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CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

SmarTone has achieved solid results and delivered consistent growth against the background of an increasingly competitive market. Profit attributable to shareholders registered a 23% growth on last year. Your company is optimistic about the growth opportunities brought about by multimedia services, and it is making significant investments in 3G.

Financial Highlights

Turnover amounted to \$3,367 million, an increase of 19% on the previous year. Earnings before interest, tax, depreciation and amortisation ("EBITDA") and earnings before interest and tax ("EBIT") increased by 22% to \$919 million and 47% to \$492 million respectively. Profit attributable to shareholders for the year totalled \$466 million, representing a growth of 23% compared to the previous year. Earnings per share increased to \$0.80.



Dividend

Your Board recommends a final dividend of \$0.33 per share. Together with the interim dividend of \$0.20 per share, total dividend for the year will increase by 13% to \$0.53 per share.

Business Review

Hong Kong Mobile Business

SmarTone has been growing its business user customer base, with both corporate accounts and individuals. This is attributable to your company's superior network quality, award-winning customer service, as well as the compelling products and services catering to the needs of business users for instant access to information and connectivity anywhere. Recent offerings include an improved version of **email on the go**, SmarTone's mobile email service, which supports automatic push emails for a range of popular PDAs. Further efforts are being made to expand SmarTone's share in this market.



This year saw more and more SmarTone customers using mobile multimedia services. Number of active SmarTone **3G** users increased over 2.5 times to 16% of total postpaid customer base in June 2004, with usage and revenue per user registering healthy growth. Offerings available on SmarTone **3G** continue to be enriched with new innovative infotainment and messaging services for different customer segments. These include services allowing customers to post photos or audio visual clips on the Internet for instant sharing and publication; advanced chat services with user anonymity and location search features; and m-commerce services.

Quality of customer base in both business user and consumer markets has been improving, reflected by a 3% increase in blended ARPU for the year to \$188. Postpaid ARPU of \$211 declined marginally compared to \$213 for last year, with the continuing pressure on local voice tariffs largely offset by the increase in usage of roaming and multimedia services. This year-on-year drop masked a 4% increase in postpaid ARPU for the second half of the year to \$216 from \$207 for the first half. Data services, comprising SMS and multimedia services, grew by approximately 70% compared to June 2003 and accounted for 7% of mobile services revenue in June 2004. This was driven mainly by the substantial increase in multimedia services usage which contributed to approximately half of data services revenue in June 2004. Postpaid churn rate was better than industry average and amounted to 2.6% in June 2004. As at 30 June 2004, there were 1,065,000 customers, an increase of 10% on 966,000 at the end of June 2003.



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SmarTone provides its customers with an increasingly wide choice of handsets, ranging from basic to the most advanced models, and it focuses on encouraging customers to upgrade to advanced multimedia-capable handsets which are critical to new services adoption. Your company has also been working closely with all major vendors to improve the handsets in order to provide better customer experience for multimedia services. Such collaboration includes sharing SmarTone's service concepts and providing input on middleware, software applications, user interface and form factors. Vendors most closely adopting SmarTone's ideas and input have achieved excellent sales, while your company benefits from a better uptake of multimedia services by customers using these handsets.

SmarTone further advances the market recognition for its customer service excellence and consistency, validated by top awards in retail industry competitions and surveys. It has established an unprecedented record in the retail industry in Hong Kong, by winning the Best Team Performance Award for each of the past three years at the Service and Courtesy Award of the Hong Kong Retail Management Association. It has also won the Top Service Award for the telecommunications network service provider category from the readers of the mass circulation Next Magazine for the second consecutive year. SmarTone's commitment to great customer service continues to grow, providing its higher value customers with a higher level of personal service with the recently launched loyalty programme. Further enhancements will enable your company to extend its lead in customer service.

Macau Mobile Business

The mobile business in Macau continues to improve and made an increased contribution to the Group's net profit this year.

Prospects

The Hong Kong market remains challenging, with your company's competitors all focusing on promotional tariffs and aggressive handset subsidies. SmarTone has been competing effectively by offering superior total customer propositions to different market segments and introducing many new services while controlling its cost base. It has demonstrated its resilience and outperformed the industry trend with consistent revenue and profit growth, reflecting the effective execution of its strategy.

Your company aims to commence commercial operation of its 3G network in the fourth quarter of 2004. With territory-wide coverage at launch, the network will offer reliable and robust performance to customers. Further enhancements will continue, with full MTR coverage to be available by late 2005. Compelling 3G-enabled services will be launched progressively to generate new revenue streams. Focusing on customer needs and the total customer experience, SmarTone will deliver substantial improvements on 2.5G by offering richer content, larger variety of services and higher speeds in multimedia delivery.

The commercial launch of 3G will stimulate the usage of multimedia services and deliver revenue enhancement, the extent of which will largely depend on competitive market dynamics and customer adoption of 3G-enabled handsets. Costs will rise, mainly due to higher spending in network operations, sales, marketing and content. To stay competitive with market offerings, SmarTone may need to offer significant subsidies for 3G handsets, amidst rampant discounting and promotional activities of its competitors. Group capital expenditure for the year ended 30 June 2005, excluding the 3G spectrum utilisation fee, is expected to increase to approximately \$700 million, compared to \$630 million for this year.



SmarTone has been investing in the new paradigm for the mobile business where advanced multimedia services take centre stage. The 3G network is a crucial element of this, and will be instrumental in further enabling new services and stimulating the growth in usage. Notwithstanding the short-term pressure on margins, I am confident that 3G will deliver on its promise and create shareholder value in the longer term.

Appreciation

I would like to take this opportunity to express my gratitude to our customers, shareholders and fellow directors for their continual support, and to our staff for their dedication and hard work.

Raymond Kwok Ping-luen

Chairman

Hong Kong, 16 September 2004