

CHAIRMAN'S STATEMENT



SmarTone will continue to focus on execution and operational excellence to deliver a compelling and competitive service offering to its customers.



The Hong Kong telecommunications market continued to be fiercely competitive and challenging, with the mobile communications sector characterised by intense price competition and high market penetration. SmarTone has been realigning its business with a renewed focus on its core mobile operation, as it built a critical mass of customers and further strengthened its position in the mobile market. The Group has restructured its local multipoint distribution system ('LMDS') operation in view of the adverse market situation and continues to seek further cost reduction. The Group has been exercising stringent cost controls, but is always mindful of the service imperative that underpins its proposition to customers. Looking ahead, SmarTone will continue to focus on execution and operational excellence to deliver a compelling and competitive service offering to its customers.

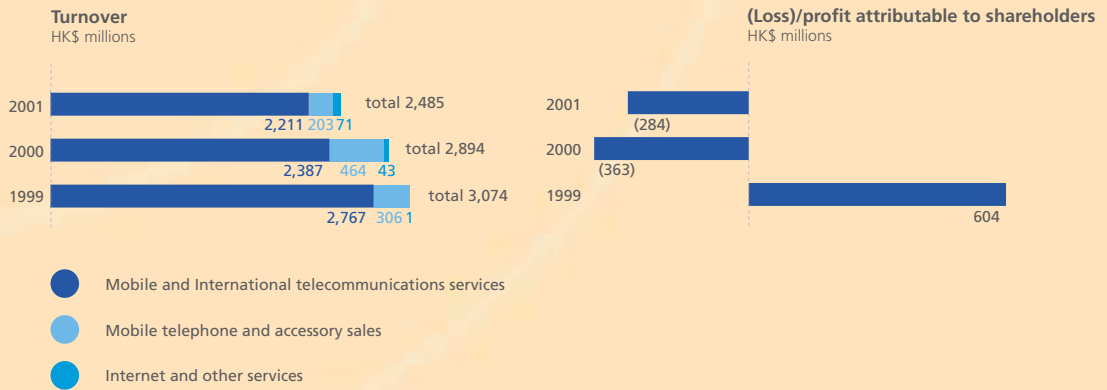
Results

Turnover decreased to HK\$2,485 million from the previous year's HK\$2,894 million.

Earnings before interest, tax, depreciation and amortisation (EBITDA) was a profit of HK\$75 million for the year ended 30 June 2001. The Group achieved a full year EBITDA profit of HK\$228 million for its mobile business.

Loss attributable to shareholders for the year ended 30 June 2001 was HK\$284 million, compared with the previous year's loss of HK\$363 million. Loss per share was 47 HK cents, an improvement from the previous year's loss per share of 60 HK cents.

The Group has maintained a strong cash position with a cash and bank balance of HK\$3,478 million at 30 June 2001, with no borrowings.

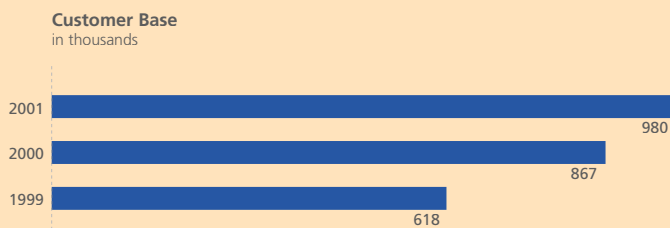


Dividend

The Directors do not recommend the payment of a final dividend for the year ended 30 June 2001 (2000: 5 HK cents per share).

Business Review

Despite the tough market environment, SmarTone has broadened its customer base to over 980,000 as at 30 June 2001, representing an increase of 13% as compared to 867,000 as at 30 June 2000. The intense price competition has resulted in decline in ARPU and increase in churn for the industry as a whole. SmarTone's net ARPU (net of retention discounts and sales incentives) for the second half was HK\$200 (against HK\$226 for the first half of the year). Since the year end, there has been modest improvement in ARPU. Its average monthly churn rate for the second half was 5.6%, which was within the industry's average.



During the year under review, SmarTone has launched a number of consumer-oriented services, providing its customers with mobile applications that combined broad appeal and user convenience. In November 2000, SmarTone teamed up with Standard Chartered Bank to launch mobile banking services and further extended the service to a broader customer base by partnering with HSBC and Hang Seng Bank. SmarTone launched a mobile betting service in February 2001, which offered a comprehensive range of bets with an easy-to-use application for its customers to place bets anytime, anywhere.

In July 2001, SmarTone launched 'WOW' - a mobile Internet portal that offers wireless email, personal information management and wireless Internet content and applications that cater to Hong Kong's mobile users' needs. In addition, SmarTone also introduced its General Packet Radio Service ('GPRS' or '2.5G') service in August 2001, allowing its customers to enjoy mobile data service with data speeds of up to 50 Kbps.

Following the successful acquisition of a licence to operate a GSM network in Macau in October 2000, SmarTone rapidly built up its network and launched its service in July 2001. A flagship store was opened in the central shopping area of Macau, providing a one-stop service to Macau's residents, as well as SmarTone's Hong Kong customers visiting Macau.

SmarTone's LMDS access service was launched in July 2000 and the Company has adopted a prudent approach in network rollout and service introduction. In light of the difficult market situation, the Company has restructured its LMDS operation in April 2001 in order to cut costs and to improve operational efficiency. LMDS's EBITDA loss reduced in the second half year to HK\$52 million from HK\$101 million in the first half. Continuing efforts are being made to further reduce costs.

As the highly competitive mobile communications market continued to evolve in the new millennium, the Group appointed Mr. Douglas Li as CEO in July 2001. Mr. Li was SmarTone's founding CEO at its inception in 1992 and served until 1996. Mr. Li will be leading SmarTone forward in offering a compelling and competitive service to its customers, and to realise its long-term vision of being a leading wireless player. Mr. Ian Stone resigned in July 2001. On behalf of the Board, I would like to thank Mr. Stone for his contribution to the Group.

Prospects

SmarTone believes that the mobile communications industry is full of opportunities and is confident in its long-term growth and prospect. The Group will strive to compete effectively in the market and is committed to be a successful long-term wireless player. The Group's costs control and realignment of business focus during the year is beginning to yield efficiency gains, and it will continue these efforts to further improve its operational performance.

On 19 September 2001, SmarTone was provisionally awarded a 3G licence in Hong Kong, with a spectrum of 2x15MHz paired and 5MHz unpaired at the reserve price of 5% royalty rate. The 3G licence will allow SmarTone to deploy the spectrum and technology to enable wireless broadband, multi-faceted and personalised services. The Group considers that its expertise and resources are best deployed in being a full scope 3G network operator and service provider, earning superior returns through services to mobile virtual network operators, applications service providers, content owners, as well as its own customers. SmarTone envisages wireless services that exploit the growing convergence of telecommunications, information technology, content and commerce - with long term but far-reaching and pervasive developments that truly empower the individual.

With a broad customer base, a proven track record in bringing new innovative services to its customers, and ample net cash resources, SmarTone is confident that its 3G services will bring substantial long-term value to all its customers and stakeholders.

SmarTone enjoys strong backing from its major shareholders and it has a strong customer base and a robust balance sheet. It is well positioned for any consolidation opportunities that may arise.

On behalf of the Board, I would like to thank our customers, our shareholders and our business partners for their support, and to all our employees for their hard work and dedication.

Kwok Ping Luen, Raymond
Chairman

Hong Kong, 24 September 2001