

# Business Review

## OPERATING ENVIRONMENT AND COMPETITION

The Group continued to maintain its market position in both Pay TV and Broadband markets irrespective of keener competition.

PCCW's now Broadband TV continued to be aggressive in the Pay TV market. During the period under review, not only did it pull out all stops to acquire customers, it has also been aggressive in content acquisition to erode the Group's programming platform. Instead of engaging in endless bidding wars for overpriced acquired content, the Group has chosen to develop further its production and its already well established news and entertainment platforms as well as to pursue more balanced development of its sports platform to maintain its leading position.

Our marketing and pricing initiatives appeared to have mitigated the negative effect of now's aggression so far to report a healthy growth of Pay TV customers at the end of the year with only marginal erosion of ARPU.

Meanwhile, the Broadband Internet market continued to mature and the Group is able to capitalise on its investment on network enhancement to generate a healthy increase in revenue and profitability. Coupled with our triple-play bundling offers, our Broadband service subscription continued to grow.

# SCOOP

Horizon Channel hosts Yang Yang (front), Debbie Goh



## PAY TV SERVICE

The Group's Pay TV service reported a 7% year-on-year subscription growth to 786,000 at the end of 2006. This was achieved against a stern operating environment where competing service providers sought to boost their subscription through aggressive marketing packages and enhancement of their programme offerings.

The exclusive carriage of FIFA World Cup 2006 on the Group's platform in the summer helped sustain the growth momentum which at the same time inflated operating cost.

As a result, turnover for this sector rose marginally to HK\$1,895 million (2005: HK\$1,884 million), and operating profit decreased by 26% to HK\$248 million (2005: HK\$337 million). The rollout of mini packages and selective packages in response to changing market conditions brought a 4% decrease in ARPU to HK\$203.

The business came under further test when news that the English Premier League would leave the CABLE TV platform broke in the fourth quarter. Swift action was taken to adjust our package offerings to counteract the negative impact. These moves have enabled the Group to sustain subscriber acquisition momentum as well as customer retention capability.

To further enhance our competitiveness, bundling will continue to be the focus of our acquisition strategy. It is also our mission to create demand by increasing channel line-up with enriched content, and plans are afoot to enhance our own production and to develop a more diversified sports platform. One example is the acquisition of the prestigious US PGA Tour golf tournaments from our competitor.

With the addition of a number of basic channels during the year covering a wide spectrum of genres to enrich our news, movie, music and entertainment programmes, the Group's Pay TV platform now carries over 100 channels.



**Oooooop!**

*i-CABLE News anchor  
Anny Chong On-ye.*



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## INTERNET AND MULTIMEDIA

Broadband services continued to report steady growth both in subscription and profit as the market consolidated.

Revenue growth and disciplined cost control had enabled this sector of the business to report a 66% growth in operating profit to a record HK\$129 million (2005: HK\$78 million) on the back of a 7% increase in turnover to HK\$596 million. Bundling has diluted ARPU marginally which was down by 2% to HK\$136 (2005: HK\$139).



Broadband subscribers grew 2% year-on-year to 328,000, attributable to service enhancement through network upgrade, bundling strategies and the continual introduction of value-added service. Wholesale voice lines, meanwhile, grew to 168,000, compared with 120,000 a year ago.

Multimedia content continued to be enhanced to further drive demand for Broadband services. There was breakthrough in 2006 as the Group had secured Internet right for important sport events, such as PGA Tour, US Open and Rugby World Cup. At the same time, we continued to be the leading provider of streaming and looping contents for major mobile operators in Hong Kong.

## HONG KONG CABLE ENTERPRISES (HKCE)

In 2006, HKCE achieved a double-digit total revenue growth over 2005. The growth was contributed primarily by commercial airtime sales (ATS) on CABLE TV.

Riding on the on-target programming platform of CABLE TV, HKCE generated advertising revenue from channel-driven TV advertisements, as well as programme-driven and tailor-made sponsorships of sports, news, finance and entertainment programmes.

With CABLE TV's exclusive full live coverage of the 64 final round matches of FIFA World Cup 2006, HKCE achieved a double-digit growth in ATS revenue in 2006. Demand for airtime and yield rate on other ATS platforms such as news, finance and entertainment also grew.

To further expand the advertising sales business, HKCE has acquired a controlling stake in Teamwork Media, an advertising sales agent based in Beijing and since renamed as Ad On Media; a joint venture company was officially set up in April 2006. Ad On Media is the exclusive advertising sales agent of Sanlian Life Week Magazine, which has the third largest readership among the monitored weeklies in the Mainland. HKCE will develop its Mainland business both through Ad On Media and through other acquisitions as appropriate.

The Group's other advertisement venture, Hong Kong Cable News Express Limited (HKCNE), the exclusive sales distributor and content provider of the Newsline Express service on KCR trains, celebrated its first anniversary in August 2006. The in-train audio-visual system has been widely accepted by the local advertising industry and KCR passengers.

## PROGRAMMING

### i-CABLE News

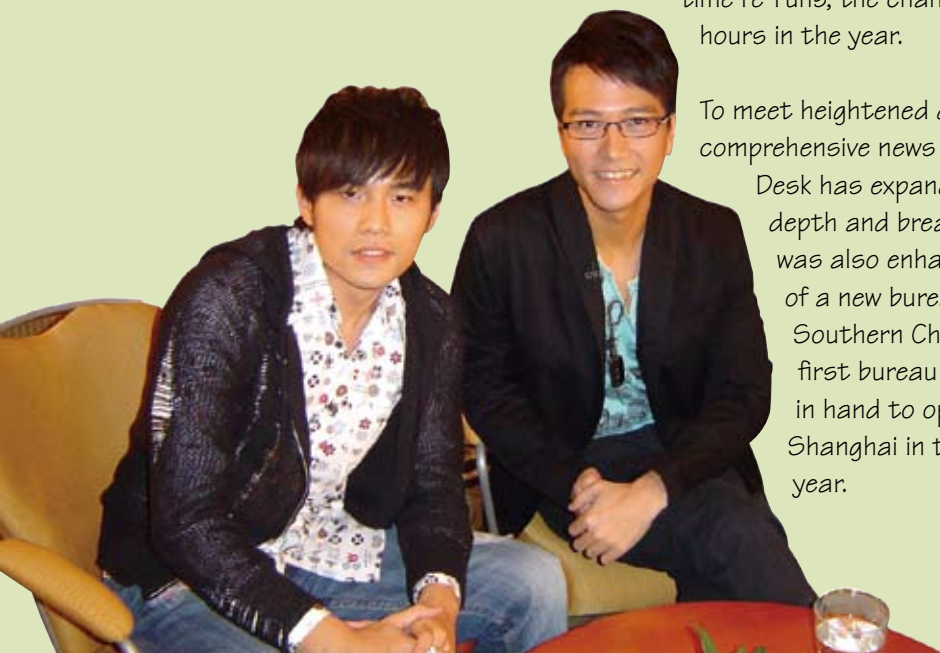
Programming and facilities upgrading have enabled i-CABLE News to maintain its position as one of Hong Kong's strongest and most comprehensive sources of news and public affairs information.

Two of our major news channels, News 1 and News 2, were revamped and renamed to become Finance Information Channel and News Channel respectively to sharpen their respective areas of focus and to better reflect their expanded coverage. The exercise has received very positive feedback from the financial and business sectors as well as the community at large.

The Live News Channel, meanwhile, continued to expand its live coverage capacity, clocking a total of 1,120 hours of live coverage of important news events in 2006. Together with prime time re-runs, the channel broadcast over 5,000 hours in the year.

To meet heightened demand for fast and comprehensive news from China, our China Desk has expanded its coverage, both in depth and breadth. Logistical support was also enhanced by the setting up of a new bureau in Guangzhou to cover Southern China, to supplement our first bureau in Beijing. Plans are also in hand to open a third bureau in Shanghai in the second quarter of this year.

*Singer Jay Chou and  
i-CABLE Entertainment  
News presenter Albert  
Au Wing-kuen.*



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i-CABLE News continued to reach out to various sectors of the community and adopted a new slogan - At the Forefront of Facts (走在事實最前線) - for its new promotion campaign that kicked off in the fourth quarter of last year.

Various awards won in 2006 – four in the New York Film and Television Festival and one in the Chicago International Television Festival – further testified to the i-CABLE News platform's achievements, on which we will continue to build in the year ahead.

Plans are on hand to further enhance the Finance Information Channel, by turning it to a 24-hour finance service channel on trading days and a documentaries and public affairs channel during weekends and public holidays. New documentary and public affairs programmes that are more relevant to the viewers will be introduced with revamp in April 2007.

## i-CABLE Entertainment

Spearheading content production for our flagship entertainment platform, i-CABLE Entertainment has played a central role in sharpening the competitive edge of the Company during the year by creating more and better programming and channels.

The movie platform was strengthened with the addition of HMC, a round-the-clock channel showcasing Hollywood blockbusters, which has proved to be highly popular. A promotional event, the first HMC Awards in May, also received enthusiastic response and won the support of major film distributors.

During the year, we have refined our self-produced programmes to enhance their attraction to viewers. Such efforts injected fresh vigour into our programmes, increased their draw, helped us maintain a solid entertainment platform, and won us independent acclaims.

i-CABLE Entertainment News, our 24-hour Cantonese entertainment news channel, continued to surpass its own past achievements as a main conduit of non-stop local and international showbiz news for viewers

Singer Jolin Tsai (centre) and i-CABLE Entertainment News presenters Sammie Yu Sze-man and Eric Li.



in Hong Kong. During the year, it produced more than 100 special interviews on artistes; its reporting team tracked across the world to cover over 30 major international showbiz events.

Further measures will be implemented in 2007 to maintain the effectiveness of the entertainment platform as one of the key components in our content differentiation strategy. These will include the launching of a second HMC channel in the first quarter and a new channel with highly competitive content of mass appeal designed to capture the widest possible viewership.

### **i-CABLE Sports**

The highlight of the year was the broadcasting of the FIFA World Cup 2006 and related programming and events, boosting subscription as well as the prestige of the i-CABLE sports platform.

As the official broadcaster carrying the exclusive right to carry all 64 matches, CABLE TV dedicated three channels to cover this top-notch quadrennial soccer event, broadcasting over 1,500 hours of the matches and related programmes.

On major international events, we kicked off the year with the carriage of the Torino 2006 Winter Olympic Games in February, making local broadcasting history by being the first broadcaster to carry the winter games live. In March, we telecast the 2006 Commonwealth Games and in December, we delivered full coverage of the 2006 Asian Games in Doha, carrying more than 10 hours of non-stop live broadcast daily.

The carriage of these prestigious international events has affirmed i-CABLE as the leading sports broadcaster in Hong Kong.

Our sports platform has been pursuing a strategy of balanced and sustainable development, which we believe is most sensible, both from a business point of view and for the overall and long-term interest of viewers.

To this end, we have continued to acquire new programmes catering to a wide spectrum of interests of sporting fans. In the year to come, the Group will carry the prestigious US PGA Tour exclusively, and offer a wide array of international sporting events to viewers including the US NBA tournament, top European soccer tournaments, as well as swimming, athletics, cycling, badminton and rugby events.

