CHRISTMAS COMES EARLY … SOMETIMES

When the international, telecommunications monolith, London-based Cable and Wireless plc, sold its majority stake in its Asian, telecommunications subsidiary to Mr Li Ka Shing's Pacific Century CyberWorks Ltd (Code: 8, Main Board, The Stock Exchange of Hongkong Ltd), it caused a great deal of excitement.

Cable and Wireless HKT Ltd, on August 17, this year when the deal was cemented, was the largest wired telecommunications company, based in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC).

The oohs and aahs were innumerable and could be heard from Statue Square, the HKSAR, to Tiananmen Square, Beijing, to Fleet Street, London, to Wall Street, New York.

The world hailed the Li Ka Shing Camp, once again, as the corporate superman of the world.

But, to Cable and Wireless plc, its management must have thought that Christmas had come a bit early in the new millennium.

The deal amounted to about $US6.50 billion (about $HK50.44 billion) in cash plus 4.50 billion shares in the Issued and Fully Paid-Up Share Capital of Pacific Century CyberWorks.

The shareholding in Pacific Century CyberWorks represented, at the time, a 20.20- percent equity stake in the Internet-related company.

The price of the shares, taken in by Cable and Wireless plc in Pacific Century CyberWorks, for the sake of the deal, was $HK15.80 per share.

So, for a total consideration of $US15.70 billion (about $HK122 billion), Cable and Wireless plc gave up 54 percent of Cable and Wireless HKT Ltd to the Li Ka Shing Camp.

There were smiles all around the many boardrooms in the HKSAR, especially when Mr Li Ka Shing informed his friends in certain PRC banks with offices in the HKSAR that they should afford whatever his son, Richard, needed by way of bridge financing in order to complete the transaction.

The British management of companies, of the ilk of Cable and Wireless plc, is not stupid: It knows a good thing when it sees it.

One has to consider: How many companies/people in the world could afford a price tag of $HK122 billion-plus for a company that is fast losing its position within its chosen industry, a company whose Turnover had dropped 7.51 percent, from the 1998 Figure of about $HK35.04 billion to the 1999 figure of about $HK32.41 billion, while, in the course of the same Financial Year, its Net Profits were shaved down about $HK5.52 billion, about 32.41 percent, from about $HK17.03 billion to $HK11.51 billion?

And, for the first 6 months of the 2000 Financial Year, further rot was seen as Cable and Wireless HKT's Operating Profit fell once again, from the 1999 figure of about $HK4.34 billion to the 2000 figure of about $HK4.20 billion, a drop of about 3.23 percent.

Cable and Wireless plc had, at the time that it was negotiating with the Li Ka Shing Camp for the sale of Cable and Wireless HKT Ltd, an offer on the table from the Singapore, Government-backed, Singapore Telecommunications Ltd, but it decided that it would run with the offer of Pacific Century CyberWorks Ltd, which appeared, on the surface, to represent more money for the shareholders of Cable and Wireless plc.

But appearances can be misleading.

In retrospect, Cable and Wireless plc must have regretted its decision to agree to the Li Ka Shing offer for Cable and Wireless HKT Ltd rather than accept the Singapore Telecommunications's offer.

The market capitalisation of Pacific Century CyberWorks fell from about 62 percent from August 17, 2000 and today's stock-market price, with the Pacific Century CyberWorks's share price of $HK15.80 dropping back to about $HK6 within a period of 3 months, reducing, in real terms, the amount of cash that Cable and Wireless plc could realise from the sale of the Pacific Century CyberWorks's shares on the open market.

Hindsight is always 20-20 vision, of course, but it was very clear, even at the time of the agreement between Cable and Wireless plc and Pacific Century CyberWorks that, at best, it was a risky deal, as far as the British were concerned.

Greed is a wondrous thing, of course, and that is the obvious ratio decidendi when one embarks on any business venture.

But, by accepting the Pacific Century CyberWorks's offer, management of Cable and Wireless plc assumed the posture of a lady of the night, liberal with her voluptuous charms and with arms akimbo and legs tingling with the excitement of the magic of the unseen and only yet imagined in the minds of johns … and quite willing to be impregnated for a negotiated fee.

As it turned out, both Cable and Wireless plc and Mr Li Ka Shing's Pacific Century CyberWorks probably rue the day that they signed the Cable and Wireless HKT Ltd contract because, as already stated, Cable and Wireless would have fared better with the offer from Singapore Telecommunications, while Pacific Century CyberWorks/Mr Li Ka Shing is still trying to raise money to pay for his extravagance.

Looking with a very jaundiced eye at what Pacific Century CyberWorks bought, one notes that it was nothing short of a colonial dinosaur, which was incapable of competing on an international scale, any further, using the colonial management methods under the previous, autocratic management style of Mr Linus Cheung.

When Cable and Wireless HKT Ltd had the monopoly in the HKSAR for all long-distance telephone calls, it did very well, financially – and so it should have done.

In its heyday, it operated on the basis that, as far as voice communication was concerned, it was a *'commodity'*, from a functional point of view, whereby the pricing of this *'commodity'* was dependent on time and distance: The longer the time that a person spoke, using the services of the company, and the further away was the distance, the larger the bill.

And the more lengthy a period of time that people spoke, and the further were the distances that people telephoned, the more profits were racked up by the company that held the long-distance telephone monopoly.

In fact, the idea, that time and distance were coefficients to the pricing formula, was an erroneous formula that the world swallowed for many a decade.

Distance and time duration, as the world has come to realise, play no part in price determination over the Internet.

And it has been demonstrated that voice communication devices, using the Internet as the conduit, will replace the telecommunications dinosaurs of yesterday's world -- with no trouble at all.

Cable and Wireless plc must have seen the writing on the wall: Its days, in its original form, were numbered.

Mr Li Ka Shing, on the other hand, saw something else, other than having to find tens of billions of dollars in cash in order to placate the bankers who trusted him with the purchase cost of buying out, in a Universal Offer, the entire Issued and Fully Paid-Up Share Capital of Cable and Wireless HKT Ltd.

(TARGET and the world have yet to be made privy to Mr Ka Shing's determinations, which caused him to incur this burden which, really, he did not need)

The Revolution

There will be, in the very near future, cheaper and cheaper voice communication because, in truth, distance and time are not determinants in the internationally accepted manufacturing formula: A+B+C= D.

('A' equals the cost of raw materials; 'B' equals the cost of raw materials; 'C' equals the Profit Margin; and, 'D' equals the unit price)

Pervading all aspects of the telecommunications revolution of the 21st Century is the increasing capacity of networks and the diverse service which that increased capacity now makes possible.

The basic voice services of telecommunication companies, such as Cable and Wireless plc, traditionally carried by the copper wire and then by the Japanese developed fibre optic cable, found itself incapable of coping with the requirements of the Internet revolution.

And Broadband was born.

Broadband, generally speaking, is any telecommunications service, which uses more capacity than is required for voice communication.

That is, of course, an oversimplification, but it is sufficient to understand the importance of the concept, which has taken the world by storm.

An expansion of economically viable bandwidth capability is a foregone conclusion.

As such, broadband is here to stay, but it is quite likely that there will be *'super-broadband',* followed by *'super-broadband II'*, then *III,* then *'multi-broadband duplex*' and so on, and other such jargonistic improvements in the technology, during the next few years.

If any single aspect of the new 21st Century telecommunications revolution can, truly, be said to have been disruptive of traditional voice communication, broadband is that *'animal'*.

The advent of broadband has given migraine headaches to companies the world over because it allows opportunities for new entrants to carve out a piece of the traditional markets of companies of the ilk of Cable and Wireless plc.

And the new entrants to the marketplace do not have to have the squillions of dollars that used to be required as the entrance fee for doing business on an international scale.

Broadband has made the marketplace cutthroat to an amazing degree.

It is expected that companies will fall by the wayside, year after year, in the coming decade.

With broadband as the future, then comes Internet Protocol (IP), naturally, as the protocol of choice.

There are no other choices, at this time.

Revenues from only voice communications are revenues of the past; no company of any merit can stake its future on such income.

Revenues from this single source are being shaved down, year after year after year.

In addition, wireless communication is, more than likely, going to replace wired communication, in the same way that Satellite Navigation (SATNAV), followed by the Global Positioning System (GPS), has, just about, replaced the sextant and Air Navigation Tables.

The world of telecommunications is being turned on its head and doing topsy turvies as an encore.

The ultimate portals may well be the mobile telecommunications companies, such as China Mobile (Hongkong) Ltd (Code: 941 – Main Board of The Stock Exchange of Hongkong Ltd).

(China Mobile (Hongkong) Ltd is the biggest mobile telecommunications company in the People's Republic of China, today.)

Another big player is Japan's Nippon Telegraph and Telephone Corporation (NTT) and its mobile offshoot, NTT DoCoMo Corporation.

(NTT is the largest such company in Japan and, easily, one of the largest in its field in the world)

Broadband brings with it a new kind of economy, with traditional costings, no longer being considered valid.

Whereas voice communication revenues are fast fading, broadband permits a diverse array of new revenue-producing services.

Interestingly enough, however, ownership of networks is becoming increasingly irrelevant because one network is much like another.

In days of yore, Cable and Wireless plc, with its international networks, plus the Cable and Wireless name, were worth a king's ransom due to its colossal infrastructure and goodwill.

Today, the wired infrastructure of yesteryear can be replaced by wireless technology -- somebody else's burden -- on which the new telecommunications companies can ride, piggyback.

Proliferation of new telecommunication players, internationally, those who stay for the long pull and those who fade into the ether, will become commonplace.

Regional considerations no longer apply: Today, the world of telecommunications is an international arena, which cannot be constrained by political boundaries.

While new players will bring with them new ideas and attendant new services, resulting in increasing revenues from impulse buys, etc, excess revenues for operating networks may be difficult to find in the near-term future.

The death of distance is guaranteed, but there are other smaller *'deaths'*, looming, too.

Love: The Little Death

Cash flows over the next decade are likely to be a major problem for many an ambitious new player.

Pacific Century CyberWorks makes no bones about its cash requirements, having to bite the bullet in its negotiations with the Australian, Government-backed telecommunications giant, Telstra Corporation.

No matter how much money a mogul may have at her/his disposal, today, it will not be sufficient for his company's new cash requirements if he/she is determined to be a major player in the international power game.

And, it will never be sufficient.

Because the appetite of new technology is avaricious.

A company may love a new technological development, but the cost of its acquisition or application may be likened to the sacrifices that are required by those who would prostitute their lives to a *'marriage'* with a mythical god – while the biological sap continues to rise.

The very high costs of the Third Generation Licences (3-G) are an area where one may see rapid deterioration of cash flows.

The demand for more cash shows no signs of abating, even for the Li Ka Shing Camp.

The 3-G influx in the marketplace, internationally, will result in new revenue streams, from games, to e-commerce, to videos, to advertising.

But only the very financially strong will survive: There is no room for the undercapitalized company since the entrance costs are so high.

For investors, the world over, it is difficult to pick the winners and losers – because they do not exist, at this time.

Time will tell which companies will be able to grab the golden ring on the telecommunications roundabout.

When the shakeout comes, and it, definitely, will come, there will be plenty of time to jump on the 3-G wagon.

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