

SmarTone Telecommunications Holdings Limited

FY14 Annual Results Presentation
For the year ended 30 June 2014

Douglas Li
CEO

3 September 2014

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Agenda

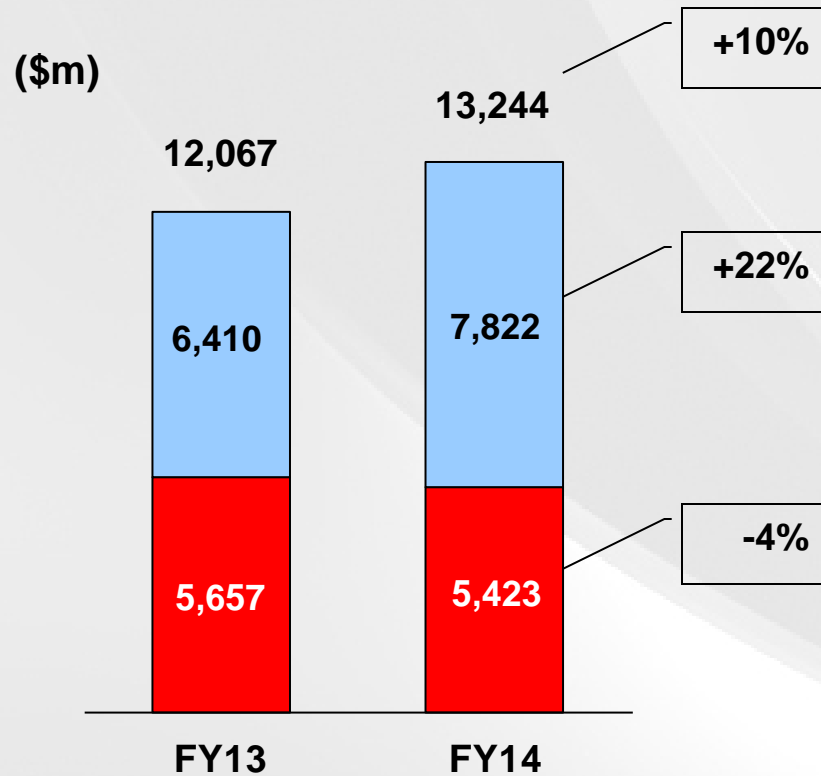
- Business review
- Prospects
- Appendix – financial information

Business review

Key highlights

- Group total revenue increased by 10% to \$13,244 million
- Hong Kong customer numbers increased by 3% to 1.88 million
- Increased network operating costs and depreciation due to 4G rollout and rising data usage
- Group EBITDA down 14%
- Net profit fell 36% to \$537 million
- Proposed final dividend of \$0.13 per share, representing 60% payout of 2H FY14 profit, making full year dividend of \$0.31

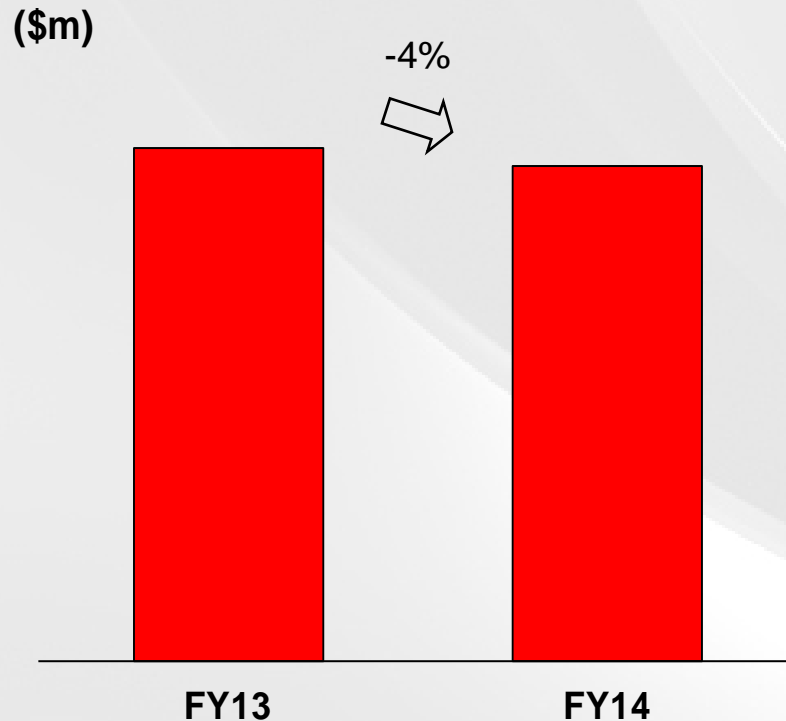
Group revenue



- Group revenue up 10%
 - Service revenue down 4%
 - Handset & accessory sales grew 22%

■ Service revenue
■ Handset & accessory sales

Hong Kong service revenue

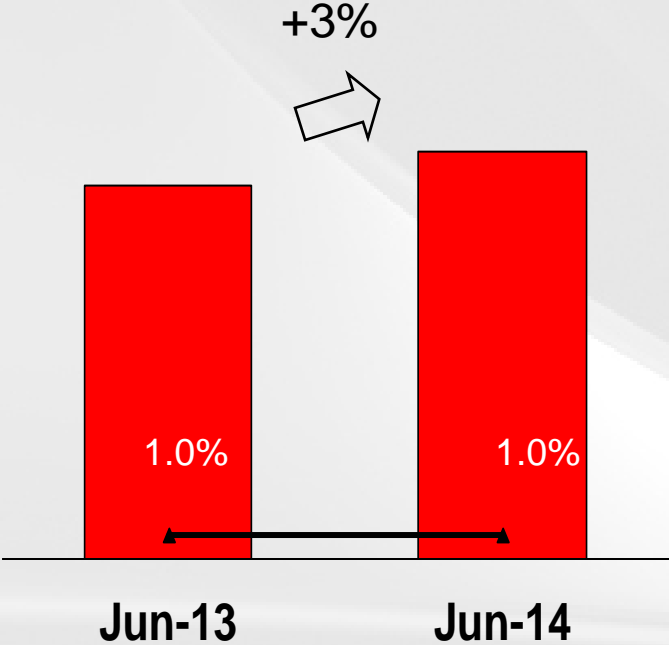


■ Hong Kong service revenue

- Hong Kong service revenue declined 4%
 - Customer migration to lower priced SIM-only plans from handset-bundled plans
 - Modest decline in roaming
- Neutral impact on profitability
 - Service revenue decline offset by lower handset subsidy amortisation

Continuing growth in Hong Kong mobile customer number

HK mobile customer no.



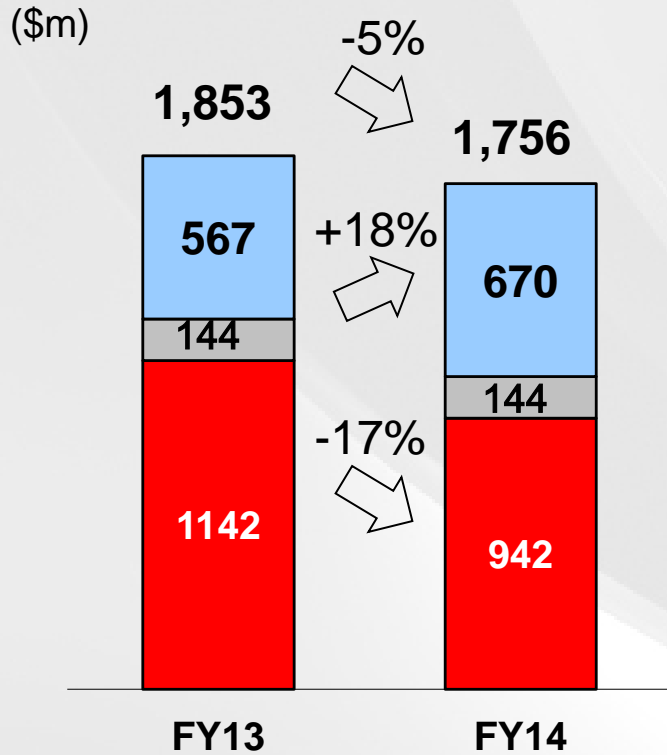
■ Customer number (000') - period end
↔ Postpaid mobile churn rate - period average

- Mobile customers up 3%
- Fully blended ARPU declined 11%
 - Dilution from lower-priced 3G speed-capped plan
 - Customer migration to SIM-only plans
- Average mobile postpaid churn rate unchanged at 1.0%

Modest increase in group operating expenses

- Group operating expenses up 2%
 - Staff costs down 3%
 - Other operating expenses increased 4%
 - Higher network costs due to further improvements in network quality and rising data usage
 - Higher rental for offices and stores
 - Lower sales & marketing and general administrative expenses

Lower depreciation & amortisation



- Handset subsidy amortisation
- Amortisation of licence fee
- Depreciation & disposal loss

- Fixed asset depreciation up 18%
- More than offset by 17% decline in handset subsidy amortisation

Net finance costs

(\$m)	FY13	FY14
Finance income	19	57
Net exchange gain / loss	18	(18)
Finance costs	(46)	(102)
Deemed finance charges		
Spectrum utilisation fee	(91)	(80)
Asset retirement obligations	(2)	(2)
Total	(102)	(145)

- Secured long-term funding for 3G spectrum renewal in 2016
 - Finance income increased due to higher cash holding
 - Finance costs increased due to bond issuance and additional bank borrowings procured at favourable terms

- Net exchange loss from RMB deposit

Conservative debt profile

- Long term funding in place for upcoming spectrum renewal and CAPEX requirements
- Well-protected from future rise in interest rate
 - Interest rate profile: 80% fixed; 20% floating
 - Average fixed-rate funding cost at 3.54%

Tax deductibility of Spectrum Utilization Fee

- SmarTone is contesting the Inland Revenue Department (“IRD”) on deductibility of upfront Spectrum Utilization Fee payment
- Tax provision of \$22 million made in FY14
- Effective tax rate higher due to IRD’s position

Prospects

Prospects

- Some signs of firmer pricing
- Challenges in monetizing higher data usage
- Higher costs – spectrum, operating costs, depreciation and tax
- Stringent cost control and productivity enhancements
- Re-entered fixed broadband market as a virtual network operator
- Continuing focus on quality and innovation for new services

Appendix – financial Information

Group Profit & Loss

(\$m)	FY13	FY14
Revenues	12,067	13,244
Cost of inventories sold	(6,214)	(7,743)
Staff costs	(698)	(679)
Other operating expenses	(2,183)	(2,260)
EBITDA	2,971	2,563
Depreciation, amortisation & disposal	(1,853)	(1,755)
EBIT	1,118	807
Net finance costs	(103)	(145)
Profit before income tax	1,015	663
Income tax expense	(167)	(131)
Profit after income tax	848	532
Non-controlling interests	(5)	5
Net profit	843	537

Group Balance Sheet

(\$m)	Jun 13	Jun 14
Fixed assets	3,186	3,396
Intangible assets	2,989	2,378
Other non-current assets (incl. debt securities)	103	100
Cash, bank balance ⁽¹⁾	2,510	3,165
Other current assets	841	753
Bank borrowings ⁽¹⁾	(1,075)	(1,318)
Notes payable ⁽¹⁾	(1,520)	(1,522)
Customer prepayments and deposits	(1,074)	(636)
Other current liabilities	(1,873)	(2,358)
Other non-current liabilities	(1,038)	(706)
Net assets	<u>3,048</u>	<u>3,250</u>
Share capital	104	105
Reserves	2,882	3,088
Total equity attributable to equity holders	2,986	3,193
Non-controlling interests	62	57
Total equity	<u>3,048</u>	<u>3,250</u>
⁽¹⁾ <i>Cash & bank balance</i>	2,510	3,165
<i>Bank Borrowings</i>	(1,075)	(1,318)
<i>Notes payable</i>	(1,520)	(1,522)
<i>Net debt balance</i>	<u>(85)</u>	<u>324</u>
⁽²⁾ <i>Shares in issue at balance sheet date (million)</i>	1,037	1,040
⁽³⁾ <i>Net book value per share</i>	\$2.9	\$3.1

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