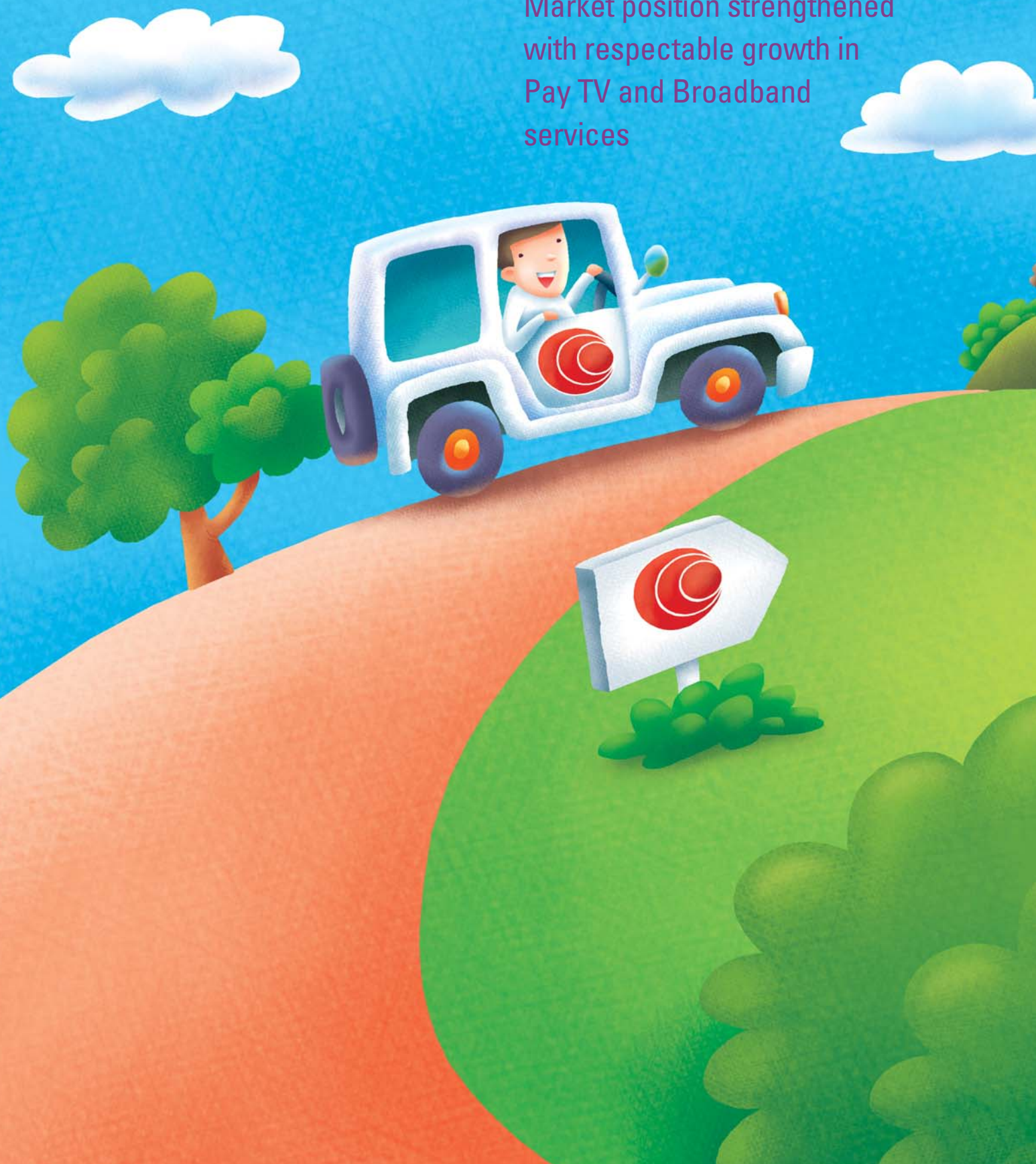


Business Review

Market position strengthened
with respectable growth in
Pay TV and Broadband
services





Business Review

Operating Environment and Competition

A solid foundation built on superior content production capability, a superb team of talents, well-tuned corporate and delivery infrastructures, coupled with flexible and responsive marketing initiatives have enabled the Group to maintain its market leadership position in Pay TV.

The incumbent telephone company PCCW aggressively acquired TV content, supplemented with heavy marketing spending. TVB Pay Visions previously called SuperSun TV, a Pay TV service 49%-owned by dominant terrestrial broadcaster TVB, has not yet made a significant impact in the market.

Despite these developments, the Group's locally produced and packaged channels still emerged as clear winners in the Pay TV viewership derby of independent viewership surveys commissioned by the industry. At the same time, the Group has adapted to the changing competitive landscape by introducing mini-packages to meet demand from some segments of the market. The strategy has served to enable the Group not only to hold on to its leadership position but also grow subscription.

Meanwhile, the rapid recovery of the Group's Broadband business continued even as the market further consolidated. In view of the success of the triple-play bundling plans, the Group has developed closer co-operation with its sister company Wharf T&T in both marketing and operations of residential voice services.






Pay TV service

During the year, we grew our Pay TV subscriber base by 5% to 738,000 in a hostile market. This was made possible by our strong content offerings as well as versatile marketing responses that included mini-packages.

The mini-packages have been successful in maintaining subscription growth. It is also a key strategy to avert a price war. Instead of matching overly aggressive pricing unscrupulously, we chose a strategy of careful market segmentation with product and pricing differentiation to meet the different programming needs of subscribers who were hitherto untapped.

ARPU was eroded by 6% to HK\$212 (2004: HK\$225) due to dilution from the mini-packages. However, the growth in subscriber base thus achieved enabled us to maintain annual turnover at HK\$1,884 million (2004: HK\$1,888 million). On the other hand, operating profit fell by 28% to HK\$337 million (2004: HK\$469 million) due to the higher cost to achieve product differentiation.



Business Review

During the year, our Pay TV platform added 12 new channels, eight of which on basic, spanning from news, general entertainment, religious, sports and ethnic minority channels. CABLE TV is now carrying over 100 different channels.

Despite competition, we believe there is still room for growth across the entire spectrum of segments of the Pay TV market. Our exclusive rights to the FIFA World Cup 2006 will drive our growth in all segments. We have been offering packaging initiatives to cater for different market segments for some years. Our packages go beyond just high versus low end differentiation to cater for different programming preference as well as ethnic demands. These have worked very well for us and we will continue to do so.

Programming

Content differentiation, particularly fresh and local production, is the key to our success. We have built a significant news platform, which over the years has become an authoritative and immediate source of information for many in town. Our customised sports platform with strong local flavour has changed the landscape of sports programming on television.



Our entertainment platform – with showbiz news round the clock and the many innovative life-style programmes – has firmly established itself to be a credible partner for the showbiz industry.



In 2005, our news platform continued to deliver. Our coverage of events both inside and outside the World Trade Organisation's Sixth Ministerial Conference held in Hong Kong in December, spanning across three channels, became the principal source of information for viewers at home as well as decision-makers in both the public and private sectors. We celebrated a milestone for our news service with a ceremony to mark 100,000 hours of continuous newscasting in April 2005.

Our locally packaged sports channels continued to provide our flagship programmes. Built on their success and wide following, our sports team is gearing up for production of the 06 FIFA World Cup, which the Group has exclusive carriage rights for all 64 matches in Hong Kong.

The entertainment platform was further strengthened during the year, including entertainment programmes, children programmes,

movies and entertainment news, offering more diversified choice to the audiences.

A brand new 24-hour Hollywood movie channel – HMC has launched in January 2006. It parades a wide array of Hollywood box office titles, covering productions from Disney, BVI, Newline, Universal, Paramount, Warner Brothers, Twentieth Century Fox, Dreamworks, Sony and MGM etc. and has captured the fascination of our many subscribers who are keen followers of Hollywood blockbusters.

In order to drive our content capability to grow further, the Group formed three content production subsidiaries, i-CABLE News Limited, i-CABLE Sports Limited and i-CABLE Entertainment Limited, at the beginning of 2006 to give the various programming units greater flexibility to explore new markets in their respective fields. These initiatives, we believe, would make our production capabilities more efficient and more market driven.



Business Review

Internet & Multimedia

Operating profit returns
with subscription and
revenue growth



Internet and Multimedia

Strong growth momentum on the Internet and Multimedia front continued with our subscriber base growing 10% to 320,000 (2004: 291,000). Despite competitive pressure, innovative marketing strategy and new value-added services shielded us from revenue erosion.

This segment reported a 16% growth in turnover to HK\$558 million (2004: HK\$481 million), and an operating profit of HK\$78 million as against a loss of HK\$44 million in the previous year.

The Group's triple-play bundled package has proven to be very competitive in the market place. During the year, voice lines more than quadrupled to 120,000 (2004: 29,000).

The multimedia unit continued to expand online home entertainment service through the portal i-cable.com. The total online experience has been further enriched with a range of attractions, including music download and property news. The unit also worked with mobile operators for the introduction of mobile versions of stock market news and soccer betting information.

The Group will strive to introduce more value-added service to enhance customer loyalty and to acquire new customers through vigorous marketing of our bundled service.

To better co-ordinate our efforts in this segment of the market, the Group has developed closer co-operation with its sister company Wharf T&T to market and operate Broadband and voice line services in the residential sector. That has served to enhance efficiency and sharpen our marketing efforts.

Airtime Sales

In 2005, Hong Kong Cable Enterprises Limited (HKCE) achieved significant revenue growth over 2004, which was attributable to CABLE TV commercial airtime sales (ATS).

HKCE has been promoting CABLE TV as a cost efficient advertising medium with multi-channel on-target platforms. The growth in ATS revenue effectively demonstrates the continuous recognition gained from the local advertising industry.

The Group's new venture, Hong Kong Cable News Express Limited (HKCNE) concluded an agreement with Kowloon Canton Railway Corporation (KCRC) in March 2005. Under the agreement, HKCNE serves as the exclusive sales distributor and content provider of KCRC's Newline Express, an in-train audio-visual system to display news and commercials. The service was launched in August 2005 and has attained wide acceptance from both the local advertising market and KCR passengers.



Business Review

New Markets

New markets initiatives begin to bear fruit





New Markets

During the year, the Group's efforts to break into new markets bore initial fruit, with encouraging progress being made in various ventures. Newline Express will build on its promising start. Sundream Motion Pictures is moving full steam ahead with more movies ready for release during the course of this year.

Our content sales has gained a strong foothold in the mobile phone market, one of the fastest expanding new audio-visual

content delivery platform, with the majority of mobile phone operators subscribing to our superb self-produced news and entertainment programming.

In 2005, Horizon Channel strengthened its channel branding and reputation in both the PRC and overseas markets. On top of the Mainland and Hong Kong, the channel is now available in the USA, South America and Malaysia.



Business Review

Corporate and Community Affairs

A company can only be as good as its people and behind i-CABLE's success is a highly-motivated team of dedicated, creative, resourceful and effective colleagues whose collective effort has powered the Company to ride over storms, turn adversities into opportunities to out-perform targets year after year in a volatile operating environment.

We understand that a great team is not the result of happenstance but must be built painstakingly through the persistent effort of a management that is committed to establishing and maintaining a system and culture that attracts, nurtures and retains the best talent.

At i-CABLE, we have a pay-for-performance system that gives full recognition to and rewards individual effort and achievement, letting each member of our team to share in the

fruit of success. We also strive to inculcate and maintain a corporate culture characterised by fairness, open communication, personal accountability, trust and mutual respect so as to create an environment that allows colleagues to realise their full potential and grow their career together with the Company.

The resulting highly effective workforce has enabled the Group to sustain growth without having to compromise prudent staff size control. At the end of 2005, the Group's staff size stood at 3,275, compared with 2,982 the previous year, a modest increase necessitated by the expansion of the Group into new businesses and new markets.

In 2005, the Group continued to strive to make contributions through various channels to help foster a better, more caring and cohesive community. Under the good corporate citizen spirit, we took part in various charitable causes and



activities such as the Community Chest's yearly Walks for Millions; and organised various charitable events and campaigns of our own. Members of our Corporate Volunteer team kept up their good work, contributing expertise, efforts and personal time to serve the underprivileged and needy. They visited elderly homes, institutions for the handicapped, squatter households and children of new immigrant families, bringing to them gifts of love and warmth in projects such as scarf-knitting and winter jackets distribution.

In recognition of their contribution, the Corporate Volunteer team received the Gold Award for Volunteer Service from the Secretariat of Steering Committee on Promotion of Volunteer Service. During the year, the company also joined hands with partners in the business and social service sectors in various charitable and community-spirited initiatives and we are proud to receive from the Hong Kong Council of Social Service the Caring Company Logo Award for the third consecutive year.

Our news team has always been at the forefront of the company's interaction with the community. CABLE News' effort in providing the most up-to-date and comprehensive news and public affairs information in the highest standard has always been highly regarded and has been embraced as an important part of our citizens' lives in this fast-paced city.

We have also been active in promoting citizens' concern about public affairs by organising jointly with other media bodies the annual Top Ten News Stories competition in which members of the public and students took part to select the news events that they felt had the highest impact on their lives. The event, which celebrated its 10th anniversary in 2005, has firmly established itself as a popular community event with ever-keener participation.



Business Review



Outlook

Challenges smothered
and new ground broken
to take business into
another plane



Outlook

In a business tied to fast technological advancements that constantly challenge to re-arrange the face of the operating topography, timely and innovative responses, anchored on sound fundamentals and long-term vision, have proven yet again to be the Group's winning formula.

In the past year, we have not only met the many challenges and held our position in the existing market, but have also broken new ground to take our business to another plane.

These new market developments held substantial growth potential for the Group. They can bring about not only fresh sources of revenue but also a multi-fold expansion in our penetration and reach, adding millions of viewers to self-produced contents. This powerful boost to our local and overseas presence will further solidify the reputation of i-CABLE as a leading media and a provider of quality local contents and Broadband services.

The period under review was full of challenges and we met the challenges with reasonable success overall. We have not only responded with swift and effective marketing and programming initiatives to mitigate adverse impacts, we also undertook a self-rejuvenation exercise, to rationalise management of our operating units and to sharpen our approach to market segmentation.

The challenge ahead of us will only be more trying. More new ideas and new initiatives are needed for us to stay ahead, as we did in the past, and the Group's new organisation will serve to give us much sharper focus to tackle these challenges.

