

# City Telecom (H.K.) Limited

(NASDAQ: CTEL / HKEX:1137.HK)

Bay Crest Webcast



NiQ Lai, CFO

24 June 2010



# Safe Harbor Statement



**This presentation contains forward-looking statements and information that involve risks, uncertainties and assumptions. Forward-looking statements are all statements that concern plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact, including, but not limited to, those that are identified by the use of words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects" and similar expressions.**

**Risks and uncertainties that could affect us include, without limitation: changes in technology; changes in the regulatory environment in which we operate, or changes in the rules and policies that government regulators apply to our businesses; increased competition in the international services or fixed telecommunications network services; the benefits we expect to receive from our continuing capital expenditure on our network; our ability to both maintain growth and successfully introduce new products and services; and the continued development and stability of the technological infrastructure we use to provide our telecommunications and Internet services.**

**Should one or more of such risks and uncertainties materialize, or should any underlying assumption prove incorrect, actual outcomes may vary materially from those indicated in the applicable forward-looking statements. Any forward-looking statement or information contained in this presentation speaks only as of the date the statement was made.**

# Digital Versus Film Camera



## Digital Camera

- Camera Cost: approx US\$1000
- Photo Capacity: approx 15,000 (32GB card)
- Cost per Photo: cents

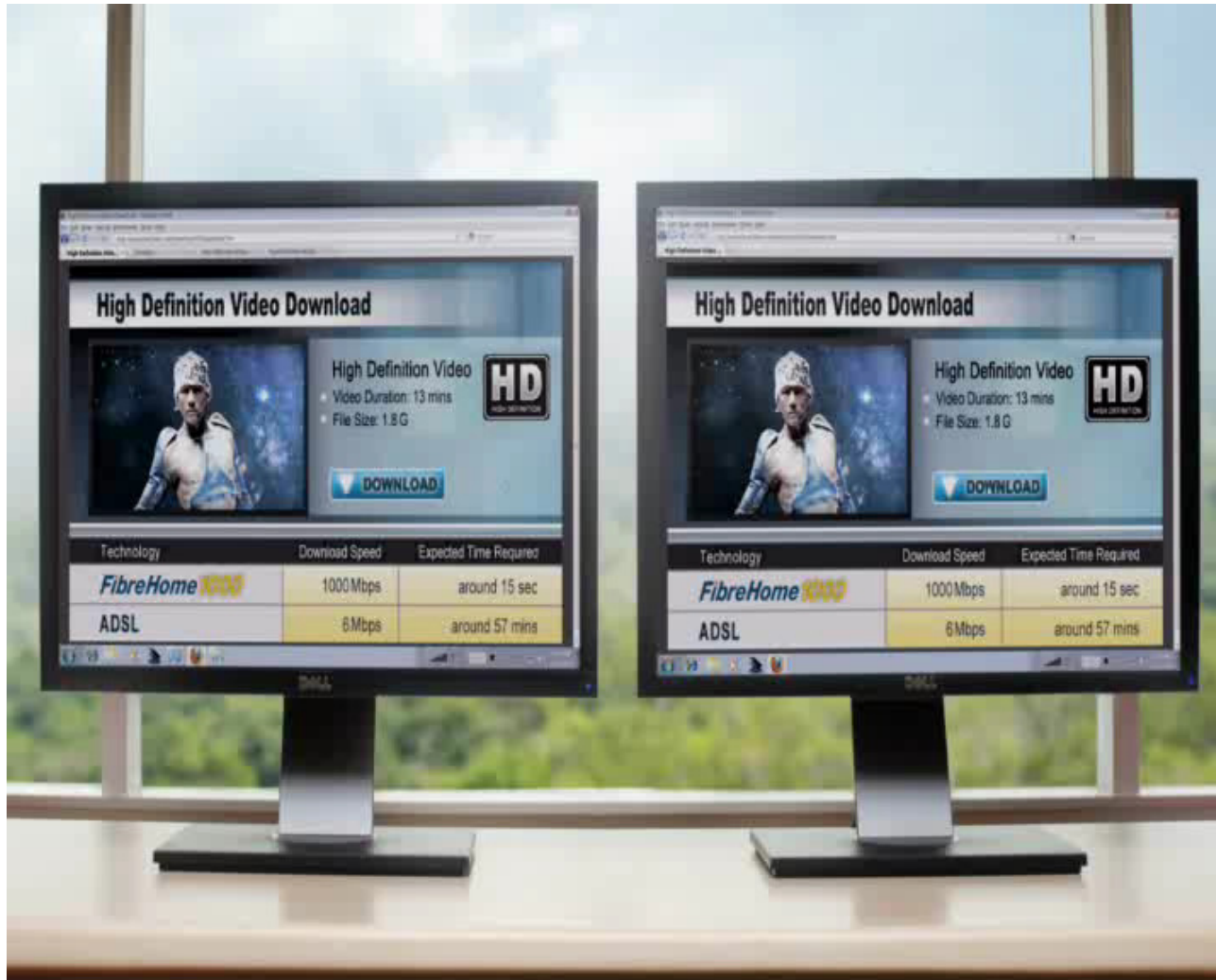


## Film Camera

- Camera Cost: approx US\$1000
- Photo Capacity: 36 (standard film roll)
- Cost per Photo: dollars



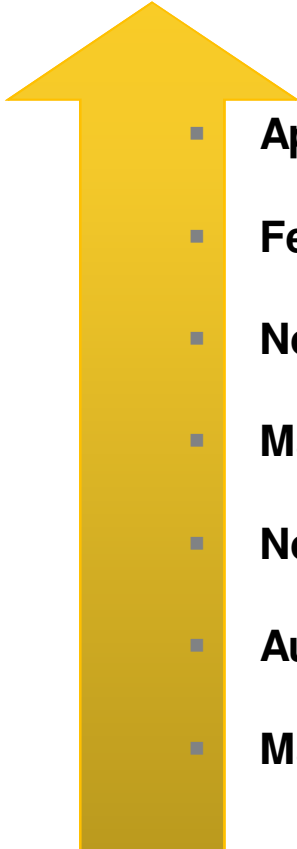
# US\$400 mn investment over 10 years



Click to watch on youtube: <http://www.youtube.com/watch?v=GOALnjECZHE>

# 18 Year Corporate Track Record



- 
- **Apr '10** Launched World leading 1 Gbps service at US\$26/month
  - **Feb '10** Fully redeemed US\$125 million senior notes
  - **Nov '09** Launched 100Mbps to US\$13/month
  - **Mar '00** Launched broadband internet services
  - **Nov '99** ADR listing on the NASDAQ National Market
  - **Aug '97** Listed on the Stock Exchange of Hong Kong
  - **May '92** Incorporated in Hong Kong as a reseller of IDD services

***10 years track record on NASDAQ***



# Investment Highlights



**1. Leading Fibre Infrastructure in Hong Kong**

**2. Compelling Value Proposition and Structural Cost Advantage**

**3. Clear Growth Execution**

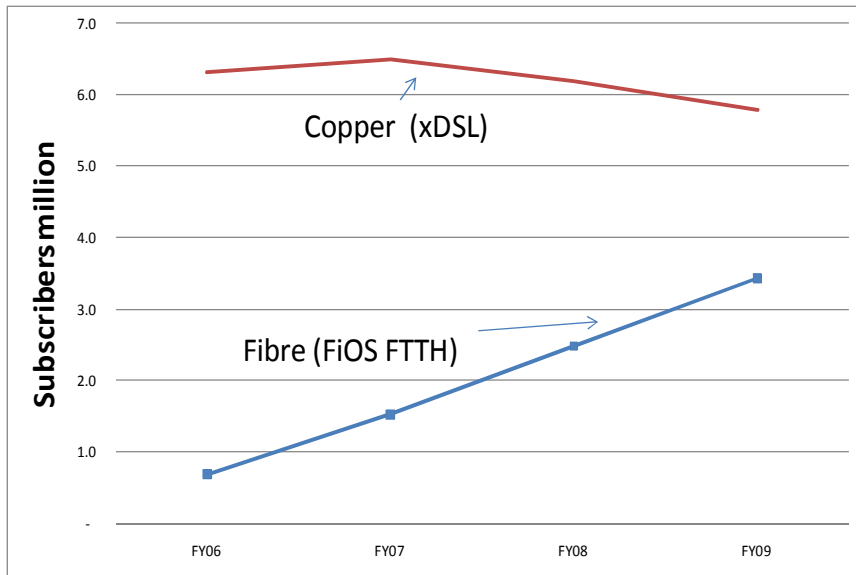
# Fibre-To-The-Home Global References



## Verizon FiOS in the US

- For year to Dec 31, 2009, 56.5% growth in FiOS revenue to US\$5.5 billion, with 3.4 million subscribers on 15.4 million homes pass
- CTEL's cost per home pass of US\$200 is 1/5th of Verizon FiOS

### US Verizon's Fibre vs Copper Trends

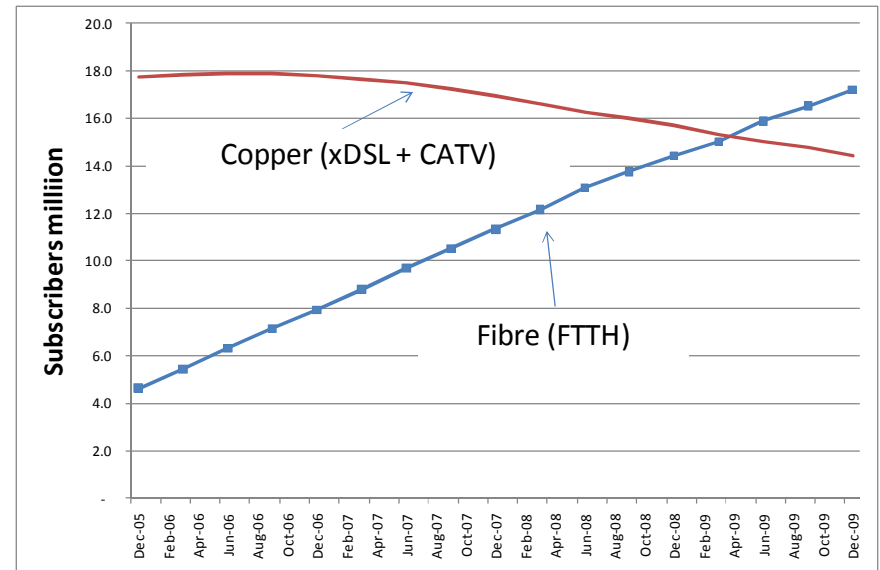


Source: Verizon FY09 Annual Report

## FTTH's success in Japan

- In Japan, FTTH overtook copper-based xDSL in 2008
- FTTH posted compound annual growth rate of 39% between Dec 2005 to Dec 2009
- Hong Kong is behind Japan in terms of subscribers trend

### Japan's Fibre vs Copper Trends



Source: Japan's Ministry of Internal Affairs and Communications

# Hong Kong's Extreme Density



- Hong Kong is one of the most densely populated cities on Earth
- Extremely compelling “Addressable Income per Fibre Mile”
- US\$200 cost per home passed compares with US\$1,000-4,000 for US, Japan and European benchmarks

Country	GDP/ Capita (2009, US\$)	Pop (million)	Area (mi <sup>2</sup> )	Density (mi <sup>2</sup> )
HK	29,559	7	428	16,355
US	46,443	307	3,717,813	83
Japan	39,574	128	145,868	877

IMF 2009 data





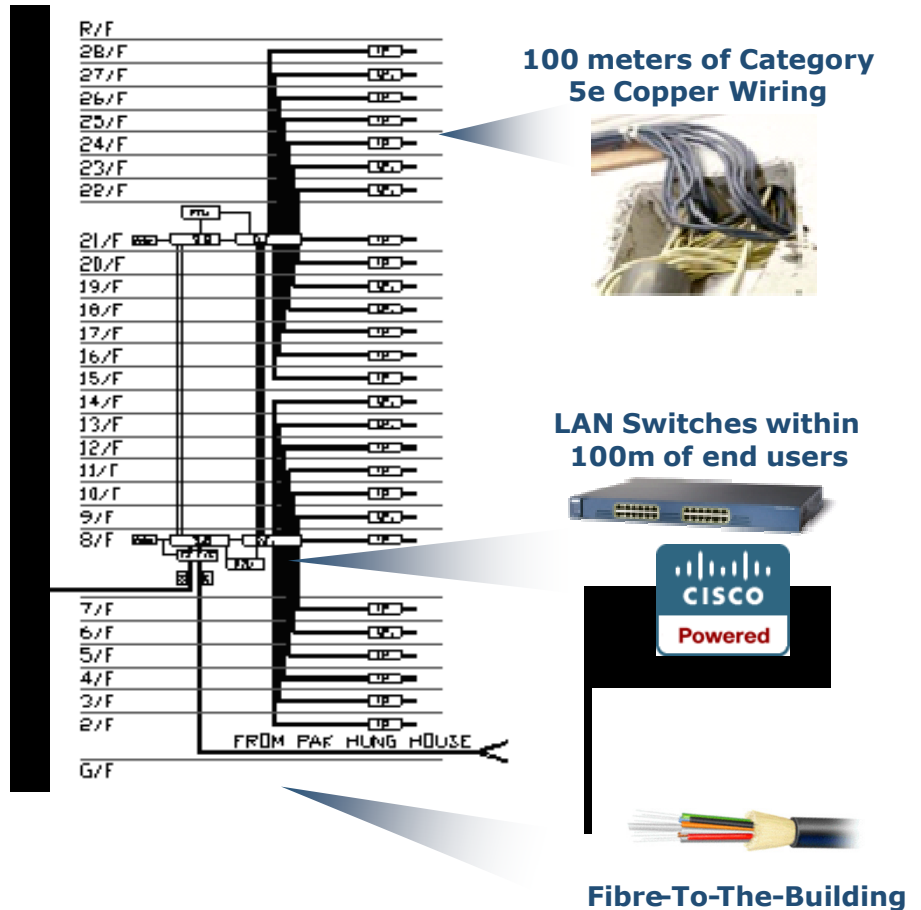
# High Barrier to Entry



- Over 10 years and accumulated investment of US\$400 million for this purpose built Fibre network
- State-of-the-art technology – long-term relationship with Cisco
- For followers, significant in-building bottlenecks in completing an end-to-end network

**Last mile is very congested, forming a bottleneck to copy-cat operators.**

## In-Building Diagram



## Focus on the Mass Residential Market



- 83% of CTEL's FY09 revenues came from the mass residential market. Mass residential is under-served and attracts the least amount of facilities-based competition
- The mass residential market demands higher bandwidth per capita than corporate and is harder for incumbent to defend due to diverse customer base
- By targeting the 90% most dense areas of Hong Kong, CTEL can keep average costs extremely low

# Compelling Value Proposition



(All price in US\$)	City Telecom		PCCW		i-Cable		Hutchison Telecom	
	bb1000	bb100	100M	8M	130M	10M	100M	10M
Broadband Technology	FTTH	FTTB	FTTH	ADSL	Hybrid Fibre Coaxial	Hybrid Fibre Coaxial	FTTB	VDSL
Download Speed	1,000Mbps	100Mbps	100Mbps	8Mbps	130Mbps	10Mbps	100Mbps	10Mbps
Upload Speed	1,000Mbps	100Mbps	100Mbps	0.8Mbps	10Mbps	1.5Mbps	100Mbps	10Mbps
Market Price	\$26	\$13	\$76	\$13* / \$19#	\$39	\$20	\$13	\$11
\$ per Mbps (Download+Upload)	\$0.01	\$0.06	\$0.37	\$1.44* / \$2.15#	\$0.27	\$1.66	\$0.06	\$0.52
+ Phone								
Additional Price	\$3		\$8		\$2		\$3	
+ IP TV								
Additional Price	\$6 - \$12		\$18 - \$32		\$3.8 - \$31		N/A	

Notes:

Per Mbps prices are rounded down to the nearest cent and other prices are rounded up to the nearest dollar.

Prices are updated as of April 13, 2010,

# A general offer to other estates, \* Only applicable to selected public housing estates

Source: CTCL, PCCW, i-Cable, Hutchison Telecom's website and sales hotlines

# 100Mbps @ HK\$99/month (US\$13)



Launched 1 Nov 2009



**100Mbps Broadband+Home Phone Service \$119/month**  
Register a bb100 connection for just \$99 per month and get a home phone service for an additional monthly fee of only \$20. More amazing service bundles are available. Act now.

**Website : [99bb100.hkbn.net](http://99bb100.hkbn.net) Hotline : 3498 3498**

Customer Service Centre : Rm 1010-1018, 10/F Park-In Commercial Ctr, 6 Dundas Street, Mongkok  
Shops : Hong Kong - New Jade Garden Shopping Arcade, Choi Wan Kowloon - Telford Plaza, Kowloon Bay - Lok Fu Ctr  
Phoenix, Lok Fu, Cheung Chai C, Tai Koo Trail - Hong Tai Sin Shopping Ctr, Lok Yue Man Plaza, Yau Tong, New Territories -  
Sunshine City Plaza, Phoenix A, Ma On Shan - Sha Tin Plaza, Tin Yiu Shopping Ctr, Tin Shui Wai, Metro City Plaza 1, Tseung  
Koon C, Yau Tze Shopping Ctr, Tseung Koon C, Discovery Park, Tsuen Wan - Sun Man Tsuen Plaza, Ocean Walk, Tsuen Wan

\*Subject to terms and conditions of this service plan with 24-month contract period. A penalty service fee of \$500 and a non-refundable installation fee of HK\$500 will be charged. If the total uploading and downloading speed measured from the website at the subscriber's premises in the speed test server located at HK Internet Exchange Centre (HIX) and the guaranteed at not less than 100Mbps. Otherwise, compensation shall be two times the service fee charged for the number of affected days will be paid. Hong Kong Broadband Network Ltd. reserves the right to change these terms & conditions at any time without prior notice.

**bb100** 香港寬頻  
光纖寬頻 Mbps

- At US\$13/month, Why not 100Mbps? ... Rather than, Why do I need 100Mbps?
- Why pay same price for legacy 8Mbps xDSL service
- Cost effective to unbundled for best of breed, i.e. use HKBN's 100Mbps for broadband and separately subscriber to Pay-TV operator of choice



# 1 Gbps @ HK\$199/month (US\$26)



Launched 14 April 2010

A vertical poster for HKBN's 1000M service. The top left corner features the HKBN logo with the text '香港寬頻' and 'HONG KONG BROADBAND NETWORK'. The center of the poster has the text '1000M' in large white font, followed by 'Transform your life.' and 'For just \$199 per month\*'. The background is dark with a network of glowing blue nodes and lines. At the bottom, it says 'Hotline: 3613 1000' and 'apply.hkbn.net/en/1000'. A small disclaimer at the very bottom reads: '\*Valid till May 31, 2010. Subject to terms and conditions including 24-month contract, pre-paid monthly fee of \$300 and non-refundable installation fee of \$990. The offer is applicable in designated residential areas.'

香港寬頻  
HONG KONG BROADBAND NETWORK

1000M  
Transform your life.  
For just \$199 per month\*

Hotline: 3613 1000  
apply.hkbn.net/en/1000

\*Valid till May 31, 2010. Subject to terms and conditions including 24-month contract, pre-paid monthly fee of \$300 and non-refundable installation fee of \$990. The offer is applicable in designated residential areas.

- Effective tariff increase, as 1000Mbps runs on same GPON infrastructure of 100Mbps
- 10x the bandwidth for 2x the cost
- Great for multi-device (PC, laptop, i-Phone, i-Pad etc) families, which is becoming the norm

# On Target – Awareness & Impact



Billboard Star Ferry Pier Carpark



Cross Harbour Tunnel



Bus Shelters Panels in Prominent Locations

# Asia's Best Fixed-Line and Broadband Carrier \*



The image shows a dark-themed award certificate. At the top left is the Hong Kong Broadband Network Limited logo, which includes a stylized 'H' and the Chinese characters '香港寬頻'. At the top right is a circular gold seal with a star in the center, containing the text '2010' and 'Best Fixed-Line and Broadband Carrier'. The main text in the center reads: 'Hong Kong Broadband Network Limited' followed by '“Best Fixed-Line and Broadband Carrier” of Telecom Asia Awards 2010'. Below this, a paragraph states: 'Hong Kong Broadband Network Limited is the fastest growing broadband service provider in Hong Kong. We deliver fibre-based symmetric 100Mbps to 1Gbps\* broadband services with our self-built next generation network.' Another paragraph follows: 'On behalf of Hong Kong people, we are honored to accept the prestigious Telecom Asia Awards 2010 – “Best Fixed-Line & Broadband Carrier”'. A small footnote reads: '\* Local upload and download speed'. At the bottom left, the website 'www.hkbn.net' is listed. The bottom half of the certificate features a night-time photograph of the Hong Kong skyline, with the Victoria Harbour and several illuminated skyscrapers, including the Bank of China Tower.

香港寬頻  
HONG KONG BROADBAND NETWORK LIMITED

**Hong Kong Broadband Network Limited**  
“Best Fixed-Line and Broadband Carrier” of Telecom Asia Awards 2010

Hong Kong Broadband Network Limited is the fastest growing broadband service provider in Hong Kong. We deliver fibre-based symmetric 100Mbps to 1Gbps\* broadband services with our self-built next generation network.

On behalf of Hong Kong people, we are honored to accept the prestigious Telecom Asia Awards 2010 – “Best Fixed-Line & Broadband Carrier”

\* Local upload and download speed

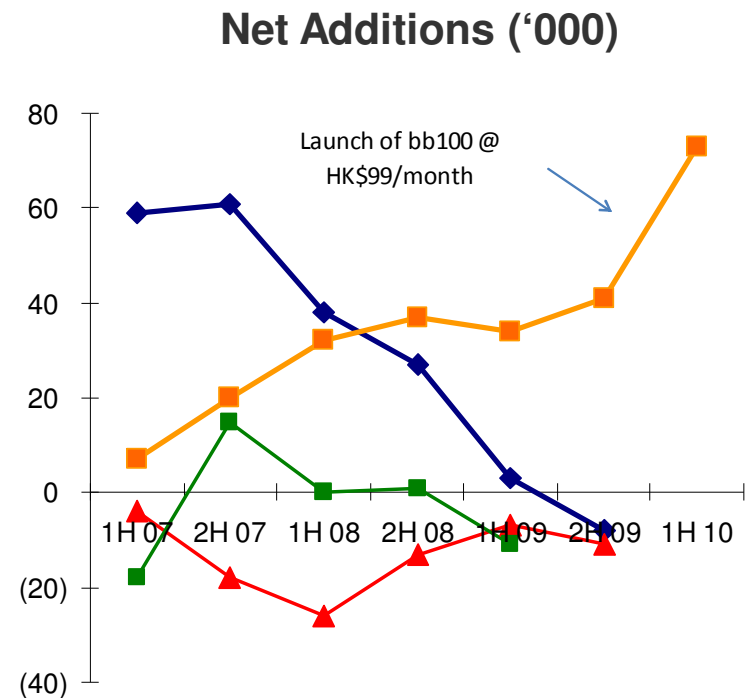
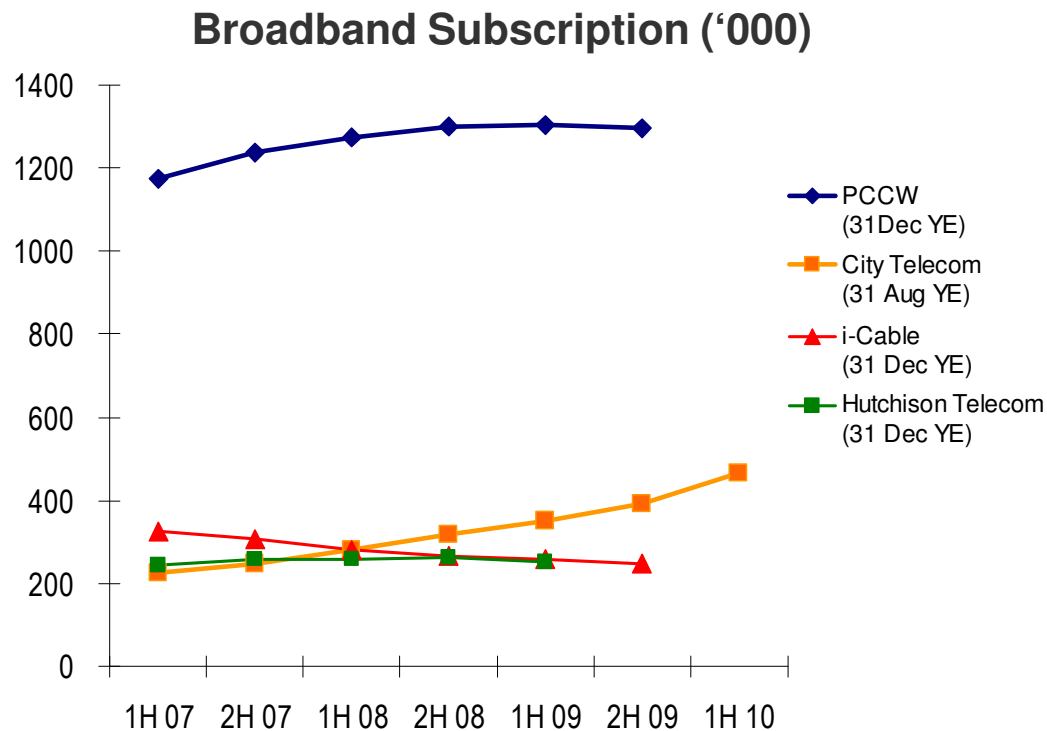
www.hkbn.net

\* Awarded by Telecom Asia Magazine

# Rapid Broadband Market Share Gains



***City Telecom is the only operator to increase market share in the past 3 years.***



Source: PCCW, City Telecom, i-Cable and HTHK Interim and Annual Reports, JP Morgan's HTHK report "Hutchison Telecom Hong Kong Holdings Ltd" dated Aug 12, 2009

Note: PCCW reports "lines in service" rather than subscription. Hutchison Telecom Hong Kong no longer discloses broadband subscription as of Dec 31 2009.



# Capex: Lower Cost & Much Higher Performance



**NGN Scales Logarithmically**



**Vs**

**xDSL Does Not Scale Well**



**Cisco Catalyst 2960 Router with 24  
subscriber ports  
List Price: US\$1,295 or US\$54/port**



**xDSL  
Estimated cost ~US\$200/port**

# Opex: 48% of Talents Based in Low Cost Guangzhou



## Customer Acquisition – Hong Kong (1,633 Talents<sup>^</sup>)

- 14 Fibre Shops
- Numerous “on-the-street” marketing kiosks
- 400 sales representatives



## Customer Retention – Guangzhou (1,520 Talents<sup>^</sup>)

- Customer service prioritized
- Individual client teams
- Proactive up-sell of additional services

Guangzhou  
Salary at 1/3<sup>rd</sup>  
Hong Kong  
Salary



<sup>^</sup>These refer to the number of Talents working in the location indicated as of 31 Aug 2009

# Company Vision Statement



**Big, Hairy & Audacious Goal (BHAG)**

**Set in November 2006**

**“To be the largest IP provider in  
Hong Kong by 2016”**

**Management compensation is based on BHAG Key  
Performance Indicators**

# Mini-BHAG Accomplished

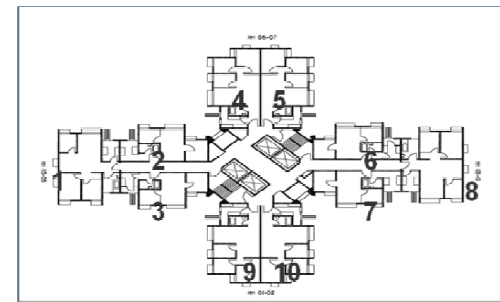


## Case Study: Tsz Hong Estate

Kowloon, Hong Kong

Service Ready Date	Jan 2005
No of Homes	2,000 (5 buildings x 400 homes/building)
Total Capex	US\$189,000
Capex / Home	US\$94
Customer Penetration Rate	58%
Average Revenue Per Customer	US\$22.14 / month

40 floors x 10 homes/floor  
= 400 homes/building



Of the 1.2 million homes in service since Jan 1 2005,  
average customer penetration is 38%



# Growth Execution



## Expansion into Free TV Business

**Raise ARPU via up-selling full suite of triple play services and upgrade to 1Gbps broadband**

**Margin expansion from shift in cost mix from acquisition at 30% of contract sum, to retention at 10% of contract sum**

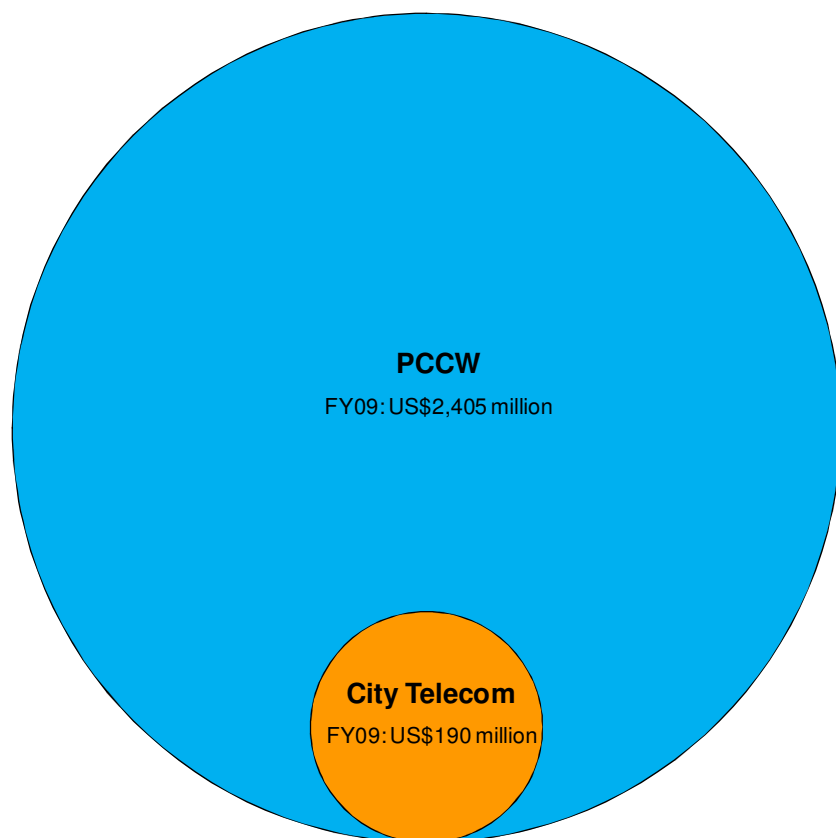
**Scale 464,000 broadband subscribers out of 1.7 million homes pass to 1.0 million broadband subscribers out of 2.0 million homes pass**

**Operating leverage on free cash flow as “capex to sales” halves from 20% today to 10% after 2011, once 2.0 million homes pass expansion is complete**

# Exciting Market Potential

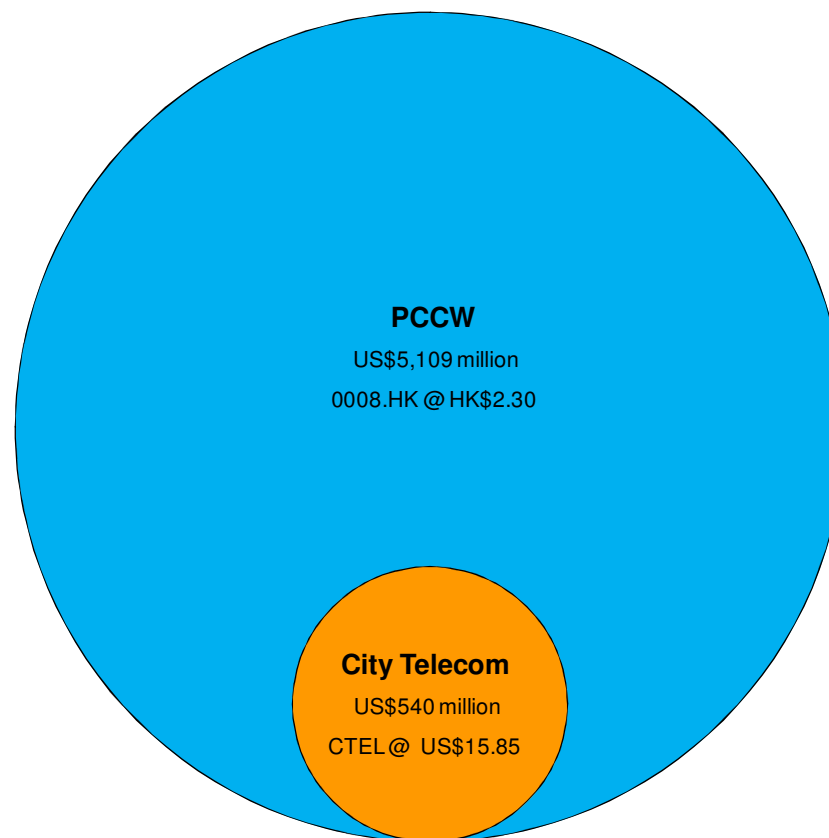


## Revenue Potential



Note: PCCW Revenue = Fixed Telecom Services (TSS) + Now TV only

## Enterprise Value Potential



Note: PCCW as of April 9<sup>th</sup> 2010 market close

# Strong Management Team with Majority Ownership



**Mr. Ricky Wong**

**Co-Founder, Chairman  
Years with Co: 18 years**

**Over 20 years experience in telecommunication and computer industries**

**Bachelor's Degree in Science and EMBA - The Chinese University of Hong Kong**

**Cousin of Paul Cheung, Co-Founder**



**Mr. Paul Cheung**

**Co-Founder, Vice Chairman  
Years with Co: 18 years**

**Over 28 years experience in telecommunication and computer industries**

**Diploma of Advanced Programming and Systems Concepts Design - Herzing Institute, Canada**

**Cousin of Ricky Wong, Co-Founder**



**Mr. William Yeung**

**Chief Executive Officer  
Years with Co: 5 years**

**Over 18 years experience in telecommunication industry including SmarTone Vodafone prior to joining CTCL**

**Bachelor of Arts – Hong Kong Baptist University, Master of Science in Electronic Commerce and Internet Computing – Hong Kong University, MBA - University of Strathclyde, UK**



**Mr. NiQ Lai**

**Chief Financial Officer and Head of Talent Engagement  
Years with Co: 6 years**

**Prior to joining CTCL in 2004, was Director and Head of Asia Telecom Equity Research for Credit Suisse.**

**Bachelor of Commerce - University of Western Australia, EMBA - Kellogg-HKUST, Fellow - CPA Australia, Fellow - HKICPA and Member - Hong Kong Institute of Directors**

**In joint control of 51% shareholding**

**1% shareholding**

**2% shareholding**

Note: Shareholding assume on all employee stock options are exercised.

# Talent Development: CXO of the Future



- Management Trainee Program to Develop our future CEO, CFO, CTO etc in 15-20 years time.
- Requires - CFA Level 1, half marathon, 18 management books, etc.
- 793 applicants from 117 universities for two positions in 2010.





# 2010 Management Offsite - Germany



**Wine Tasting in Vineyard**



**Porsche Factory Visit**



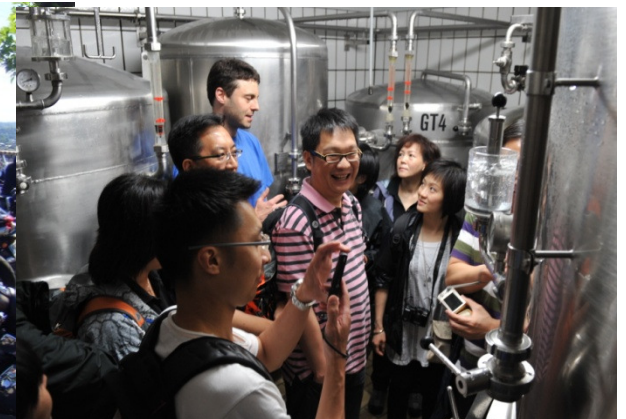
**Dachau Concentration Camp**



**Camping in Black Forest**



**Harley Davidson Festival**



**Beer Factory Visit**



# What You Are Investing In



## City Telecom Management Team, Germany June 2010

- 3<sup>rd</sup> Row:** Boris, Andy, David, Don, Partick, Dick, Ken, Cindy, Sam, Patrick, Jelly, Elvis, Andrew, Steven, Paul, Craig, Joe, Herman, Raymond, Lo Sir, Alex, Ryan, Kenneth, Trasan
- 2<sup>nd</sup> Row:** Ivan, Rosanne, Alice, Mandy, Queenie, Yoyo, Maria, Elsa, Fantastine, Cindy, Ken, Annie, Shirley, Kennis, Mikron, Mike, Anthony, Daniel, Paul, Carrie, Joe, Amanda, Alice, Bonnie
- 1<sup>st</sup> Row:** Jackson, Matthew, Elinor, Leo, Margaret, Ricky, Jessie, William, Earnest, Bing, NiQ, John, Charles, William, Ken, Henry, Tracy, Boris, Christy, Ben, June, Mimi

# ***Financial Overview***



# Strong Financial Results

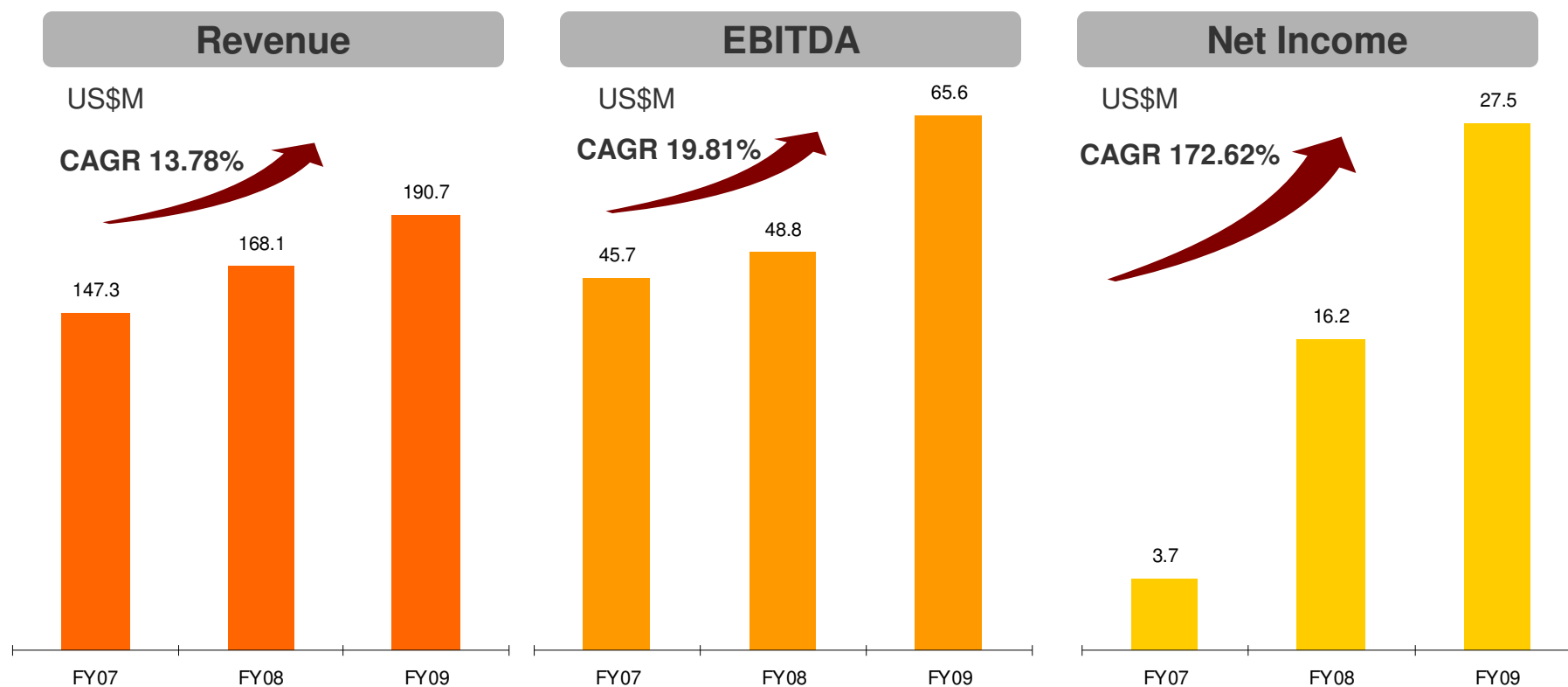


## Twelve Months Ended Aug 31, 2009

- 13% growth in Revenues
- 34% growth in EBITDA
- 70% growth in Operating Income
- Net Cash of US\$7.5 million
- Positive adjusted Free Cash Flow since FY07
- Targeted dividend payout ratio range of 50%-75% of Free Cash Flow (after capex and financing costs)

***After 10 years of investing, CTCL is now in harvesting phase.***

# Strengthened Profitability

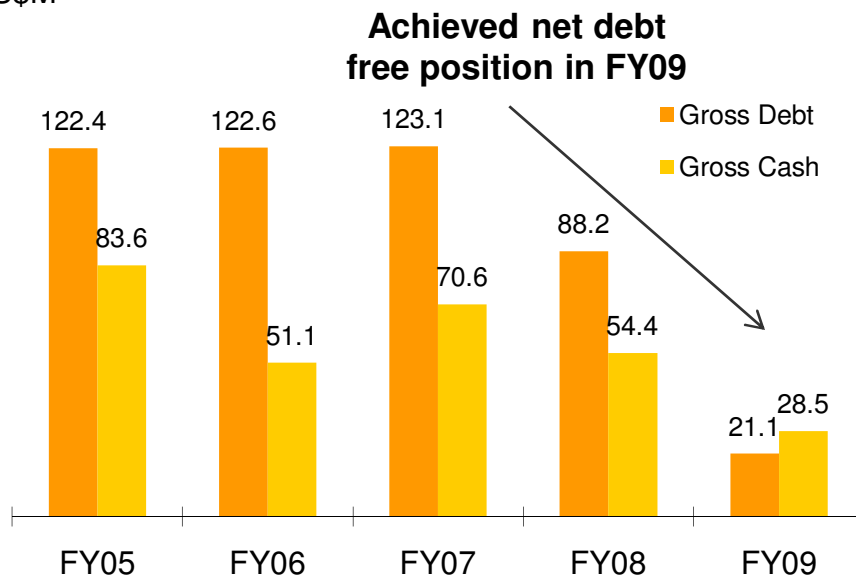


# Enhanced Free Cash Flow



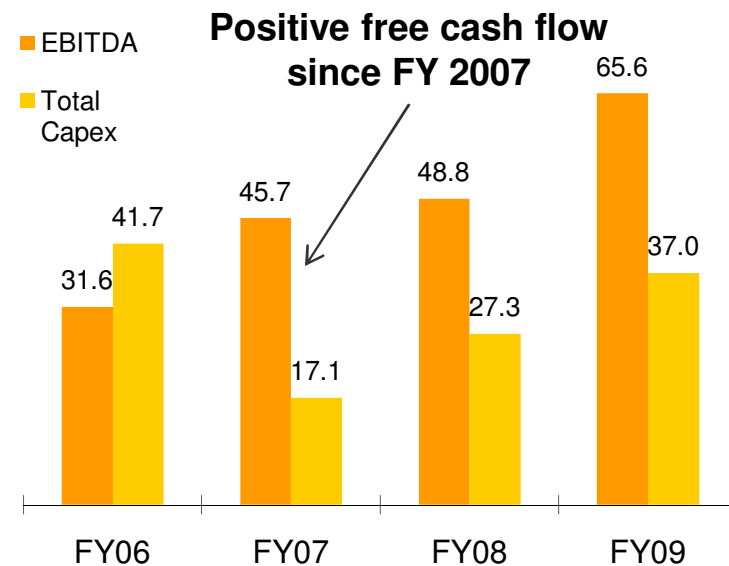
## Net Cash since FY09

US\$M



## Positive Cash Flow since FY07

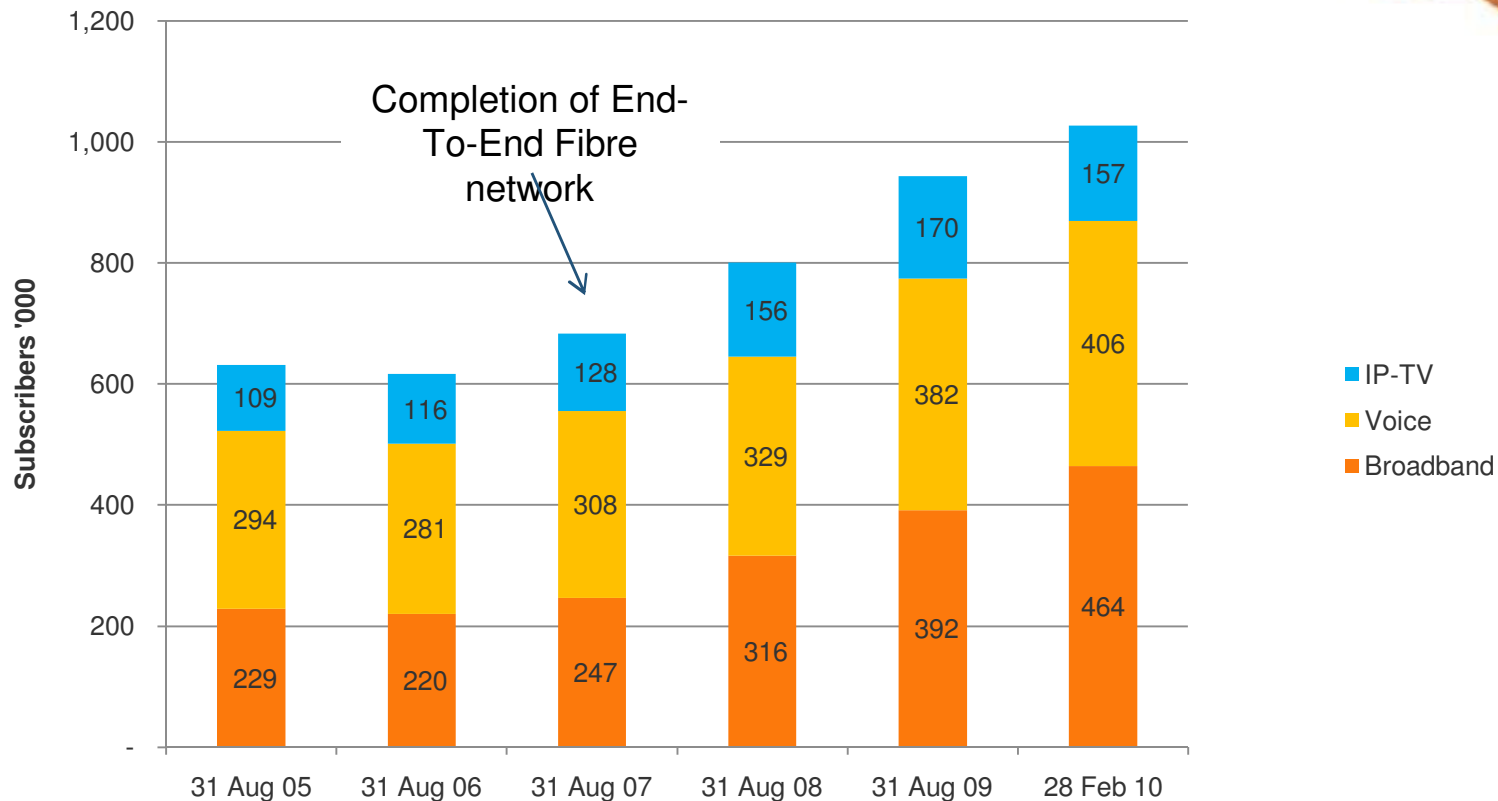
US\$M



***Net debt free and harvesting free cash flow after capex since FY07***



# FTNS Performance - Triple Play Subscriptions



Note: \*includes all registered paid and free, on-net and off-net subscriptions.

***Churn rate at less than 1.0% per month, about 1/2 of global norms***

## Re-affirm FY10 Guidance\*



- ① Accelerate our broadband growth from 391,000 subscriptions as of 31 August 2009 to exceed 510,000 subscriptions by 31 August 2010
- ① Mild revenue growth
- ① Core EBITDA of HK\$477 million, being equal to total FY2009 EBITDA of HK\$508 million minus the gain on extinguishment of senior notes of HK\$31 million
- ① Capital Expenditure below EBITDA at HK\$300-350 million

Notes:

\* As per Guidance issued on 15 April 2010.

# Global Valuation Benchmark



As of June 22 /23, 2010	Ticker	Exchange	Price	Market Cap (US\$ billion)	EV/ EBITDA	PE (ttm)
City Telecom	CTEL	US NASDAQ	\$12.92	\$0.5	6.7	13.2
PCCW	0008HK	Hong Kong SEHK	HK\$2.27	\$1.9	5.8	10.2
Hutchison Hong Kong	0215HK	Hong Kong SEHK	HK\$1.71	\$0.8	5.8	17.6
Fastweb	FWB	Milan BIT	€ 12.79	\$1.2	5.1	na
Iliad	ILD	Paris - EPA	€ 66.67	\$4.5	7.5	41.2
Cogent Communications	CCOI	US NASDAQ	\$8.43	\$0.4	5.9	na
American Tower Corp	AMT	US NYSE	\$44.37	\$18.1	19.4	64.3
Castle Crown International	CCI	US NYSE	\$38.67	\$11.3	16.0	na
SBA Communication	SBAC	US NASDAQ	\$34.63	\$4.1	19.1	na

Source:, EV/EBITDA from smartmoney.com for CCOI, AMT, CCI, SBAC, all other data from company financial filings.

Notes: ttm = trailing twelve months.

# Investment Highlights



**1. Leading Fibre Infrastructure in Hong Kong**

**2. Compelling Value Proposition and Structural Cost Advantage**

**3. Clear Growth Execution**

# Thank You

**Investor Engagement Contact**

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