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# CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

Your Company outperformed the market with increased ARPU and service revenue. This represents a creditable performance amidst severe price erosion prevailing in the market. The launch of 3G has established the platform for future growth, despite the resultant increase in costs and pressure on profits in the shorter term. Going forward, your Company will focus on leveraging 3G to provide differentiated and superior propositions for targeted customer segments and drive growth in revenue market share.

## Financial Highlights

Turnover increased by 7% to \$3,619 million, underpinned by the 6% growth in mobile service revenue. Earnings before interest, tax, depreciation and amortisation ("EBITDA") of \$832 million represented a decline of 12%, compared to \$944 million for the previous year. Profit attributable to shareholders decreased by 27% to \$339 million. Earnings per share amounted to \$0.58.

## Dividend

Your Board recommends a final dividend of \$0.20 per share. Together with the interim dividend of \$0.19 per share, dividend for the year totalled \$0.39 per share. This is in line with the Company's policy of distributing two-thirds of profit attributable to shareholders as dividend.

## Business Review

### Hong Kong Mobile Business

Blended ARPU and postpaid ARPU for the year increased by 6% to \$199 and 9% to \$231 respectively. Data service revenue continued to rise and accounted for 7.3% of service revenue for the year, up from 5.5% for the previous year, driven mainly by the robust growth in the usage of multimedia services. Amidst fierce competition, total customer base decreased slightly to 1,011,000 as of 30 June 2005. Churn rate also increased marginally to 2.8% in June 2005 as compared to 2.6% in June 2004. Nevertheless, service revenue grew further as the increase in ARPU outweighed the modest decline in customer number.



SmarTone-Vodafone's emphasis on customer propositions has contributed to the consistent improvement in ARPU and service revenue. Revenues generated from business customers, frequent travellers and multimedia users have all shown encouraging improvement.

SmarTone-Vodafone provides the most complete range of mobile connectivity solutions for business customers on the move. BlackBerry® from Vodafone and Email on the go™ offer customers real-time mobile email with the widest choice of handheld devices in the market. For those customers requiring full PC functionality and Internet connectivity while on the move, SmarTone-Vodafone's PC Connect 3G/GPRS data card delivers reliable mobile broadband Internet access, with 3G roaming now available at more than 40 overseas destinations, providing increasingly ubiquitous access to high-speed service.



Sharp SX313

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For consumers, SmarTone-Vodafone focuses on the key areas of music, sports, news and games. It caters to the specific needs of the different communities with superior propositions that provide richer experience, deliver compelling benefits and increase value to customers. Music Now, SmarTone-Vodafone's proposition for music fans, is a prime example of this approach. It offers not only instant download of the largest selection of high-quality mobile music content in the market, but also a rewards programme bringing customers closer to their music and favourite artists.

To ensure customers can enjoy an outstanding SmarTone-Vodafone experience, the company has been upgrading its key commercial enablers:

- All customer touch-points, including retail stores, website and customer hotlines, have undergone major improvement programmes to provide a more seamless, consistent and richer experience, as well as creating a deeper customer engagement with every contact.
  - SmarTone-Vodafone continues to offer a wide range of both 2G and 3G handsets that meet different customer needs. It is also now offering the largest number of brands of 3G handsets in the Hong Kong market and its recently launched Sharp SX833 and Samsung Anycall Z308 are groundbreaking products with outstanding audio and video capabilities that bring the enjoyment of SmarTone *iN!* on 3G mobile media services to a new exciting level.
  - SmarTone-Vodafone's 3G network already covers 99.9% of Hong Kong, including major shopping malls, commercial buildings and residential areas, with uninterrupted coverage across the entire Mass Transit Railway network. Delivering unrivalled quality and reliability, the network offers the fastest call connection time for both voice and video calls as well as the fastest data throughput, validated by an independent network quality survey conducted in July 2005.
- SmarTone-Vodafone already provides the widest 3G roaming coverage, amongst Hong Kong operators, at over 40 overseas destinations, including Japan, Taiwan, Singapore, Malaysia, Australia, major countries in Europe and South Africa, with more destinations continually being added.



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## Macau Mobile Business

The Company's mobile business in Macau achieved encouraging growth in revenue and profits.

## Prospects

Going forward, there will be both challenges and opportunities in the Hong Kong mobile industry. 3G is set to become mainstream. It is capable of providing much better value than 2G as it delivers more compelling services and richer experience, enabled by superior handsets, higher speeds and improved network economics. Together with our differentiated and superior propositions for targeted customer segments, 3G is the platform for future growth. Long-term value for shareholders will be improved through higher revenue market share.

In the coming year, the Company's mobile service revenue is expected to grow moderately, driven mainly by ARPU enhancement from 3G. Handset subsidies are set to increase despite the declining unit cost of 3G handsets. While your Company will continue to focus on cost savings and efficiency enhancement, there will be further increase in costs related to 3G, including network expenses, licence fee, depreciation and content cost. With the combination of these factors, your Company anticipates severe pressure on profits in the year ending 30 June 2006.

Following the ethos of the parent company, Sun Hung Kai Properties, in its focus on quality and innovation, your Company is uniquely positioned to leverage on the scale and scope of the Vodafone Group's global networks to further increase value to customers.

Your Company will continue with its current dividend policy. It intends to maintain a strong balance sheet to preserve flexibility in competing in the market and participating in potential consolidation opportunities that can enhance shareholders value.

I am confident that your Company would continue to outperform the market in a challenging environment and create long-term value for shareholders with its superior, differentiated customer propositions.

### **Appreciation**

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

**Raymond Kwok Ping-luen**

*Chairman*

Hong Kong, 5 September 2005

