

## BUSINESS REVIEW

### **International Telecommunications Services**

The Group's international telecommunications operations remained a major revenue earner yet with a much leaner cost structure. Faced with keen competition, the average sales rate per minute charged by the Group has dropped by 30%. However, the impact was offset by the even lower cost per minute which decreased by 38% over the period. The significant drop in cost is a result of stronger bargaining power with suppliers, directly resulting in higher gross profit margins. Operating costs were also reduced due to the scaled back of advertisement spending and marketing budget.

Because of falling rates, total turnover from the International telecommunications business dropped by 27% to HK\$433.6 million. Nonetheless, the Group maintained stable International telecommunications traffic volume, recording a slight increase to 250 million minutes between September 2000 and February 2001.

Calls to the Mainland made up 50% of the Group's outgoing IDD traffic, followed by the US and Canada market at 22%. These three markets totaled 177 million minutes of traffic.

During the period, the Group continued to enjoy a healthy mix of retail and corporate customers.

### **Local Fixed Network Services**

The dial-up Internet access service as well as the broadband Internet access service under the operation of our subsidiary, Hong Kong Broadband Network Limited made much progress during the period.

Last year, the Group began to introduce various new dial-up Internet access service packages in order to secure a stronger revenue base. Response to this has been positive as migration from free dial-up service to fee-based service has been steady, contributing a significant growth of 30% in revenue as more users have become paying customers. Dial up Internet access service provided by the Group now accounts for approximately 19% of the market in Hong Kong in terms of traffic volume.

The Group's broadband Internet access service, which is the first service offered under its wireless local fixed network licence, continues to grow. As the Group spearheaded with its network installation, its territorial coverage expanded rapidly. As at the end of February 2001, a total of approximately 160,000 homepass in the SAR is accessible to the Group's broadband services. Growth also came in the higher end corporate sector. Combining the dial up and broadband access services, the Group has over 430,000 registered residential and corporate subscribers.

### **Content and e-commerce businesses**

The Group began scaling down its content and e-commerce operations since last November in view of market situation and limited business prospects. The investments and expenses of these ventures will pose no further drain to the Group.