

# Chairman's Statement

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**I**n the half year under review, the market has continued to be fiercely competitive, a situation to be expected in a relatively small market like Hong Kong serviced by six operators. The long expected market correction through consolidation did not happen and looks less likely to happen in the near term. In this context, SmarTone set out to build a critical mass of customers and reached its 1,000,000 benchmark as planned. Looking ahead, the Group's focus will be to serve these over one million customers excellently through delivering products and services that are enjoyable, easy and enriching to increase customer loyalty and retain high value customers. In addition, there will be relentless control of costs and prudent management of capital expenditure, given the anticipated challenges and opportunities ahead.

## Financial Highlights

The Group's loss attributable to shareholders for the six months ended 31 December 2000 was HK\$113 million, representing a decrease in loss of 71% as compared to the same period last year. The mobile business turned in a loss of HK\$8 million showing an improvement of 98% over the same period last year. In its start-up phase, the broadband business showed a loss of HK\$105 million, well within the Group's expectations.

Turnover increased slightly to HK\$1,482 million when compared to the HK\$1,472 million for the same period of the previous year.

Overall earnings before interest, tax, depreciation and amortisation (EBITDA) was a loss of HK\$19 million, down from a profit (before special write-off) of HK\$196 million for the same period last year. The Group has been able to achieve an EBITDA profit of HK\$82 million for its mobile business.

The cash position of the Group remained strong and it had a cash and bank balance of HK\$3,682 million at 31 December 2000 without any external borrowings.

## Interim Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 31 December 2000 (1999: HK\$0.11 per share).

## Business Review

In the period under review, SmarTone stayed focused on its customer acquisition drive resulting in a 21% increase of customer numbers from 867,000 (end June 2000) to a critical mass of 1,053,000 (end December 2000). As of 12 March 2001, the Group's customer base was over 1,060,000. This was achieved against a backdrop of intensive price competition where the industry as a whole increased in churn. The Group did this without losing focus on delivering consistently high service quality and technology leadership.

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SmarTone's ARPU at the end of the period stood at HK\$259 against HK\$289 at the end of June. Churn rate was 5.4%, comparable to the industry average. Sales for SmarTone's Prepaid SIM card also increased and this was achieved through more effective use of distribution channels and by introducing enhanced features and value-added services, in particular international roaming service.

Whilst mobile data has undershot its promises in the marketplace, the Group still believes that it will deliver value to customers in the longer term. To that end, SmarTone EXTRA launched "The Republic of Funland", an open portal that can be accessed through WAP/WEB/SMS. Since then, "Funland" has rapidly built itself up as a popular youth portal, and stimulated usage in WAP and SMS. In addition, there was a pilot launch of GPRS (2.5G) network, as well as the successful trials on Java applications and IPv6.

The Group's broadband access service was launched in July 2000. Since then, SmarTone Broadband has successfully delivered on the first phase of its rollout commitment, achieving a coverage of 382 buildings by January 2001. The company launched a number of marketing initiatives including the launch of a Quality e-Education Pioneers Plan in partnership with leading trade associations, education bodies and school unions to offer online education solutions to all local primary and secondary schools.

In October 2000, the Group successfully acquired one of the two new mobile licences in Macau, enabling the company to leverage its Hong Kong assets and capabilities to deliver similarly high quality services to new customers in Macau. This will also benefit SmarTone's existing Hong Kong customers who travel there.

### Prospects

The outlook for SmarTone is promising despite the competitive marketplace and the short term challenges. The Group is well placed among its competitors to take advantage of the challenges in the coming periods.

The Group's success in growing its customer base provides a strong foundation for potential revenue growth. With current market penetration having reached a high of 77%, the focus is on retention of our loyal and high value customers and growing revenues through the delivery of innovative products and services, thereby optimising scale economies. SmarTone intends to maintain high levels of customer satisfaction through its quality network, superior customer service and products and services that are enjoyable, easy and enriching to the lives of our customers.

Given the competitive period that the Group has just gone through, and with no short term end to the competition in the Hong Kong market, the management will exercise a relentless control on costs in the business without sacrificing the above objectives. The focus is on maximising efficiency and effectiveness.

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The year ahead will be full of challenges as well as opportunities to enhance shareholders' value. To do that requires cash. To that end, SmarTone will continue to be prudent in the management of the Group's strong financial resources so that it is best placed to take advantage of any opportunities that come along.

SmarTone remains confident about its long-term growth prospects. With a solid customer base of over one million and a cash reserve of HK\$3,682 million, the strength of its balance sheet will enable the Group both to continue to fund the ongoing needs of the business and at the same time to take advantage of opportunities to consolidate and to move into 3G as they arise. SmarTone remains committed to being a successful and leading mobile operator in Hong Kong and to explore opportunities in the region.

**Kwok Ping Luen, Raymond**

*Chairman*

Hong Kong, 14 March 2001