



Operations Report



88%

Net Profit

The Group marked its 10th anniversary with an 88% increase in net profit, to HK\$220 million.



Operating Environment and Competition

In 2003, competition for Broadband service remained keen throughout the year and, towards the end of the year, new Pay TV operators began to attack the market.

Apart from Yes TV and TV Plus, PCCW launched an a-la-carte Pay TV service and Hong Kong Broadband Network launched a limited Pay TV service in the third quarter of the year. After much delay, Galaxy, in which the dominant free TV operator TVB holds 49%, launched its Pay TV service under the brand name exTV in February 2004.

While these developments have not yet made any significant impact on our Pay TV business, they nonetheless are expected to create confusion in the market in the near term and put pressure on operating costs. The Group will continue to enhance

its programming and to sharpen its marketing skills to maintain its leadership position.

Competition for Broadband access service which has been eroding the yield from this sector of business has shown some signs of easing towards the end of the year under review. As a result, the sliding trend of ARPU started to gradually recover while at the same time, the Group was able to more or less retain its market share with a healthy growth of subscription.

The improvement in the prevailing economic conditions towards the end of the year has given fresh momentum for the Group's core businesses to pick up again, riding on the initiatives taken by the Group to enhance its television and Broadband services in the past two years.



656,000

Subscription grew by 8%

Turnover increased by 1% to HK\$1,734 million, EBITDA by 17% to HK\$733 million and operating profit by 34% to HK\$444 million.

Pay TV Service

The Group reported an 8% growth of Pay TV subscription to 656,000 for 2003, a rate comparable to that of 2002, which was aided with the attraction of FIFA World Cup. The growth was particularly notable as it was achieved in a weak economy that troubled Hong Kong businesses for the most part of the year.

Turnover increased by HK\$23 million to HK\$1,734 million and operating profit rose by HK\$112 million to HK\$444 million, mainly due to significant year-on-year savings on programming costs and strong airtime sales performance in the second half of 2003 as the economy began to recover. EBITDA increased by HK\$105 million or 17% to HK\$733 million.





Notwithstanding the weak economy, particularly with the SARS outbreak at the beginning of the year, aggressive marketing efforts including a series of consumer promotions as Hong Kong began to rebound, enabled subscriber acquisition to regain strength in the last two quarters of the year.

The successful deepening of penetration is particularly important as this would serve to further entrench the Group's leading position in the Pay TV market at a time when new competition is beginning to build up.

Apart from acquisition of new subscribers, the Group continued to expand its programming platform with the introduction of more premium channels and packages. By March 2004, the Group has launched five premium packages catering to ethnic minority groups, documentary fans as well as special interest groups. Furthermore, the Group has successfully introduced two premium sports channels, covering cricket and ice hockey respectively, which have been welcomed by sports fans. These initiatives have been instrumental in enticing new subscribers as well as deriving additional revenues from existing subscribers.



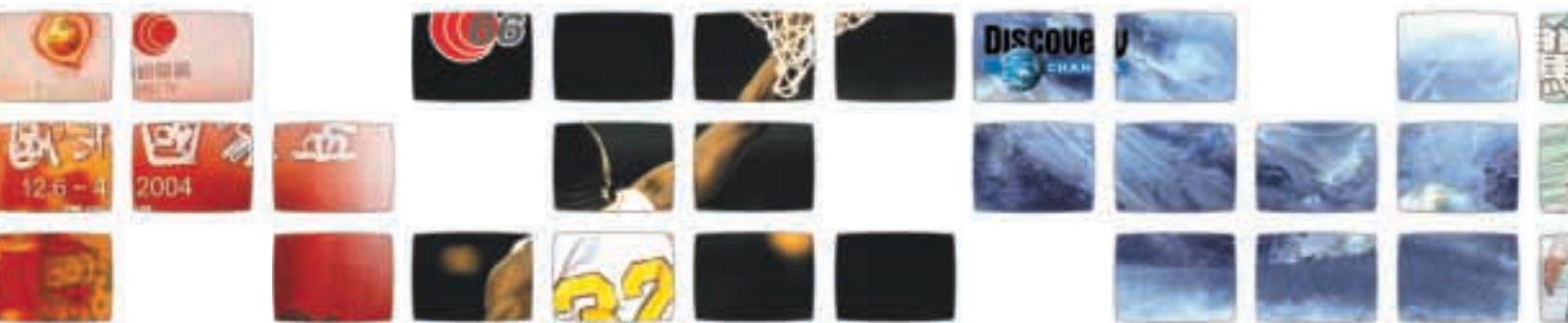
At the same time, the Group continued to enhance its basic package with both locally produced and acquired channels. Seven new channels, including three of our own production, viz Super Soccer, Entertainment News and Horizon, were introduced in 2003. The new channels cover a wide variety of choices in terms of language and programme genres to boost the attractiveness of our service and expanded the number of programme channels on the Group's platform to 76 by March 2004.

The Group has also been active during the period to acquire important programmes to boost the attractiveness of its service. Important events acquired in 2003 included exclusive rights to the star-studded Spanish La Liga soccer tournament, UEFA EURO 2004 and FIFA World Cup 2006. Not only would these acquisitions consolidate our leading sports station status, they also significantly drain the pool of valuable contents obtainable by our competitors.

Digitisation of the Group's broadcasting service progressed at full speed during the period. The digital conversion programme is over two-thirds completed and the Group targets to complete the programme before the third quarter of 2004.

The entry of new competition since the third quarter of 2003 has so far not affected the take up rate of our Pay TV service noticeably. However, the Group is not resting on its laurels and shall continue to enhance our programmes, sharpen our marketing technique and improve our service quality to build on our leading position in the market.





258,000



Subscription grew by 14%

Turnover started to recover but still declined by 9% to HK\$409 million. EBITDA decreased to HK\$159 million, resulting in operating loss of HK\$85 million.

Internet & Multimedia Services

Since 2000, the residential Broadband market in Hong Kong has gone through a period of rapid growth, taking penetration to over 50% by the end of 2003. As is typical for this phase in a market's development, the entire market went aggressively after market share and we were no exception.

Our early mover network and service infrastructural advantages have enabled us to gain a 25% market share and become the second largest Broadband service operator in Hong Kong.

But as Broadband access became a commodity product with more new operators entering the market, we took a deliberate decision in 2002 to



adopt an aggressive pricing strategy in order to protect our market share. We held our market share but like everybody else, our ARPU declined rapidly.

In 2003, our Broadband subscribers grew by 14% to reach 258,000 but ARPU fell to HK\$129 (2002: HK\$180) as a result of the aggressive pricing strategy adopted in 2002. Irrespective of subscription growth, turnover for this sector shed HK\$41 million to HK\$409 million. EBITDA decreased to HK\$159 million from HK\$210 million and the sector reported an operating loss of HK\$85 million against an operating profit of HK\$9 million for 2002. Both ARPU and turnover started to recover gradually around the middle of 2003 and that trend is expected to continue in 2004.

The Group continued to spend efforts to derive additional revenue from its multimedia service, leveraging on its unique content production capability. Riding on the legalisation of soccer betting in Hong Kong, a unique *isoccer18.com* website was launched in the summer of 2003, providing exclusive and updated information for punters in Hong Kong. Leveraging on the news production capacity of the Group, a unique news express online service was launched in January 2004, expanding the Group's

online video news service also to web surfers using Broadband service provided by other service operators. Recognition and revenue have both enjoyed healthy growth during the period under review.

The Group's position as a leading multimedia content provider was again validated by the conclusion of a carriage agreement with Hong Kong's first third-generation mobile service provider. Our unique constantly updated video news service is now available anytime and anywhere via a handset.

With the Broadband service market beginning to consolidate and the recovery of the economy, the Group will focus on expanding its penetration, enhancing its service quality, introducing more value-added services and keeping operating expenses under stringent control, in order to seek an early return to profitability.





Airtime Sales

With market recovery in the second half of 2003 and positive feedback on new sales initiatives, commercial airtime sales revenue almost achieved the same record high level as in 2002 (with the FIFA World Cup attraction), irrespective of a weak market at the beginning of the year.

Riding on the on-target programming platform of CABLE TV, revenue picked up significantly in the second half of the year due to improvement in both yield and loading. Upon the launch of Super Soccer Channel and Entertainment News Channel, new initiatives including an On-target multi-channel high frequency approach have been developed and these have been proven to be cost efficient and therefore widely accepted by the local advertising market.





Programming

While the Group's leading position in news and sports programmes were once again affirmed with dedicated coverage of breaking events and the acquisition of important sporting events in 2003, much efforts have also been made to establish the local relevance of its entertainment platform. In doing so, we are not only the carrier of best quality foreign brands, but we also become an integral part of the community's entertainment landscape.

Cable News' comprehensive coverage of the military conflict in Iraq and the SARS outbreak in Hong Kong made it the source of information for many during the tumultuous period with its live and in-depth reportage at every step of the crises. Viewership reached new height during that period.

Cable Sports' reputation as the broadcaster for soccer was enhanced by the September launch of the first-ever soccer channel in Hong Kong — the Super Soccer Channel. With enlarged capacity, Cable Sports substantially increased live broadcasts of soccer and other sporting events in 2003.

At the forefront of international sports, Cable Sports played host broadcaster to the year's Hong Kong Sevens, the International Volleyball Challenge and the World Women's Squash Open.

On the entertainment platform, the Entertainment News Channel was launched in July 2003 to provide around-the-clock news stories on the local and international entertainment scene. In five months, the channel has begun to establish a modest foothold in the local entertainment industry, breaking through an area still dominated by commercial television.





36%

CABLE TV's wide array of programmes constantly commands 36% of viewership among cable homes.





The Movie channels and the Entertainment News Channel have become the leading movie promoter and have established close ties with virtually all major local movie producers. Joint promotion projects included the top five box office titles of the year, bringing immediacy and star actions to the entertainment platform.

The Horizon Channel was granted landing permission in China in April 2003. Unfortunately, the SARS outbreak obstructed the landing activities until July when all travel warnings were finally lifted, allowing marketing activities to take place. The channel was launched in October with a block of entertainment news during evening primetime. Since its launch, the channel has already received very good response from various Mainland television stations with live and updated reportage of various events.

The Group will further develop relationship with Mainland television stations by promoting our strength on providing the fastest and most thorough entertainment news programming. Direct telecasting of important entertainment news also helps the i-CABLE brand building in China. Entertainment news programming will be the main selling point for distribution and advertising sales of the Horizon Channel.

Meanwhile, the Group has completed the production of 40 episodes (three titles) of drama serials in 2003 and distribution has just started with positive response. The serials will be broadcast on television stations in Mainland China, Taiwan, Malaysia, Singapore, Hong Kong and other Chinese speaking territories. Aside from licensing income, drama productions also contribute to building up the international brand name of i-CABLE in Chinese speaking territories.

At the same time, the Group has completed the production of a 10-episode documentary — *Chinese Scientists*. Riding on the opportunities of interviewing and making touching stories of the 10 most important world-renowned Chinese scientists, the Group has established its reputation of quality production. The series received positive reports in Mainland media and newspapers including special programmes on CCTV and China National Radio. The production of quality documentary will further promote co-operations with various important organisations in China and establish the position of i-CABLE as a quality producer and broadcaster.



Three

New locally produced channels were launched in 2003, including a dedicated soccer channel, a 24-hour entertainment news channel and a satellite channel for the region.





Corporate and Community Affairs

The real driving force underlying the Group's achievements is the excellence and steadfast dedication of employees at all levels of the organisation. Through a focused set of initiatives in the areas of reward and recognition, staffing and selection, human resources development and employee communication, we are striving to build a stronger and more engaged workforce and nurture an atmosphere in which creative thinking thrives and colleagues are able to develop their fullest potential.

At i-CABLE, we see achievement as a never-ending process, one that simply has no room for complacency or mediocrity. Our pay-for-performance culture has been in place to motivate and reward performance to uplift long-term competitiveness and create new levels of achievement.

The Group is committed to being a social asset in the community in which we operate. During the SARS outbreak, CABLE News, through collaboration with the health authorities and universities, produced a series of information and education short programmes about the disease and personal hygiene. The short programmes were broadcast throughout the day, across our channels, to enhance viewers' awareness about the disease.

Children Channel also produced a daily half-hour programme, aimed at students who did not have to attend school during the outbreak, to enhance their knowledge about the disease and to improve their personal hygiene.

i-CABLE was also heavily involved in the campaigns to revive people's spirits and the economy, such as Heart to Heart and We Love Hong Kong. We were involved in the planning and execution of the campaigns by participating in the various committees. We also donated airtime to carry the messages and announcements and carried live the variety programmes staged during the time to boost Hong Kong citizens' morale.

Apart from taking part in fund-raising activities of the Community Chest and other community as well as environmental protection bodies, a Corporate Volunteer Team was formed to offer employees opportunities to contribute their personal time, expertise and effort to make a positive impact on our society.

In 2003, we partnered with the Social Welfare Department and The Hong Kong Federation of Youth Group to organise visits to mentally retarded children,



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caringcompany^{2003/04}
Awarded by The Hong Kong Council of Social Service
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and to donate toys to needy families. We are proud to receive from The Hong Kong Council of Social Service the *Caring Company Logo Award* for our involvement in serving the needs of the community.

The Group has also been active in participating in affairs of international and local professional bodies. We worked with the Cable and Satellite Broadcasting Association of Asia Ltd (CASBAA) to bring its annual convention back to Hong Kong.

This year, we celebrated our 10th anniversary and over 350 colleagues received the *Long Service Award* for 10 years of meritorious service since the Group's establishment, in our 10th Anniversary Celebration Party attended by over 2,000 colleagues.

Going forward, we are confident that the Group is moving in the right direction to execute our ambitious strategies and we will all continue to work as a team to deliver even more encouraging results.



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i-CABLE marked its 10th anniversary year with a respectable growth of profit and emerged from 2003 in a stronger operating and financial position.

Outlook

The Group's achievement was attributable to the solid infrastructural, business and customer foundations that we have built in 10 years of serving Hong Kong. The Group was never shy to build for the future, even when the going was tough, and invested wisely to upgrade transmission and production capabilities as well as on programming.

The digital initiatives that were initiated two years ago brought piracy under better control, expanded our channel capacity, and enabled us to enhance the attractiveness of our Pay TV service which, in terms of quality and quantity, is leading the industry.

The deployment of new transmission technology for our Broadband service has enhanced our transmission quality and made available more capacity to expand our penetration. We have also invested in new technology to adapt television content for online application and then third generation mobile service to place i-CABLE among the first content providers to do so.

We are beginning to establish a beachhead to expand our service to outside Hong Kong. Our satellite channel, Horizon Channel, is gaining distribution, viewership and recognition in the Mainland. We have begun to produce and distribute drama programmes with modest initial success in China.

As Hong Kong's economy continues to recover, the Group's core businesses have already demonstrated strong signs of resilience and we are confident that we can continue to grow with the rest of Hong Kong.

