

# **SmarTone Telecommunications Holdings Ltd.**

**FY10 Interim Results Presentation**

*For the six months ended 31 December 2009*

Douglas Li  
CEO

3 March 2010

# Agenda

- Results highlights
- Financial review
- Operational review – Hong Kong
- Outlook
- Q&A

# Results highlights

# Key highlights

- Service revenue dropped by 2%
  - Local service revenue – growth in data revenue more than offset the decline in voice revenue
  - Roaming revenue – recovering from the lows in 2H FY08/09, but still below same period last year
- Lower interconnect and operating costs
- EBITDA improved by 7%
- Net profit increased by 112% to \$111m
  - Included 2 non-recurring items with positive impact of \$23m

# Financial highlights

(\$m)	1H FY09	2H FY09	1H FY10	
<b>Service revenue</b>	<b>1,696</b>	<b>1,559</b>	<b>1,659</b>	-2% YoY +6% HoH
Cost of services provided	(350)	(300)	(288)	
<b>Gross profit - service</b>	<b>1,346</b>	<b>1,259</b>	<b>1,371</b>	+2% YoY +9% HoH
Handset & accessory sales	259	190	151	
Cost of inventories sold	(253)	(182)	(154)	
<b>Gross profit - handset</b>	<b>6</b>	<b>7</b>	<b>(4)</b>	
Other gains	-	1	-	+7% YoY +26% HoH
OPEX	(870)	(858)	(851)	
<b>EBITDA</b>	<b>482</b>	<b>409</b>	<b>517</b>	
Depreciation, amortisation & disposal loss	(389)	(386)	(378)	
Accelerated depreciation & impairment loss	-	-	(51)	
<b>EBIT</b>	<b>93</b>	<b>23</b>	<b>87</b>	-6% YoY +252% HoH
Net finance costs	(19)	(30)	(27)	
Share of results of an associate	-	4	-	+112% YoY N/A HoH
Income tax expense	(9)	(0)	(15)	
Deferred income tax credit	-	-	61	
Minority interests	(12)	(7)	5	
<b>Net profit/(loss)</b>	<b>52</b>	<b>(10)</b>	<b>111</b>	+3.8 pp YoY +5.1 pp HoH
Gross margin - service	79.3%	80.7%	82.7%	
Gross margin - handset	2.4%	3.8%	-2.4%	
<b>EBITDA margin</b>	<b>24.7%</b>	<b>23.4%</b>	<b>28.5%</b>	

# Dividends

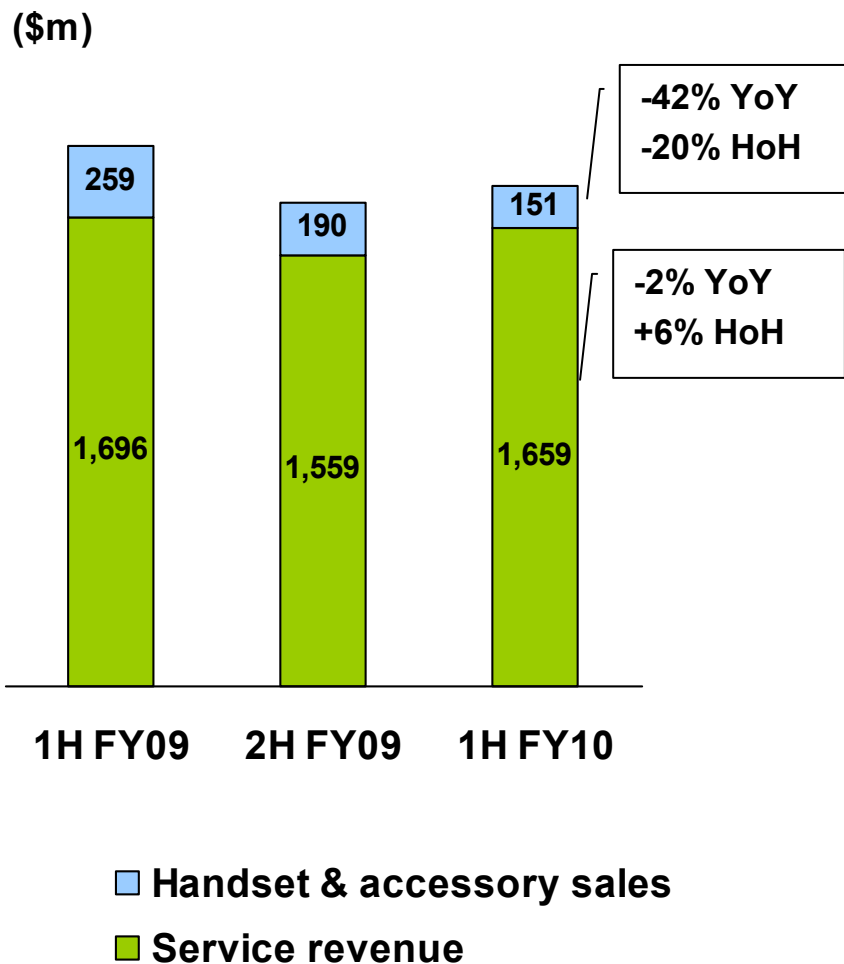
(\$)	FY09	FY10
Interim DPS	-	0.17
Final DPS	0.08	N/A
<b>Total DPS</b>	<b>0.08</b>	<b>0.17</b>

- Interim DPS of \$0.17 per share
- Dividend payout ratio  
=> 100% of net profit excluding non-recurring items

# Financial review

# Revenues

(\$m)	1H FY09	2H FY09	1H FY10
<b>Revenue</b>	<b>1,955</b>	<b>1,749</b>	<b>1,810</b>
Cost of inventories sold & services provided	(603)	(483)	(442)
Other gains	-	1	-
OPEX	(870)	(858)	(851)
EBITDA	482	409	517
Depreciation, amortisation & impairment loss	(389)	(386)	(429)
EBIT	93	23	87
Net finance costs	(19)	(30)	(27)
Share of results of an associate	-	4	-
Income tax credit/(expense)	(9)	(0)	46
Minority interests	(12)	(7)	5
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**Service revenue ↓ 2% YoY, ↑ 6% HoH**

# Cost of inventories sold & services provided

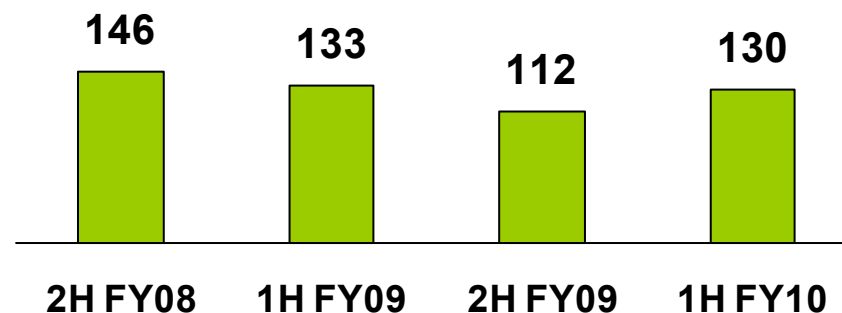
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**Lower interconnection charge**

## Breakdown of cost of inventories sold & services provided

(\$m)	1H FY09	2H FY09	1H FY10
COGS (before capitalisation)	(385)	(294)	(285)
Handset subsidy capitalised	133	112	130
Cost of services provided	(252)	(182)	(154)
Total	(603)	(483)	(442)

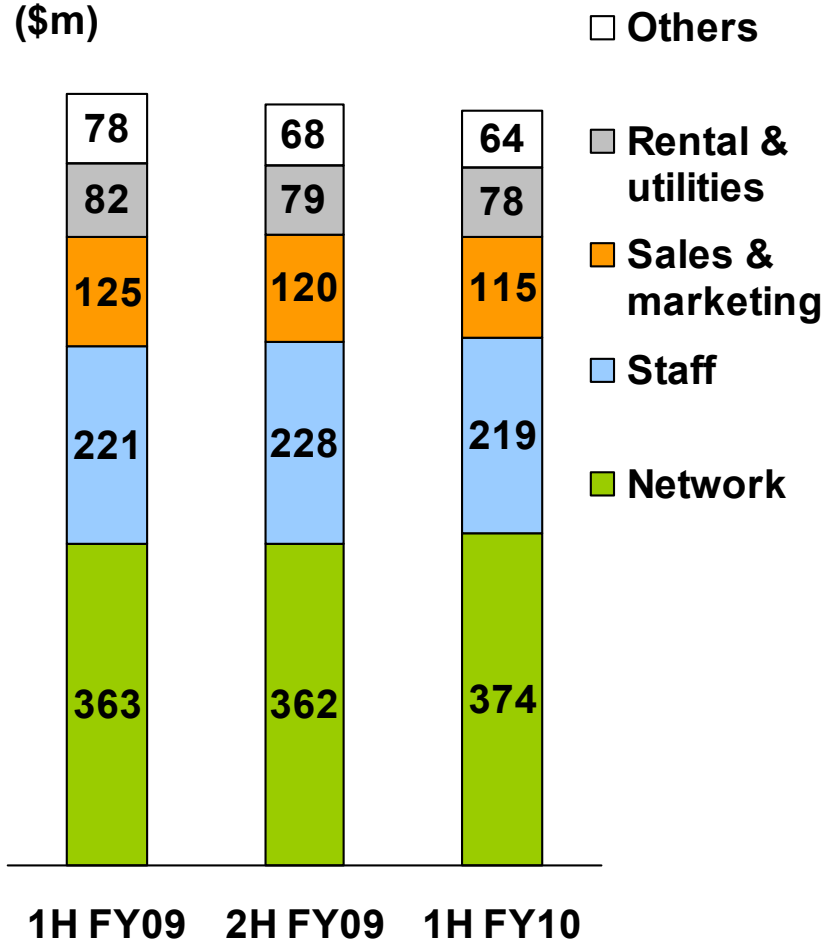
## Handset subsidy capitalised (\$m)



# OPEX

(\$m)	1H FY09	2H FY09	1H FY10
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(\$m)



**OPEX ↓ 2% YoY**

# Depreciation & amortisation

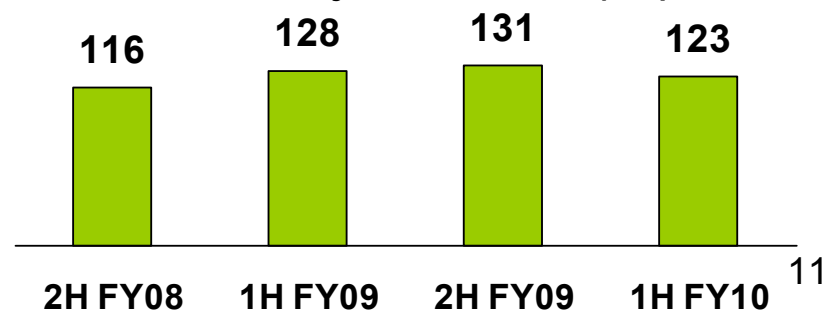
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**Accelerated depreciation and impairment loss of \$51m for Macau**

## Breakdown of depreciation, amortisation & disposal loss

(\$m)	1H FY09	2H FY09	1H FY10
Depreciation & disposal loss	(229)	(224)	(221)
Amortisation of intangible assets			
Licence fee (3G & 2G)	(32)	(32)	(34)
Handset subsidy	(128)	(131)	(123)
	(389)	(386)	(379)
Accelerated depreciation & impairment loss	-	-	(51)
Total	(389)	(386)	(429)

## Handset subsidy amortisation (\$m)



# Net finance costs

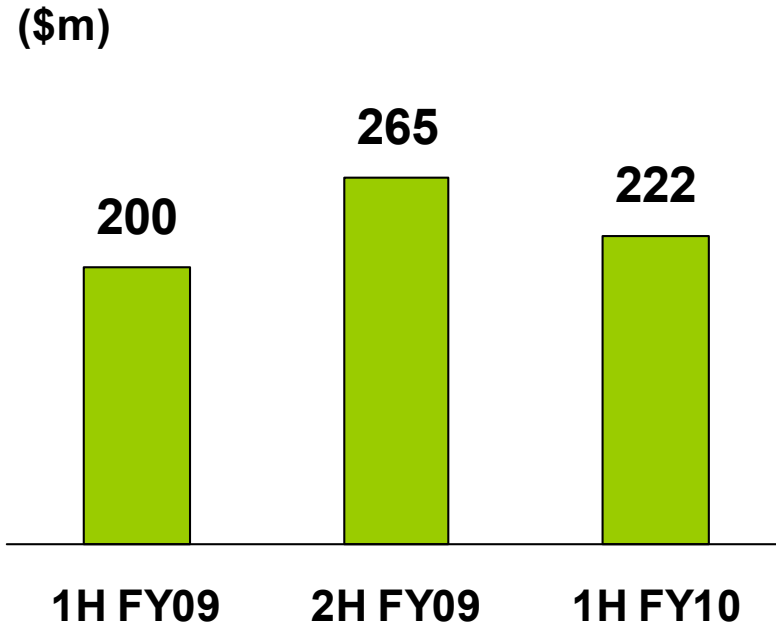
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## Breakdown of net finance income

(\$m)	1H FY09	2H FY09	1H FY10
Finance income	23	13	16
Finance costs (deemed finance charges)			
3G & 2G licence fee	(41)	(41)	(42)
asset retirement obligations	(1)	(1)	(1)
Total	(19)	(30)	(27)

***Lower finance income due to sharply lower interest rates***

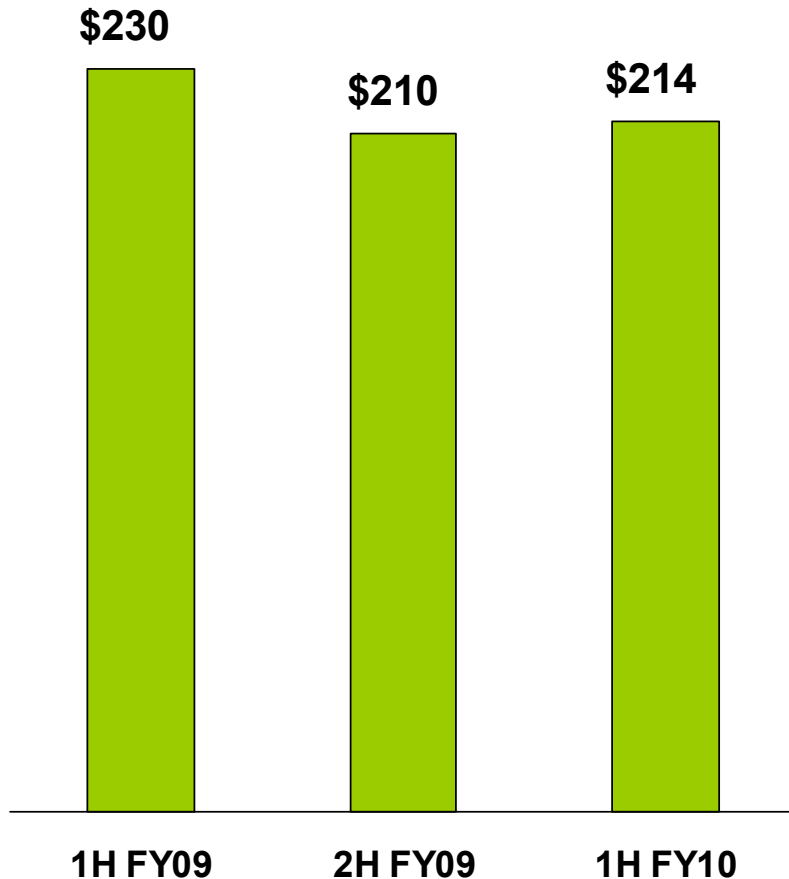
# CAPEX



- Enhancement of network quality, speed, capacity and coverage
- Upgrade to all-IP on fibre backhaul infrastructure completed

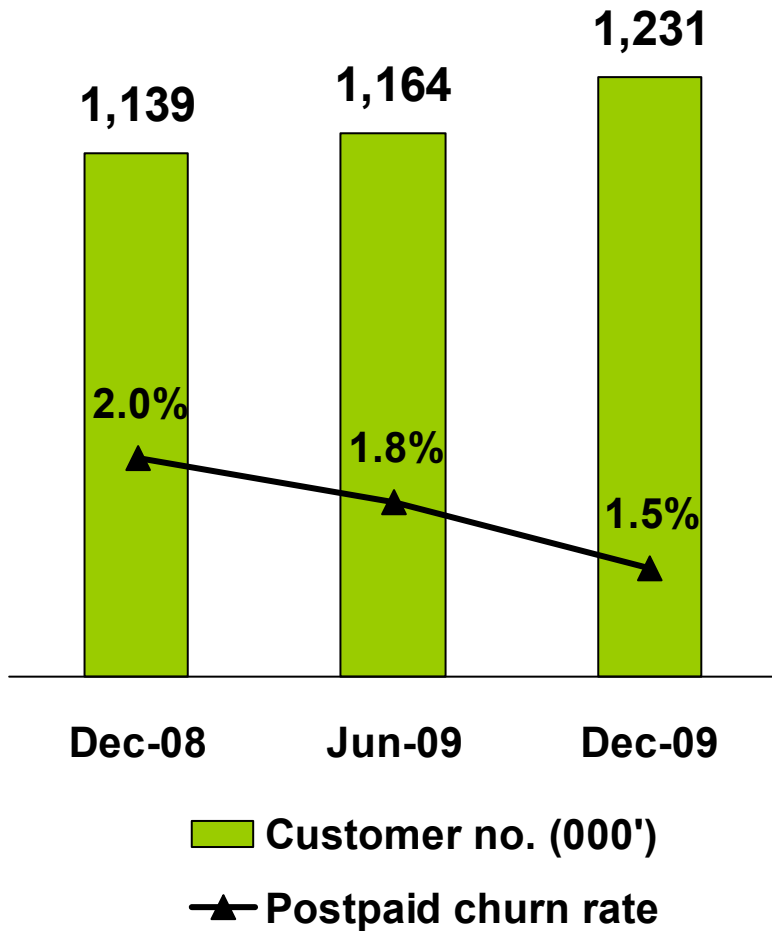
# **Operational review – Hong Kong**

# Blended ARPU



- ↓ 7% YoY, ↑ 2% HoH
  - Continuing price competition
  - Roaming revenue rebounded from the lows in 2H FY08/09 but still down YoY

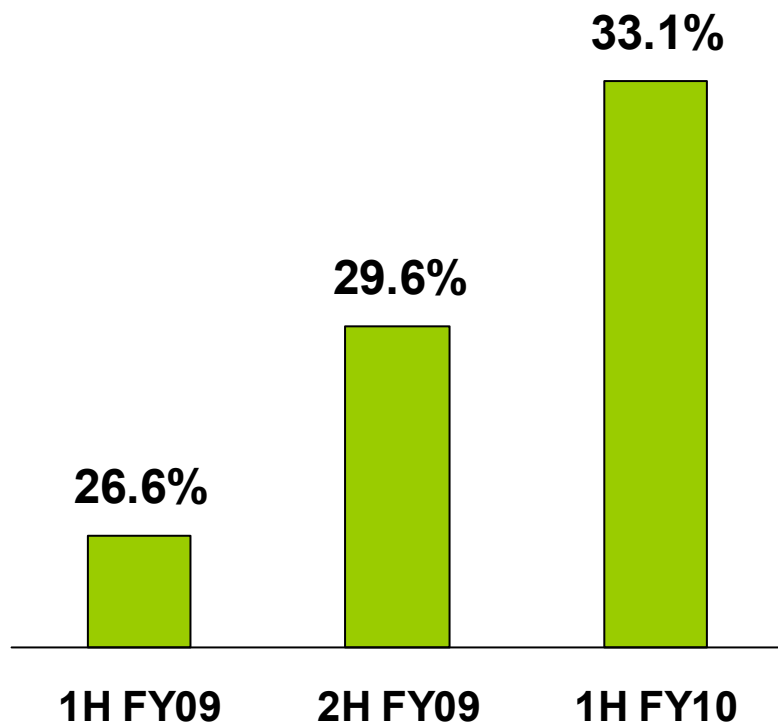
# Customer base



- Increased modestly to 1.23 million
- Postpaid churn rate improved further to 1.5%

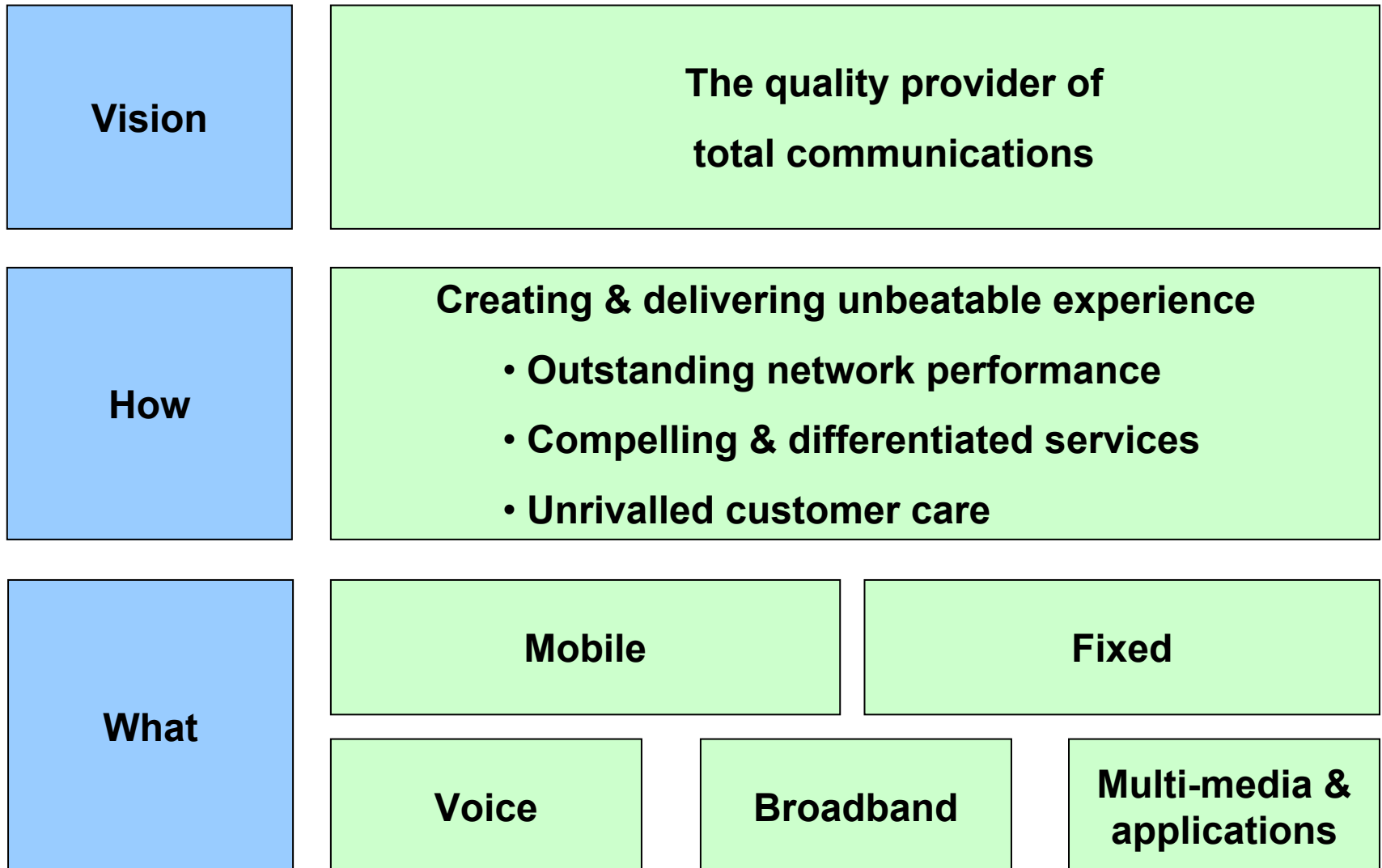
# Data revenue

Data contribution (% of service revenue)



- Continuing growth
  - ↑ 23% YoY
  - Accounts for 33% of service revenue
- Growth from
  - Wider adoption of smartphones
  - Mobile & wireless fixed broadband

# Addressing customers' total communications needs



# Operational focus

- Maintain leadership in network performance by continuing upgrades to higher network speeds & capacity to meet customer expectation
  - 42Mbps in 2010
  - Progressively to 80Mbps before transition to 4G LTE
- Continue to innovate and develop service propositions in mobile, including broadband and multimedia & applications
- Make further in-roads in the fixed market, for both voice & broadband

# Outlook

# Outlook

**Continuing price competition**

**Increasing popularity of smartphone**

**Stable recovery in roaming**

**Increasing revenue from wireless fixed services**

**Launch 3G services in Macau**

**Business environment in 2H  
FY09/10 remains challenging**

- Stable service revenue
- Higher OPEX
- Higher handset subsidy amortisation

**FY09/10 CAPEX target  
maintained at \$500m-\$600m**

**Q&A**

**Thank you**

# Appendix

# Group P&L

(\$m)	1H FY09	2H FY09	1H FY10
<b>Revenues</b>	<b>1,955</b>	<b>1,749</b>	<b>1,810</b>
COGS	(252)	(182)	(154)
Cost of services provided	(350)	(300)	(288)
Gross profit	1,352	1,266	1,367
Other gains	-	1	-
OPEX	(870)	(858)	(851)
<b>EBITDA</b>	<b>482</b>	<b>409</b>	<b>517</b>
Depreciation, amortisation & disposal loss	(389)	(386)	(378)
Accelerated depreciation & impairment loss	-	-	(51)
<b>EBIT</b>	<b>93</b>	<b>23</b>	<b>87</b>
Net finance costs	(19)	(30)	(27)
Share of results of an associate	-	4	-
Profit before income tax	74	(3)	60
Income tax expense	(9)	(0)	(15)
Deferred income tax credit	-	-	61
Profit after taxation	65	(3)	106
Minority interests	(12)	(7)	5
<b>Net profit</b>	<b>52</b>	<b>(10)</b>	<b>111</b>

# Group balance sheet

(\$m)	31 Dec 2008	30 Jun 2009 (restated)	31 Dec 2009
Leasehold land	17	16	16
Fixed assets	1,803	1,845	1,794
Intangible assets	753	702	711
Other non-current assets (excl. held-to-maturity investments)	93	130	123
Cash, bank balance & held-to-maturity debt securities <sup>(1)</sup>	1,394	1,411	1,409
Other current assets	476	400	400
Current liabilities	(1,013)	(1,016)	(1,022)
Non-current liabilities	(775)	(805)	(719)
<b>Net assets</b>	<b>2,746</b>	<b>2,683</b>	<b>2,712</b>
Share capital	55	54	53
Reserves	2,652	2,595	2,630
Total equity attributable to equity holders	2,706	2,649	2,684
Minority interests	40	34	29
<b>Total equity</b>	<b>2,746</b>	<b>2,683</b>	<b>2,712</b>
<sup>(1)</sup> <i>Cash &amp; bank balance</i>	1,039	1,057	668
<i>Held-to-maturity debt securities</i>	355	354	742
<i>Total</i>	1,394	1,411	1,409
<sup>(2)</sup> <i>Shares in issue at balance sheet date (million shares)</i>	546	538	532
<sup>(3)</sup> <i>Net book value per share</i>	\$5.0	\$4.9	\$5.0

# Financial ratios & operating indicators

	1H FY09	2H FY09	1H FY10
<b>Financial ratios</b>			
Gross profit margin			
- service	79.3%	80.7%	82.7%
- handset	2.4%	3.8%	-2.4%
EBITDA margin	24.7%	23.4%	28.5%
EBIT margin	4.8%	1.3%	4.8%
CAPEX / Revenues	10.2%	15.2%	12.3%
<b>Operating indicators (HK)</b>			
Blended ARPU (period average)	\$230	\$210	\$214
Customer number ('000, end of period)	1,139	1,164	1,231
Churn rate (period average)	2.0%	1.8%	1.5%

**The end**