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A ringing recovery for Telephone Co

Anyone reading the latest profit figures of the Hongkong Telephone Company would find it hard to believe that it was the subject of a Commission of Inquiry a little more than a year ago, for the turnround in its fortunes is to say the least remarkable.

A combination of factors was responsible including a substantial increase in revenue resulting from the higher charges announced last year, coupled with a fall in demand for a telephone service and a curtailment in the capital expansion programme resulting from the Government's counter-recessionary measures.

As the Chairman, Mr G. R. Ross says, the net result is, that the company is in a much stronger financial state. It also has sufficient working capital for its foreseeable requirements, and as a result the company feels able to recommend a final dividend of $1.10 a share which is likely to be maintained on the increased (9 for 25) capital this year.

There is no wish to rub salt in the company's fast-healing wounds though it would have been a little more gracious if the Chairman had given full recognition to the recommendations of the commission, as acknowledged by Mr F. L. Walker, the company's General Manager, last year.

Particularly is this so since next year's proposed 15 per cent increase in charges came from the commission, not to mention the revamping of the company's management structure and suggestions for improving prospects for senior local staff, both of which have now been acted on.

And indeed it is hard to imagine the company, as it is now constituted, encountering problems similar to those which caused a serious cash flow in 1974.

There have been some public murmurs recently about a further increase in charges next year, although it is by no means certain that the figure will be the full 15 per cent. This only demonstrates how short people's memories are and also the surprising ignorance that persists on basic accounting principles.

It may be recalled that one of the proposals the commission considered and set aside was a message rate, or a charge for each call a subscriber made.

The general hope will doubtless be to avert such a change for as long as possible. But this being so, if we expect to maintain a healthy public telephone service, a fair return on shareholders' funds has to be accepted.

The commission recommended 16 per cent and this was accepted by the Government and somewhat reluctantly by the company. There is no case now for trying to reduce it to 14 per cent and certainly the company needs a few years on its present basis to see how the scheme of control works out before it is reconsidered.

In the meantime, the public must recognise that the commission was not designed to put a stop to increases in charges – indeed one of the main reasons for the company's cash flow problems was its failure to apply for periodic increases in the nine years prior to 1974.

The Telephone Company will only remain healthy so long as subscribers accept that they must pay a reasonable price for the service. In this day and age that means gradual increases, regardless of the efficiency of the management or the quality of supervisory control by the Government.