

SmarTone Telecommunications Holdings Ltd.

FY08 Annual Results Presentation
For the year ended 30 June 2008

Douglas Li
CEO

28 August 2008

Agenda

- Results highlights
- Financial review
- Operational review
- Outlook
- Q&A

Results highlights

Key highlights

Financial performance

- Continuing growth in service revenue
- Improvements in margins & profits

Operational performance

- Increase in ARPU
- Broadly stable customer number
- Lower churn rate
- Continuing growth in data revenue

Financial highlights

(\$m)	FY07	FY08	
Mobile service revenue	3,146	3,433	+9%
Handset & accessories sales	893	640	
Total revenues	4,039	4,073	+1%
Cost of goods sold & services provided	(1,533)	(1,324)	
OPEX	(1,566)	(1,662)	+16%
EBITDA	940	1,088	
Depreciation, amortisation & disposal loss	(757)	(743)	+88%
EBIT	183	344	
Net finance income / (costs)	21	(7)	
Income tax expense	(28)	(31)	
Minority interests	(19)	(30)	+75%
Net profit	158	276	
Basic EPS (cents)	27.1	47.8	
EBITDA margin	23.3%	26.7%	+3.4 pp

Dividends

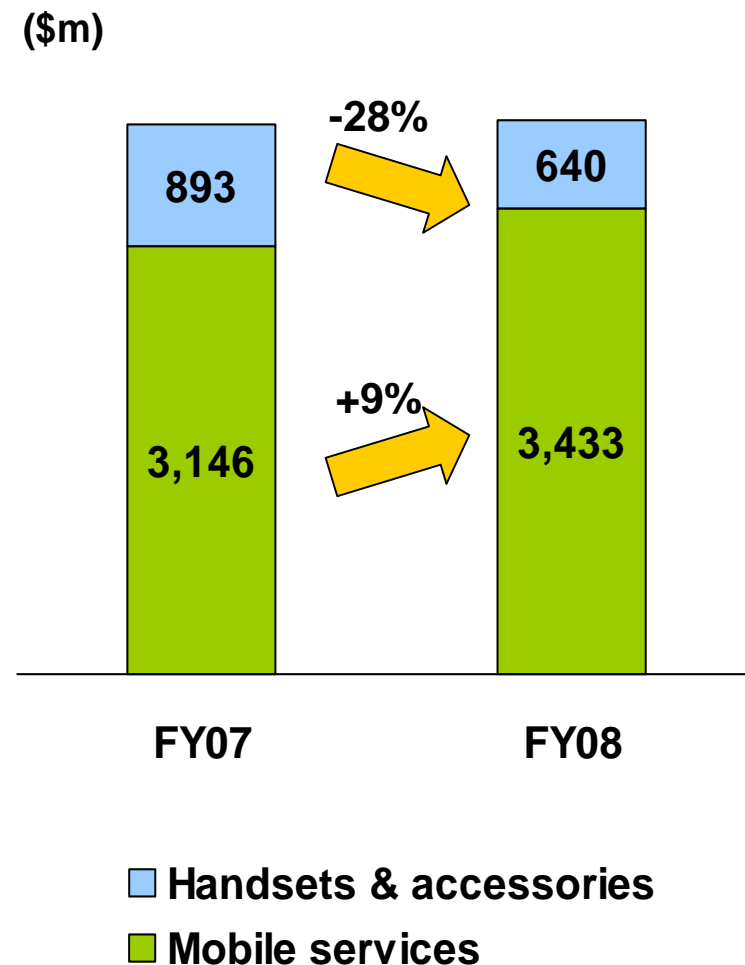
(\$)	FY07	FY08
Interim DPS	-	0.28
Final DPS	0.27	0.20
Special cash DPS	0.85	-
Total DPS	1.12	0.48

- Final DPS of \$0.20 per share
- 100% dividend payout

Financial review

Revenues

(\$m)	FY07	FY08	YoY
Revenues	4,039	4,073	+1%
Cost of goods sold & services provided	(1,533)	(1,324)	-14%
OPEX	(1,566)	(1,662)	+6%
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Net profit	158	276	+77%



***Continued growth in service revenue driven by improving ARPU
 Lower handset revenue due to price competition***

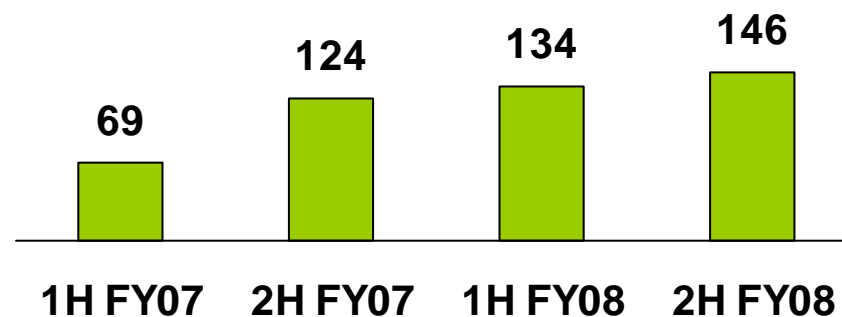
Cost of goods sold & services provided

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Breakdown of cost of goods sold & services provided

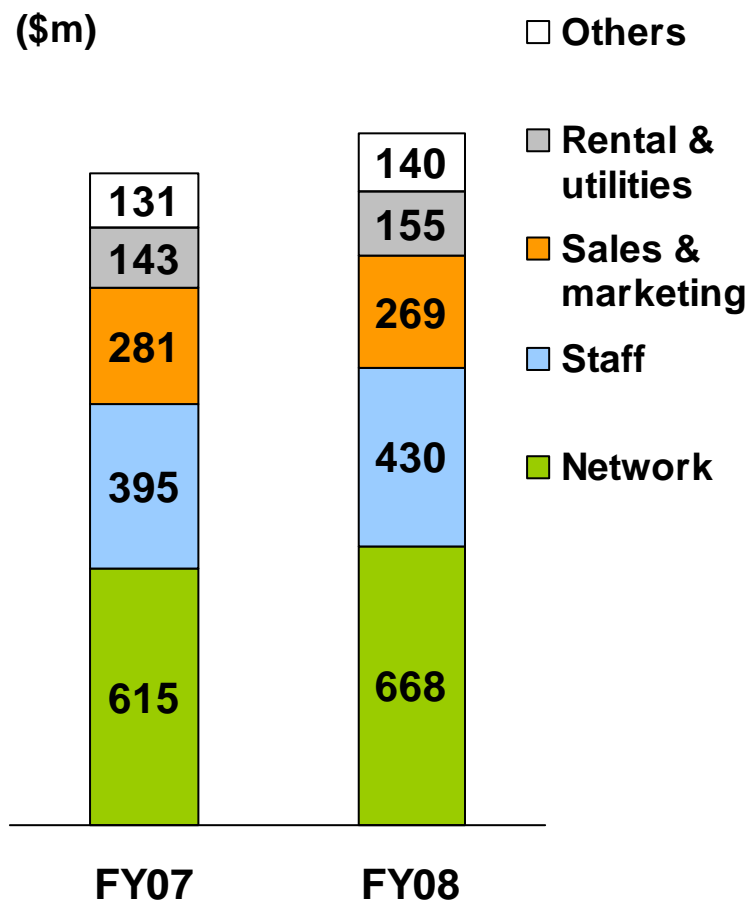
(\$m)	FY07	FY08
COGS (before capitalisation)	(1,074)	(904)
Handset subsidy capitalised	193	280
COGS (after capitalisation)	(881)	(624)
Cost of services provided	(652)	(700)
Total	(1,533)	(1,324)

Handset subsidy capitalised (\$m)



OPEX

(\$m)	FY07	FY08	YoY
Revenues	4,039	4,073	+1%
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OPEX increase mainly driven by higher network costs and general inflation

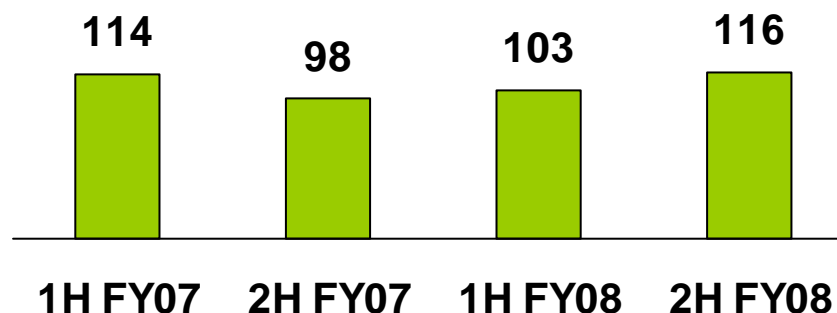
Depreciation & amortisation

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Breakdown of depreciation, amortisation & disposal loss

(\$m)	FY07	FY08
Depreciation & disposal loss	(482)	(460)
Amortisation of intangible assets		
Licence fee (3G & 2G)	(63)	(64)
Handset subsidy	(212)	(219)
Total	(757)	(743)

Handset subsidy amortisation (\$m)



Net finance income / (costs)

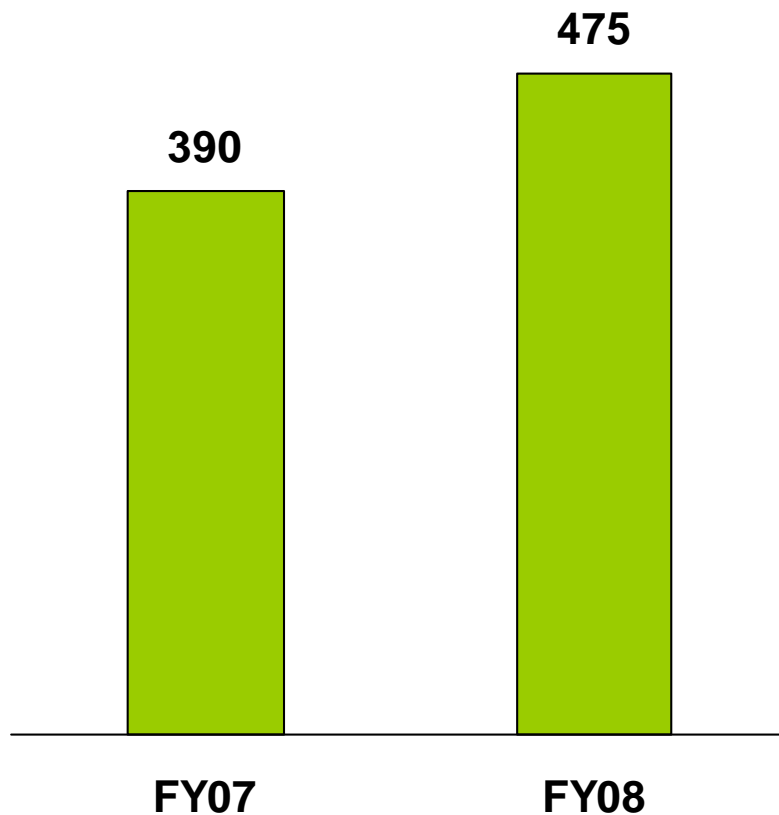
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Breakdown of net finance income / (costs)

(\$m)	FY07	FY08
Finance income	100	77
Finance costs		
Deemed finance charges for 3G & 2G licence fee (HKAS 38)	(77)	(80)
Deemed finance charge for asset retirement obligations (HKAS 16) & others	(1)	(3)
Total	21	(7)

CAPEX

(\$m)



- Enhancement of network coverage, quality & capacity
- Migration of core network backbone to all-IP
- Upgrade of billing & customer management system
- Launch of new services

Operational review

Our vision

Vision

Be the premium quality provider
of total communications services
(mobile, fixed-line & broadband)

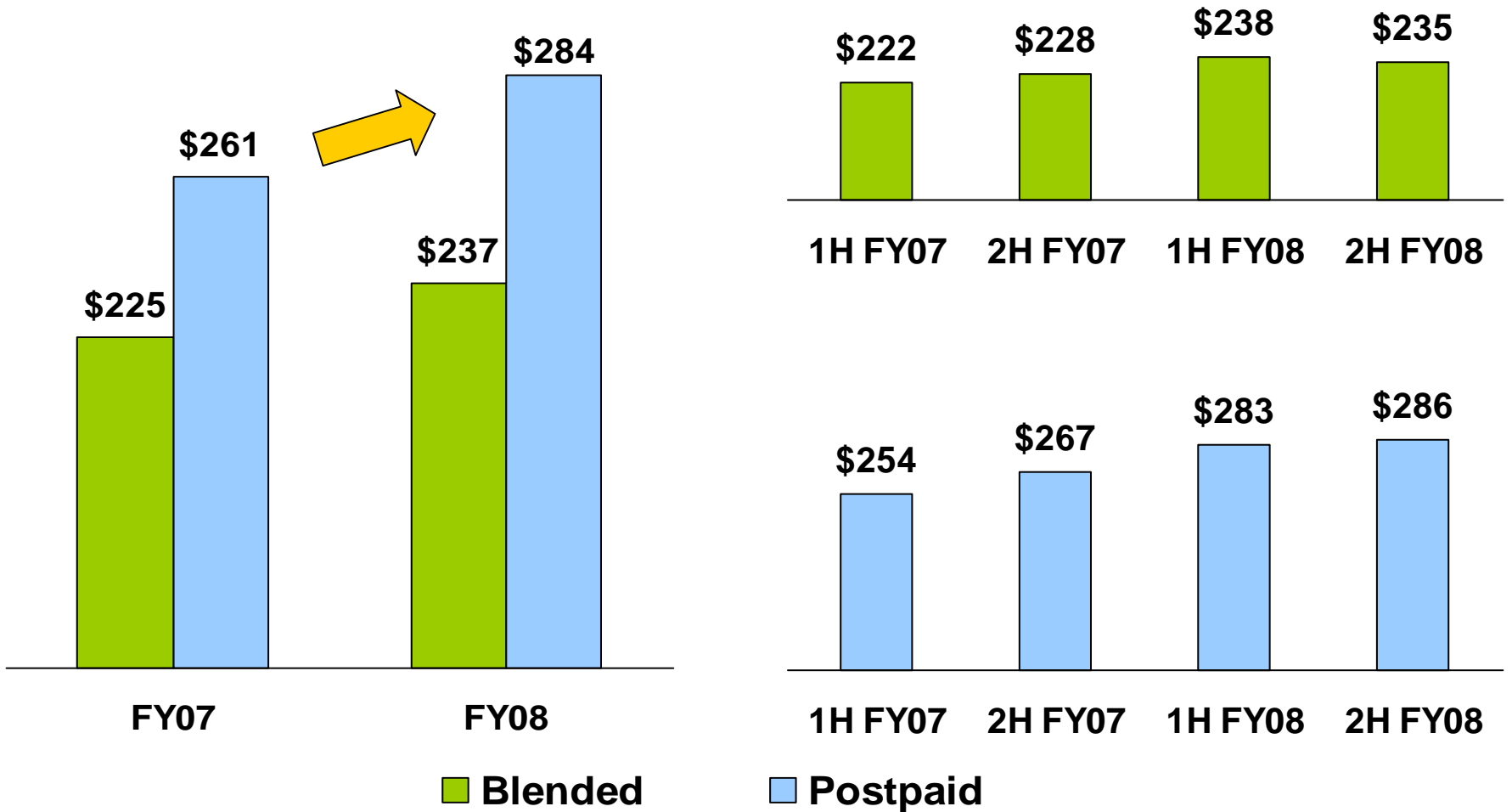
How?

<i>Customer orientation</i>	<i>Best-in-class service pillars</i>
<ul style="list-style-type: none">• Strong focus on customers' needs, benefits & value	<ul style="list-style-type: none">• Segmented services & products• Superior network performance• Unbeatable customer experience

Core value

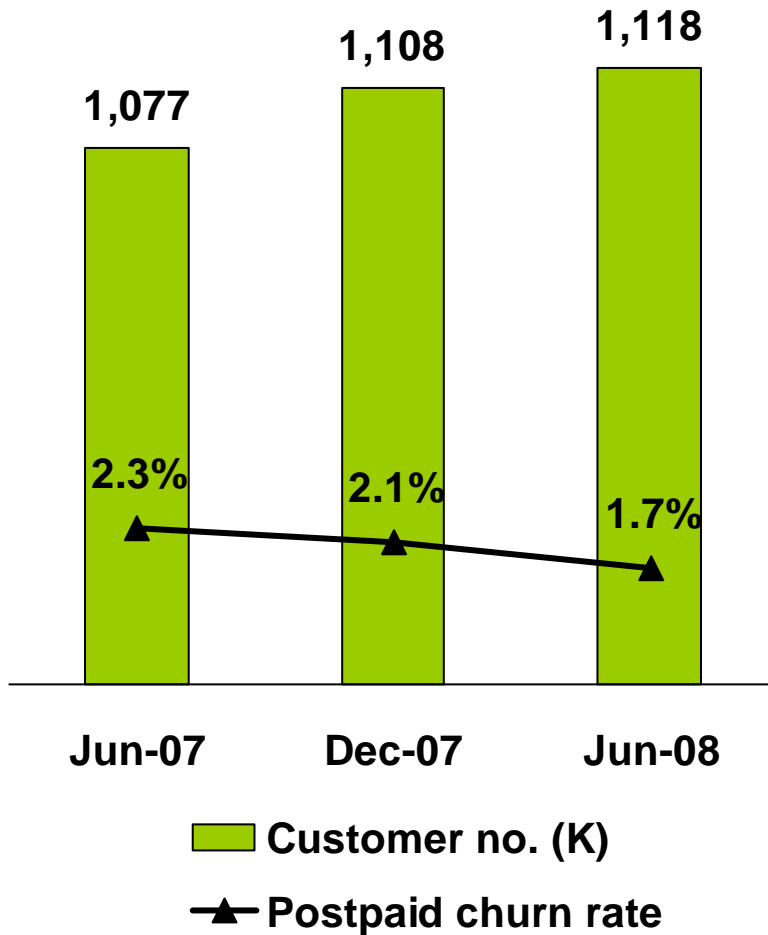
- *Quality*
- *Innovation*
- *Differentiation*

ARPU



Blended ARPU +5% YoY
Postpaid ARPU +9% YoY

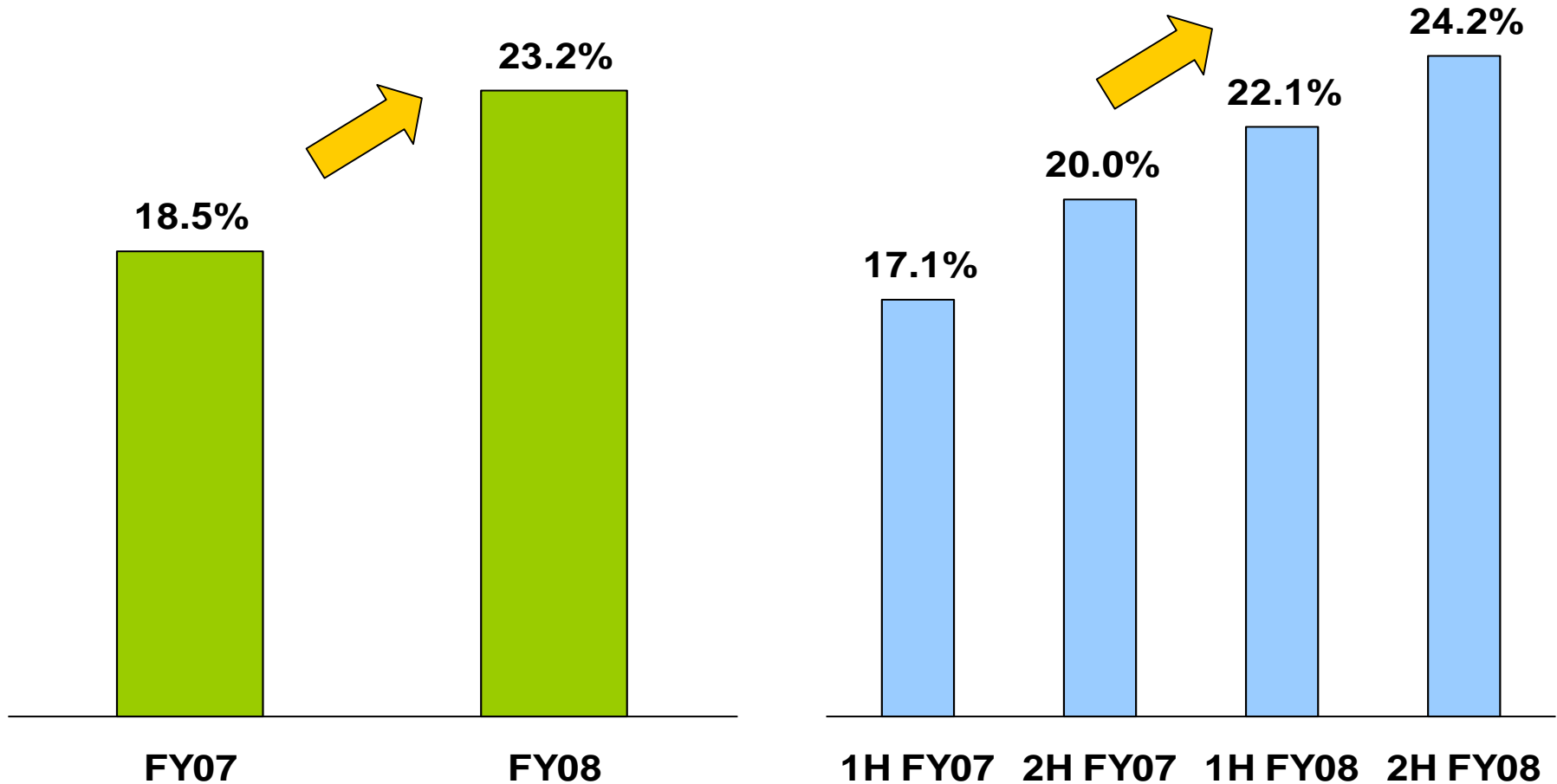
Customer base



- 3G customers now account for 47% of postpaid
- Churn rate reduced to 1.7% in Jun 08

Data revenue

(% of service revenue)



Data accounted for 24% of service revenue in 2H

Addressing customers' total communications needs

	Our core focus	Our approach
Mobile	Continue to stimulate revenue growth	<ul style="list-style-type: none">• Focus on our target customer segments by delivering unrivalled experience at exceptional value• Innovate vigorously to provide new differentiated multimedia services → e.g. MusicXS, Market Watch, FoneTV & Internet on Mobile
Fixed-line	Explore new revenue opportunities	<ul style="list-style-type: none">• Launch HomePhone+ to expand into the fixed-line market
Broadband	Target customers requiring mobile and/or fixed broadband services	<ul style="list-style-type: none">• Introduce new tiered price plans for Mobile Broadband<ul style="list-style-type: none">▪ Different monthly fees for different speeds▪ Bringing our price points close to that of fixed broadband▪ Addressing a wider customer base

Outlook

Migration to all-IP network infrastructure for total communications services

Core network backbone	<ul style="list-style-type: none">• Self-owned fiber rings connecting all switching nodes• IP-enabled
Radio network backhaul	<ul style="list-style-type: none">• Converting to all-IP• Hybrid solution<ul style="list-style-type: none">▪ Long-term lease of IP lines▪ Self-owned wireless links

Short-term increase in costs during the transitional period
Vastly increased bandwidth at lower unit cost

Outlook

Intensifying price competition

Increased bandwidth

General cost inflation

Lower net cash balance
Lower interest rates



FY09 profits expected to come under pressure

- **Slower growth in service revenue**
- **Higher OPEX**
- **Higher handset subsidies**
- **Lower interest income**

FY09 CAPEX target of \$500-600m

Q&A

Appendix

Group P&L

(\$m)	FY07	FY08	1H FY08	2H FY08
Revenues	4,039	4,073	2,056	2,018
COGS	(881)	(624)	(339)	(285)
Cost of services provided	(652)	(700)	(350)	(350)
Gross profit	2,506	2,749	1,366	1,383
OPEX	(1,566)	(1,662)	(815)	(846)
EBITDA	940	1,088	551	537
Depreciation, amortisation & disposal loss	(757)	(743)	(360)	(383)
EBIT	183	344	191	154
Net finance income / (costs)	21	(7)	10	(17)
Profit before income tax	205	337	200	137
Income tax expense	(28)	(31)	(24)	(7)
Profit after taxation	177	306	176	130
Minority interests	(19)	(30)	(15)	(15)
Net profit	158	276	161	115

Group balance sheet

(\$m)	30 Jun 07	30 Jun 08
Fixed assets	1,832	1,847
Intangible assets	784	781
Other non-current assets (excl. held-to-maturity investments)	108	112
Cash, bank balance & held-to-maturity debt securities ⁽¹⁾	2,348	1,677
Other current assets	368	426
Current liabilities	(1,075)	(1,070)
Non-current liabilities	(827)	(813)
Net assets	3,538	2,960
Share capital	58	57
Reserves	3,453	2,874
Total equity attributable to equity holders	3,511	2,932
Minority interests	27	28
Total equity	3,538	2,960
⁽¹⁾ <i>Cash & bank balance</i>	2,316	1,637
<i>Held-to-maturity debt securities</i>	31	41
<i>Total</i>	2,348	1,677
⁽²⁾ <i>Shares in issue at balance sheet date (million shares)</i>	580	573
⁽³⁾ <i>Net book value per share</i>	\$6.1	\$5.1

Financial ratios & operating indicators

	FY07	FY08	1H FY08	2H FY08
Financial ratios				
EBITDA margin	23.3%	26.7%	26.8%	26.6%
EBIT margin	4.5%	8.5%	9.3%	7.6%
CAPEX / Sales	10%	12%	8%	15%
Operating indicators (HK mobile)				
Blended ARPU (period average)	\$225	\$237	\$238	\$235
Blended ARPU (last month of the period)	\$231	\$235	\$234	\$235
Postpaid ARPU (period average)	\$261	\$284	\$283	\$286
Postpaid ARPU (last month of the period)	\$271	\$286	\$278	\$286
Customer number ('000, end of period)	1,077	1,118	1,108	1,118
Churn rate (last month of the period)	2.3%	1.7%	2.1%	1.7%