

SmarTone Telecommunications Holdings Ltd.

FY09 Annual Results Presentation
For the year ended 30 June 2009

Douglas Li
CEO

2 September 2009

Agenda

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

Results highlights

Key highlights

- Financial results deteriorated in 2H with the full impact of the economic slowdown
- EBITDA and net profit dropped by 18% and 85% respectively
 - Reduction in local tariffs and higher handset subsidies
 - Drop in roaming revenue
 - Lower interest income
- Launched a wireless fixed broadband and telephone service to broaden the source of revenue
- Upgrade to a full all-IP infrastructure anticipated to be completed in 2009
- Cost cutting measures in place - OPEX fell HoH

Financial highlights

(\$m)	FY08	FY09	
Service revenue	3,433	3,255	-5%
Cost of services provided	(700)	(651)	
Gross profit - service	2,733	2,604	
Handset & accessory sales	640	448	-5%
Cost of inventories sold	(624)	(435)	
Gross profit - handset	17	13	
Other gains	-	1	
OPEX	(1,662)	(1,727)	-18%
EBITDA	1,088	891	
Depreciation, amortisation & disposal loss	(743)	(776)	
EBIT	344	116	-66%
Net finance costs	(7)	(49)	
Share of results of an associate	-	4	
Income tax expense	(31)	(10)	
Minority interests	(30)	(19)	
Net profit	276	42	-85%
Gross margin - service	79.6%	80.0%	
Gross margin - handset	2.6%	3.0%	-2.6 pp
EBITDA margin	26.7%	24.1%	

Dividends

(\$)	FY08	FY09
Interim DPS	0.28	-
Final DPS	<u>0.20</u>	<u>0.08</u>
Total DPS	0.48	0.08

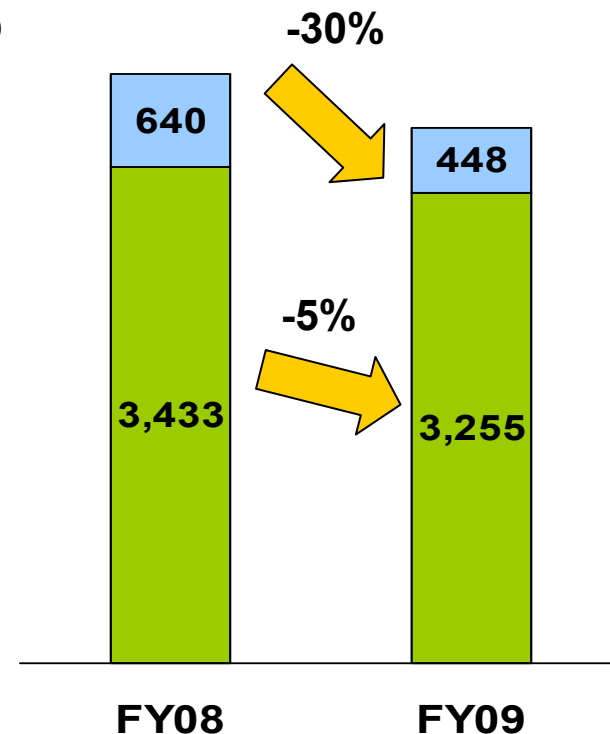
- Final DPS of \$0.08 per share
- Full dividend payout

Financial review

Revenues

(\$m)	FY08	FY09	YoY
Revenues	4,073	3,703	-9%
Cost of inventories sold & services provided	(1,324)	(1,085)	-18%
Other gains	-	1	N/A
OPEX	(1,662)	(1,727)	4%
EBITDA	1,088	891	-18%
Depreciation, amortisation & disposal loss	(743)	(776)	4%
EBIT	344	116	-66%
Net finance costs	(7)	(49)	595%
Share of results of an associate	-	4	N/A
Income tax expense	(31)	(10)	-70%
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(\$m)



■ Handset & accessory sales
■ Service revenue

Service revenue ↓ 5%,

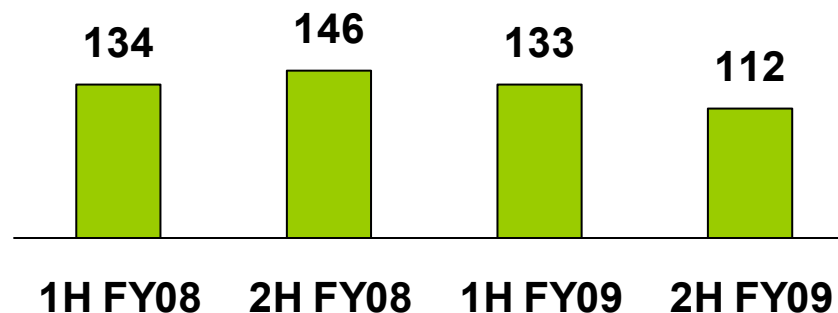
Cost of goods sold & services provided

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Breakdown of cost of goods sold & services provided

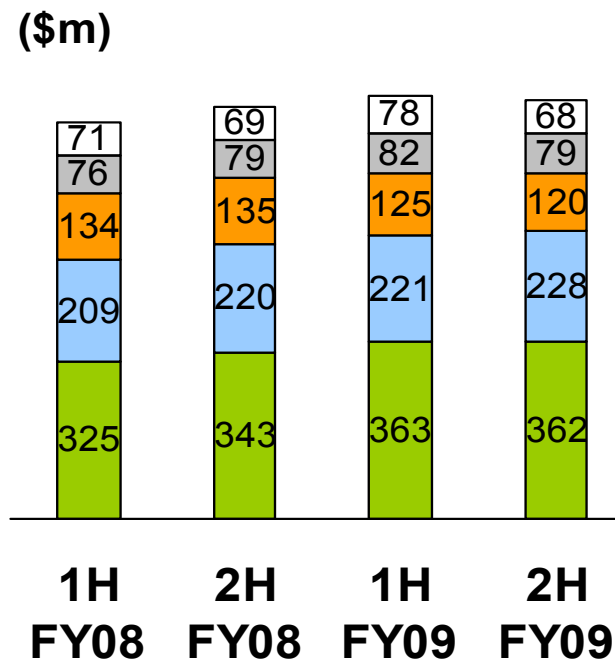
(\$m)	FY08	FY09
COGS (before capitalisation)	(904)	(679)
Handset subsidy capitalised	280	245
COGS (after capitalisation)	(624)	(435)
Cost of services provided	(700)	(651)
Total	(1,324)	(1,085)

Handset subsidy capitalised (\$m)



OPEX

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- Others
- Rental & utilities
- Sales & marketing
- Staff
- Network

Lower operating expenses in 2H FY09 compared to 1H FY09, as a result of cost cutting measures

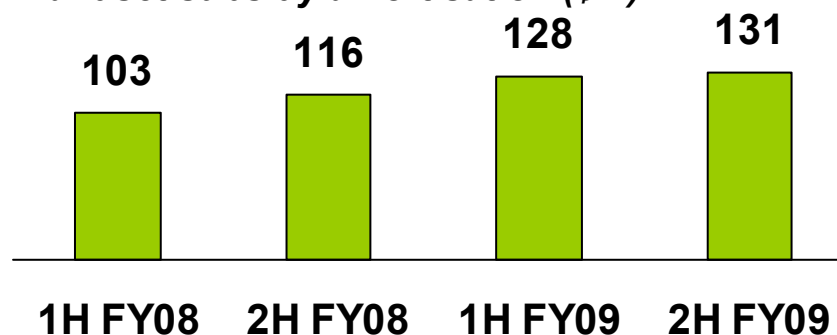
Depreciation & amortisation

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Breakdown of depreciation, amortisation & disposal loss

(\$m)	FY08	FY09
Depreciation & disposal loss	(460)	(452)
Amortisation of intangible assets		
Licence fee (3G & 2G)	(64)	(64)
Handset subsidy	(219)	(259)
Total	(743)	(776)

Handset subsidy amortisation (\$m)



Handset subsidies remained at a high level

Net finance costs

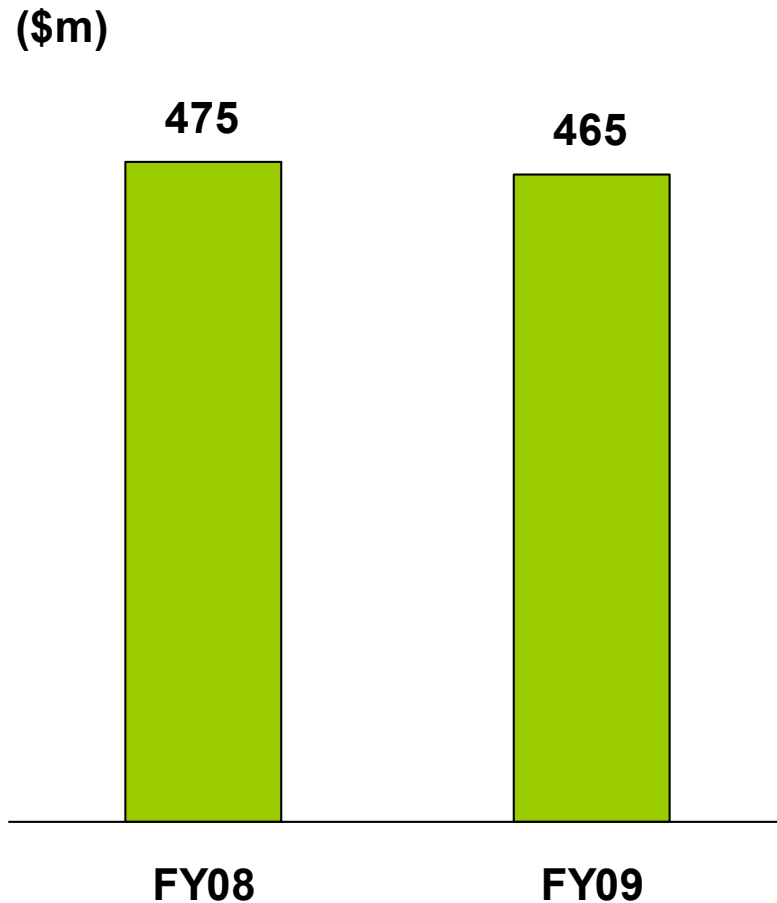
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Income tax expense	(31)	(10)	-70%
Minority interests	<u>(30)</u>	<u>(19)</u>	-37%
Net profit	<u>276</u>	<u>42</u>	-85%

Breakdown of net finance costs

(\$m)	FY08	FY09
Finance income	77	36
Finance costs		
Deemed finance charges for 3G & 2G licence fee (HKAS 38)	(80)	(81)
Deemed finance charge for asset retirement obligations (HKAS 16) & others	(3)	(3)
Total	<u>(7)</u>	<u>(49)</u>

Lower finance income due to sharply lower interest rates

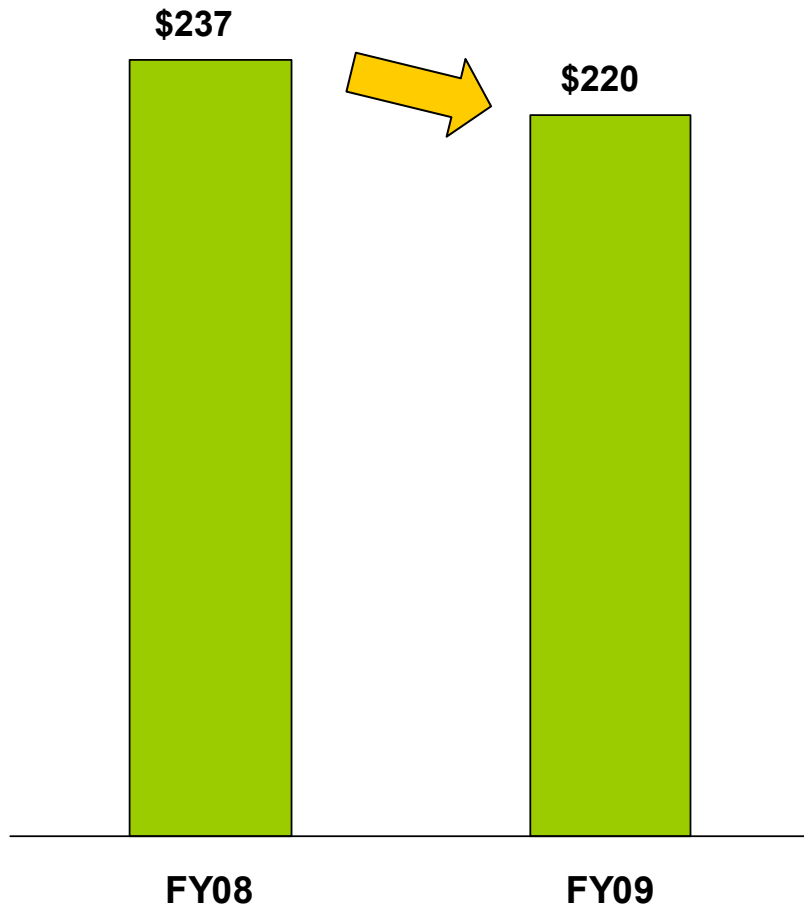
CAPEX



- Enhancement of network performance - coverage, stability, speed & capacity
- Upgrade to all-IP network infrastructure
 - Core network backbone completed
 - Radio network backhaul well in progress

Operational review

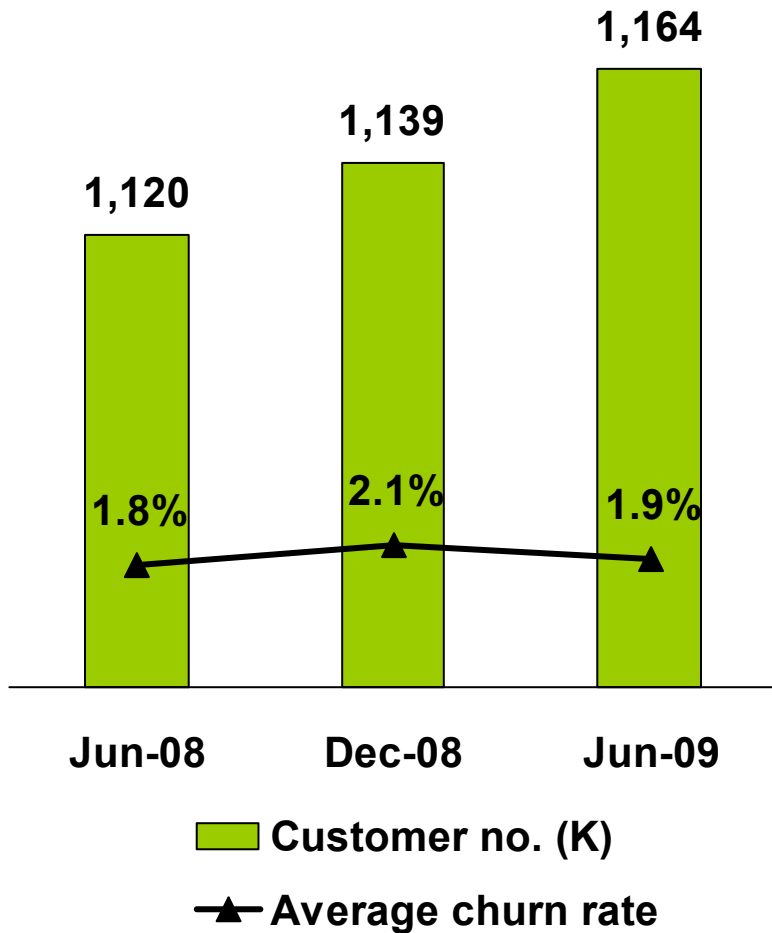
Blended ARPU



Dropped 7%

- Decline in local tariff
- Lower roaming usage
- More than offset the growth in data ARPU

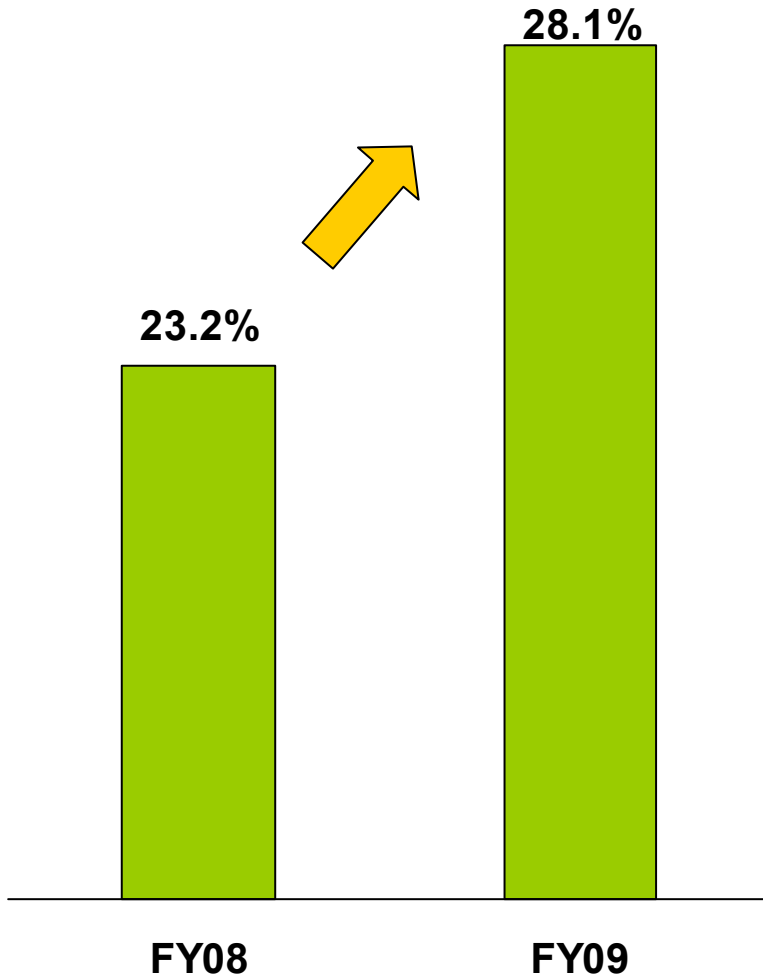
Customer base



- Modest increase to over 1.16 million
- Postpaid churn rate averaged 2.0% in FY09

Data revenue

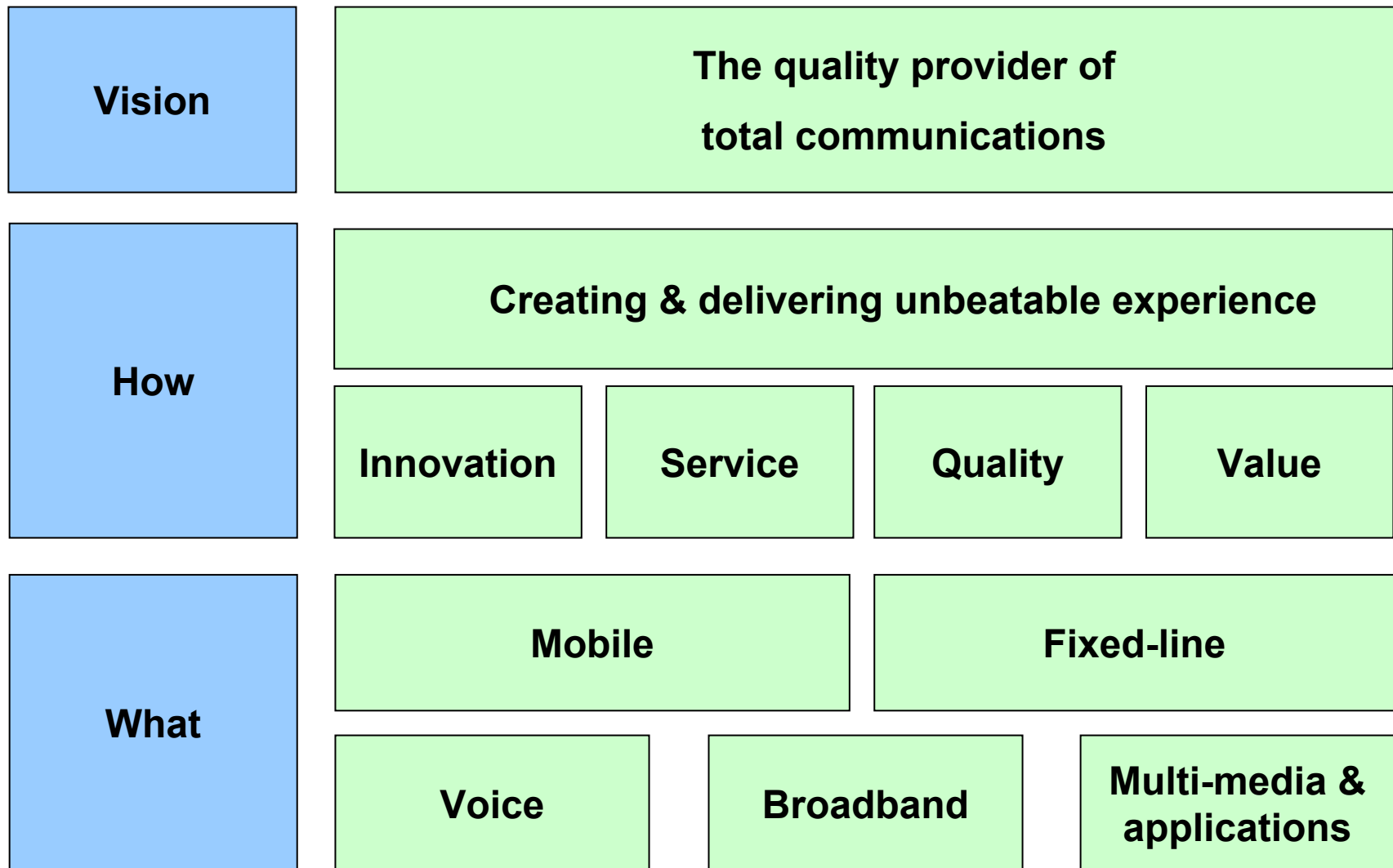
Data contribution (% of service revenue)



- Continuing growth
 - ↑ 16% YoY
 - Accounted for 30% of service revenue in 2H FY09
- Strong growth from
 - mobile broadband
 - mobile email

Data accounted for 30% of service revenue in 2H FY09

Addressing customers' total communications needs



Operational focus

- Further exploit the increasing popularity for smartphone and related applications and services
- Increase market share in fixed-line market, for both voice & broadband
- Complete the migration to all-IP network infrastructure in 2009
- Continue cost reduction while not compromising on the level of service that is consistent with our brand

Outlook

Outlook

Continuing price competition

Recovery in roaming uncertain

Increase revenue from fixed-line & broadband services

Continuing investment in network upgrade for higher speed & capacity

Operating cost control measures

FY10 profitability will be under pressure

- Decline in service revenue
- Lower roaming revenue
- Higher handset subsidies

FY10 CAPEX target of \$500-600m

Q&A

Appendix

Group P&L

(\$m)	FY08	FY09	1H FY09	2H FY09
Revenues	4,073	3,703	1,955	1,749
COGS	(624)	(435)	(252)	(182)
Cost of services provided	(700)	(651)	(350)	(300)
Gross profit	2,749	2,618	1,352	1,266
Other gains	-	1	-	1
OPEX	(1,662)	(1,727)	(870)	(858)
EBITDA	1,088	891	482	409
Depreciation, amortisation & disposal loss	(743)	(776)	(389)	(386)
EBIT	344	116	93	23
Net finance costs	(7)	(49)	(19)	(30)
Share of results of an associate	-	4	-	4
Profit before income tax	337	71	74	(3)
Income tax expense	(31)	(10)	(9)	(0)
Profit after taxation	306	62	65	(3)
Minority interests	(30)	(19)	(12)	(7)
Net profit	276	42	52	(10)

Group balance sheet

(\$m)	30-Jun-08	30-Jun-09
Leasehold land	-	16
Fixed assets	1,847	1,845
Intangible assets	781	702
Other non-current assets (excl. held-to-maturity investments)	112	88
Cash, bank balance & held-to-maturity debt securities ⁽¹⁾	1,677	1,411
Other current assets	426	443
Current liabilities	(1,070)	(1,016)
Non-current liabilities	(813)	(805)
Net assets	2,960	2,683
Share capital	57	54
Reserves	2,874	2,595
Total equity attributable to equity holders	2,932	2,649
Minority interests	28	34
Total equity	2,960	2,683
⁽¹⁾ <i>Cash & bank balance</i>	1,637	1,057
<i>Held-to-maturity debt securities</i>	41	354
<i>Total</i>	<i>1,677</i>	<i>1,411</i>
⁽²⁾ <i>Shares in issue at balance sheet date (million shares)</i>	573	538
⁽³⁾ <i>Net book value per share</i>	\$5.1	\$4.9

Financial ratios & operating indicators

	FY08	FY09	1H FY09	2H FY09
Financial ratios				
Gross profit margin				
- service	79.6%	80.0%	79.3%	80.7%
- handset	2.6%	3.0%	2.4%	3.8%
EBITDA margin	26.7%	24.1%	24.7%	23.4%
EBIT margin	8.5%	3.1%	4.8%	1.3%
CAPEX / Revenues	12%	13%	10%	15%
Operating indicators (HK)				
Blended ARPU (period average)	\$237	\$220	\$230	\$210
Blended ARPU (last month of the period)	\$235	\$210	\$219	\$210
Customer number ('000, end of period)	1,118	1,164	1,139	1,164
Churn rate (period average)	2.0%	2.0%	2.1%	1.9%

The end