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## **i-CABLE COMMUNICATIONS LIMITED**

*(Incorporated in Hong Kong with limited liability)*

Stock Code: 1097

### **Interim Results Announcement For the six months ended June 30, 2014**

#### **RESULTS HIGHLIGHTS**

- Revenue compression continued. Margin improved significantly from the first half of 2013 but declined from the second half.
- More margin improvement is needed to return to profitability but current trends are expected to continue in the near term.
- Internet & Telephony revenue continued its upward trend since 2012, producing the biggest EBITDA since 2011.
- TV revenue erosion continued, albeit smaller in magnitude in 2014 than in the second half of 2013. EBITDA contracted as a result but nonetheless the best in the first half since 2010.
- Free TV will pose both a new opportunity and a new risk.

#### **GROUP RESULTS**

The unaudited Group loss attributable to Shareholders for the six months ended June 30, 2014 was HK\$23 million (2013: HK\$112 million). Basic and diluted loss per share were both HK\$0.012 (2013: HK\$0.056).

## **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2014 (2013: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **A. Review of 2014 Interim Results**

Consolidated turnover decreased by HK\$166 million or 16% to HK\$843 million.

Operating costs before depreciation decreased by HK\$260 million to HK\$747 million. Programming costs decreased by 36%, Selling, customer services, general & administrative 10% and cost of sales 6%, while network costs increased by 2%.

EBITDA was HK\$95 million (2013: HK\$1 million). Net loss was HK\$23 million (2013: HK\$112 million). Basic and diluted loss per share was HK\$0.012 (2013: HK\$0.056).

### **B. Segmental Information**

#### *Television*

Turnover decreased by 21% to HK\$648 million on lower subscription and advertising income. Operating costs before depreciation decreased by 30% to HK\$577 million, primarily due to lower programming & acquisition cost partly offset by higher network related cost and cost of sales. EBITDA gain was HK\$71 million (2013: EBITDA loss HK\$7 million).

#### *Internet & Multimedia*

Turnover increased by 6% to HK\$180 million. Operating costs before depreciation decreased by 5% to HK\$107 million. EBITDA improved by 26% to HK\$73 million (2013: HK\$58 million).

### **C. Liquidity and Financial Resources**

As of June 30, 2014, the Group had bank deposits and cash of HK\$102 million, as compared to HK\$182 million at December 31, 2013.

The consolidated net asset value of the Group as at June 30, 2014 was HK\$1,169 million, or HK\$0.58 per share.

The Group's assets, liabilities, revenues and expenses were mainly denominated in Hong Kong or U.S. dollars and the exchange rate of HK\$ and US\$ remained pegged.

Capital expenditure during the period amounted to HK\$81 million (2013: HK\$78 million). Major items included network equipment as well as TV production and broadcast facilities.

The Group's ongoing capital expenditure and new business development will be funded by internal cash flows generated from operations and credit facilities.

#### **D. Contingent Liabilities**

At June 30, 2014, there were contingent liabilities in respect of guarantees, indemnities and letters of awareness given by the Company on behalf of subsidiaries relating to overdraft and guarantee facilities of banks up to HK\$106 million (2013: HK\$206 million), of which none (2013: HK\$100 million) was utilized.

#### **E. Human Resources**

The Group had 2,300 employees at the end of June 2014 (2013: 2,431). Total gross salaries and related costs incurred in the period amounted to HK\$359 million (2013: HK\$358 million).

#### **F. Operating Environment**

Driven by the proliferation of more intense competition, escalation in the cost of TV rights is rapidly extending from sports to other programmes such as drama series produced from the region. This is all taking place against the backdrop of declining TV viewership mainly attributable to illegal contents in the new media, which in turn affects commercial airtime sales. The TV industry will continue to come under considerable structural difficulties, especially when operators are stocking up programming libraries ahead of new competition.

On the telecommunications front, a relatively long period of pricing stability finally came to an end recently with mobile operators leading the charge, announcing substantial price hikes for both voice and data services and capping data usage one way or another. Such development may be favourable to our broadband business when more price sensitive consumers find fixed lined services more attractive.

#### **G. Outlook**

Competition will remain intense. More margin improvement is needed to return the Group to profitability but current trends are expected to continue in the near term. Our Pay TV business is likely to see further contraction until viewers, advertisers, operators and content providers have a better understanding of the changes to market landscape following the introduction of more free channels as well as how much more serious a threat illegal online viewing could evolve into.

Our sales, marketing, content, new media, infrastructure and customer service teams have been working diligently putting together strategies and initiatives to help see us through challenges ahead with a view to better unlocking the potential of our content, bringing higher convenience and satisfaction to our subscribers and facilitating more flexibility in our products and services for maximum cross-media exploitation.

Negotiations with the Communications Authority over Fantastic Television's free TV licence have made little progress. Closer examination of the proposed licensing conditions and requirements reveals a regulatory framework that not only lacks any measures to help new entrants establish a meaningful foothold in the early stages of market liberalisation, but also turns out to be the most stringent among broadcasters despite the incumbents' unmatched advantage in various aspects including years of first mover advantage, service coverage and ease of reception due to their entrenched and free use of public radio spectrum. We are urgently taking this up with the authorities to address such concerns satisfactorily otherwise the Government's policy objectives for truly opening up the free TV market would have little hope of being fulfilled.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**For the six months ended June 30, 2014 - unaudited**

	Note	2014 HK\$'000	2013 HK\$'000
<b>Turnover</b>	(2, 3)	<b>842,527</b>	1,008,744
Programming costs		(420,847)	(661,984)
Network expenses		(111,009)	(109,090)
Selling, general and administrative and other operating expenses		(167,422)	(185,518)
Cost of sales		(48,041)	(50,891)
<b>Profit from operations before depreciation</b>		<b>95,208</b>	1,261
Depreciation	(4)	(113,388)	(118,242)
<b>Loss from operations</b>	(3)	<b>(18,180)</b>	(116,981)
Interest income		66	133
Finance costs, net		-	(1,980)
Non-operating (expenses)/income		(200)	672
<b>Loss before taxation</b>	(4)	<b>(18,314)</b>	(118,156)
Income tax	(5)	(4,941)	6,097
<b>Loss for the period</b>		<b>(23,255)</b>	(112,059)
<b>Attributable to:</b>			
Equity shareholders of the Company		(23,255)	(112,059)
Non-controlling interests		-	-
<b>Loss for the period</b>		<b>(23,255)</b>	(112,059)
<b>Loss per share</b>	(6)		
Basic		<u>(1.2) cents</u>	<u>(5.6) cents</u>
Diluted		<u>(1.2) cents</u>	<u>(5.6) cents</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**  
For the six months ended June 30, 2014 - unaudited

	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
<b>Loss for the period</b>	<u>(23,255)</u>	<u>(112,059)</u>
<b>Other comprehensive income for the period (after reclassification adjustment):</b>		
<i>Item that maybe reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign subsidiaries' financial statements	(9)	282
<b>Total comprehensive income for the period</b>	<u>(23,264)</u>	<u>(111,777)</u>
<b>Attributable to:</b>		
Equity shareholders of the Company	(23,264)	(111,777)
Non-controlling interests	-	-
<b>Total comprehensive income for the period</b>	<u>(23,264)</u>	<u>(111,777)</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**At June 30, 2014 - unaudited**

	Note	At June 30, 2014 (unaudited) HK\$'000	At December 31, 2013 (audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		901,039	934,310
Programming library		167,873	137,465
Other intangible assets		3,767	3,767
Interest in associate		-	-
Deferred tax assets	(7)	302,342	311,373
Other non-current assets		71,951	55,688
		<u>1,446,972</u>	<u>1,442,603</u>
<b>Current assets</b>			
Inventories		16,023	13,884
Accounts receivable from trade debtors	(8)	65,639	80,120
Deposits, prepayments and other receivables		65,819	53,794
Amounts due from fellow subsidiaries		148	1,404
Bank deposits and cash		102,447	182,028
		<u>250,076</u>	<u>331,230</u>
<b>Current liabilities</b>			
Amounts due to trade creditors	(9)	86,989	89,535
Accrued expenses and other payables		193,668	217,394
Receipts in advance and customers' deposits		181,231	199,382
Current taxation		250	232
Amounts due to fellow subsidiaries		24,787	30,886
Amount due to immediate holding company		2,503	1,642
		<u>489,428</u>	<u>539,071</u>
<b>Net current liabilities</b>		<u>(239,352)</u>	<u>(207,841)</u>
<b>Total assets less current liabilities</b>		<u>1,207,620</u>	<u>1,234,762</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	(7)	30,065	34,629
Other non-current liabilities		8,797	8,111
		<u>38,862</u>	<u>42,740</u>
<b>NET ASSETS</b>		<u>1,168,758</u>	<u>1,192,022</u>
<b>CAPITAL AND RESERVES</b>			
Share capital: nominal value		-	2,011,512
Other statutory capital reserves		-	4,846,087
Share capital and other statutory capital reserves		6,857,599	6,857,599
Other reserves		(5,688,841)	(5,665,577)
<b>Total equity attributable to equity shareholders of the Company</b>		<u>1,168,758</u>	<u>1,192,022</u>
<b>Non-controlling interests</b>		<u>-</u>	<u>-</u>
<b>TOTAL EQUITY</b>		<u>1,168,758</u>	<u>1,192,022</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the six months ended June 30, 2014 - unaudited**

	Attributable to equity shareholders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Special capital reserve HK\$'000	Exchange reserve HK\$'000	Capital redemption reserve HK\$'000	Fair value reserve HK\$'000	Revenue reserve HK\$'000	Total reserves HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
<b>Balance at January 1, 2013*</b>	2,011,512	4,838,365	13,967	3,535	7,722	-	(5,590,738)	(727,149)	1,284,363	-	1,284,363
Loss for the period	-	-	-	-	-	-	(112,059)	(112,059)	(112,059)	-	(112,059)
Other comprehensive income	-	-	-	282	-	-	-	282	282	-	282
Total comprehensive income	-	-	-	282	-	-	(112,059)	(111,777)	(111,777)	-	(111,777)
Transfer to special capital reserve	-	-	-	-	-	-	-	-	-	-	-
<b>Balance at June 30, 2013*</b>	<u>2,011,512</u>	<u>4,838,365</u>	<u>13,967</u>	<u>3,817</u>	<u>7,722</u>	<u>-</u>	<u>(5,702,797)</u>	<u>(838,926)</u>	<u>1,172,586</u>	<u>-</u>	<u>1,172,586</u>

\* Included in the Group's revenue reserve is positive goodwill written off against reserves in prior years amounting to HK\$197,785,000.



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the six months ended June 30, 2014 - unaudited**

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Special capital reserve	Exchange reserve	Capital redemption reserve	Fair value reserve	Revenue reserve	Total reserves	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Balance at January 1, 2014*</b>	2,011,512	4,838,365	13,981	4,104	7,722	-	(5,683,662)	(819,490)	1,192,022	-	1,192,022
Loss for the period	-	-	-	-	-	-	(23,255)	(23,255)	(23,255)	-	(23,255)
Other comprehensive income	-	-	-	(9)	-	-	-	(9)	(9)	-	(9)
Total comprehensive income	-	-	-	(9)	-	-	(23,255)	(23,264)	(23,264)	-	(23,264)
Transition to no-par value regime on March 3, 2014	4,846,087	(4,838,365)	-	-	(7,722)	-	-	(4,846,087)	-	-	-
Transfer to special capital reserve	-	-	-	-	-	-	-	-	-	-	-
<b>Balance at June 30, 2014*</b>	<u>6,857,599</u>	<u>-</u>	<u>13,981</u>	<u>4,095</u>	<u>-</u>	<u>-</u>	<u>(5,706,917)</u>	<u>(5,688,841)</u>	<u>1,168,758</u>	<u>-</u>	<u>1,168,758</u>

\* Included in the Group's revenue reserve is positive goodwill written off against reserves in prior years amounting to HK\$197,785,000.

## NOTES TO THE INTERIM FINANCIAL REPORT

### (1) Basis of preparation and comparative figures

The unaudited interim financial report is prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard 34 “*Interim financial reporting*” issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKICPA has issued certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and one new Interpretation that are first effective for the current accounting period of the Group and the Company. We believe the adoption of these amendments to HKFRSs and new Interpretation will not have a material impact on the Group’s financial position or results of operations.

The interim financial report is prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for accounting policy changes that are expected to be reflected in the 2014 annual financial statements.

### (2) Turnover

Turnover comprises principally subscription, service and related fees for Television and Internet (including Telephony) services. It also includes advertising income net of agency deductions, channel service and distribution fees, programme licensing income, film exhibition and distribution income, network maintenance income and other related income.

### (3) Segment information

Business segments for the six months ended June 30, 2014 and 2013:

	Television		Internet and multimedia		Unallocated		Total	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Revenue from external customers	<b>638,034</b>	810,657	<b>180,154</b>	170,658	<b>24,339</b>	27,429	<b>842,527</b>	1,008,744
Inter-segment revenue	<b>9,984</b>	9,821	<b>124</b>	124	<b>6,176</b>	4,589	<b>16,284</b>	14,534
Reportable segment revenue	<b>648,018</b>	820,478	<b>180,278</b>	170,782	<b>30,515</b>	32,018	<b>858,811</b>	1,023,278
Reportable segment results (“EBITDA”)	<b>71,010</b>	(6,890)	<b>73,432</b>	58,312	<b>(47,638)</b>	(49,490)	<b>96,804</b>	1,932
Reportable segment results (“EBIT”)	<b>3,352</b>	(76,491)	<b>28,860</b>	12,699	<b>(48,796)</b>	(52,518)	<b>(16,584)</b>	(116,310)
Inter-segment elimination							<b>(1,596)</b>	(671)
Loss from operations							<b>(18,180)</b>	(116,981)
Interest income							<b>66</b>	133
Finance costs, net							-	(1,980)
Non-operating (expenses)/income							<b>(200)</b>	672
Income tax							<b>(4,941)</b>	6,097
Loss for the period							<b>(23,255)</b>	(112,059)

**(4) Loss before taxation**

Loss before taxation is stated after charging/(crediting):

	<b>Six months ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Depreciation		
- assets held for use under operating leases	<b>16,875</b>	16,177
- other assets	<b>96,513</b>	102,065
	<b>113,388</b>	118,242
Amortisation of programming library*	<b>49,857</b>	39,984
Staff costs	<b>324,109</b>	343,305
Contributions to defined contribution retirement plans	<b>17,446</b>	17,346
Cost of inventories	<b>5,812</b>	9,116
Interest expense on bank loans	-	1,980
Auditors' remuneration	<b>1,602</b>	1,419
Non-operating expenses/(income)		
Net loss/(gain) on disposal of property, plant and equipment	<b>200</b>	(672)

\* *Amortisation of programming library is included within programming costs in the consolidated results of the Group.*

**(5) Income tax**

	<b>Six months ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current tax – Overseas	<b>474</b>	585
Deferred taxation	<b>4,467</b>	(6,682)
	<b>4,941</b>	(6,097)

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate at 16.5% (2013: 16.5%) to the six months ended 30 June 2014. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

**(6) Loss per share**

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of HK\$23 million (2013: HK\$112 million) and the weighted average number of ordinary shares outstanding during the period of 2,011,512,400 (2013: 2,011,512,400).

There were no potential diluted ordinary shares in existence during the periods ended June 30, 2014 and 2013.

**(7) Deferred tax in the statement of financial position**

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the period are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At January 1, 2014	67,025	(343,769)	(276,744)
(Credited)/charged to consolidated statement of profit or loss (Note 5)	(4,353)	8,820	4,467
At June 30, 2014	<u>62,672</u>	<u>(334,949)</u>	<u>(272,277)</u>
	<b>At June 30, 2014 HK\$'000</b>	<b>At December 31, 2013 HK\$'000</b>	
Net deferred tax assets recognised in the consolidated statement of financial position	<b>(302,342)</b>		(311,373)
Net deferred tax liabilities recognised in the consolidated statement of financial position	<u>30,065</u>		<u>34,629</u>
	<u><b>(272,277)</b></u>		<u>(276,744)</u>

**(8) Accounts receivable from trade debtors**

An ageing analysis of accounts receivable from trade debtors (net of allowance for doubtful debts) is set out as follows:

	<b>At June 30, 2014</b> <b>HK\$'000</b>	At December 31, 2013 HK\$'000
0 to 30 days	<b>32,467</b>	19,722
31 to 60 days	<b>4,631</b>	21,289
61 to 90 days	<b>11,277</b>	16,036
Over 90 days	<b>17,264</b>	23,073
	<u><b>65,639</b></u>	<u>80,120</u>

The Group has a defined credit policy. The general credit terms allowed range from 0 to 90 days.

**(9) Amounts due to trade creditors**

An ageing analysis of amounts due to trade creditors is set out as follows:

	<b>At June 30, 2014</b> <b>HK\$'000</b>	At December 31, 2013 HK\$'000
0 to 30 days	<b>17,686</b>	9,584
31 to 60 days	<b>40,126</b>	31,069
61 to 90 days	<b>19,079</b>	14,233
Over 90 days	<b>10,098</b>	34,649
	<u><b>86,989</b></u>	<u>89,535</u>

**(10) Review of results**

The unaudited interim financial report for the six months ended June 30, 2014 was reviewed with no disagreement by the Audit Committee of the Company.

## **CODE ON CORPORATE GOVERNANCE**

During the financial period under review, all the code provisions in the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited were met by the Company, with one exception as regards Code Provision A.2.1 providing for the roles of chairman and chief executive (or chief executive officer) to be performed by different individuals. Such deviation is deemed necessary as, given the nature and size of the Company's business, it is at this stage considered to be more efficient to have one single person to hold both positions. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, with more than half of them being Independent Non-executive Directors.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial period under review.

By Order of the Board

**H. O. Hung**

*Company Secretary*

Hong Kong, August 6, 2014

*As at the date of this announcement, the Board of Directors of the Company comprises Mr. Stephen T. H. Ng, Mr. William J. H. Kwan and Mr. Paul Y. C. Tsui, together with four Independent Non-executive Directors, namely, Mr. Herman S. M. Hu, Mr. Roger K. H. Luk, Mr. Sherman S. M. Tang and Mr. Patrick Y. W. Wu.*