

SmarTone Telecommunications Holdings Limited

FY13 Interim Results Presentation

For the six months ended 31 December 2012

Douglas Li
CEO

18 February 2013

Disclaimer

It is not the intention to provide, and no reliance should be placed on these materials as providing, a complete or comprehensive analysis of the financial or trading positions or prospects of SmarTone Telecommunications Holdings Limited. Neither SmarTone Telecommunications Holdings Limited or any of its directors, officers, employees, agents, affiliates, advisers or representatives accepts any liability whatsoever in negligence or otherwise for any loss howsoever arising from any information or opinions presented or contained in these materials or otherwise arising in connection with these materials. The information presented or contained in these materials is subject to change without notice. No representations or warranties are made on the accuracy, completeness or correctness of the information or materials.

The information presented or contained in these materials is for reference only and does not constitute a distribution, an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction.

Statements contained in these materials which are not historical facts, including statements about the beliefs and expectations of SmarTone Telecommunications Holdings Limited, are forward-looking statements. These statements are based on current plans, beliefs, expectations, estimates and projections of the company and undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and SmarTone Telecommunications Holdings Limited has no obligation to update any of them publicly in light of new information or future events. Forward-looking statements involve inherent risks, uncertainties, assumptions and other factors beyond the control of SmarTone Telecommunications Holdings Limited. If these risks or uncertainties ever materialise or the assumptions prove incorrect, or if a number of important factors occur or do not occur, actual results of SmarTone Telecommunications Holdings Limited may differ materially from those expressed or implied or forecasted in any of these forward-looking statements.

Agenda

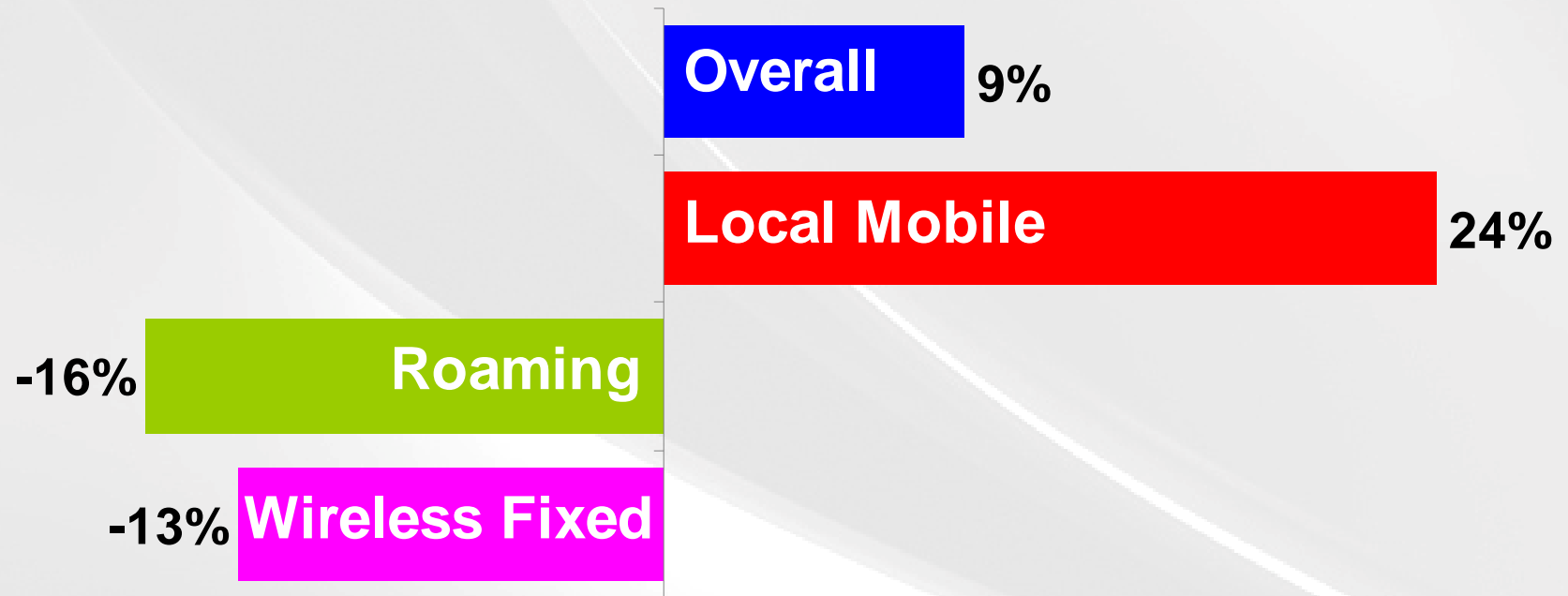
- Business review
- Outlook
- Appendix – financial information

Business review

Key highlights

- Strong growth in local mobile business, excluding roaming, under challenging economic and market conditions
- Decline in roaming business
- Group EBITDA up 9%, while local mobile EBITDA grew 24%
- Increased depreciation and amortisation with new investment phase in mobile broadband including the 4G LTE network
- EBIT declined 4%
- Net profit fell 3% to \$459 million
- Interim dividend of \$0.44 per share, 100% payout
- A strong balance sheet with net cash

Year-on-year change of Group EBITDA by business line

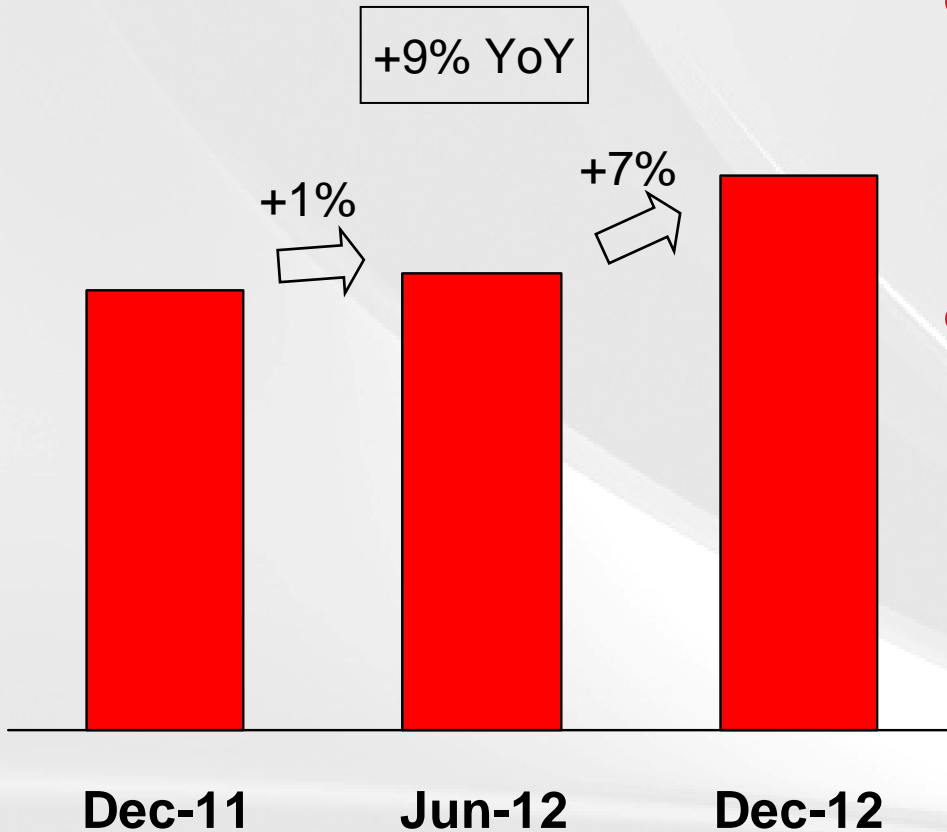


Strong growth in local mobile business

- Local mobile EBITDA grew 24% amidst
 - Competitors' price cutting with their launch of 4G
 - Rising costs
- HK mobile customer number increased 9%
- HK local postpaid mobile ARPU increased 8%
- Continuing operating leverage
 - Local mobile service revenue increased 9%
 - Operating expenses, excluding roaming, up 2%

Hong Kong Customer Number & ARPU

HK mobile customer no.



■ period end figures

- Mobile customers up 9%
 - Growth in both postpaid and prepaid
- Local postpaid mobile ARPU increased 8%

Extended market share with speed-capped 3G price plan

- Speed-capped 3G integrated voice and data plan
- Targeting customer segments previously under-served by SmarTone
- Revenue and profit positive
 - 60% of subscriptions - new customers
 - 20% of subscriptions - existing customers upgrading from lower priced plans
- Lays the foundation for customers to upgrade to true high speed HSPA and 4G broadband in future

Proprietary services met with customer and market acclaim



- ✓ Well-timed launch of an app to enable availability of Google Maps app and Street View on OS platforms not supporting them
- ✓ Easy and user-friendly interface
- ✓ TruView instead of distorted “Fish-Eye” images



- ✓ An app enabling customers to acquire limitless cloud storage for no additional costs
- ✓ Easy and secure content management tools

Generating an increase in ARPU and revenue

Proprietary services met with customer and market acclaim (cont'd)



- ✓ Enables customers to play Flash and other Internet videos on smartphone platforms not supporting those video formats



- ✓ An app that blocks cold-callers through collaboration by customers
- ✓ Easy and total control through black / grey / white lists

Generating an increase in ARPU and revenue

Outstanding customer care

<u>Rating</u>	<u>% response</u>
Good	95
OK	5
Unsatisfactory	<0.3

- Excellent results from retail stores and call centre customer satisfaction surveys
- Average 95% rated 'Good' through 2012
- In-store experience ranked highest among Hong Kong network distributors in 5 out of 6 assessments from Q4 2010 to Q4 2012 by a leading smartphone brand

Modest increase in operating expenses, excluding roaming

- Operating expenses, excluding roaming, up 2%
 - Network and staff costs up 13%
 - Substantial network capacity expansion
 - Wage inflation and higher headcount
 - Cost of services, sales & marketing and others down 12%

Decline in roaming business

- On-going structural change in international roaming business
- Significant reduction in global wholesale roaming inter-operator tariff (IOT)
 - Lower inbound revenue
 - Lower outbound cost
- Lower roaming traffic due to slow global economic activity
- Negative impact on Group's EBITDA of \$76M
- Further significant IOT reduction not anticipated

Continuing scale down of wireless fixed broadband business

- Reallocating network capacity to more profitable mobile broadband business
- Change in product mix with reduced share of higher priced wireless fixed broadband customers contributing to the decline in fully blended ARPU
- Wireless fixed revenue decreased 19%
- Wireless fixed EBITDA declined 13%

Operational highlights

- Good market response to the launch of 4G LTE network on 1800MHz
- Improved customer experience with enhanced 3G/HSPA coverage and capacity using additional 850MHz spectrum
- Successful launch of speed-capped 3G price plan to expand market share
- New proprietary services met with market acclaim, increasing ARPU, revenue and customer loyalty as well as enhancing the SmarTone brand
- Enhanced retail systems and processes for improved customer experience and operational efficiency

Outlook

Outlook

- Global economic uncertainties weighing on revenue
- Increasing pressure from rising network, staff and rental costs
- Continuing focus on providing a superior customer experience and be more valuable to our customers
- Focused investment for superior network performance, compelling proprietary services and outstanding customer care
- On-going operational cost control & productivity enhancements to mitigate rising costs

Appendix – financial Information

Group Profit & Loss

(\$m)	1H FY12	2H FY12	1H FY13
Revenues	5,060	4,892	5,888
Cost of inventories sold	(2,232)	(1,958)	(2,927)
Staff costs	(317)	(329)	(346)
Other operating expenses	(1,105)	(1,019)	(1,078)
EBITDA	1,406	1,586	1,537
Depreciation, amortisation & loss on disposal	(765)	(866)	(922)
EBIT	641	720	615
Net finance costs	(59)	(50)	(59)
Profit before income tax	582	670	556
Income tax expense	(97)	(115)	(90)
Profit after income tax	485	555	466
Non-controlling interests	(10)	(7)	(7)
Net profit	475	548	459

Group Balance Sheet

(\$m)	Jun 12	Dec 12
Fixed assets	2,530	2,894
Intangible assets	2,602	2,690
Other non-current assets (excl. debt securities)	89	120
Cash, bank balance & debt securities ⁽¹⁾	1,413	1,582
Other current assets	835	810
Bank borrowings ⁽¹⁾	(66)	(389)
Customer prepayments and deposits	(1,215)	(1,370)
Other current liabilities	(2,041)	(2,322)
Other non-current liabilities	(972)	(900)
Net assets	3,175	3,115
Share capital	104	104
Reserves	3,007	2,941
Total equity attributable to equity holders	3,111	3,045
Non-controlling interests	64	70
Total equity	3,175	3,115
⁽¹⁾ <i>Cash & bank balance</i>	1,334	1,582
<i>Held-to-maturity debt securities</i>	79	-
<i>Bank Borrowings</i>	(66)	(389)
<i>Net cash and debt securities balance</i>	1,347	1,192
⁽²⁾ <i>Shares in issue at balance sheet date (million)</i>	1,037	1,038
⁽³⁾ <i>Net book value per share</i>	\$3.0	\$2.9

Smartone