



SmarTone Telecommunications Holdings Ltd.

FY06 Interim Results Presentation

For the 6 months ended 31 December 2005

Douglas Li
CEO

28 February 2006

Agenda

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

Overview

Key highlights

- Continued growth in service revenue
 - Consistent growth in ARPU
 - Continuing increase in data revenue
 - Stable churn rate
- Reduced net profit
 - Growth in OPEX & depreciation driven by 3G
 - Substantial increase in handset subsidies due to competition
- 3G services have stimulated usage and spending materially

Changes in accounting policies

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

P&L summary

| (\$m) | 1H FY05 (Restated) | 2H FY05 (Restated) | 1H FY06 | 1H FY06 (before the HKAS 38 impact) |
|--|-----------------------|-----------------------|--------------|--|
| Turnover | 1,831 | 1,789 | 1,859 | 1,859 |
| Cost of goods sold & services provided | (724) | (732) | (749) | (749) |
| Other income | - | 26 | - | - |
| OPEX | (635) | (698) | (714) | (739) |
| EBITDA | 472 | 386 | 396 | 371 |
| Depreciation, amortisation & disposal loss | (232) | (283) | (336) | (316) |
| EBIT | 240 | 102 | 60 | 55 |
| Net finance income / (costs) | 19 | (10) | (9) | 22 |
| Taxation | (30) | (4) | (6) | (9) |
| Minority interest | (5) | (5) | (7) | (7) |
| Net profit | 224 | 83 | 37 | 61 |
| Basic EPS | \$0.38 | \$0.14 | \$0.06 | \$0.10 |
| EBITDA margin | 26% | 22% | 21% | 20% |
| Interim DPS | \$0.19 | N.A. | Nil | N.A. |

⁶ Note: Comparative figures for FY05 have been restated according to the new / revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards

Adoption of HKAS 38 for 3G licence fee

Previous accounting policy

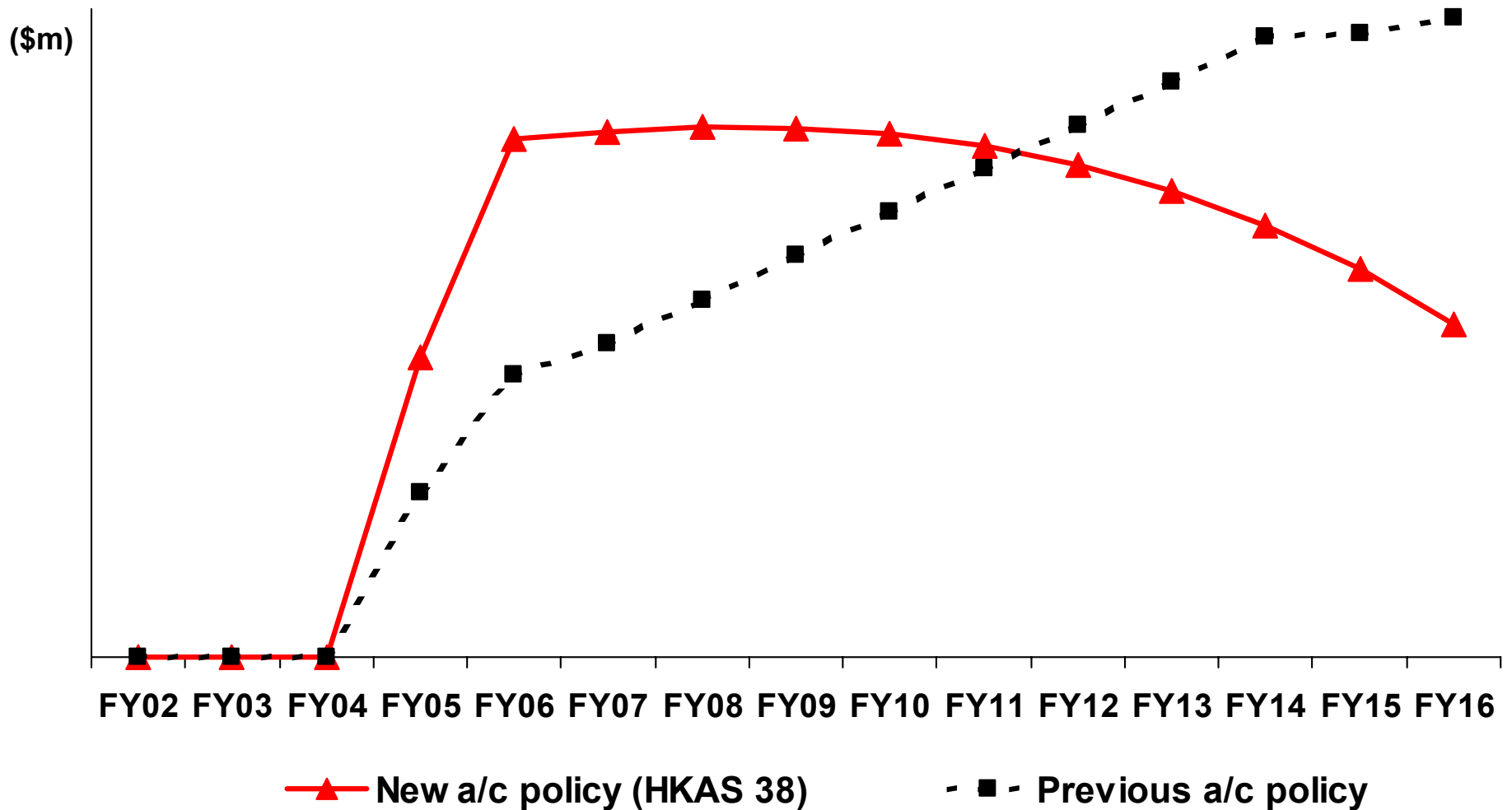
- 3G licence fee payable prior to commercial launch are deferred and included in fixed assets. Depreciation is provided from commercial launch over the shorter of the remaining life of the licence or the estimated useful life of the fixed assets
- 3G licence fee payable subsequent to commercial launch is charged to P&L as incurred

Adoption of HKAS 38 for 3G licence fee

New accounting policy – HKAS 38

- 3G licence fee is recognised as an intangible asset
- NPV of annual licence fee payable over the licence period (\$489m at 12% discount rate) is capitalised
- Finance costs are recognised as if the capitalised licence fee is financed by a loan at 12% interest rate
- Finance costs incurred before the commercial launch (\$186m) are capitalised as intangible assets
- Capitalised licence fee & finance costs are amortised from commercial launch over the remaining licence period (~12 years)
- Finance costs incurred after the commercial launch are charged to P&L

Pattern of charging the 3G licence fee to P&L over the licence period



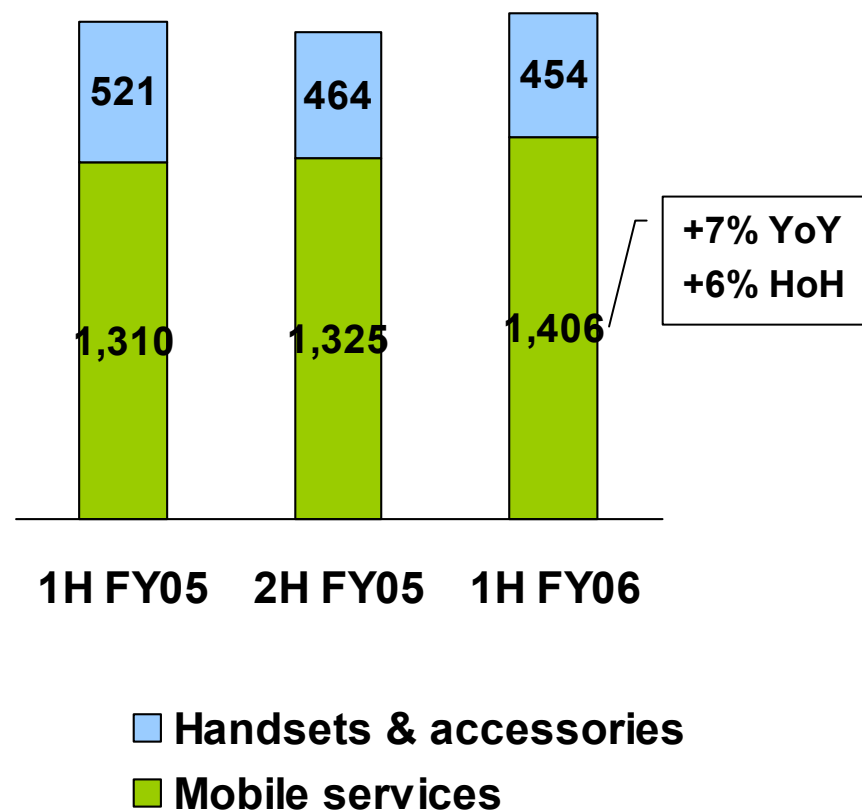
New a/c policy effectively redistributes the total charge of the licence fee more evenly over the licence period

Financial review

Turnover

| (\$m) | 1H FY05 (Restated) | 2H FY05 (Restated) | 1H FY06 |
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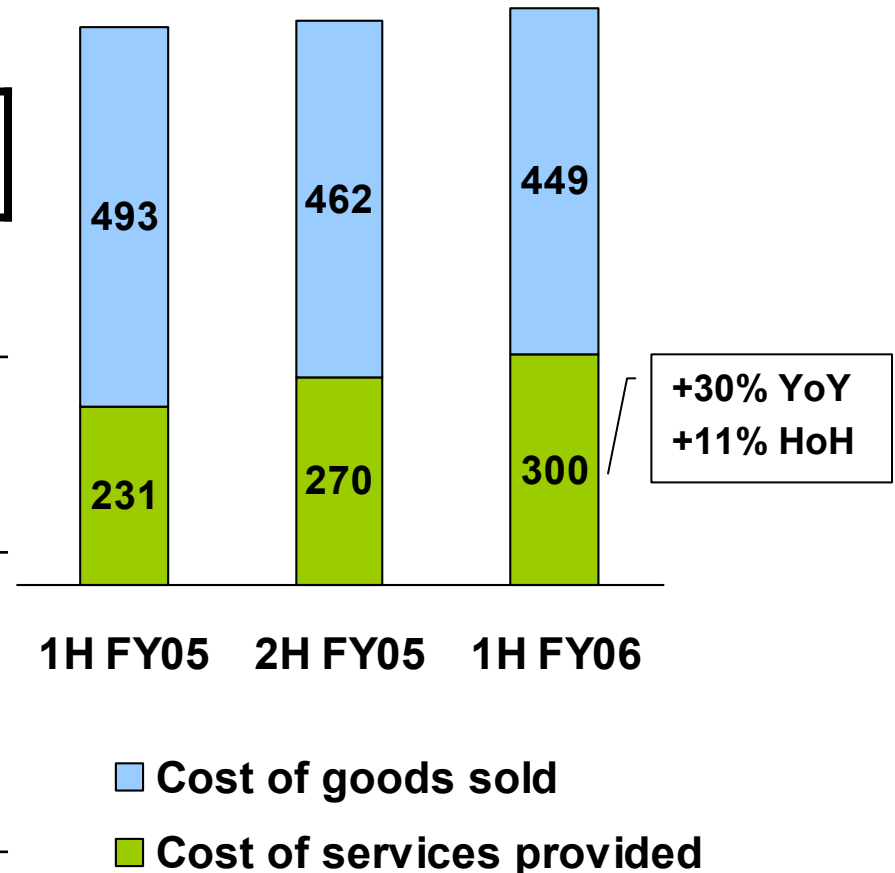
(\$m)



Cost of goods sold & services provided

| (\$m) | 1H FY05 (Restated) | 2H FY05 (Restated) | 1H FY06 |
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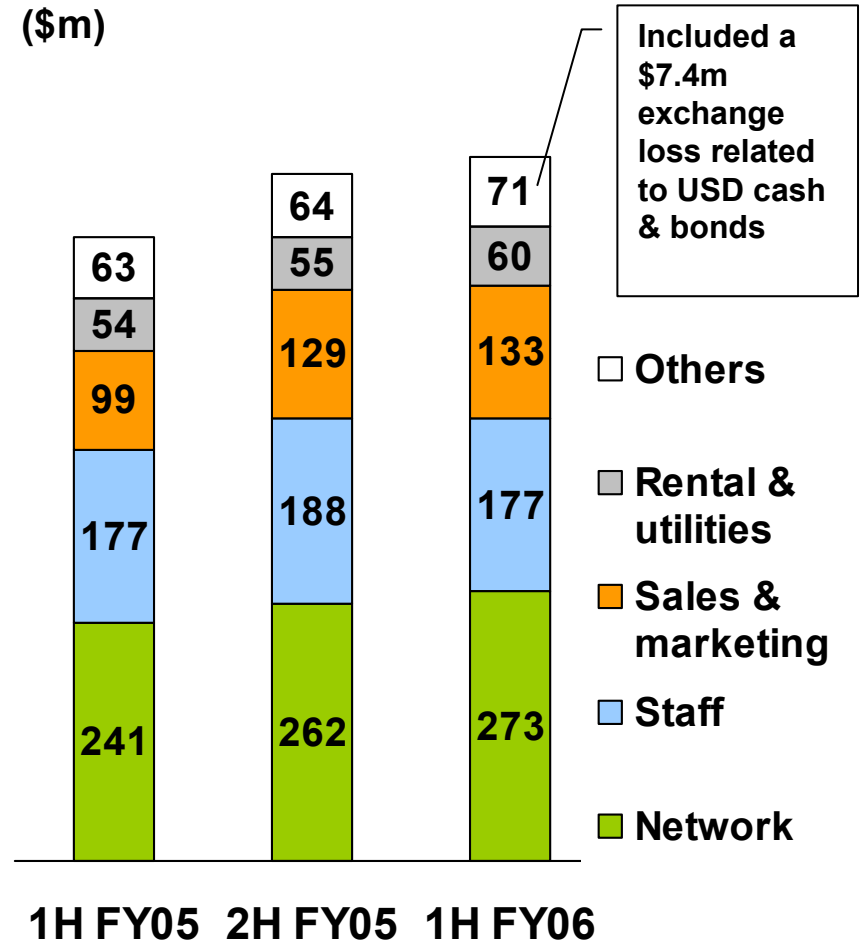
(\$m)



***Growth in cost of services provided driven by higher usage
 COGS reduced due to capitalisation of increased handset subsidies***

OPEX

| (\$m) | 1H FY05 (Restated) | 2H FY05 (Restated) | 1H FY06 |
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Depreciation & amortisation

| (\$m) | 1H FY05 (Restated) | 2H FY05 (Restated) | 1H FY06 |
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- Substantial increase in depreciation & amortisation
 - Depreciation of 3G network infrastructure
 - Amortisation of handset subsidies
 - Amortisation of intangible assets related to 3G licence fee (YoY)

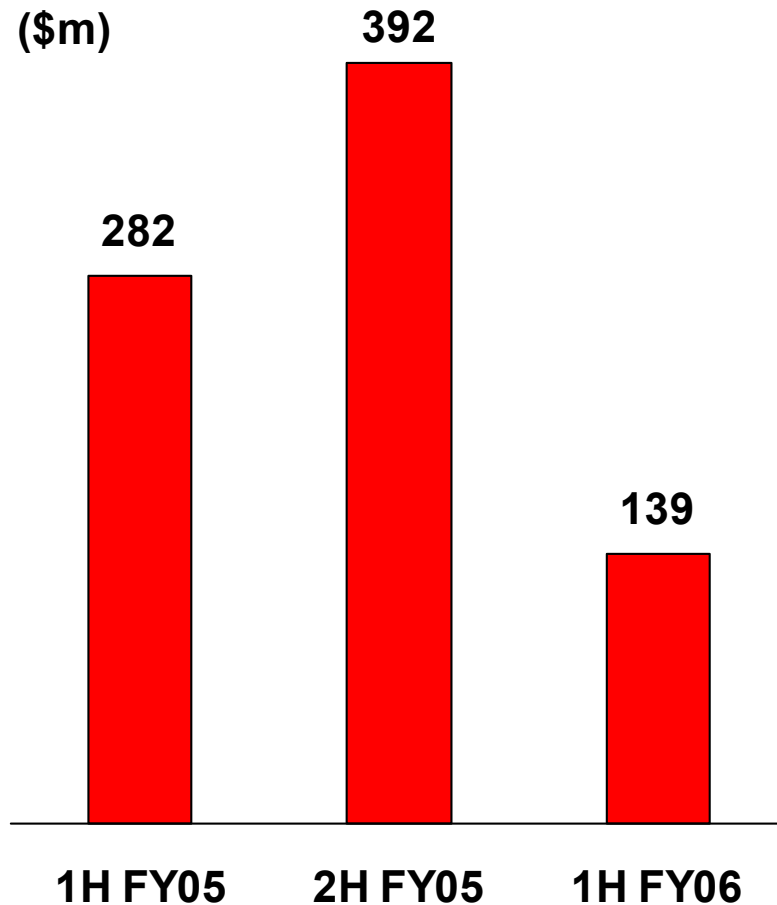
Net finance income / (costs)

| (\$m) | 1H FY05 (Restated) | 2H FY05 (Restated) | 1H FY06 |
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Breakdown of net finance income / (costs)

| (\$m) | 1H FY05 | 2H FY05 | 1H FY06 |
|---|------------|------------|------------|
| Finance income | 26 | 22 | 24 |
| Finance costs | | | |
| 3G licence fee obligations (HKAS 38) | (5) | (31) | (31) |
| Asset retirement obligations (HKAS 16) & others | (2) | (2) | (2) |
| Net finance income / (costs) | 19 | (10) | (9) |

CAPEX



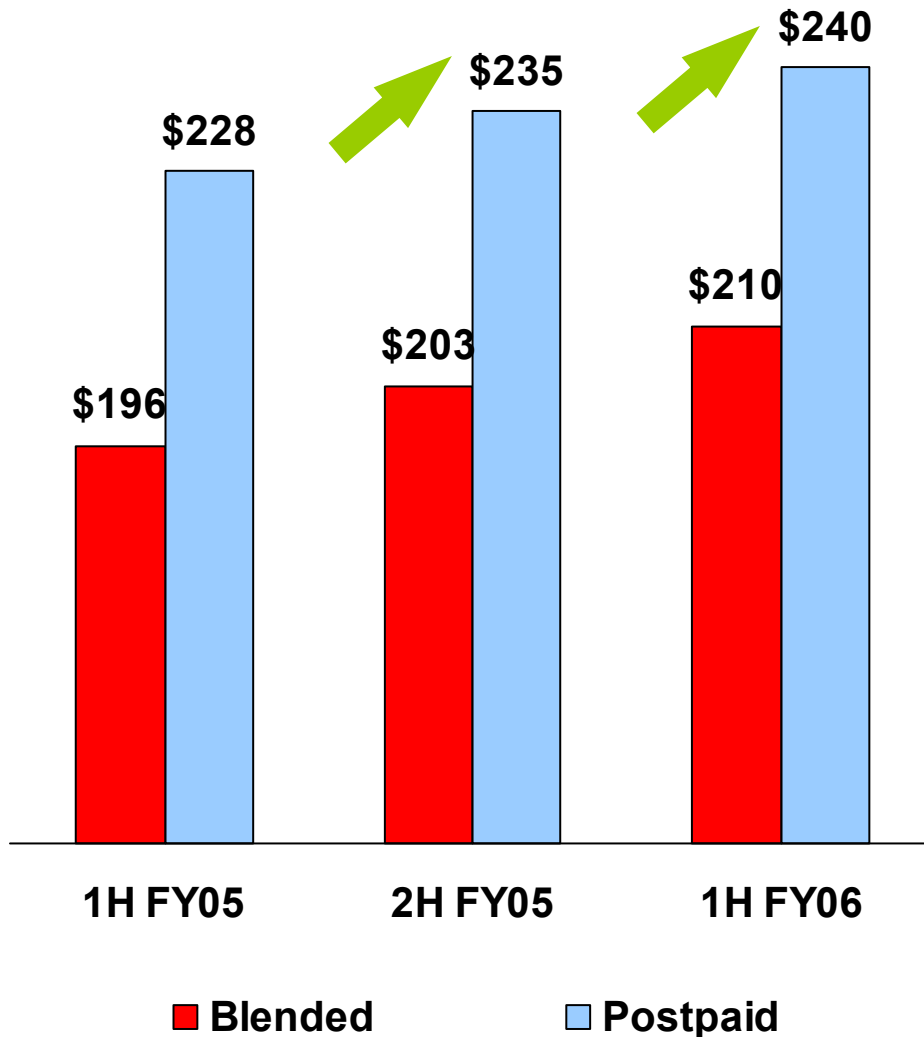
- Decrease in CAPEX after achieving territory-wide 3G coverage in FY05
- Ongoing investments in network infrastructure
 - Network quality enhancement
 - Service platform

Operational review

Aggressive offers in the market

- Tariff reduction
 - More bundled voice minutes / data services
 - MNP & other bonuses
- Heavy handset subsidies for both 3G & 2G
 - Giveaway of low-end models
 - Aggressive rebates for mid-to-high-end models
- Various bundled offers

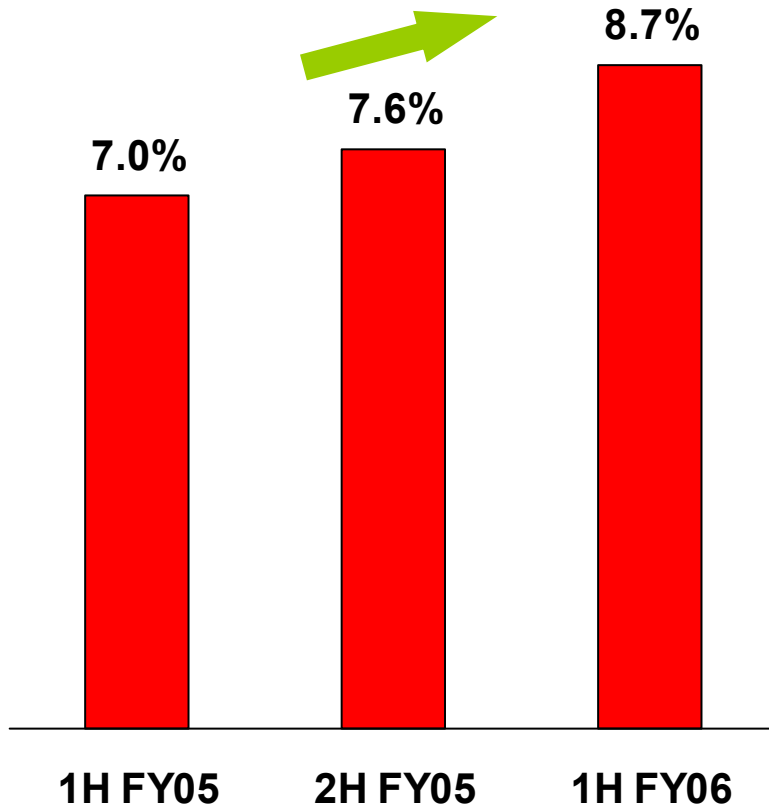
ARPU



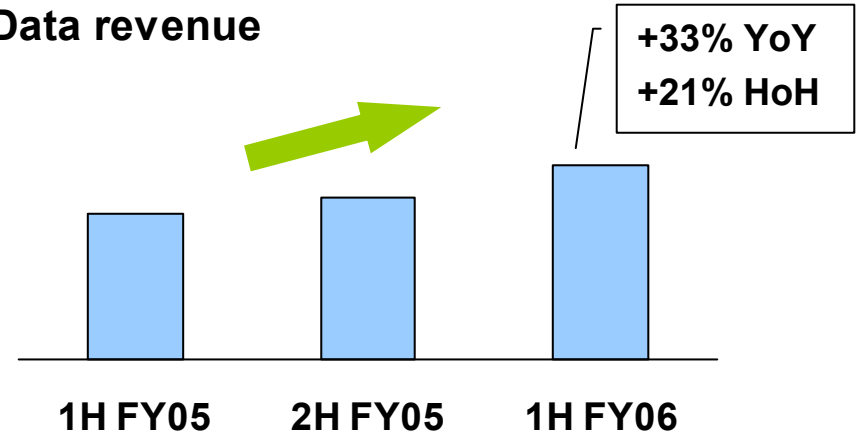
- More higher value customers
 - Data users
 - Business customers
- Continued growth in data & roaming usage

Data services

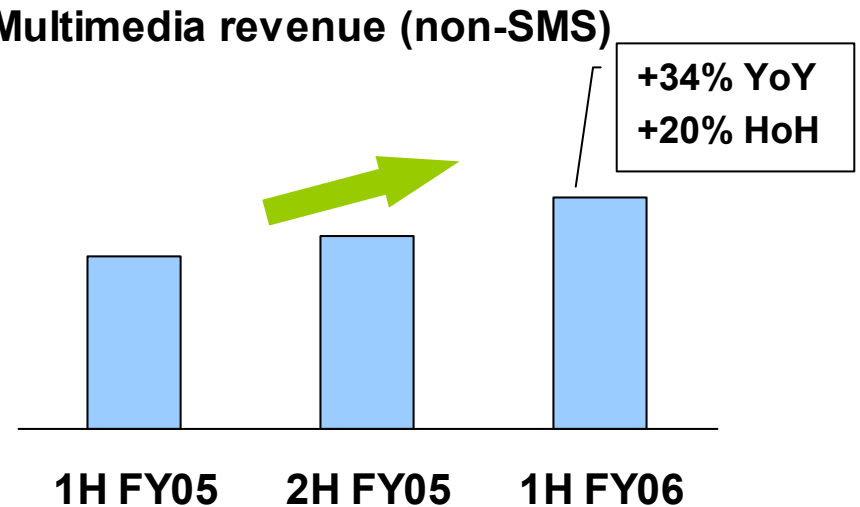
Data contribution
(% of service revenue)



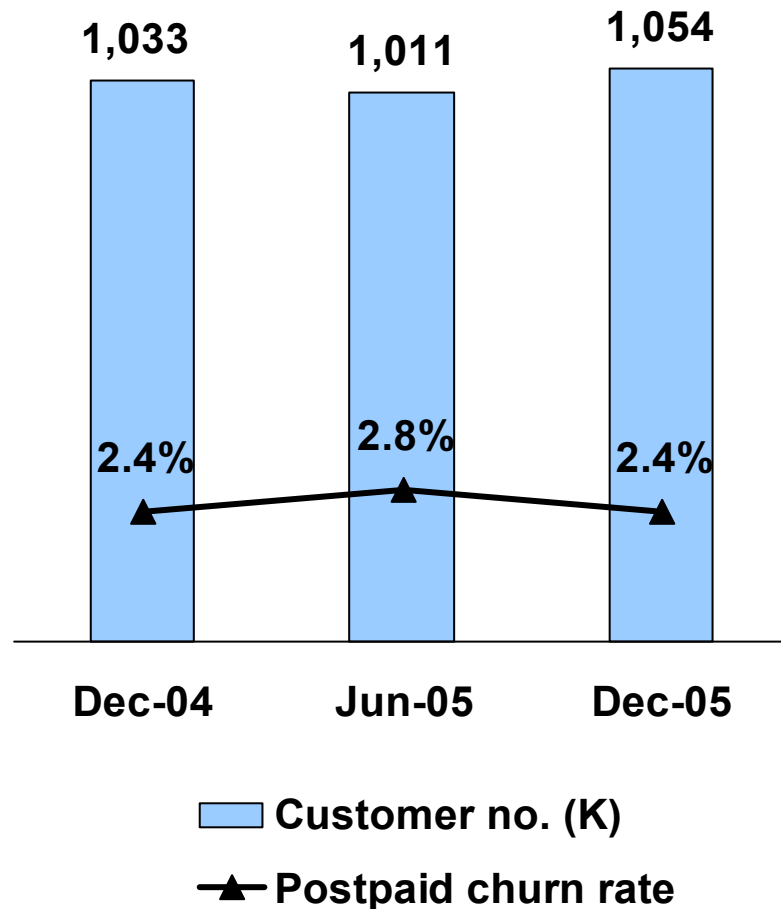
Data revenue



Multimedia revenue (non-SMS)



Customer base



- Stable customer number & churn rate
- 100,000 3G customers in Feb 06
- Multimedia usage & ARPU of 3G customers significantly higher than 2G

Enhanced propositions

| | |
|---|--|
| Bet to win | <ul style="list-style-type: none">• The leading mobile betting & information service |
| Mobile news service | <ul style="list-style-type: none">• The latest & the most complete news coverage |
| Music Now | <ul style="list-style-type: none">• The largest library of mobile music in HK |
| SmarTone-Vodafone Mobile Email | <ul style="list-style-type: none">• The widest range of the leading push email solutions |
| Vodafone Mobile Connect Card | <ul style="list-style-type: none">• High-speed mobile Internet connectivity for laptops |

Upgrading the key commercial enablers

- Expanded 3G roaming coverage to over 60 overseas destinations, including Japan & Korea – the widest coverage among HK operators
- 1st in the world to enable all audio & video content for Progressive Download for more immediate enjoyment by customers
- Broadened our range of superior handsets



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2003
2002

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2005
2003
2002

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Winner**

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Outlook

Outlook

- Market competition has intensified following recent M&A transactions
- Strong financial position enables us to develop new services and to compete aggressively to increase revenue market share
- Leverage on widening choice of 3G handsets and falling costs

Outlook

- Severe pressure on profit for FY06
 - 3G-related costs increase
 - Competitive market
- Current dividend policy to remain unchanged
- FY06 CAPEX target of \$500m

Q&A

Appendix

Group P&L

| (\$m) | 1H FY05 (restated) | 2H FY05 (restated) | 1H FY06 |
|--|-----------------------|-----------------------|--------------|
| Turnover | 1,831 | 1,789 | 1,859 |
| COGS | (493) | (462) | (449) |
| Cost of services provided | (231) | (270) | (300) |
| Gross profit | 1,106 | 1,057 | 1,110 |
| Other income | - | 26 | - |
| OPEX | (635) | (698) | (714) |
| EBITDA | 472 | 386 | 396 |
| Depreciation, amortisation & disposal loss | (232) | (283) | (336) |
| EBIT | 240 | 102 | 60 |
| Net finance income / (costs) | 19 | (10) | (9) |
| Profit before taxation | 259 | 92 | 50 |
| Taxation | (30) | (4) | (6) |
| Profit after taxation | 229 | 88 | 44 |
| Minority interest | (5) | (5) | (7) |
| Net profit | 224 | 83 | 37 |

Group balance sheet

| (\$m) | 30 Jun 05 (restated) | 31 Dec 05 |
|---|-------------------------|--------------|
| Fixed assets | 2,068 | 1,963 |
| Intangible assets | 694 | 790 |
| Other non-current assets (excl. held-to-maturity investments) | 87 | 74 |
| Cash, bank balance & held-to-maturity investments ⁽¹⁾ | 1,852 | 1,720 |
| Other current assets | 508 | 474 |
| Current liabilities | (999) | (900) |
| Non-current liabilities | (700) | (679) |
| Net assets | 3,510 | 3,441 |
| Share capital | 58 | 58 |
| Reserves | 3,428 | 3,352 |
| Shareholders' funds | 3,486 | 3,410 |
| Minority interests | 24 | 31 |
| Total equity | 3,510 | 3,441 |
| <i>(1) Cash & bank balance</i> | 765 | 645 |
| <i>Held-to-maturity investments</i> | 1,087 | 1,074 |
| <i>Total</i> | 1,852 | 1,720 |
| <i>(2) Shares in issue at balance sheet date (million shares)</i> | 583 | 583 |
| <i>(3) Net book value per share</i> | \$6.0 | \$5.9 |

Impact of the changes in accounting policies

| P&L impact (\$m) | 1H FY05 | 2H FY05 | 1H FY06 |
|--|----------------|----------------|----------------|
| Increase / (decrease) in net profit | | | |
| HKAS 38 for 3G licence fee | 3 | (25) | (24) |
| HKFRS 2 | (3) | (3) | (3) |
| HKAS 16 for asset retirement obligations | (2) | (2) | (2) |
| Total | (2) | (31) | (29) |

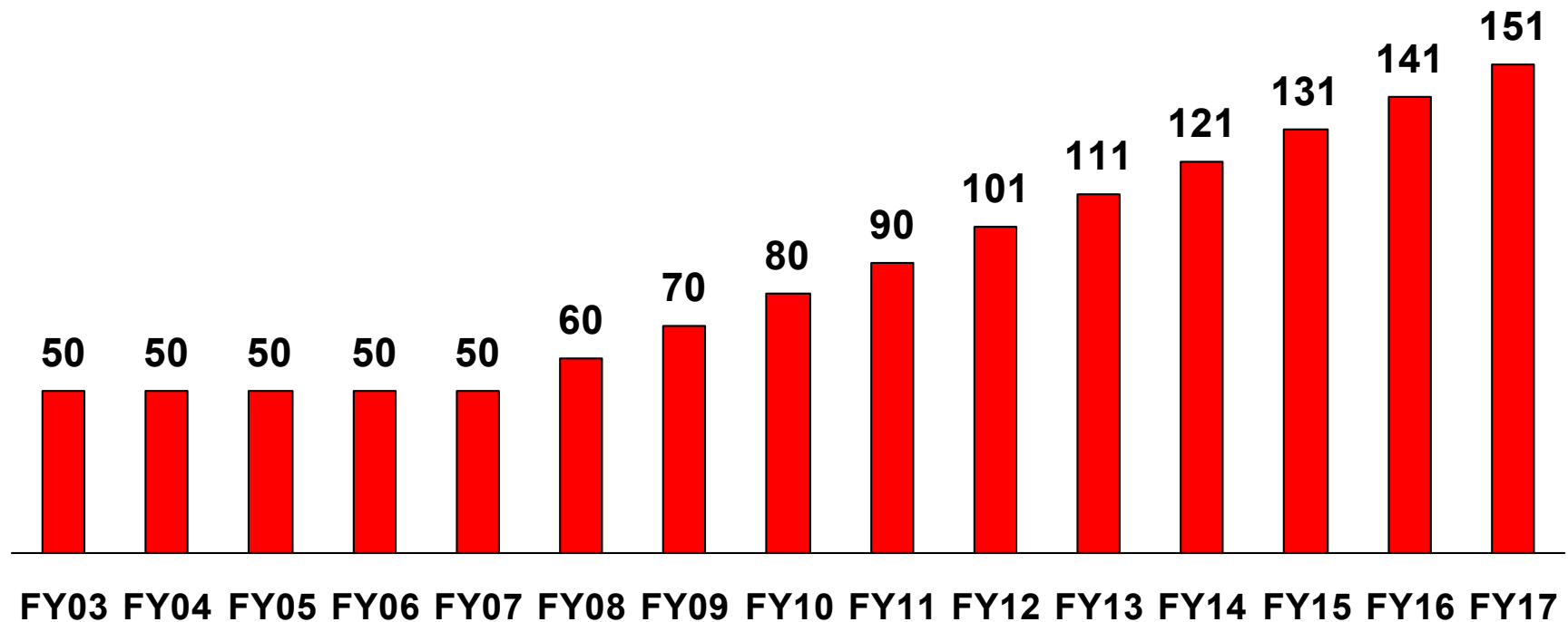
| Balance sheet impact (\$m) | 30 Jun 05 | 31 Dec 05 |
|---|------------------|------------------|
| HKAS 38 for 3G licence fee | | |
| Increase in intangible assets | 643 | 614 |
| Decrease in fixed assets | 146 | 139 |
| Increase in liabilities | 507 | 511 |
| Decrease in retained profits | 11 | 35 |
| HKFRS 2 | | |
| Increase in employee share-based compensation reserve | 13 | 11 |
| Decrease in retained earnings | 13 | 11 |
| HKAS 16 for asset retirement obligations | | |
| Increase in fixed assets | 31 | 30 |
| Increase in liabilities | 35 | 36 |
| Decrease in retained earnings | 4 | 6 |

Financial ratios & operating indicators

| | 1H FY05 | 2H FY05 | 1H FY06 |
|--|---------|---------|---------|
| Financial ratios | | | |
| EBITDA margin (Group Total) | 26% | 22% | 21% |
| EBITDA margin (Mobile Services) | 34% | 29% | 28% |
| EBIT margin (Group Total) | 13% | 6% | 3% |
| EBIT margin (Mobile Services) | 16% | 8% | 4% |
| CAPEX/ Sales | 15% | 22% | 7% |
| Operating indicators (HK mobile) | | | |
| Blended ARPU (period average) | \$196 | \$203 | \$210 |
| Blended ARPU (last month of the period) | \$200 | \$206 | \$213 |
| Postpaid ARPU (period average) | \$228 | \$235 | \$240 |
| Postpaid ARPU (last month of the period) | \$234 | \$236 | \$244 |
| Customer number ('000, end of period) | 1,033 | 1,011 | 1,054 |
| Churn rate (last month of the period) | 2.4% | 2.8% | 2.4% |

3G licence fee payment

(\$m)



Total payment over the licence period = \$1,307m

NPV = \$489m (12% discount rate)