# 12pc profit rise for Telecom

BY CHRISTINE CHAN

HONGKONG Telecom, buoyed by booming telephone traffic with the mainland and steady growth from major operations, yesterday reported a 12 per cent rise in profits to $5.67 billion for the year ending in March.

Amid speculation the company will lose its domestic monopoly, chief executive Michael Gale said he expected increasing competition in the mid-term, but said the company was ready to meet the challenge. Telecom's domestic franchise extends until 1995, but its international voice franchise is secure until 2006.

Analysts said Telecom's results, lower than market forecasts, were uninspiring given its considerable income from local and international telephone operations and contributions from related business.

Telecom's performance was eroded by a 98 per cent jump in taxation to $833.4 million, brought about by a new taxation arrangement that prevents the use of aircraft leasing schemes to defer taxes, analysts said. Telecom's tax rate rose to 13 per cent from 8 per cent last year, Baring Securities said. Hongkong Telecom's share price dropped 35 cents to close yesterday at $9.75 in response to the results.

Still, Hongkong Telecom, controlled by Britain's Cable and Wireless Plc, was capable of maintaining a reasonable profit margin by reducing its operating costs by nearly $1 billion to $12 billion, analysts said.

A 10 per cent rise in the cost for allocations of other administrations and the dismal 1 per cent rise in the cost for salaries has reflected the company's improved control in reducing cost.

**BUSINESS QUOTE**

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Operating profit for Hongkong's biggest listed company, therefore, rose by 23 per cent to $6.34 billion even the turnover rose by 13 per cent to $18.4 billion.

A dividend of 20.5 cents will be paid for a total payout of 38 cents.

Earnings per share was 50.9 cents, up from 45.4 cents.

Mr Gale said the results were satisfactory, particularly on the 35 per cent rise of traffic between Hongkong and China. He said China accounted for more than 40 per cent of total international telephone traffic.

A 23 per cent rise was recorded for international telephone traffic, which accounted for 60.3 per cent of the total turnover of last year.

On the new regulation arrangements for the franchised telephone company, Mr Gale said he would not comment on the issue as discussions were still continuing with the Government. "But I can assure you the discussions going on will be beneficial to both Hongkong Telecom and Hongkong," he said.

He said this was based on a criteria whereby interests of customers and shareholders could be satisfied by the new scheme of arrangement.

Although the review has yet to be released, the Executive Council on Tuesday agreed in principle of opening up the telecommunications market by 1995 when the franchise for local telephone expires.

This would put Hongkong Telecom in a position whereby it will no longer enjoy the monopoly it has previously.

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## Profit rise of 12pc for Telecom

The scheme of control of the local telephone operations was expired March last year. As part of the new control arrangement, future tariff levels for local telephones would be based on a formula equivalent to the prevailing inflation rate minus a fixed percentage, said to be between 2.75 to 4 per cent.

The fixed percentage was the incentive rate for Hongkong Telecom, a rate for the company to initiate a higher growth.

Mr Gale said the value of the rate would be concluded only after the new control had been implemented for three to four years.

Hongkong Telecom was understood to be willing to reduce the tariff of the international telephone operations by some 7 to 8 percentage points.

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