

Operating Environment

The Group's core businesses operated in a difficult environment in 2002. The weak economy adversely impacted consumers' spending propensity. Competition, particularly in the Broadband sector, was keen. There are no signs that competition would abate in the near term.

The operating environment will continue to be difficult with new players entering the market and no immediate signs of an economic recovery.

In the Pay TV segment, TVB announced in February divestiture of its stake in Galaxy to below 50%, thereby clearing a regulatory hurdle precedent to Galaxy's launch of a Pay TV

service, which is generally expected before the end of this year. Yes TV, meanwhile, has been granted a one-year extension to meet the capital investment commitment under its licence. While these developments have yet to show significant real impact on the Pay TV market, the Group has started to sharpen its competitiveness on all fronts to respond to market changes.

In the Broadband segment, the Group pre-empted the competition with an aggressive marketing strategy. As a result of that, short-term margin was sacrificed in favour of long-term market share gain. This slowed the pace of growth of this segment as a revenue engine.

