rolled out and will be put into commercial service in the second half of 2004, when the technology is mature and a much wider choice of dual-mode 2.5G/3G handsets with good performance should become available. Great emphasis is being placed on the development and marketing of 3G-enabled services and applications for both consumers and business users. I am confident that SmarTone will continue to offer the best to customers.

## APPRECIATION

On behalf of the Board, I would like to thank our customers, shareholders and fellow directors for their continual support. I would also like to express my gratitude to our staff for their hard work and contributions.

**Raymond Kwok Ping-luen**

*Chairman*

Hong Kong, 9 March 2004