

CHAIRMAN'S STATEMENT

OVERVIEW

I am pleased to report that the Group once again achieved consistent, robust growth in 2001 in spite of competition and a weak economy.

Turnover for the Group increased by 17% to HK\$1,931 million, with Broadband access emerging as a key revenue driver. Due to our significant operating leverage, EBITDA increased by 39% to HK\$614 million to achieve an EBITDA margin of 32%, 5 percentage points higher than that in the preceding year.

Driven by this robust underlying business, net profit attributable to shareholders grew by 735% to HK\$167 million (HK\$20 million in 2000), notwithstanding a sharp fall in the interest income earned by the Group's stable cash position. Earnings per share was HK\$0.08 (HK\$0.01 in 2000).

In anticipation of consistent, sturdy growth being sustained in the coming few years, and in view of the Group's operating and financial position, the Board recommends the payment of a final dividend of 2.5 cents per share for the year. This would represent the first ever dividend paid by the Company.

The healthy and sustained cashflow from the Group's core operation more than covered the incremental capital expenditure required during the year to roll out new services and build market

share aggressively. A net cash balance including long-term deposits of over HK\$1,500 million was maintained as at the end of 2001.

These results once again validated the significant operating leverage the Group has in generating returns from its early investments. The strategic market position built up by the Group over the years could be matched by few competitors and is beginning to pay dividend.

PAY TV

To enhance its leadership position and competitiveness in Pay TV, the Group has started to digitise its production, broadcasting and distribution facilities. Digitisation will not only bring greater efficiency to programme production, it will also facilitate multimedia content development, expand channel capacity and provide better security to protect subscription revenue. In addition, it will pave the way for the introduction of interactive television and transactional services when the technology and market are ready.

The operating environment remains fluid. Although the newly licensed operators have so far posed little competitive threat to the Group, the proliferation of unauthorised access to our service has caused an increase in subscriber churn and a decline in the yield per customer, which combined to erode significant revenue from the



Stephen T.H. Ng
*Chairman, President and
Chief Executive Officer*

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Senior management team (from left): Vincent Lam, Samuel Wong, Samuel Tsang, May Fung, Paul Lo, Simon Yu, Benjamin Tong, Garmen Chan, Eric Lo

Group. Piracy has become our number one competitor.

Active steps are being taken to curb piracy, including enhancement of the encryption of the existing analogue service and introduction of a much more secure digital service in substitution. These initiatives have since the fourth quarter of 2001 helped to reverse the steady trend of revenue erosion during the first 3 quarters and will be stepped up in 2002. The Group expects to convert close to half of its subscribers to its digital service by the second quarter of 2002. At the same time, concerted efforts are being made to seek more

effective legislative protection in Hong Kong and enforcement on both sides of the border.

In spite of these unfavourable factors and against a generally weak market, subscribers increased by 8% to pass the 560,000 mark by the end of the year, attributable to aggressive marketing and enhanced programming. Revenue increased by a modest 4% to HK\$1,595 million but operating profit increased by 66% to HK\$349 million due to our high operating leverage.

Working on the assumption that the newly licensed operators will be stepping

up their efforts in the course of 2002, the Group continues to focus its attention on enhancement of programming, distribution, marketing and customer service. We are optimistic that our strategic market position will help us to compete in the market.

INTERNET & MULTIMEDIA

With our estimated market share growing rapidly to over 30% in the residential sector, the Group's position as one of the two largest Broadband service providers in Hong Kong further consolidated during the year. Once again, our strategic market position and early mover advantage proved to be very significant competitive advantages.

Our Broadband access subscriber base tripled to 160,000 during the year, which helped turnover to more than tripled to HK\$336 million. Due to our very competitive cost structure, EBITDA improved by HK\$160 million to HK\$94 million (to achieve an EBITDA margin of 28%) and operating loss improved by HK\$63 million to HK\$50 million, after all costs shared with Pay TV have been fully allocated.

Significantly, EBITDA margin increased to 39% and a small operating profit was achieved in the second half of 2001 to illustrate how this business is rapidly turning into a profit contributor as well.

CONCLUSION

Despite the weak market environment and economic conditions that prevailed in 2001, the Group's forward looking investment strategy and timely introduction of new services when they are proven in overseas markets have enabled the Group to outperform the market. As a result, the Group was able to report sustained, robust growth.

On behalf of the Board, I wish to take this opportunity to thank all of our customers, employees, business partners and shareholders for their full support in good times as well as bad.

In particular, I wish to thank Mr Gonzaga Li for his leadership before he stepped down as Chairman in August 2001.

The Group's business foundation is solid, our cost structure is competitive and our early investments are beginning to pay dividends. However, there is absolutely no place for complacency in the rapidly changing environment in which we operate. We continue therefore to build the Company for the future so that we can be ready to seize new opportunities when they arise.

Stephen T.H. Ng

*Chairman, President and
Chief Executive Officer*

Hong Kong, March 14, 2002