



SmarTone Telecommunications Holdings Ltd.

FY06 Annual Results Presentation

For the year ended 30 June 2006

Douglas Li
CEO

28 August 2006

Agenda

- Overview
- Financial review
- Operational review
- Outlook
- Q&A

Overview

Key highlights

- 9% increase in service revenue
 - Higher ARPU
 - Modest increase in customer base
- Progress in 3G
 - Steady growth in customers
 - Significantly higher ARPU
 - Boosted data revenue growth
- Pressure on profit
 - Increase in handset subsidy amortisation due to market competition
 - Cost increase due to 3G

P&L summary

(\$m)	FY05 (Restated)	FY06	YoY
Turnover	3,619	3,779	+4%
Cost of goods sold & services provided	(1,456)	(1,510)	+4%
Other income	26	14	-47%
OPEX	(1,332)	(1,467)	+10%
EBITDA	857	816	-5%
Depreciation, amortisation & disposal loss	(515)	(711)	+38%
EBIT	342	105	-69%
Net finance income / (costs)	9	(13)	N.M.
Taxation	(14)	(8)	-43%
Minority interests	(10)	(14)	+35%
Net profit	327	70	-79%
Basic EPS	\$0.56	\$0.12	-79%
EBITDA margin	24%	22%	-2pp
Final DPS	\$0.20	\$0.12	-40%
Total DPS	\$0.39	\$0.12	-69%

5 Note: Comparative figures for FY05 have been restated according to the new / revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ('new HKFRS')

Changes in accounting policies in FY06

- In FY06, the Group adopted the new / revised Hong Kong Financial Reporting Standards & Hong Kong Accounting Standards (“new HKFRS”)
- Key changes with material impact on P&L
 - HKAS 38 “Intangible Assets” for 3G licence fee
 - HKFRS 2 “Share-based Payments”
 - HKAS 16 “Property, Plant and Equipment” for asset retirement obligations
- Comparative figures for FY05 restated
- No impact on cashflow

Impact of the changes in accounting policies

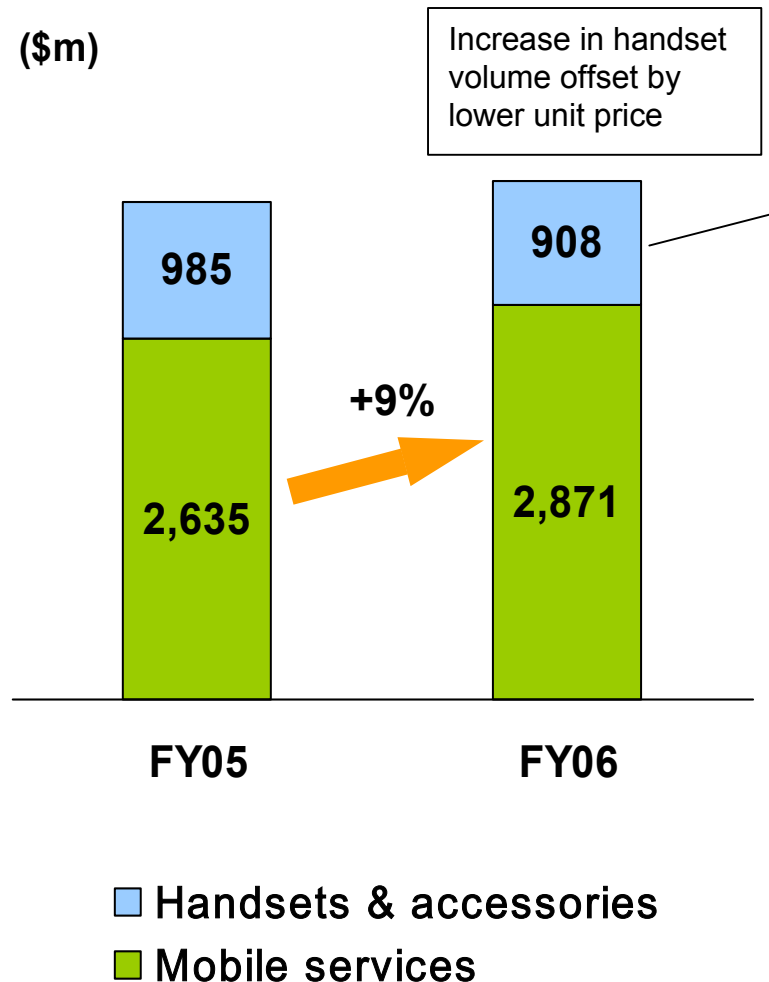
(\$m)	FY05			FY06		
	EBITDA	EBIT	Net Profit	EBITDA	EBIT	Net Profit
Before new HKFRS	832	344	339	769	102	128
Impact of new HKFRS	26	(2)	(12)	47	3	(58)
After new HKFRS	857	342	327	816	105	70

Financial review

Turnover

(\$m)	FY05 (Restated)	FY06	YoY
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Growth in service revenue triggered by higher ARPU and modest increase in customer base

Cost of goods sold & services provided

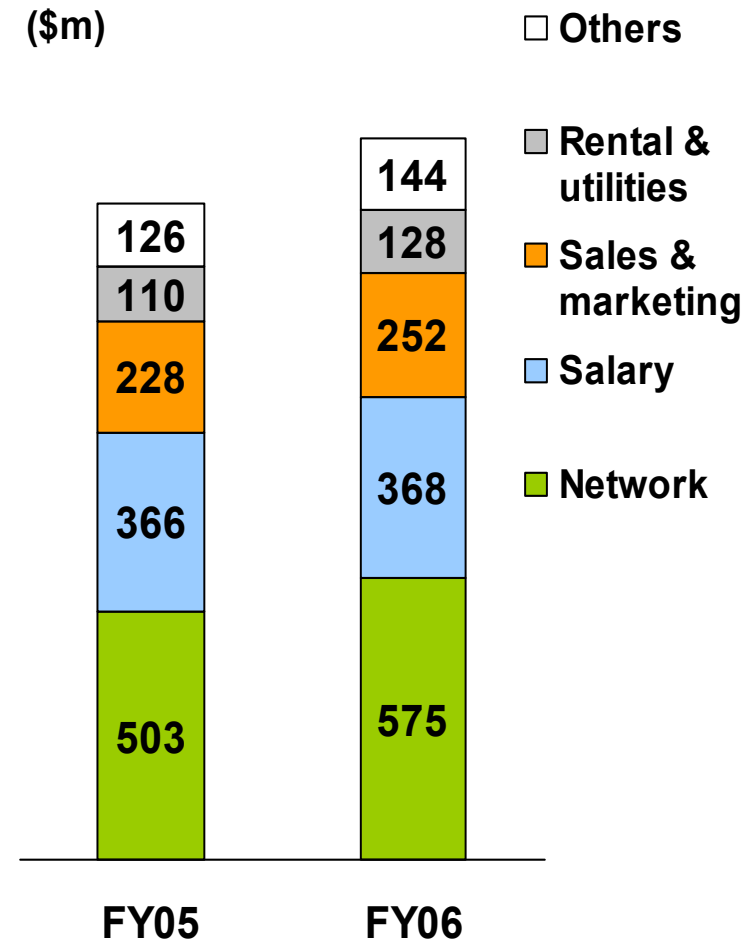
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Breakdown of cost of goods sold & services provided

(\$m)	FY05 (Restated)	FY06
COGS (before capitalisation)	(1,024)	(1,170)
Handset subsidy capitalised	69	284
COGS (after capitalisation)	(955)	(886)
Cost of services provided	(501)	(624)
Total	(1,456)	(1,510)

OPEX

(\$m)	FY05 (Restated)	FY06	YoY
Turnover	3,619	3,779	+4%
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OPEX increase mainly driven by investments in 3G network and sales & marketing costs

Depreciation & amortisation

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Breakdown of depreciation, amortisation & disposal loss

(\$m)	FY05 (Restated)	FY06
Depreciation & disposal loss	(451)	(486)
Amortisation of intangible assets		
Licence fee (3G & 2G)	(33)	(58)
Handset subsidy	(31)	(166)
Total	(515)	(711)

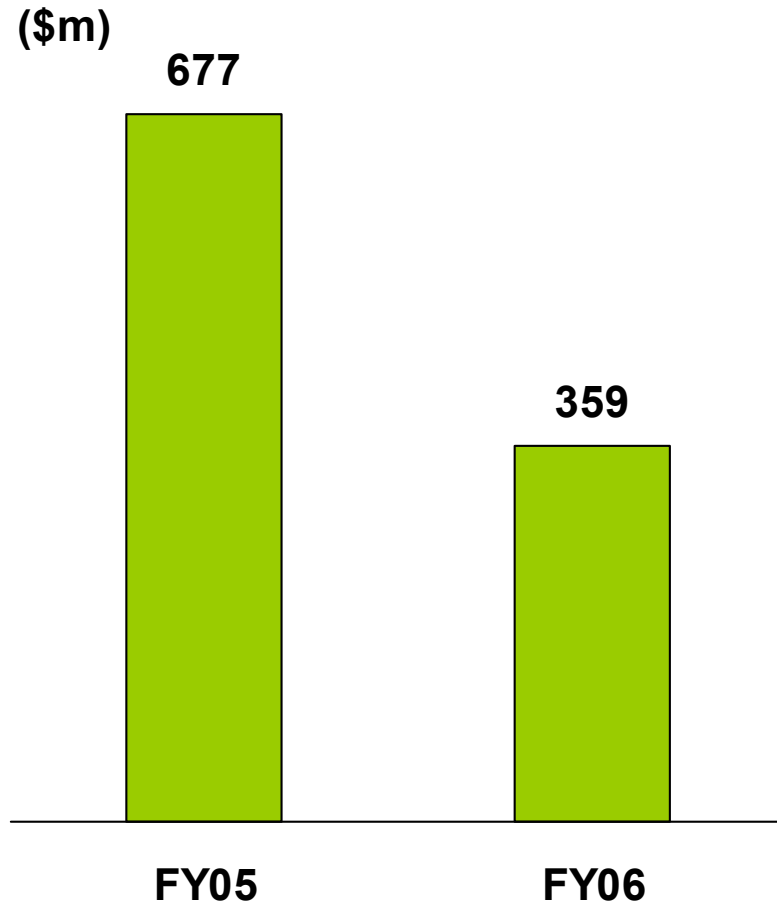
Net finance income / (costs)

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Breakdown of net finance income / (costs)

(\$m)	FY05 (Restated)	FY06
Finance income	49	56
Finance costs		
Deemed finance charges for 3G & 2G licence fee (HKAS 38)	(36)	(66)
Deemed finance charges for asset retirement obligations (HKAS 16) & others	(4)	(4)
Total	9	(13)

CAPEX



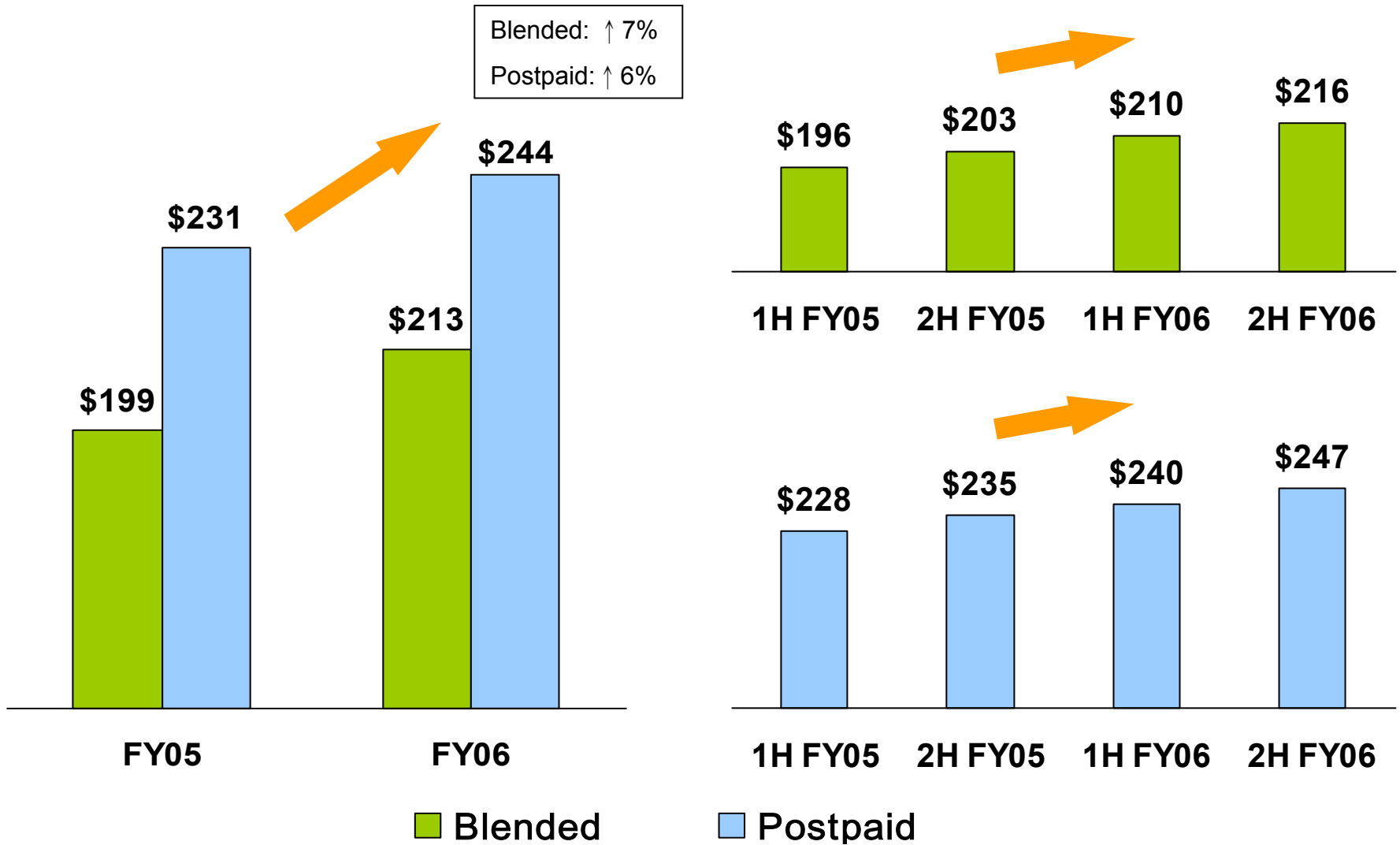
- Reduction in network CAPEX
- Lower than expected
 - Savings
 - Cost recovery
 - Rescheduling of projects

Operational review

Highlights

- Continuing price competition in the market
- Enhancement in key operating metrics
 - Underpinned by the improving customer profile
 - Reflecting our strengths
 - Brand
 - Targeted & differentiated propositions
 - Focused distribution
 - Customer relationship management

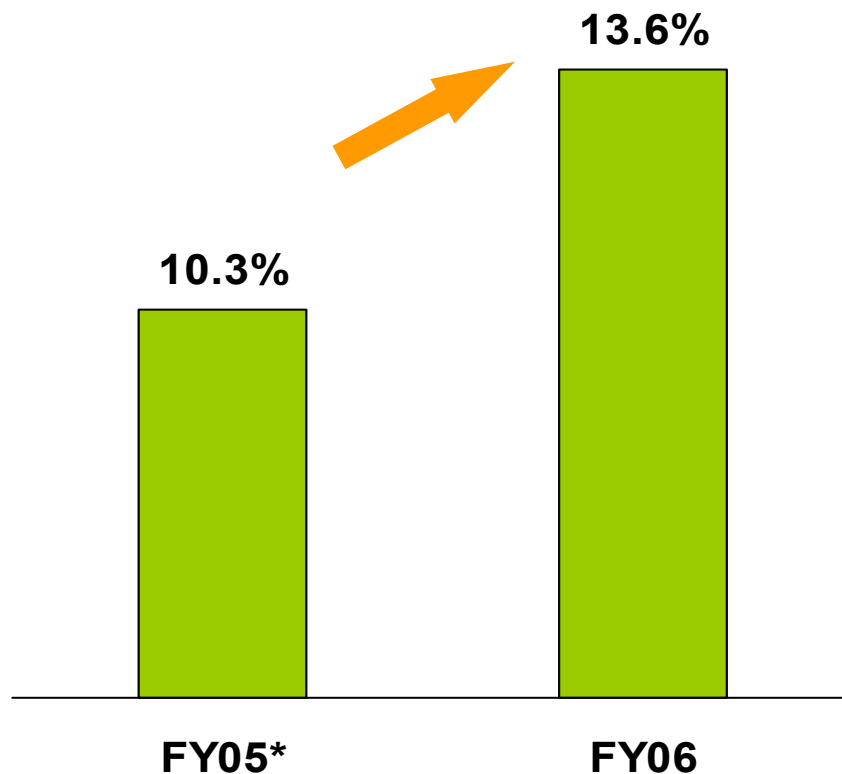
ARPU



Consistent growth in ARPU

Data services

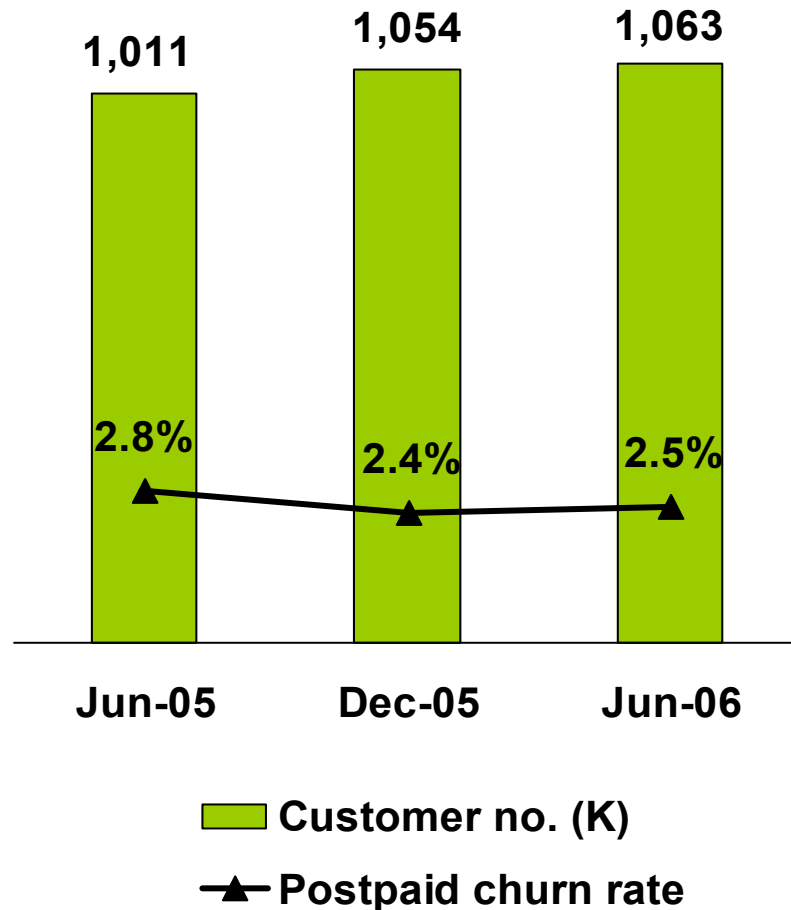
Data contribution (% of service revenue)



* Restated under new definition

- Revised data revenue definition
 - Include data roaming revenue
 - Reflect customer's increasing usage of data services while roaming
- Increased to 13.6% of service revenue
- 43% YoY growth
 - Driven by 3G
 - Outweighed the decline in local voice revenue

Customer base



- Modest increase in customer base
- 3G customers
 - 160,000
 - Just over 20% of postpaid
 - Significantly higher ARPU & multimedia usage
- Improved churn rate YoY

New service propositions

- **Consumer**
 - Bet to win
 - Mobile news service
 - Music Now

- **Business**
 - SmarTone-Vodafone Mobile Broadband
 - SmarTone-Vodafone Mobile Email
 - Traveller

SmarTone-Vodafone Mobile Broadband

- Secured true broadband everywhere
 - 1st HSDPA-enabled mobile broadband service in HK (up to 1.8 Mbps)
 - HK-wide HSDPA coverage
 - The largest no. of roaming destinations amongst HK operators
- Plug and play
- 2 service offerings
 - *Flexi* (Pay as you go)
 - *Contract* (Unlimited local usage)
- A new indirect distribution channel for *Flexi* to better address certain customer segments



SmarTone-Vodafone Mobile Email

- Offering a choice of mobile email solutions
 - BlackBerry® from Vodafone
 - Vodafone Business Email
 - Windows Mobile® Email
- Properly addressing different customers' needs
- Widest range of Handheld Business Devices



Traveller

- For roaming customers
- Call screening
 - White-list to filter nuisance calls
 - Message capture & notification
 - Save on roaming expenses
- Automatic phonebook backup on a centralised database
 - Ensures access to phonebook when phone is lost
- Same-rate tariff for roaming in 5 key destinations in Asia
 - Predictable charging
 - Outstanding savings



DESTINATION	RATE (HK\$)
MAINLAND CHINA	3.8
TAIWAN	3.8
MACAU	3.8
SINGAPORE	3.8
MALAYSIA	3.8

Outlook

Outlook

- Our operational focus remains unchanged
 - Increase revenue market share through differentiated & compelling propositions targeted at specific customer segments
 - Explore new revenue streams by introducing new services
- HSDPA
 - A much improved user experience which 3G ought to have been
 - Increased capacity & improved network economics
 - Enabling new services to address wider communications needs

Outlook

- Continuing pressure on FY07 profitability
 - Fierce price competition
 - Handset subsidy amortisation
 - OPEX related to development & marketing of new services
- Initiatives to further enhance efficiency and manage costs
- FY07 CAPEX target of \$400m to \$500m

Q&A

Appendix

Group P&L

(\$m)	FY05 (Restated)	FY06	1H FY06	2H FY06
Turnover	3,619	3,779	1,859	1,920
COGS	(955)	(886)	(449)	(437)
Cost of services provided	(501)	(624)	(300)	(324)
Gross profit	2,163	2,269	1,110	1,159
Other income	26	14	-	14
Operating expenses	(1,332)	(1,467)	(714)	(753)
EBITDA	857	816	396	420
Depreciation, amortisation & disposal loss	(515)	(711)	(336)	(375)
EBIT	342	105	60	45
Net finance income	9	(13)	(9)	(4)
Profit before taxation	351	92	50	41
Taxation	(14)	(8)	(6)	(1)
Profit after taxation	337	84	44	40
Minority interests	(10)	(14)	(7)	(7)
Net profit	327	70	37	33

Group balance sheet

(\$m)	30 Jun 05 (Restated)	30 Jun 06
Fixed assets	2,053	1,924
Intangible assets	694	800
Other non-current assets (excl. held-to-maturity investments)	87	92
Cash, bank balance & held-to-maturity investments ⁽¹⁾	1,852	2,051
Other current assets	508	337
Current liabilities	(999)	(1,005)
Non-current liabilities	(704)	(750)
Net assets	3,491	3,449
Share capital	58	58
Reserves	3,409	3,367
Shareholders' funds	3,468	3,426
Minority interests	24	24
Total equity	3,491	3,449
<i>(1) Cash & bank balance</i>	765	1,359
<i>Held-to-maturity investments</i>	1,087	692
<i>Total</i>	1,852	2,051
<i>(2) Shares in issue at balance sheet date (million shares)</i>	583	583
<i>(3) Net book value per share</i>	\$5.9	\$5.9

Financial ratios & operating indicators

	FY05 (Restated)	FY06	1H FY06	2H FY06
Financial ratios				
EBITDA margin (Group Total)	24%	22%	21%	22%
EBITDA margin (Mobile Services)	31%	28%	28%	27%
EBIT margin (Group Total)	9%	3%	3%	2%
EBIT margin (Mobile Services)	12%	3%	4%	2%
CAPEX / Sales	19%	10%	7%	11%
Operating indicators (HK mobile)				
Blended ARPU (period average)	\$199	\$213	\$210	\$216
Blended ARPU (last month of the period)	\$206	\$218	\$213	\$218
Postpaid ARPU (period average)	\$231	\$244	\$240	\$247
Postpaid ARPU (last month of the period)	\$236	\$248	\$244	\$248
Customer number ('000, end of period)	1,011	1,063	1,054	1,063
Churn rate (last month of the period)	2.8%	2.5%	2.4%	2.5%