Business and Financial Review

A. GROUP RESULTS

The unaudited Group profit attributable to Shareholders for the six months ended June 30, 2001 amounted to HK$76.5 million, as compared to a loss of HK$40.0 million for the corresponding period in 2000. Basic and diluted earnings per share were HK$0.04.

B. INTERIM DIVIDEND

The Directors do not recommend any interim dividend for the six months ended June 30, 2001 (2000: Nil).

C. BUSINESS REVIEW

1. Overview

The Group continued to report sustained growth in the first half of 2001. Turnover during the period increased by 21% to HK$934 million, EBITDA margin improved by 7 points to 30%, EBITDA improved by 62% to HK$284 million and a net profit of HK$76.5 million was reported compared to a net loss of HK$40 million in 2000.

On a segmental basis, the Pay TV business was adversely affected by rampant piracy, which resulted in higher churn and a lower ARPU as lower yield subscribers replaced higher yield subscribers in order to sustain subscriber growth. Nonetheless, Pay TV subscribers increased by 11% from a year ago to 537,000. Revenues increased by 8% to HK$802 million and a net operating profit of HK$185 million was reported. The Group, meanwhile, has initiated anti-piracy measures to tackle the problem head-on on several fronts including: to enhance the security of its service transmission by converting to digital broadcasting impacting on illegal viewing in the second half of the year; and to work closely with the Hong Kong Government to strengthen legislative protection as well as law enforcement. Lately, the Government has stepped up law enforcement actions and begun to prosecute suspected peddlers of illegal set top boxes.

The Internet & Multimedia business outperformed all expectations. Broadband subscribers doubled in 6 months to exceed 100,000 and to widen the Group's leadership over other operators who started at about the same time in 2000. Revenues increased by 327% to HK$132 million, a positive EBITDA of HK$13 million was reported and net operating loss was reduced to HK$51 million two years after commencement of operation and one year after the launch of Broadband access services. Subscriber and margin growth is expected to accelerate.

2. Operating Environment and Competition

While the growth owed much to the Group's own early mover advantages and effective executions, the change in the competitive landscape during the period under review also improved in the Group's favour.

In the Pay TV market, a further new licensee, HK Network TV, decided not to proceed with its plan following STAR TV's withdrawal at the end of last year. While Yes TV has started a limited trial of service, another new licensee, Pacific Digital, has confirmed a delayed service launch. TVB's Galaxy is not licensed to start service before mid-2002 and TVB is required to sell down its stake in Galaxy to below 50%. With better protection against piracy and the build-up to the 2002 FIFA World Cup, for which the Group has secured exclusive broadcasting right, we are confident we will prevail over the competition, both legal and illegal.

In the Broadband Internet market, none of the five newly licensed wireless Broadband operators was able to make any significant impact on the market, leaving the incumbent operator, PCCW-HKT, and the Group as the only serious contenders in this rapidly developing sector of the market. Although PCCW-HKT has a two year headstart, the Group's market share for residential Broadband service has improved from about 25% to about 33% in less than 6 months.

3. Pay TV

The first half year of 2001 was a challenging period to i-CABLE's Pay TV business as the Group suffered from loss of high yield subscribers to pirated viewing of its subscription service. As a result, monthly average churn rate rose to 1.8%, against the historical average of 1.5% or lower. In spite of that, the subscriber base grew by 3% from the beginning of the year to about 537,000.

New ideas and programming continued to develop on the Group's platform during the period under review. Not only were its own produced programmes enhanced in terms of variety and quality, new carriage agreements with programme providers also served to consolidate the Group's leading position in the Hong Kong television market.

More recently, a significant agreement was concluded with the STAR Group in respect of a total of five channels, including popular sports and movie channels. With this addition, the Group will parade all the major European football leagues, including the English Premier League, Italian Serie A, German Bundesliga, Spanish Primera Liga as well as the UEFA Champions League. Together with the FIFA World Cup 2002 which the Group has already secured exclusive broadcast rights, the Group's dominant position in television sports programme is firmly entrenched.

For non-football sports fans, the Group will be able to offer NBA, Grand Slam tennis events, major golf events as well as other popular events.

3. Pay TV (continued)

The movie platform enjoyed tremendous ratings success with its clearly defined positioning. While new titles achieved consistently high ratings, creative packaging brought out new viewing angles from the vast number of movies in the CABLE TV library. Channel carriage agreements, together with our own movie channels, have made CABLE TV the first and only television station in Hong Kong to offer all of the first run movies for television viewing from all of the Hollywood major studios at the same time.

The year also saw enhancement of news programmes, already a household name in Hong Kong. Morning newscasts have been revamped with a lively, more informative format. *Community News* has been turned to an interactive magazine style programme with a different theme each evening.

Another major initiative this year is to convert our news operation to digital production. Significant progress has been made and the project is expected to be completed by the end of the year. Upon completion, our newsroom will become the first digitised newsroom in Hong Kong, equipped with the latest technology. It will meet the demand for future business opportunities.

4. Global Media In Force Limited (GMIF)

The sluggish economy has adversely affected spending on advertisement in the media. To further enhance the effectiveness of advertisers' promotion campaigns, strategic advertising network with renowned Websites was formed to offer one-stop solution to the advertising industry.

To mitigate the impact of the sluggish economy, GMIF has taken steps to add value to clients advertising on CABLE TV with the creation of an e-catalogue portal, ShopSmart.GlobalMIF.com (21126888.com), to provide a reliable platform for quality products such as VCDs, DVDs, IT products, books, games and music products. On top of featuring the most up-to-date promotions of products and services, bonus & discount vouchers are also posted to boost the sales for advertisers.

5. Internet and Multimedia

Rapid roll-out and aggressive marketing enabled the Group to double its Broadband access subscribers from 50,000 at the beginning of the year to over 100,000 at the end of June. The Group is rapidly closing the market share gap with the incumbent telecommunications operator, PCCW-HKT, which has a two-year headstart. The ratio of the Group's Broadband subscribers in the residential market to PCCW's has improved from about 1 to 3 at the beginning of the year to about 1 to 2. The rapid uptake has shown no signs of abating with monthly net additions passing and staying above the 10,000-mark in recent months.

5. Internet and Multimedia (continued)

Slow roll-out for various reasons added to the woes of newly licensed wireless Broadband operators, on top of an unfavourable capital market. None of the five wireless broadband operators has made any significant impact in the market while the Group has made close to about 1.3 million homes in over 6,800 buildings Broadband ready and built a subscriber base of over 100,000. Aided by sales and customer service experiences built up over the years, the Group's performance is leading by a wide margin.

Meanwhile, the Group is gearing up to introduce subscription fees for patronage of its multimedia Websites. Following revamp of the Group's portals with the introduction of unique video contents, weekly pageviews have increased from 1 million at the beginning of the year to 8 million. Fee-charging new portals on horse-racing with exclusive racing and trackwork video footage and on the stock market respectively, will be introduced in the second half of the year.

6. Network

The Group's network expansion plan continued on track. By the end of June, the network covered about 1.84 million homes in Hong Kong, of which over 1.5 million were served by fibre and close to 1.3 million homes were Broadband service ready.

While continuing to roll out its fibre network and cable modem service aggressively during the period under review, the Group will shortly be completing its migration of microwave transmission to a new radio frequency spectrum in parallel.

To combat the rampancy of pirated viewing, the Group has decided to bring forward its plan to convert to digital television broadcasting to before the end of this year. Much progress has been made so far and the first site to be converted to digital broadcasting is expected to be commissioned in several weeks. Digital broadcasting will not only enable the Group to enhance its signal security and programming platform with more channels; it also lays the grounds for the introduction of interactive television service when the technology is ready.

7. Prospects

The Group again met or surpassed its operational, financial and developmental targets for the first half of this year. By reducing pirated viewing and the build-up to the World Cup Finals next year, the Group is optimistic that growth momentum for Pay Television will pick up again irrespective of the setback in the first half of the year.

7. Prospects (continued)

Broadband service, meanwhile, is proving to be a new revenue growth engine for the Group. After more than a year of service provision experience, marketing and customer service operations have been fine-tuned which will only serve to accelerate growth in this sector. Trials of delivering voice over the Group's HFC network with Internet Protocol have provided positive results and the Group is planning to roll out the service commercially next year. While the Group expects to continue to achieve high growth from the Hong Kong market in the near and medium term, it has begun to look beyond its home base for future business growth. One such initiative is a project to package a Putonghua regional satellite channel specialising on new knowledge targeted at Chinese communities in this region.

2001 is the first time when leverages of the various business and operation units were allowed full play, bringing significant increase of operating profits to the Group. With healthy returns and an abundance of reserves, the Group is confident that it will continue to be a leader in the market.