



**LIVE**

**Bloomberg**  
:51 Past Hour 27 Feb

Gold	Yen/Euro
308.80	115.640
▲ 0.11	▲ 0.040

US 10y Bond	3.960	▲ 0.25%
Auss 10y Bond	5.175	▲ 0.67%
Japan 10y Bond	0.788	▲ 0.76%

The Bloomberg Bond Report

HSI Sino Land 3.38 ▲ 0.03 Sun Hung Kai Pro  
Earstep (C) 76.00 ▲ 1.05 Standard Chartered 845.00

Taiwan Approves Oil Exploration Venture With China



# OPERATIONS REPORT



The Group's clear edge on programming and "triple-play" strategy have enabled its services to prevail over the competition.



### Operating Environment and Competition

Competition in the Group's core business markets intensified during 2004. Bundled "triple-play" - viz, television, voice and data - service became the name of the game.

While dominant telephone company PCCW aggressively enhanced its television content with sports and local news programming to supplement its Broadband and voice offerings, other competitors have also lined up "triple-play" offerings. These developments heightened competition despite the fact that a number of Broadband service providers which relied on infrastructure leasing to provide service have pulled out as the Broadband market began to consolidate.

In the Pay TV market, the Government threw Galaxy, a subsidiary of the dominant Free TV operator TVB, another lifeline by granting a one-year grace period (to December 2005) for the latter to find new investors for it to meet a divestiture obligation. NOW Broadband TV, operated by PCCW, continued to be aggressive in content acquisition in order to match the Group's comprehensive galore of programming.

Nonetheless, the Group's Pay TV programming still enjoyed a clear edge over the competition, albeit at an escalating cost which in turn exerted pressure on operating margin. Exclusive carriage of the



popular UEFA EURO 04 football tournament and top European football leagues has enabled Pay TV subscription to grow at a rate commensurate with previous years.

Responding to the change in the competitive landscape, the Group launched a Broadband package bundling with a mini-Pay TV package in the middle of the year. The timely introduction of the

Group's own triple-play offers, following the launch of fellow subsidiary Wharf T&T's VoIP service during the last quarter of the year, further enhanced our competitiveness.

The market has responded positively to the bundled packages. Not only has the growth momentum of Broadband subscription resumed in the second half, the yield from subscribers has also risen.



Pay TV business remains robust on strong programme, airtime sales and subscription growth.



### Pay TV service

Spurred on by strong programming, subscription growth and airtime sales growth, performance of this core business continued to be robust.

Turnover increased by 9% to HK\$1,888 million and ARPU increased by 2% to HK\$225, attributable to increase in commercial airtime revenue brought by the market recovery and strong proprietary programming. Operating costs before depreciation increased by 14% to HK\$1,141 million due to the surge in programming and marketing costs. Depreciation dropped by 4% as certain fixed assets became fully depreciated. As a result, EBITDA grew by 2% to HK\$748 million and operating profit increased by 6% to HK\$469 million.

Subscription grew by 7% year-on-year to reach 702,000 by the end of the year, on the back of new premium promotion campaigns and other programming and marketing initiatives. The number of new subscriptions acquired during the year was one of the highest ever.

During the year, a total of 22 new channels were launched for inclusion in the Basic Package or for premium subscription, further enhancing the programme offering of the Group's Pay TV service.



CABLE TV now parades 92 channels with 48 channels in the Basic Package.

A revamp of the sports platform took place in August following the acquisition of English Premier League (EPL) telecasting rights. A dedicated EPL Channel was launched, supplemented by a Soccer Betting Channel, catering to different programming tastes of football followers. A new premium package targeted at the local Pakistani community was launched in August and a premium channel NBA TV, allowing viewers 24-hour access to the most popular basketball tournament in Hong Kong, received positive response since it was launched in November.

The Group will continue to introduce more programme channels on its expanded carriage capacity to enhance its attractiveness to viewers.

To reach households in outlying islands or in remote areas not covered by our current networks, the Group launched a 20-channel satellite service in September, making up of the Group's flagship news, sports, movie and entertainment channels. On top of acquiring subscription orders from residential homes, this satellite service has also enabled the Group to obtain orders from mobile commercial places such as cruise ships.

In June, the Group substantially completed its migration to the digital transmission platform which enabled the deployment of more efficient countermeasures against the perennial problem of piracy.

At the same time, we will continue to expand our subscriber base in the local Pay Television market through programme enhancement and innovative marketing.

We are confident that with our proprietary content, inclusive of the English Premier League and the FIFA World Cup 06 attraction, we can prevail over the competition.

# INTERNET & MULTIMEDIA SERVICES







**Broadband business regains growth momentum through service enhancement and bundled packages.**



### **Internet and Multimedia Services**

The core Broadband Internet access business is back on a growth track despite increasing commoditisation in the market as a result of keen competition. Not only has subscription grown, the yield from subscribers has also reversed its downward dip experienced in recent years.

Reversing the trend a year before, turnover in 2004 increased by 18% on a year-to-year basis to HK\$481 million. Operating expenses before depreciation rose by 11% to HK\$277 million as a result of an expanded customer base and marketing activities. More importantly, operating loss nearly halved to HK\$44 million, compared with HK\$85 million a year ago.

Competition was taken to a new plane during the year as rivaling operators began to roll out “triple-play” (television, voice and data) bundling packages to attack the market. The Group launched a bundled Pay Television and Broadband offer in the middle of the year which proved to be very competitive. The bundled package was further enhanced with the inclusion of a voice service operated by fellow subsidiary Wharf T&T in the last quarter of the year.

As a result, not only has the Group successfully fended off these new challenges, new sales has significantly improved in the second half. Broadband subscribers



reached 291,000 at the end of 2004, for an increase of 13% when compared with a year ago.

The online content business continued to grow and the Group's leading content provision position was further enhanced with the conclusion of additional carriage agreements with mobile operators. A unit was set up to work closely with mobile operators to refine mobile and wireless technology and to identify suitable "on-the-road" content.

The Group continued to spend efforts to enhance its service quality during the year. While transmission technology upgrade continued, we have also taken active steps to improve our customer service quality. An independent quality control team was set up specifically to enhance customer satisfaction by vetting and validating service contracts with new customers before installation. This has proven to be effective in



reducing customer complaints and building customer loyalty.

2004 has been an eventful and yet fruitful year for our business in this sector. Financial and operational performances have recovered. Our positions in both the access and online content sectors have been further consolidated. Active steps taken during the past few years to enhance our service quality, in terms of transmission technology and customer service, have begun to bear fruit. These efforts have provided us with a solid foundation to seek an early return to profitability if competitive pressure does not deepen further.





# NEW MARKETS



Service expansion beyond Hong Kong and beyond conventional local market brings new business potential.

### New Markets

Our satellite channel - Horizon Channel - continued to expand its presence in the Mainland. Riding on the resources and elite production team, the channel offers 24-hour entertainment, science & technology, and cultural programmes. With a comprehensive global network focussing on showbiz incidents and the stories behind, the flagship "Horizon Daily" programme has received good responses from audiences. Direct telecast of important entertainment news also helps to build up i-CABLE's branding in China as well as other countries. The programme is fast becoming an important selling point for landing and airtime sales to Horizon.

Horizon Channel achieved a territorial breakthrough with the expansion of coverage to the Americas in September 2004. Furthermore, the channel is expected to land in Malaysia by the middle of this year.





We are also taking the advantage of the Horizon platform to develop new media business. An agreement with China Information Broadcast Network Co. Ltd. has been concluded, which enables us to enter the mobile phone market in China. At the same time, the fast growing digital platform in China has created opportunities for Horizon Channel with the successful conclusion of a carriage deal for “Horizon Daily” to be distributed on a digital network in Shanghai.

During the year, the Group has also spent efforts to expand its business beyond the conventional residential and commercial markets. Leveraging on its content production capability, the Group is now the sole supplier of local news service to Hong Kong’s own flag carrier, Cathay Pacific Airways, on an in-flight channel on its planes. The Group will also be the supplier of content and exclusive commercial airtime sales agent for television service on KCR trains operating in Hong Kong following the successful conclusion of an agreement with Kowloon-Canton Railway Corporation. The service will be launched in the second half of this year. These initiatives have given a new dimension to the Group’s content subscription service for additional revenue as well as exposure to the community at large. The Group will continue to explore other media of exposure for new business opportunities both within and outside Hong Kong.





**Airtime Sales**

2004 saw robust growth of the commercial airtime sales business, with total revenue growing 54% over 2003.

That effectively demonstrates our strength in on-target multi-channel advertising approach. With wide acceptance from the market, we continued to expand our clientele to a diverse range and attract a substantial number of prestigious new advertisers in 2004.

The Group remained optimistic on continued growth for this sector of business with the overall improvement of the

economy, the proprietary content in the Group’s stable and continued refinement of its on-target multi-channel approach.

**Corporate and Community Affairs**

At i-CABLE, we realise our success depends on attracting and retaining the most able and dedicated people at all levels of the organisation, and providing a stimulating and yet harmonious working environment where teamwork and a responsible attitude toward society are encouraged.

Our performance management system of accountability for business performance offers everyone the opportunity to share in the success of i-CABLE, which is a direct result of the contribution and talents of each of our staff members. The performance management system rewards contributions based on performance criteria that are transparent and challenging to energise everyone to work harder, and has over the years successfully instilled a pay-for-performance culture and built up a team of capable and highly motivated employees.

The Group is committed to being a good corporate citizen. With a “spirit to serve”, our Corporate Volunteer Team members have contributed their personal time, skills and most importantly their compassion to build a more caring and cohesive society in Hong Kong.



In 2004, the team has joined forces with various social welfare agencies including the Baptist Assembly, the Social Welfare Department and the Hong Kong Federation of Youth Groups, to organise scarf-knitting and wall-painting campaigns, visits to the underserved communities, etc. Since its establishment in 2002, the team has provided almost 9,000 hours of volunteer services to society.

We have also taken part in fund-raising activities of the Community Chest and other communities as well as environmental protection bodies. For the second year running, we have received from The Hong Kong Council of Social Service the Caring Company Logo Award for our involvement in serving the needs of the community.

In the aftermath of the tsunami disaster that hit East Asia in late 2004, the Group was heavily involved in the fund-raising activities in Hong Kong for relief works there. The Group was instrumental in organising a marathon charity



show where top artistes in Hong Kong raised much needed funds for those hit by the disaster. Apart from keeping the citizens of Hong Kong informed of the most up-to-date on-the-spot developments, our news team has also been commended for providing assistance to victim families at the disaster scene.

Riding on the occasion of the public display of the English Premier League Trophy in Hong Kong which we organised, we helped raise funds for elite sportsmen training and the Regeneration Society by conducting the “Make-a-Wish” programme and by donating invaluable soccer stars’ memorabilia for auction at the annual charity event, Run With Your Heart, to which we also gave our full support.

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

As we look to the future, all colleagues will continue to work as a team to prosper in the even more competitive and demanding market situation to achieve further business success.



# OUTLOOK





New opportunities open with expansion of service distribution and content production.



## Outlook

The economic recovery and clear competitive edge of our core businesses have enabled the Group to end 2004 on a high note. The leadership position of its Pay TV service remained robust while its Broadband service was back on a growth trend, both in terms of subscription and income. A voice service launched together with a service partner during the third quarter of the year further enhanced the competitiveness of its products.

The competition landscape for the year to come will continue to be difficult with competitors going all out to chip away the Group's leadership position in both the Pay TV and Broadband service markets. The Group will not only focus on enhancing its market penetration in the conventional market but will also strive to expand its service to new markets to enhance its reach as well as income.

In the conventional market, the Group will continue to enhance its programming and service quality to not only maintain, but expand, its position in the market for both services. At the same time, the Group will build on efforts over the past few years to expand its services beyond Hong Kong.

During the year, not only had the Group expanded the reach of its satellite channel - Horizon - in China, the channel has now reached the Americas and will soon land in countries in Southeast Asia, such as Malaysia.



Not content with serving only the conventional television market, the Group has taken active steps during the year to expand its content service beyond residential homes and commercial places such as bars and karaoke.

The year also saw the realisation of the Group's "triple play" strategy with the launch of a voice service on the Group's IP telecommunications network. This has not only provided an additional income source but also enhanced the flexibility of the Group's marketing capability.

In 2005, the Group will embark on a film production venture as a logical and significant step in advancing i-CABLE's ongoing strategy, starting with the launch of the Cable Entertainment News and Horizon channels, to further invest in the entertainment content business to enhance its growth.

The venture will be taken up by a subsidiary company, Sundream Motion Pictures Limited, to produce up to 20 full length feature films in the next two years in collaboration with local film production houses. A distribution partner, EDKO Films Ltd, which has produced and distributed the highly acclaimed movie "*Crouching Tiger Hidden Dragon*," has been lined up.

The new venture will be managed as professionally and prudently as we do for our existing businesses and investment in films will be carefully evaluated on a project by project basis and closely monitored in terms of both quality and budget control.

Early investments on network, content production, marketing and customer service infrastructure have made these new services possible with little incremental cost and enabled the Group to prevail over competition as well as to reap returns as the economy turns around. The Group is confident that it will grow as the overall economy continues to improve.

