

# Management Discussion and Analysis

## A. RESULTS OF OPERATION

Turnover increased by 21% to HK\$934 million from HK\$775 million in the same period in 2000. Pay TV revenues increased by HK\$58 million or 8% to HK\$802 million. Internet & Multimedia revenues increased by HK\$101 million or 327% to HK\$132 million to significantly increase its share of total turnover to 14% from 4% in 2000.

Total operating costs including depreciation increased by 4% to HK\$859 million in 2001 in spite of significant business volume growth. Year-on-year, programming costs increased by 6% to HK\$296 million due to higher salary and content costs. Selling, general and administrative costs increased by 3% to HK\$173 million due primarily to higher marketing expenses. Network and other operating costs increased by 19% to HK\$181 million, due mainly to increased bandwidth and customer servicing costs incurred as a result of the rapid growth in the Broadband Internet access business.

Earnings before interest, taxes, depreciation and amortisation or EBITDA increased by 62% to HK\$284 million to reflect the Group's high operating leverage. EBITDA margin improved from 23% in 2000 to 30% in 2001.

Depreciation decreased by 8% to HK\$209 million, largely due to the expiration of the depreciation cycle for some TV production equipment and Pay TV decoders. Interest income of HK\$37 million was generated in 2001, as compared with HK\$49 million in 2000, mainly due to lower interest yield. Finance expense remained at HK\$36 million for the period.

The Group recorded a net profit attributable to shareholders of HK\$76.5 million in the first half of 2001, as compared to a net loss of HK\$40 million for the corresponding period last year. Earnings per share were HK\$0.04 as compared to a loss per share of HK\$0.02 in 2000.

## **B. SEGMENTAL INFORMATION**

### **1. Pay Television**

Pay TV subscribers grew by 11% year-on-year and by 3% from the beginning of the year to around 537,000. The slower subscriber growth in the first half of this year was partly seasonal and partly due to higher churn, which increased to 1.8% per month from 1.4% in the comparable period last year. ARPU declined by 6% to HK\$239 and turnover increased by only 8% to HK\$802 million, largely attributable to the loss of higher yield subscribers to pirated viewing and replacement by lower yield subscribers. In spite of that, EBITDA margin still reached 41% as EBITDA grew by 22% to HK\$327 million and net operating profit grew by 203% to HK\$185 million.

### **2. Internet & Multimedia Services**

Internet & Multimedia turnover increased by 327% to HK\$132 million due primarily to the rapid penetration of the Broadband access service launched in March 2000 to exceed 100,000 subscribers by the end of June 2001, 15 months later. Network rollout continued at a rapid pace as the number of Broadband ready homes increased to about 1.3 million by the end of the period. ARPU for the Broadband access service was maintained at HK\$225. Two years after commencement of operation, and one year from the launch of Broadband services, the segment already achieved a positive EBITDA (of HK\$13 million) and an EBITDA margin of 10% primarily due to its rapid subscriber and revenue growth as well as its most competitive cost structure. Net operating loss declined by 15% to HK\$51 million.

## **C. LIQUIDITY AND FINANCIAL CONDITION**

As at June 30, 2001, the Group's current ratio was 214%, with HK\$1,662 million of current assets against HK\$778 million of current liabilities. Net cash and cash equivalents on hand remained strong at HK\$1,465 million.

Outstanding convertible bonds of HK\$1,800 million were held by the Wharf group. They will expire in November 2003, 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 during the period reported. The ratio of net debt to total assets was 13% as at June 30, 2001.

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.

The consolidated net asset value of the Group as at June 30, 2001 was HK\$1,367 million. Fixed assets additions during the period amounted to HK\$248 million, mainly for the rollout of its fibre and coaxial network, purchase of Broadband modems and related headend equipment, and the migration of its microwave network to 18GHz. Future investment activities will include the digital migration of its service transmission and TV production facilities. The Group is also considering investing in the commercial roll-out of telephony services next year to further leverage on its existing network and infrastructure.

The Group believes its cash holdings and further cash generated from operations will be more than sufficient to fund known upcoming capital expenditure and working capital requirements and will further provide the Group with a solid financial base to pursue new services and investment opportunities.

## **D. EMPLOYEES REMUNERATION AND SHARE OPTION SCHEME**

Staff costs amounted to HK\$353 million in the first half of 2001. The number of staff increased by less than 1% from 2,446 at the beginning of the year to 2,463 at the end of the period, notwithstanding the Group's rapid growth.

To motivate employees to strive for the long-term growth of the Company, options under an Employee Share Option Scheme were offered to 1,725 employees during the period in respect of a total of 48,678,000 shares.