

Wharf Communications Limited



i-CABLE Communications Limited

BALANCE SHEET

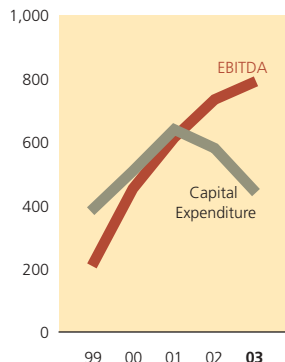
as at December 31, 2003

	HK\$M
Non-current assets	2,435
Net current liabilities	(637)
Non-current liabilities	(113)
Net assets	1,685
<hr/>	
Capital and reserves	
Share capital	2,019
Reserves	(334)
	1,685

As Hong Kong emerged from the economic doldrums, **i-CABLE**'s core businesses, which had been affected by adverse conditions and keen competition, gained growth momentum. Subscriptions to **i-CABLE**'s Pay TV and Broadband access services both saw healthy gains during the year under review, despite a lack of "megaprogramme"

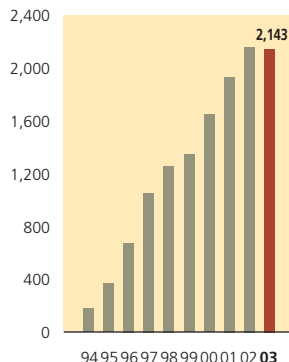
EBITDA AND CAPEX HISTORICAL TREND

HK\$M



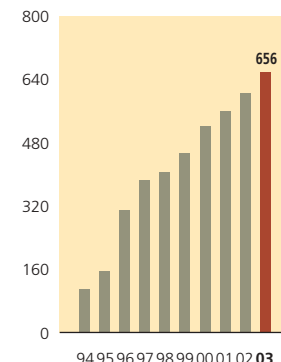
TOTAL TURNOVER

HK\$M



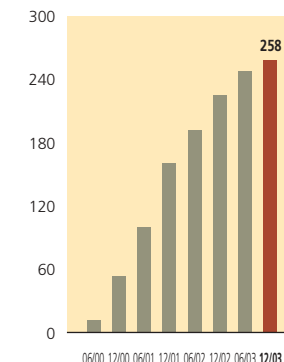
PAY TV SUBSCRIBERS

In thousands



BROADBAND SUBSCRIBERS

In thousands



attractions such as the FIFA World Cup, and in the face of competition from new entrants and aggressive pricing.

PAY TV

With initiatives aimed to enhance **i-CABLE**'s Pay-TV programming service – including the launch of a 24-hour Entertainment News Channel, the acquisition of important sports carriage rights and the addition of satellite channels – the Pay-TV division continued to grow, notwithstanding the presence of new competition.

Total subscribers increased by eight per cent to 656,000 at end of 2003, and the average churn rate fell to 1.3 per cent, compared with 1.6 per cent in 2002. These factors, combined with lower programming costs and stronger airtime sales in the second half of 2003, allowed the division to report higher turnover and operating profit.

Apart from growing the subscriber base, **i-CABLE** continued to expand its programming platform with the introduction of more premium channels and packages. Important acquisitions in 2003 included the exclusive rights to the star-studded Spanish La Liga soccer tournament, UEFA EURO 2004 and FIFA World Cup 2006. Digitisation of **i-CABLE**'s broadcasting service progressed at full speed during the year under review. Close to two-thirds of its Pay TV subscribers now receive their service in digital format; completion of the digital conversion programme is now expected by the third quarter of 2004, a year ahead of schedule.



CABLE TV celebrated its 10th anniversary last October.

BROADBAND AND INTERNET SERVICE

The number of Broadband subscribers increased by 14 per cent to 258,000 last year, though erosion of margins persisted due to the maturing of the market and keen competition. While **i-CABLE**'s share in the residential Broadband market remained more or less the same, in the mid-20 per cent range, ARPU fell to HK\$129 from HK\$180 the year before as a result of an aggressive pricing strategy designed to maintain subscriber growth momentum in a keenly contested market. However, with the economic upturn in the second half, both ARPU and turnover showed signs of recovery in the latter part of 2003.

During the year under review, **i-CABLE** continued with its efforts to derive additional revenue from its multimedia service, leveraging on its unique content production capability. A fee-charging portal, isoccer18.com, was launched in the summer of 2003. Moreover, **i-CABLE**'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.



Broadband subscribers grew to 258,000 at the end of 2003.

BALANCE SHEET (EXTRACT)

as at December 31, 2003

	HK\$M
Fixed assets	3,157
Net current liabilities	(268)
Other non-current liabilities	(22)
Net business assets (before debts)	2,867

RESULTS SUMMARY

	2003 HK\$M	2002 HK\$M	Change %
Turnover	1,235	1,117	11
Cost of Sales	(472)	(388)	22
Gross Profit	763	729	5
Operating Expenses	(376)	(399)	-6
EBITDA	387	330	17
ITD&A	(333)	(277)	20
Operating profit	54*	53	2

* Before non-recurring fixed assets write off of HK\$85 million

Wharf T&T

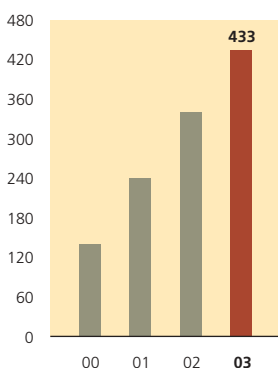
Under the impact of military conflict in the Middle East and the SARS outbreak in the early part of the year, the trend of business closures and downsizing leading to further contraction of business telecommunications demand continued throughout most of 2003. This cautious and difficult operating environment appeared to abate only towards the very end of the year. Together with escalating competition on the supply side, revenue growth, selling costs and operating costs came under serious pressure.

During 2003, the fixed line installed base grew by about 94,000 or 28 per cent year-on-year to reach 433,000, representing an overall market share of 11 per cent. Of this installed base, 293,000 lines were for business service and 140,000 for residential service; our market share in these two segments was 17 and seven per cent respectively. The revenue ratio between fixed line and IDD improved to nearly 4:1, reflecting a continuing shift of focus to fixed line service under **Wharf T&T's** business model. Total outgoing IDD volume in 2003 stayed flat at about 378 million minutes, versus 383 million minutes the year before.

During the year under review, an additional 189 km of fibre network was built to bring the total to 1,787 km.

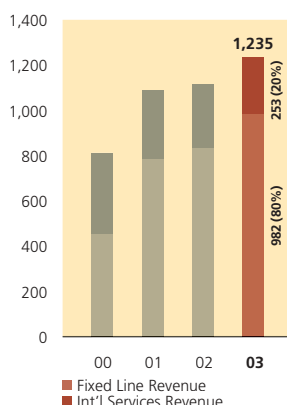
FIXED LINE GROWTH

In thousands



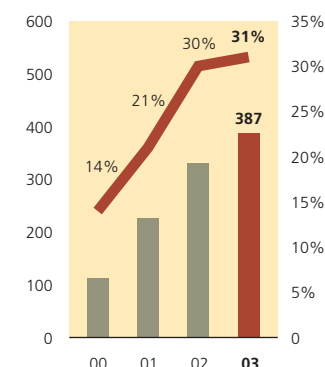
TOTAL REVENUE

HK\$M



EBITDA & EBITDA MARGIN

HK\$M



BUSINESS MARKET

As a group, business customers accounted for 76 per cent of **Wharf T&T's** total revenue in 2003.

On the wholesale front, **Wharf T&T** not only remained the dominant player in the non-captive ETS hosting business, serving about 95 per cent of that market; it also became the supplier of choice for international giants such as AT&T, BT and NTT Com Asia, reflecting exceptional service quality and flexible pricing. Wholesale business with international telecom carriers now makes up about 10 per cent of **Wharf T&T's** turnover in monthly fixed line rental.

In the area of high bandwidth fibre service, **Wharf T&T** continued to successfully penetrate the corporate, IT, finance and government market segments. As for the business Internet access market, the installed base of our broadband webtone service achieved significant growth last year.



Wharf T&T's installed base of fixed lines grew to 433,000 lines during the year.

CONSUMER MARKET

As a group, residential customers accounted for 24 per cent of **Wharf T&T's** total revenue in 2003.

With increased network coverage through co-location and direct access, an expanded sales force and vigorous promotional activities, growth of the residential sector accelerated. As the number of residential fixed lines jumped by a hefty 62 per cent year-on-year, the fixed line revenue generated by the Consumer Market showed an even bigger increase of 72 per cent. IDD margins were protected at the expense of volume; as a result of this strategy, **Wharf T&T's** market share in the residential IDD sector fell to six per cent in 2003.

FIXED LINE MARKET SHARE

