



*Hong Kong Cable's state-of-the-art Digital News Centre.*

# i-CABLE COMMUNICATIONS LIMITED



i-CABLE's unique and powerful operating leverage translated a 17 per cent increase in turnover into a 39 per cent EBITDA growth and a 735 per cent net profit growth, with broadband access emerging as a key growth driver. The positive free cash flow reported after capital expenditure allowed net cash to stay at a level above \$1.5 billion. While many companies in the industry are still scrambling to bridge their funding gaps, i-CABLE's capital funding requirement has already peaked. This exceptionally strong financial position, together with the company's very competitive incremental cost structure, has provided i-CABLE with a comfortable cushion to compete in the marketplace.

## Pay TV

Rampant piracy slowed both subscriber and revenue growth during 2001 but Pay TV still reported an operating profit of

\$349 million, representing an increase of 66 per cent over 2000. Newly licensed operators have so far posed little competitive threat, and i-CABLE will continue to build on its strategic market position and focus on enhancement of programming, distribution, marketing and customer service.

Total Pay TV subscribers exceeded 560,000 at the end of 2001. Measures were

introduced in the third quarter of the year to counter piracy, including software upgrades for the encryption of the analogue service and acceleration of a much more secure digital service to replace analogue. These measures have helped reverse the steady trend of revenue erosion during the first three quarters and further efforts will be stepped up in 2002. The analogue service will be shut down and close to half of the homes passed will have



*The Chief Executive of the Hong Kong Special Administrative Region Tung Chee-hwa at the opening of the Digital News Centre in April 2002.*

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been converted to the new digital service by the middle of 2002. At the same time, concerted efforts are being made to seek more effective legislative protection in Hong Kong and tighter enforcement on both sides of the border.

In addition to digitisation of its transmission, i-CABLE is also digitising its production and broadcasting facilities. Digitisation will not only bring

## Growth Summary



## Network Infrastructure

In thousands



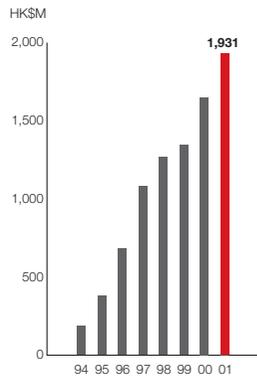
greater efficiency to programme production, but will also facilitate multimedia content development, expand channel capacity and enhance revenue potential. In addition, it will pave the way for the introduction of interactive television and transactional services when the technology and market are ready.

## Internet and Multimedia

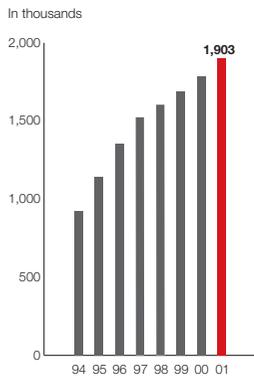
With its estimated market

share growing rapidly to about 30 per cent in the residential sector, i-CABLE's position as one of the two largest broadband service providers in Hong Kong was further consolidated in 2001. The broadband business broke into net profitability in the second half of 2001, when competitors are still in search of EBITDA breakeven, and became one of the first broadband ISPs in the world, if not the only one, to

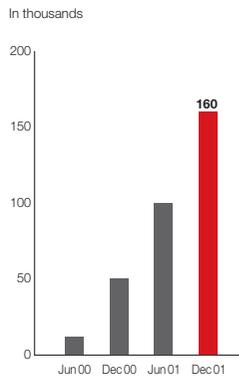
**Total Turnover**



**Total Homes Passed**



**Broadband Subscribers**



be profitable. Once again, **i-CABLE's** strategic market position and early mover advantage proved to be a very significant competitive edge.

The broadband access subscriber base tripled to 160,000 during 2001, which helped turnover more than triple to \$336 million. Due to its very competitive cost structure, an EBITDA margin of 28 per cent was achieved for the full year. Significantly,

THREE START-UPS ACHIEVE PROFITABILITY AND STRONG MARKET POSITIONS — NOW 10 PER CENT OF GROUP'S BUSINESS ASSETS

EBITDA margin rapidly improved to 48 per cent in the fourth quarter of the year and a small operating profit was achieved in the second half of the year. With the rapid growth of the overall penetration of broadband in the market and

**i-CABLE's** strategic competitive positioning, this business is expected to continue to represent a growth engine in the next few years.

In the meantime, new products are being considered to upgrade this service to further enhance operation efficiency as well as to facilitate integration with future voice services.



*Stephen Ng, Chairman and Chief Executive Officer of Wharf Communications Limited.*



*Wharf New T & T reported its first net profit in the year 2001.*



## WHARF NEW T&T LIMITED

In October 2001, the name of New T&T was officially changed to **Wharf New T&T** to further enhance the company's profile. The year 2001 was a major milestone year for the Group's telecommunications business. **Wharf New T&T's** goal of transforming itself from low-value IDD into a high-value FTNS operator finally paid off. **Wharf NewT&T** broke into profitability with its first-ever net profit of \$8 million.

### Overall Performance

Net revenue increased by 34 per cent to \$1,089 million and EBITDA doubled to \$227 million, representing a healthy EBITDA margin of 21 per cent. Net profit improved by \$76 million from a loss of \$68 million in 2000. Revenue from fixed lines increased by 75 per cent to \$703 million, whereas IDD revenue declined by seven per cent to \$386 million. Overall gross profit margin in 2001 improved to 56 per cent from 51 per cent for the

previous year. Given the high rate at which the customer base grew, operating expenses increased by 26 per cent and employee headcount also rose by 22 per cent to 800. However, efficiency enhancement measures are expected to slow down the rise in operating expenses in the coming years relative to business growth.

Total installed fixed lines grew from 140,000 to approximately 240,000 by the end of 2001, representing an annual growth rate of 70 per cent. After tripling the installed base in 24 months, **Wharf New T&T**

now holds a six per cent share of the total fixed-line market in Hong Kong. The total volume of outgoing IDD minutes in 2001 also reached 320 million minutes, more than double the 1999 figure.

Fixed lines accounted for 65 per cent of total net revenue, up from 49 per cent a year ago and 27 per cent two years ago. In particular, high-value data lines represented over 40 per cent of fixed line revenue and was the fastest growing part of the business.

### Results Summary

	2001 HK\$M	2000 HK\$M	Change %
Turnover	1,089	814	34
Cost of Sales	(483)	(400)	21
Gross Profit	606	414	46
Operating Expenses	(379)	(301)	26
EBITDA	227	113	101
ITD&A	(219)	(181)	21
Profit/(Loss)	8	(68)	112

## WHARF NEW T&T LIMITED

### **Business Sector**

Although the general business environment was unfavourable during most of 2001 and business closures and down-sizing were prevalent, **Wharf New T&T's** net revenue from the business sector increased by 35 per cent to \$918 million, which accounted for 84 per cent of the company's total revenue. Fixed line revenue grew by 70 per cent to \$658 million and accounted for 72 per cent of total revenue for the sector. IDD revenue fell by 12 per cent to \$260 million.

During the year under review, a major contract was signed to provide Hong Kong Securities Clearing Company Limited with a secure and dedicated telecommunication infrastructure solution to upgrade its Central Clearing and Settlement System to a new IP-based CCASS/3 wide area network. This represents one of the largest and most critical data networks in Hong Kong and connects into about 600 securities firms.



*Wharf New T&T's iDataCentre is equipped with an advanced and secure infrastructure to serve the business community.*

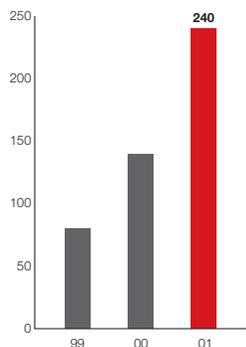
Completion of this project is expected later this year.

This was followed by an important contract for FinNet with the Securities & Futures Commission. FinNet is the

financial network which interconnects all banking, securities and licensed financial institutions as well as Government financial organizations to facilitate the exchange of financial

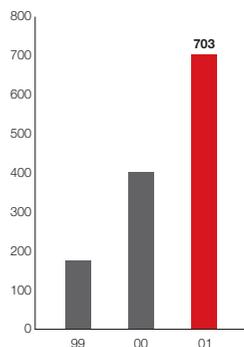
### Fixed Line Growth

In thousands



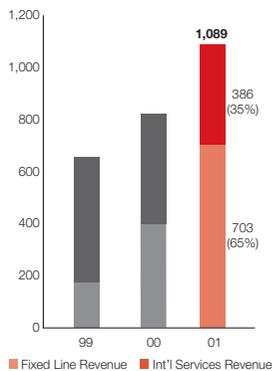
### Fixed Line Revenue

HK\$M



### Total Revenue

HK\$M



and securities information. This project is expected to induce further business opportunities in the finance sector.

Among telecom carriers and service providers, **Wharf New T&T** achieved a market share of 35 per cent of all dial-up ISP traffic and provided hosting to 55 per cent of all active IDD operators in Hong Kong. Moreover, the company has made very satisfactory inroads into the Financial Services Provider (FSP) sector and is gaining an increasingly significant share of the demand from FSPs. The company was also able to capture more than its fair share in the provision of high bandwidth backhaul and International Private Leased Circuits, particularly to the Mainland.

With the 52 per cent growth in business fixed lines to just under 200,000 lines, **Wharf New T&T** holds a 11 per cent share of the business market. While the

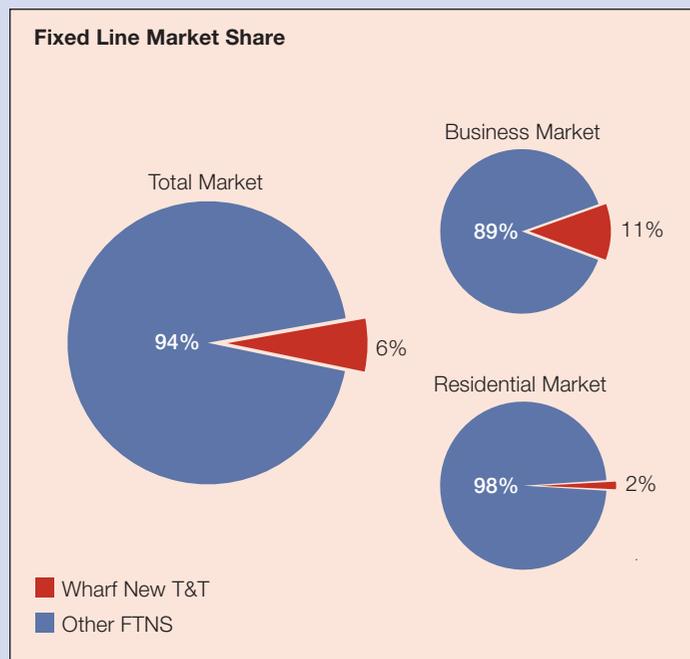
company's emphasis on business fixed-lines, both voice and data, will definitely continue, management is now targeting a 15 per cent share of the business market by the end of 2002.

### Residential Sector

Although the overall market was in decline in 2001, with total fixed line volume contracting by two per cent and total IDD value contracting as well, **Wharf**

**New T&T's** net revenue from the residential sector increased by 30 per cent to \$170 million. Fixed line revenue more than tripled to \$45 million and accounted for 26 per cent of total revenue for the sector. IDD revenue rose by 7 per cent to \$125 million.

The net installed base of fixed line more than tripled to exceed 40,000 lines at the end of 2001



## WHARF NEW T&T LIMITED

to represent a market share of about two per cent. New and innovative products that returned outstanding growth during 2001 included WebTone, which provides dial tone for Internet access, and JONR, a value-added mobile roaming service. Volume

increased rapidly during the year and there are no signs of it slowing down.

### **Network & Customer Operations**

An additional 312 kilometres of fibre were built during the year, taking the total length

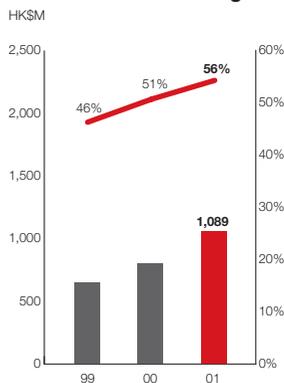
of the company's fibre to 1,333 km. Furthermore, two domestic submarine fibre routes were completed from Tong Fuk in Lantau to Chung Hom Kok on Hong Kong Island and from Chung Hom Kok to Sandy Bay — the biggest ever domestic submarine cable project in Hong Kong to provide backhaul diversity for international submarine cables landing on our shores.

After aggressively rolling out network over the past few years, **Wharf New T&T** is now able to provide fixed lines to about 90 per cent of the residents on Hong Kong Island and close to half of those in Kowloon, Tsuen Wan and Kwai Chung. Rollout will accelerate in 2002 and 2003 to the remaining parts of Hong Kong, including the New Territories.

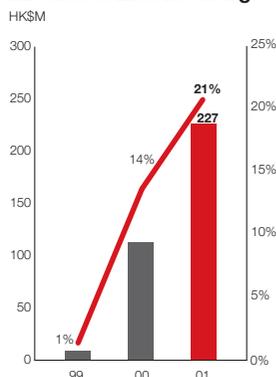


*The name of New T&T was officially changed to Wharf New T&T in October 2001.*

### Revenue & Gross Margin



### EBITDA & EBITDA Margin



In preparation for new FTNS operators entering the market in 2003, **Wharf New T&T's** selling capability, both direct and contracted, as well as sales fulfilment and after-sales service have all been strengthened. In order to compete more successfully, measures are being taken to understand the customer better, enhance existing products, develop new products, streamline operating processes, improve customer satisfaction and enhance efficiencies. These measures will help reduce operating costs even further although they are already lower than those of our principal competitor.

As **Wharf New T&T** provides increasingly higher value services to customers, demand and expectations for a highly reliable yet flexible network have also risen significantly. By constantly

sharpening the company's operating efficiency and cost base, the Group's professional telecommunications team will continue its efforts to enhance the company's performance to meet such rising expectations as well as to penetrate the market with productivity and speed.

