Management Discussion and Analysis

A. RESULTS OF OPERATION

The Group experienced robust growth in 2000. Its Pay TV subscriber base increased by 15% to pass the 520,000 mark. Its Broadband access service, which was launched at the end of March, passed the mark of 50,000 subscribers to give the Group an estimated 25% share in the residential market from a standing start. The network reached 1.8 million homes at year end, with 1.3 million already migrated to fibre optic trunks, and of which 900,000 are already Broadband ready.

Most of the Group's turnover was generated from subscription fees charged to Pay TV customers for basic, premium and pay-per-view services, installation and other support services. Additional revenues were derived from commercial airtime sales, satellite television facilities services and programme guide sales. Revenues were also generated from Multimedia dial-up and Broadband access services.

Turnover in 2000 increased by HK$303 million or 23% to HK$1,649 million, from HK$1,346 million in 1999, due to an increase of HK$232 million in Pay TV-related revenues and an increase of HK$71 million in Multimedia-related revenues.

Effective control of operating costs continued. Programming costs increased by 2% from 1999 to HK$559 million, but decreased as a percentage of turnover from 41% to 34%. Selling, general and administrative costs remained at HK$324 million. Network and other operating costs increased by 32% to HK$324 million, mainly due to start-up and other costs related to the launch of Broadband services. Total operating costs including depreciation increased slightly to HK$1,656 million from HK$1,589 million in 1999.

Earnings before interest, taxes, depreciation and amortization or EBITDA, a key indicator of financial performance for companies in the cable and telecommunications industries, increased by 97% from HK$225 million to HK$443 million, reflecting an EBITDA margin improvement from 17% in 1999 to 27% in 2000. Depreciation decreased by 4% to HK$449 million, mainly due to the expiration of the depreciation cycle for some TV production equipment. Interest income of HK$101 million was generated in 2000, as compared with HK$11 million in 1999. Finance expense amounted to HK$72 million, or 20% lower than the HK$90 million recorded in 1999.

The Group recorded a net profit attributable to shareholders of HK$20 million in 2000, as compared to a net loss of HK$237 million in 1999. Earnings per share was HK$0.01 as compared to a loss per share of HK$0.14 in 1999.

B. SEGMENTAL INFORMATION

1. Pay Television Service – First Mover Advantage Strengthened

Turnover increased by 18% to HK$1,541 million, due to the 15% year-on-year increase in subscribers, an increase in average monthly yield per subscriber by 5% to HK$250 and a 58% increase in commercial airtime sales. Subscriber penetration as a percentage of total homes passed increased from 26.8% at the end of 1999 to 29.1% at the end of 2000. Churn was contained at an average rate of 1.5% per month. As a result of our high operating leverage, EBITDA grew by 82% to HK$499 million while EBITDA margin improved from 21% to 32%. A positive operating profit of HK$73 million was reported for this core business for the first time, even before allocating out up to HK$100 million of costs for shared infrastructure or services.

2. Internet & Multimedia Services – Early Mover Advantage Confirmed

Turnover increased by 189% to HK$109 million due mainly to contribution from the Broadband access service launched in March 2000. Our rapid network rollout and professional execution enabled us to install over 50,000 paying subscribers by year end, representing a market penetration rate of 6% after only 9 months from launch. Average monthly yield per subscriber for the Broadband service was HK$227. An EBITDA loss of HK$56 million and an operating loss of HK$80 million were incurred in 2000 for this start-up segment. As an incremental business, this rapidly growing business has already started to report positive EBITDA by the end of 2000. With the rapid growth in consumer take-up in Hong Kong, the Group expects that its Broadband service will be one of the key drivers of future revenue growth to establish a strong diversification of its revenue base.

C. LIQUIDITY AND FINANCIAL CONDITION

As at December 31, 2000, the Group's current ratio was 197%, with HK$1,728 million of current assets against HK$877 million of current liabilities. Net cash and cash equivalents on hand was HK$1,533 million.

Outstanding convertible bonds of HK$1,800 million were held by the Wharf Group. The term of the bonds is four years from November 24, 1999, with interest payable at the rate of 4% per annum. The only other borrowings were bank overdrafts of an insignificant amount. The Group did not have any charges on its assets throughout the period reported.

The ratio of net debt to total assets was 10% as at December 31, 2000. This gearing ratio was calculated as the ratio of long term debt net of cash balance to total assets net of cash balance. The low level of gearing underscores the Group's strong financial position. Details regarding the Group's contingent liabilities are disclosed in Note 31(c) of the Accounts in F109.pdf.

C. LIQUIDITY AND FINANCIAL CONDITION (CONTINUED)

The Group has only limited exposure to fluctuations in exchange rates as its operations are conducted mainly in Hong Kong dollars or U.S. dollars and the exchange rate between these two currencies is pegged. There is thus no need to make use of financial instruments for hedging purposes.

The consolidated net asset value of the Group as at December 31, 2000 was HK$1,291 million, or HK$0.64 per share. Fixed assets additions totalled HK$494 million during the year, as compared to HK$373 million in 1999. The increase was primarily due to spending on cable modems and other equipment related to the rollout of the Broadband access service.

The main areas of future investment activities will consist of the continued expansion of fibre trunks and coaxial networks, cable modems and equipment for Broadband access service, decoders for TV service, the digital migration of TV production facilities and acquisition of programme rights. The Group is also considering investing in the roll-out of telephony services and digital television services to further leverage its existing investment.

The Group believes its cash holdings and further cash generated from operations will be more than sufficient to fund capital expenditure and working capital requirements in 2001 and will further provide the Group with a solid financial base to pursue new services and investment opportunities. Depending on capital requirements, market conditions and other factors, the Group may or may not raise additional funds through debt or equity offerings or through the sale of assets.

D. SIGNIFICANT INVESTMENTS AND ACQUISITIONS

The Group had HK$93 million in unlisted non-trading investments as at December 31, 2000. During the year, the Group invested in a Joint Venture to set up Asia2B.com Holdings Limited (“Asia2B”), a business-to-business e-Commerce service provider. Asia2B recently merged with SESAMi.com to form SESAMi Inc, one of the leading e-Commerce service providers in Asia, which drives US$320 million of transactions a month over its online platform.

The Group did not engage in any material acquisitions or disposals of subsidiaries or associated companies during the year.

E. EMPLOYEE REMUNERATION

Staff costs amounted to HK$649 million in 2000, with the number of staff increasing from 2,289 at the beginning of the year to 2,446 at the end of the year to cope with the Group's rapid growth. With the objective to build and retain a team of competent and highly motivated employees, the Group has for years been deploying a pay-for-performance remuneration strategy to recognize and reward individual contributors fairly and equitably. The Group also provides comprehensive medical coverage, an insurance plan, and competitive retirement benefits superior to statutory Mandatory Provident Fund benefits, and operates an Employee Share Option Scheme.

The Group realizes that success depends on attracting and retaining capable, inventive, and result-oriented employees. The goal at i-CABLE is to develop a challenging career for its employees with opportunities for growth, competitive rewards and a stimulating working environment. The Group is dedicated to providing training and development opportunities to employees for their continual growth. In the year 2000, focus was placed on skill enhancement training and management/supervisory development training to equip everyone for the many challenges in the new millennium.