

# The 4 Criteria & 11 Factors For TV Licence Decision

# Criteria 1 : Programming



	Varieties of Programme
<b>HKTVN</b>	Current affairs, entertainment programmes, documentary, lifestyle, travel, variety shows, arts and culture, locally produced dramas, overseas acquired contents and news
<b>Fantastic TV</b>	News, finance, information, entertainment, children's programmes, sports and movies
<b>HKTVE</b>	News, current affairs, documentary, lifestyle, travel, variety show, arts and culture, sports, music and movie programmes

	Quantity of Programmes
<b>HKTVN</b>	<ul style="list-style-type: none"><li>• 1 x Integrated Cantonese, 1 x Integrated English Channel, and 28 other channels</li><li>• 200 and 800 hours of production for drama &amp; variety programmes and other contents acquired overseas with Cantonese dubbing completed respectively</li></ul>
<b>Fantastic TV</b>	<ul style="list-style-type: none"><li>• 1 x Integrated Cantonese and 1 x Integrated English Channel</li></ul>
<b>HKTVE</b>	<ul style="list-style-type: none"><li>• 1 x Integrated Cantonese and 1 x Integrated English Channel</li></ul>

# Criteria 1 : Programming

	Quality of Programmes
<b>HKTVN</b>	<ul style="list-style-type: none"> <li>With Hollywood movie grade cameras and advanced post-production facilities, the first episode of one of our self-produced dramas “Borderline” that available in YouTube has over 1 million hit-rate, which represents over 15 viewership rating points as converted to the traditional viewership rating system.</li> <li>HKTV has also garnered the views from the general public on the quality of our programmes via YouTube’s media sharing platform. There have been 3,663,547 accesses to our trailers. Among those viewers who offered a rating response, near 98% gave us a “Like”</li> </ul>
<b>Fantastic TV</b>	Public Information not Available
<b>HKTVE</b>	<ul style="list-style-type: none"> <li>Apart from self-produced drama, HKTVE plans to acquires local &amp; overseas dramas. The shooting of the first drama has been completed, and is now undergoing post-production process, while the production of the second and the third dramas have been commenced</li> <li>HKTVE will also acquire productions from local independent production agencies</li> </ul>
	Production Team
<b>HKTVN</b>	<p>With 250 artistes and 550 experienced production talents, HKTV possesses the 2<sup>nd</sup> largest team in HK. Overall, the experience of our creative and production team are as follow:</p> <ul style="list-style-type: none"> <li>15% over 20 years of experience</li> <li>24% over 10 years of experience</li> <li>20 % over 5 years of experience</li> </ul> <p>Specifically, HKTV has indicated to expand its production team from 800 to 1,800 upon the grant of licence</p>
<b>Fantastic TV</b>	Will established a team to support Free TV operations in the middle and long run
<b>HKTVE</b>	PCCW Media possesses over 6 years’ experience in local paid TV program service network

## Criteria 2 : Programming Investment



	Programming Investment
<b>HKTVN</b>	<ul style="list-style-type: none"><li>• HK\$1.07 billion for the first 6 years of operation, including HK\$436M sharing of cost from international content distribution</li></ul>
<b>Fantastic TV</b>	<ul style="list-style-type: none"><li>• HK\$968M for the first 6 years of operation</li></ul>
<b>HKTVE</b>	<ul style="list-style-type: none"><li>• HK\$600 million in the initial 3 years from service launch according to CEBD submission to Legislative Council on 15 October 2013, this amount represents the total committed programming and capital investment</li><li>• According to PCCW's announcement released on 24 October 2013, HKTVE will invest a total of HK\$1.3 billion on both programming and capital investment during the first 6 years of operation</li></ul>

## Criteria 3 : Financial Capability



	Net Cash Position
<b>HKTVN</b>	HK\$2,317 million net cash and financial assets as at 2013 Interim Result
<b>Fantastic TV</b>	HK\$56 million net cash as at 2013 Interim Result (Represents the total net cash position of Fantastic TV's parent company, i-Cable)
<b>HKTVE</b>	A negative net cash position and financial assets at the level of HK\$21,237M as at 2013 Interim Result (Represents the total net cash position of HKTVE's parent company, PCCW)

	Debt-to-asset Ratio
<b>HKTVN</b>	8.56% as at 2013 Interim Result
<b>Fantastic TV</b>	5.57% as at 2013 Interim Result
<b>HKTVE</b>	57.03% as at 2013 Interim Result

## Criteria 3 : Financial Capability



	Net Profit / Loss
<b>HKTVN</b>	<ul style="list-style-type: none"><li>• FY2013 Interim: Net loss of HK\$8 million</li><li>• FY2012 Annual: HK\$ 3,700 million</li><li>• FY2011 Annual: HK\$ 314 million</li><li>• FY2010 Annual: HK\$ 217 million</li></ul>
<b>Fantastic TV</b>	<ul style="list-style-type: none"><li>• FY2013 Interim: Net loss of HK\$112 million</li><li>• FY2012 Annual: Net loss of HK\$278 million</li><li>• FY2011 Annual: Net loss of HK\$180 million</li><li>• FY2010 Annual: Net loss of HK\$267 million</li></ul> <p>(Financial Results for Fantastic TV's parent company, i-Cable)</p>
<b>HKTVE</b>	<ul style="list-style-type: none"><li>• FY2013 Interim: HK\$ 1,445 million</li><li>• FY2012 Annual : HK\$ 2,567 million</li><li>• FY 2011 Annual : HK\$ 1,776 million</li><li>• FY 2010 Annual : HK\$ 2,324 million</li></ul> <p>(Financial Results for HKTVE's parent company, PCCW)</p>

## Criteria 4 : Technical Capability



	Percentage of Residential Buildings Covered
HKTVN	93% of HK's residential buildings. HKTU has committed to provide full coverage within 5 years of operation
Fantastic TV	95% of HK's residential buildings
HKTVE	90% of HK's residential buildings

	Means of Delivery
HKTVN	via IBCCDS, without the need of set-top box
Fantastic TV	via IBCCDS, without the need of set-top box
HKTVE	Set-top box is required



## Criteria 4 : Technical Capability



	Programme Format
HKTVN	High-Definition and Analogue
Fantastic TV	Analogue and digital
HKTVE	Digital only

	Production Equipment
HKTVN	<ul style="list-style-type: none"> <li>Hollywood movie grade cameras and advanced post-production facilities, i.e. Arri series camera and lighting system</li> <li>HKTV has uploaded into YouTube the first episode of one of our self-produced dramas “Borderline” which produced by using the advanced shooting and post-production system, the hit-rate of that episode alone already reached over 1 million hit-rate that represents over 15 viewership rating points as converted to the traditional viewership rating system</li> </ul>
Fantastic TV	Public Information not Available
HKTVE	Public Information not Available



# 11 Factors



- (1) The free TV licence applications submitted by HKT, Fantastic TV and HKTVE under the BO (including the proposed corporate restructuring of Fantastic TV and HKTVE, and undertakings given in relation to Fantastic TV's and HKTVE's compliance with the “non-subsidiary” and “no disqualified person” requirements under the BO)

	HKTVN	Fantastic TV	HKTVE
Cross-media ownership control	No	i-Cable, the parent company of Fantastic TV is holding a domestic paid TV licence	Now TV, the parent company of HKTVE is holding a domestic paid TV licence
Non-subsidiary requirement	Fulfilled	Restructure is required and to be held by trustees	Restructure is required and to be held by trustees

# 11 Factors



	HKTVN	Fantastic TV	HKTVE
2. The Authority's Recommendation	As reported by Apple Daily on 18 Oct 2013, the Authority on 13 July 2011 already recommended the CE in C in granting free TV licence to all three applicants		
3. The Consultant's Reports	As reported in Ming Pao on 18 Oct 2013, <i>"CTI is ranked second and edges out HKTVE on its competitiveness"</i> . The article also made reference to a report namely, "Consultant's assessment report" dated April 2011		
	Ranked No. 2 : <i>"... CTI will also reach operating breakeven in all of the scenarios tested..."</i>	Ranked No. 1	Ranked No. 3 : <i>"... HKTVE is not able to achieve sustainability in the five-licensee scenario..."</i>
4. The applicable statutory requirements under the BO	As reported by Apple Daily on 18 Oct 2013, the Authority on 13 July 2011 recommended the CE in C in granting free TV licence to all three applicants. However, please be noted that the other two applicants may have to apply for exemption from the Authority due to requirements under cross-media ownership control and have to restructure its business before complying relevant statutory requirements		

# 11 Factors



	HKTVN	Fantastic TV	HKTVE
5. The 8 assessment criteria in the Authority's "Guidance Note for Those Interested in Applying for Domestic Free Television Programme Service Licences in Hong Kong" :			
a. Financial soundness and commitment to investment	Please refer to slides P.5 to P.7		
b. Proven managerial and technical expertise	Please refer to slide P.4		
c. The variety, quantity and quality of programmes	Please refer to slides P.3 to P.4		
d. Technical soundness and a satisfactory quality of service	Please refer to slides P.8 to P.9		

# 11 Factors



	HKTVN	Fantastic TV	HKTVE
5. The 8 assessment criteria in the Authority's "Guidance Note for Those Interested in Applying for Domestic Free Television Programme Service Licences in Hong Kong" :			
e. Service rollout	<p>Coverage : 93% of HK's residential buildings. HKTV has committed to provide full coverage within 5 years of operation</p> <p>Number of Channels : 12 channels (within 12 months from the commencement of service) 17 channels (within 24 months from the commencement of service) 20 channels (within 36 months from the commencement of service) 23 channels (within 48 months from the commencement of service) 27 channels (within 60 months from the commencement of service) 30 channels (within 72 months from the commencement of service)</p>	<p>Coverage : 95% of HK's residential buildings</p> <p>Number of Channels : 1 x Integrated Cantonese Channel within 12 months from service commencement 1 x Integrated English Channel within 24 months from service commencement</p>	<p>Coverage : 90% of HK's residential buildings</p> <p>Number of Channels : 1 x Integrated Cantonese Channel within 12 months from service commencement 1 x Integrated English Channel within 24 months from service commencement</p>
f. Minimum inconvenience to members of the public	All three applicants will deliver the service via well-established underground fibre-cable network, large scale civil works affecting the public could be avoided		

# 11 Factors



	HKTVN	Fantastic TV	HKTVE
5. The 8 assessment criteria in the Authority's "Guidance Note for Those Interested in Applying for Domestic Free Television Programme Service Licences in Hong Kong" :			
g. Benefit to the local broadcasting industry, viewers/customers and the economy as a whole	<ul style="list-style-type: none"> <li>• Bringing more programming choice for viewers;</li> <li>• Fostering competition in the free television market;</li> <li>• Promoting the developing of local television industry;</li> <li>• Creating job opportunities and maintaining HK's position at the forefront of broadcasting technology. Specifically, HKTVE has indicated to expand its production team from 800 to 1,800 upon the grant of licence</li> </ul>	<ul style="list-style-type: none"> <li>• Enhancing competition;</li> <li>• Creating job opportunities;</li> <li>• No cost to the public;</li> <li>• Immediate Rollout</li> </ul>	<ul style="list-style-type: none"> <li>• Enhancing competition and benefits to viewers;</li> <li>• Delivery of a well-financed and innovative service;</li> <li>• Unique programming mix;</li> <li>• All providers will be motivated;</li> <li>• Creating job opportunities</li> </ul>
h. Quality control and compliance	Will set up a Standards and Practice Team to assure compliance of all the programme contents of HKTV with applicable laws, licence conditions and codes of practice and directions or orders issued	Appropriate internal monitoring measures will be put in place to ensure that it will comply with all relevant laws, regulations and codes of practice	Will adopt appropriate quality and compliance control standards and procedures to ensure compliance with all relevant laws, regulations and codes of practice

# 11 Factors



	Relevant Information
6. All relevant documents, all representations and responses received in relation to the free TV licence applications and as submitted to the CE in Council	<p>During the period from 31 December 2009 to 15 October 2013, there were over a hundred correspondences between HKTV and the Authority related to HKTV's free TV licence application. Specifically, the Broadcasting Authority had carried out a 19-month study to evaluate HKTV's licence application. We believe the evaluation period demonstrates that the Broadcasting Authority had gone through a professional, in-depth and thorough study before making a recommendation to the CE in Council for granting a free TV licence to HKTV</p>
7. All public views received	<p>Surveys conducted from 31 May to 3 June 2013 by The University of Hong Kong Public Opinion Programme—</p> <ul style="list-style-type: none"> <li>• Support the issue of new Free TV Program Service Licence : 80%</li> <li>• Support HKTV to be granted a Free TV Program Service Licence : 63%</li> <li>• Support Fantastic TV to be granted a Free TV Program Service Licence : 50%</li> <li>• Support HKTVE to be granted a Free TV Program Service Licence : 52%</li> </ul> <p>Surveys conducted from 16 Oct to 18 Oct 2013 by The University of Hong Kong Public Opinion Programme—</p> <ul style="list-style-type: none"> <li>• Views on the decision of issuing licence to Fantastic TV &amp; HKTVE, but rejected the application of HKTV : <ul style="list-style-type: none"> <li>• Agree : 9%</li> <li>• Objection : 72%</li> </ul> </li> <li>• Views on the Government's decision to reject HKTV's application : <ul style="list-style-type: none"> <li>• Agree : 8%</li> <li>• Objection : 73%</li> </ul> </li> </ul>

# 11 Factors

	Relevant Information
8. All relevant latest developments	<ul style="list-style-type: none"> <li>HKTV has conducted several focus groups to invite comments from the general public. A sample of 263 interviewees was shown the first episodes of some of our drama series. Of them, 85% were eager to watch the remaining episodes on the future domestic free television services platform of HKTV</li> <li>The first episode of one of our self-produced dramas “Borderline” that available in YouTube has reached over 1 million hit-rate, which represents over 15 viewership rating points as converted to the traditional viewership rating system</li> <li>HKTV has already built a strong production team comprising 250 popular artistes, 550 experienced production crew members and top-tier creative talent</li> </ul>
9. The Government’s prevailing broadcasting policy	<ul style="list-style-type: none"> <li>In 1998, the Government conducted a comprehensive review of the television environment and policy. Under paragraph 3 of the 1998 Review of the Television Environment, it was stated that: <b><i>“In so far as market demands exist and the advance of technologies allows, <u>no artificial limits</u> should be set for the number of players in the field”</i></b></li> <li>At the meeting held by the Panel of IT and Broadcasting of Legislative Council on 11 June 2012, Mr. Gregory So, the Secretary for Commerce and Economic Development confirmed that the policy to be applied was the 1998 policy, namely that there was no limit on the number of licences to be granted</li> </ul>
10. Sustainability of the free TV market in the broad sense of the impact of the grant of additional free TV licences on the broadcasting industry of Hong Kong	<ul style="list-style-type: none"> <li>To the best of our knowledge, the Authority’s determining factor on the sustainability of an applicant’s business model only emphasizes on revenue to be generated from the domestic market only. From the business model of the incumbent, its revenue share between the domestic and non-domestic markets is approximately in the ratio of 50:50 from 2005 to 2012</li> <li>the Hong Kong Film Directors’ Guild issued a statement mentioned that the issue of 3 free TV licences will introduce competition which should have been able to help to enhance local TV quality. However, the current rules are vague that bring the public a feeling of lacking transparency</li> <li>President of Hong Kong Televisioners Association Mr. Tsui Siu Ming said, “The Government has never been assisting TV development plans nor setting up funding support. This incident inevitably gives the public an impression of sacrificing new operators to protect existing players. Therefore, we urge the Government to openly give an account on the criteria. As for the Government’s view on the limited size of the advertising market of free TV service and the market is not able to cater for one more TV station, I cannot agree with this saying. HK is a commercial free market that would reach equilibrium on its own. The Government should respect public opinion.”</li> </ul>



# 11 Factors



	Relevant Information
11. Public interest	<ul style="list-style-type: none"><li>• <i>Promoting market liberalization :</i> The broadcasting industry of Hong Kong has been a brilliant and creative industry for several decades. However, it has now become a very stagnant industry. HKTV believes that, with HKTV's participation, the market will be stimulated by competition, investments, convergence in technology and innovative market strategies</li><li>• <i>Broadening viewers' choice and international vision</i> HKTV's participation will make up the inadequacies of the existing terrestrial television market and will bring the viewing public with high quality of television programmes including drama, variety and infotainment programmes</li><li>• <i>Maintaining long-term sustainability and economic benefits</i> HKTV will create new employment opportunities for Hong Kong as it will further expand its production team to 1,800 talent upon licence grant. It is anticipated that there will be positive impact on the development of local creative industry and thus Hong Kong's economic growth.</li></ul>

	Relevant Information
TV Advertising Market	<p>General Manager of TVB (0511) Mr. Mark Lee said, the local TV advertising revenue shows no significant growth over the past 16 years, and the market capability for several new entrants is questionable. However, a senior partner of PricewaterhouseCoopers pointed out to the media that, the compound annual growth rate (CAGR) for TV advertising growth in the coming 5 years will reach 8.5%.</p> <p>Despite of the limited time to spend on watching TV, but free TV remains to be an important part of daily entertainment for mass public. This is an evidence to support new entrants, bringing the public and the industry more choices and opportunities.</p>

\*\* Sources of Information : Media reports, corporate websites, public information including financial report & press release, HKUPOP website and HKTV internal information.