有線寬頻 i-CABLE

i-CABLE COMMUNICATIONS LIMITED

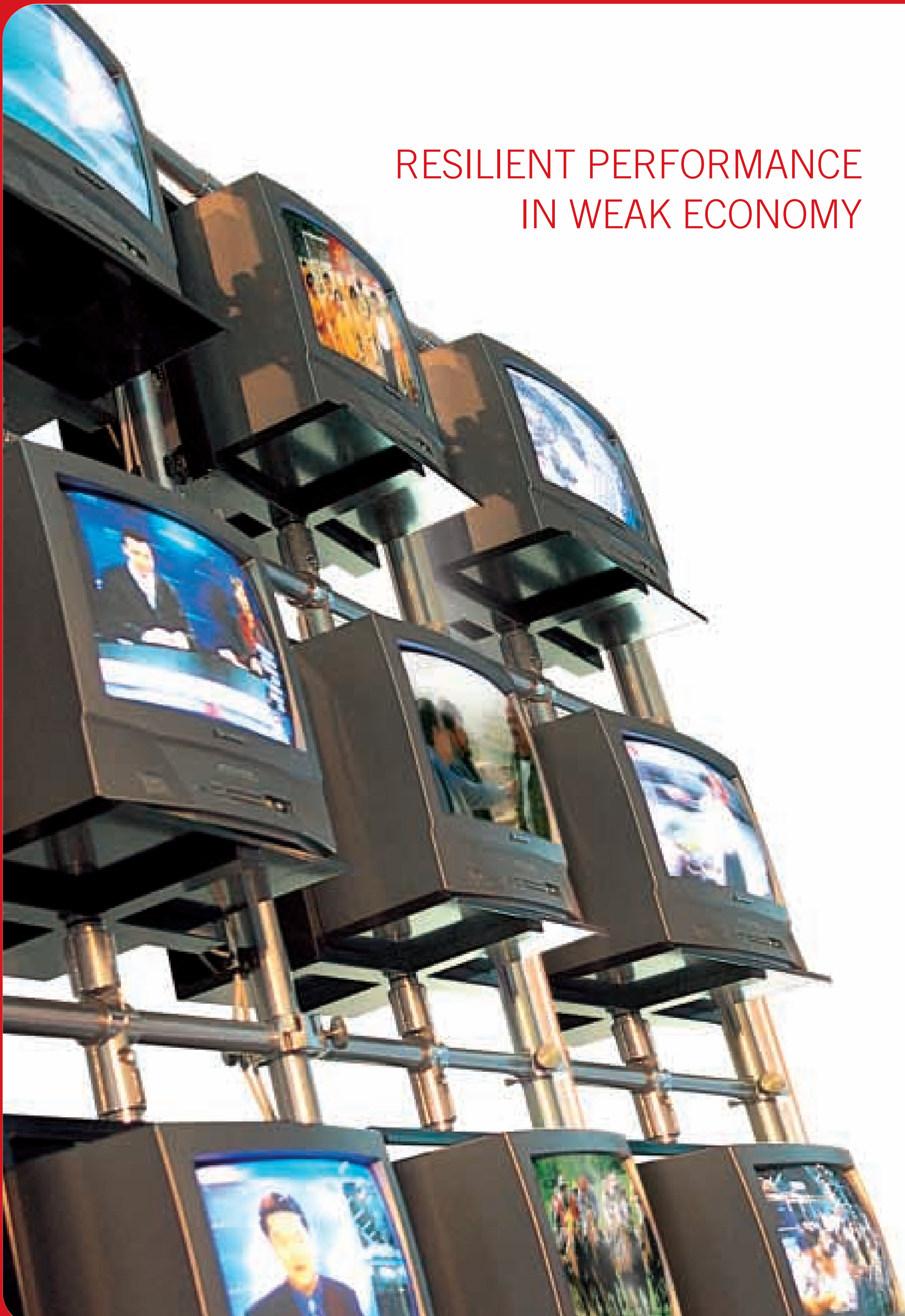
i2002 INTERIM REPORT

有線電視 CABLE TV

2002 FIFA WORLD CUP KOREA JAPAN

OFFICIAL BROADCASTER

RESILIENT PERFORMANCE IN WEAK ECONOMY



HIGHLIGHTS

- Turnover increased by 20% to HK$1,123 million (2001: HK$934 million)
- EBITDA increased by 29% to HK$368 million (2001: HK$284 million)
- Operating profit increased by 67% to HK$126 million (2001: HK$75 million)
- Net profit increased by 34% to HK$103 million (2001: HK$77 million)
- Earnings per share increased by 34% to 5.1 cents (2001: 3.8 cents)
- An interim dividend per share of 1.5 cents will be paid (2001: Nil)
- Cash generated from operations increased by 74% to HK$534 million (2001: HK$307 million) to enable surplus funds to reach HK$1.6 billion

PAY TV – WORLD CUP & ANTI-PIRACY MEASURES SPURRED RECOVERY

- Subscribers grew by 12% year over year to 600,000 (2001: 537,000)
- Turnover increased by 9% to HK$877 million (2001: HK$802 million)
- ARPU increased by 2% to HK$244 (2001: HK$239)
- Monthly churn rate improved to 1.5% from 1.8% as anti-piracy measures take effect
- EBITDA decreased by 9% to HK$297 million (2001: HK$327 million)
- Operating profit exceeded budget but decreased by 17% to HK$154 million (2001: HK$185 million)
- Both turnover and operating expenses distorted by World Cup

INTERNET & MULTIMEDIA – MARKET EXPANSION MODERATED BY COMPETITION

- Broadband subscribers almost doubled year over year to 192,000 (2001: 100,000)
- Turnover increased by 86% to HK$246 million (2001: HK$132 million)
- ARPU declined by 5% to HK$213 (2001: HK$225)
- EBITDA grew more than eightfold to HK$127 million (2001: HK$13 million); EBITDA margin rose to 52% (2001: 10%)
- Operating profit of HK$31 million reported (2001: HK$51 million loss)

GROUP RESULTS

The unaudited Group profit attributable to Shareholders for the six months ended June 30, 2002 amounted to HK$103 million, as compared to HK$77 million for the corresponding period in 2001. Basic and diluted earnings per share were 5.1 cents and 5.0 cents respectively, as compared with 3.8 cents for both figures last year.

INTERIM DIVIDEND

The Board has declared an interim dividend in respect of the half-year period ended June 30, 2002 of 1.5 cents (2001: Nil) per share, payable on Wednesday, October 23, 2002 to Shareholders on record as at October 11, 2002.

BUSINESS REVIEW

Overview

The Group continued to report healthy growth in the first half of 2002 overall. Turnover increased by 20% to HK$1,123 million and net profit grew by 34% to HK$103 million when compared with the same period last year. This was achieved in a weak economy and an environment of keen competition. It underlines the comparative resilience of the Group's primarily subscription-based business in a weak economy.

Core businesses Pay TV and Broadband operated in different market conditions and returned contrasting results. The former started a gradual process of recovery from the decline last year caused primarily by pirate activities to report a turnover growth of 9%. The latter harvested a turnover growth of 86% from the rapid growth last year but began to encounter keener competition since the beginning of this year. Operating conditions are expected to become more challenging for both businesses in the second half.

The high point in the first half of 2002 was undeniably Pay TV's month-long live and exclusive coverage of the hugely popular 2002 FIFA World Cup. It not only helped to break viewership, subscription and airtime sales records for us, but also put us firmly on the broadcasting map. Our next challenge is to capitalise on that momentum to protect that base and to build further from it.

In terms of new Pay TV competition, the weak economic conditions have caused new competitors to turn very cautious and existing competitors to retrench. Yes TV and Pacific Digital have only launched nominal services and Galaxy is not expected to be in service before next February, as part of the regulatory approval to extend the deadline for TVB to sell down its stake in Galaxy to comply with licence conditions. At the same time, iTV has submitted an application to cease to operate.

In residential broadband, the overall market continued to mushroom but the competition has also greatly intensified. That has resulted in our own subscriber and revenue growth slowing within the first half, after a very strong 2001 which gave us robust year-on-year growth compared to the first half of 2001. We will still need to rebuild our growth momentum in the second half of this year.

Pay TV

Anti-piracy measures continued, and were enhanced, in the first half of this year ahead of World Cup. They have proven to be effective in arresting the decline in ARPU and revenue to enable Pay TV subscription revenue to recover to its previous peak in the first quarter of 2001 by the first quarter of 2002. That momentum continued into the second quarter amidst the World Cup fever. During the first half, the subscriber base grew to 600,000 for a net gain of around 40,000 in the preceding 6 months and 63,000 in the preceding 12 months. First half ARPU recovered to HK$244 from HK$239 a year ago and monthly churn eased back to 1.5%.

Pay TV turnover in the first half of 2002 increased by 9% over the first half of 2001 to HK$877 million with World Cup-related revenues more than compensating for the softness in non-World Cup commercial airtime sales. Operating expenses increased by 22% to HK$581 million, primarily because of World Cup-related items which are not expected to recur. EBITDA declined by 9% to HK$297 million (with an EBITDA margin of 34%) and depreciation held steady at HK$143 million. Operating profit declined by 17% to HK$154 million. Additional upside from the World Cup is expected to accrue in subsequent periods.

Migration to the new digital encryption platform accelerated during the first half. In addition to providing better security against unauthorised viewing, the new technology also expanded our capacity to deliver many more channels to subscribers. We have begun to use the expanded capacity and expanded choice to enhance subscriber satisfaction and to create new revenue opportunities.

New channels started to be introduced in April. New channels that have been introduced in the past few months included 4 Zee TV channels (from India), China Travel & Economic Channel, Channel News Asia (from Singapore), China Central TV-9, ETTV (from Taiwan), NHK World Premium (from Japan), Arirang TV (from Korea), TV5 (from France) and Deutsche Welle-TV (from Germany). Others will shortly be added, including more news and information channels and adult entertainment to cater to more targeted needs. Market response has been quite positive to generate additional revenue from both existing and new subscribers. The total number of channels on offer is expected to increase to over 50 before the end of the year.

In "mainstream" programming, the World Cup Carnival from May 31 to June 30 broke all viewership, subscription and airtime sales records in the history of CABLE TV. The exclusive event was produced from a purpose-built studio at a Kowloon Bay exhibition centre, in the presence of a very active and supportive live audience in the case of many matches, and was a resounding success. Over the month-long carnival, about 15,000 guests participated in the live audience and provided valuable support to the entire production team. As expected, the event captivated very many viewers at home. In addition, thousands more flocked to public places such as restaurants, karaokes, bars, shopping arcades and the Hong Kong Stadium to watch it on giant screens and in the company of many other cheering fans. A new and trendy way to watch live soccer has emerged from this event. These activities have not only enabled the Group to break its own records, but also served to enhance the brand name of CABLE TV as a major broadcaster in Hong Kong.

Meanwhile, the new HK$150 million Digital News Centre was commissioned by the Chief Executive of the SAR in April 2002 and is now fully operational. It has not only greatly enhanced news production efficiency, but also CABLE TV's stature as one of the few broadcasters in Asia to fully harness the challenge of digital production. The Centre has drawn visitors from all corners of the world who are eager to learn our experience.

Subsidiary Global Media In Force Limited, the exclusive agent for advertising airtime sales and international programme licensing for CABLE TV, was renamed Hong Kong Cable Enterprises Limited (HKCE) in June to better leverage the established brand name of Hong Kong Cable.

Internet & Multimedia

In less than two years after its launch, Broadband access returned a satisfactory operating profit for the Group - an accomplishment few operators around the world could achieve.

New competition has begun to catch up in 2002. Year-on-year growth was strong due to the rapid growth last year but growth within the first half slowed. The Broadband subscriber base increased to 192,000 as at June 30, for a net gain of 32,000 in the preceding 6 months and 92,000 in the preceding 12 months. ARPU declined to HK$213 from HK$225 a year ago. In the face of keener competition, new momentum will need to be developed to sustain a higher rate of growth in the coming periods.

In the first half of 2002, Internet & Multimedia turnover increased by 86% to HK$246 million compared to 2001 and net operating expenses were stable at HK$119 million to illustrate the high operating leverage this business enjoys. EBITDA increased to HK$127 million (from HK$13 million) for an EBITDA margin of 52% and depreciation increased by 50% to HK$96 million. An operating profit of HK$31 million was reported, representing a significant improvement from the HK$51 million loss reported a year ago.

The pressure from competition is expected to intensify. Our early mover advantage has given us a significant headstart and we will in addition adjust our development and marketing strategies to protect our advantage. By the end of June, over 1.78 million households in almost 10,000 buildings throughout the territory were already covered by our Broadband network, an infrastructure that can only be matched by the incumbent telephone operator's. Furthermore, the very favourable incremental cost structure of this core business continues to provide a comfortable margin for the Group to compete with.

Network & Technology

The Group has substantially completed its core network rollout. By the end of June, over 1.93 million homes in Hong Kong had access to our Pay TV service and over 1.78 million had access to our Broadband service.

Over the next few years, we will continue to roll out network to reach new housing developments, to roll out digital service to better protect our copyright and to further expand the selection of channels offered to subscribers, as well as to provide service to more and more Broadband subscribers. At the same time, we will continue to evaluate the timing for the commercial rollout of a telephony service.

Prospects

The Group reported healthy overall growth in the first half of 2002 amidst a weak economy and an environment of keen competition. However, we need to be alert to the challenges ahead of us and navigate around them carefully. With no sign of an early economic recovery, the second half of 2002 will be all the more challenging.

2002 FIFA World Cup has firmly entrenched the Group's leading sports programme position. The Group has also upgraded its carriage agreement for the STAR Group's sports channels to exclusive status. Together with other exclusive rights that have been negotiated, the Group is very well placed to fend off competition from any new Pay TV operator, particularly in the area of sports, in at least the medium term.

In the meantime, our expanded network capacity brought about by digitisation has enabled us to introduce new channels and tiering packages to penetrate more broadly and more deeply into specific target segments of the market. By allowing more variety of individual packages, it is hoped that our pace of market penetration could be sustained.

The pressure on Broadband subscriber and revenue growth is expected to intensify but the Group will continue to come up with innovative marketing campaigns to withstand the challenges. Early mover advantage and a favourable cost structure will enable us to compete effectively.

The weak economy is obviously affecting consumer sentiments and consumption. In such an operating environment, the Group is fortunate to have established a strong market position, a large subscriber base, a significant operating margin, a healthy cash position and robust recurring cashflow to stay very competitive. We remain confident about the future when the economic uncertainties begin to clear up.

COMMENTARY ON INTERIM RESULTS

A. Review of 2002 Interim Results

Turnover for the first six months in 2002 increased by HK$189 million or 20% to HK$1,123 million year-on-year. Internet & Multimedia revenue increased by HK$113 million or 86% to HK$246 million. Pay TV revenue increased by HK$75 million or 9% to HK$877 million. The Internet & Multimedia segment's share of total turnover rose to 22% this year from 14% in 2001.

Total operating expenses including depreciation increased by 16% year-on-year to HK$997 million in 2002 primarily due to increases in programming costs and depreciation. Programming costs increased by HK$108 million or 37% to HK$404 million due primarily to programming costs related to the carriage of the 2002 FIFA World Cup. Network and other operating expenses decreased by 3% to HK$175 million, as international bandwidth costs further declined. Selling, general and administrative expenses increased slightly by 1% to HK$176 million, as increases in marketing and sales expenses were partly offset by savings in general and administrative costs.

Earnings before interest, tax, depreciation and amortisation or EBITDA rose by 29% to HK$368 million. EBITDA margin increased to 33% in 2002 from 30% in the same period in 2001.

Depreciation increased by 16% to HK$242 million, largely due to the rollout of digital settop boxes, the launch of the Digital News Centre, and addition of cable modems and related network equipment. Operating profit increased by 67% year-on-year to HK$126 million. The Group's profitability was negatively affected by the low interest rate environment as interest income fell sharply by 61% to HK$14 million owing to a significant drop in interest yields while finance expense on the fixed rate convertible bonds remained flat at HK$36 million for the period.

Net profit attributable to shareholders grew by 34% to HK$103 million in the first half of 2002. Basic earnings per share were 5.1 cents as compared to 3.8 cents in 2001.

B. Segmental Information

Pay Television

Turnover increased by 9% year-on-year to HK$877 million with World Cup-related revenues more than compensating for the softness in non-World Cup commercial airtime sales. Pay TV subscribers rose to 600,000 at the end of the first half of 2002. A net gain of around 40,000 was achieved in the first half of 2002 mainly due to the positive impact from the carriage of World Cup and anti-piracy initiatives. Churn rate eased back to 1.5% per month, which was in line with our historical average, as compared to 1.8% per month recorded during the same period last year. The decline in ARPU experienced in 2001 has been arrested as it increased by 2% to HK$244. On the other hand, operating expenses increased by 22% or HK$106 million to HK$581 million, primarily due to programming costs related to the World Cup. As a result, EBITDA decreased by 9% to HK$297 million and segment operating profit fell 17% to HK$154 million. While all costs relating to the World Cup has been expensed in the first half of this year, additional upside in subscription revenue is expected to accrue in subsequent periods.

Internet & Multimedia

Internet & Multimedia turnover increased by 86% to HK$246 million as broadband subscribers almost doubled year-on-year to 192,000 and increased by 32,000 in the last six months. Network rollout is now substantially completed as the number of Broadband ready homes has increased to over 1.78 million by the end of the period. ARPU for the Broadband access service fell 5% to HK$213 from HK$225 a year ago due to keener competition. Operating expenses have remained flat at HK$119 million notwithstanding the rapid subscriber growth. On the back of subscriber growth and high operating leverage, EBITDA grew to HK$127 million from HK$13 million year-on-year as EBITDA margin expanded to 52% from 10%. Segment operating result turned from a loss of HK$51 million in the first half of 2001 to a profit of HK$31 million in the first half of 2002.

C. Liquidity and Financial Resources

The Group has continued to be in stable and comfortable financial position. Cash from operations in the first six months of 2002 amounted to HK$534 million as compared to HK$307 million in the same period last year. As at June 30, 2002, the Group had a current ratio of 135%, with HK$1,321 million of current assets against HK$977 million of current liabilities. Surplus funds amounted to HK$1,607 million in total, as compared to a corresponding figure of HK$1,465 million at June 30, 2001. The balance at June 30, 2002 was made up of HK$1,092 million cash and cash equivalents, and HK$515 million non-current deposits and debt securities.

The Group's only borrowing was HK$1,800 million of convertible bonds held by the Wharf group. The term of the bonds is to November 23, 2003, with interest at the rate of 4% per annum. The ratio of net debt to total assets was 7% as at June 30, 2002. This gearing ratio was calculated as the ratio of long-term debt net of surplus funds to total assets net of surplus funds. There has not been any charges on our assets during the period reported. Details regarding the Group's contingent liabilities are disclosed in Note 17 to the unaudited interim financial report on page 24.

The Group has only limited exposure to fluctuations in exchange rates as our operations were conducted mainly in Hong Kong dollars or U.S. dollars and the exchange rate between these two currencies is pegged.

Capital expenditures during the period amounted to HK$352 million, mainly for digital settop boxes for the Pay TV service, network construction, cable modems and related equipment for the Broadband service, and the Digital News Centre commissioned in April this year. Total capital expenditures included HK$52 million (2001: HK$57 million) of capitalised costs primarily relating to staff costs for network construction.

Future investment activities are expected to include digital settop boxes, cable modems and related equipment for the Broadband service, and network construction.

The Group believes that its surplus fund and further cash generated from operations will be sufficient to fund known upcoming capital expenditures and working capital requirements.

D. Human Resources

Staff cost amounted to HK$363 million in the first half of 2002, up 3% from the same period last year. The number of staff increased by 3% from 2,482 at the beginning of the year to 2,555 at the end of the period.

The Group operates an Employee Share Option Scheme to motivate and reward staff. The Scheme was offered to all employees in February 2001. The Group has also expanded its incentive bonus schemes. Beginning in 2002, all staff have a portion of their compensation tied to the Company's and the individuals' performance.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company was not in compliance with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), at any time during the six-month period ended June 30, 2002.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended June 30, 2002 – unaudited

Six months ended June 30	Note	2002 HK$'000	2001 HK$'000
Turnover	2	**1,122,980**	934,437
Programming costs		**(404,349)**	(296,035)
Network and other operating expenses		**(175,406)**	(181,306)
Selling, general and administrative expenses		**(175,616)**	(173,142)
Depreciation		**(242,010)**	(208,537)
		(997,381)	(859,020)
Operating profit	2	**125,599**	75,417
Interest income	3	**14,447**	37,485
Non-operating expense		**(1,477)**	(355)
Finance expense	3	**(36,001)**	(36,007)
Profit before taxation	3	**102,568**	76,540
Taxation	4	**–**	–
Profit attributable to shareholders		**102,568**	76,540
Dividend attributable to the period			
Interim dividend declared after the balance sheet date	6	**30,210**	–
Earnings per share			
Basic	5	**5.1 cents**	3.8 cents
Diluted	5	**5.0 cents**	3.8 cents

CONSOLIDATED BALANCE SHEET

At June 30, 2002 – unaudited

	Note	At June 30 2002 HK$'000	At December 31 2001 HK$'000
Non-current assets			
Property, plant and equipment	7	**2,363,853**	2,257,267
Programming library	8	**155,465**	210,620
Non-current investments	9	**69,095**	78,925
Non-current deposits and debt securities	10	**498,927**	312,000
		3,087,340	2,858,812
Current assets			
Investment in debt securities	10	**16,084**	–
Inventories		**38,899**	36,475
Accounts receivable from trade debtors	11	**130,646**	98,023
Prepayments and other receivables		**23,183**	25,221
Deposits		**11,616**	17,173
Amounts due from fellow subsidiaries		**7,898**	7,757
Cash and cash equivalents	12	**1,092,463**	1,212,410
		1,320,789	1,397,059
Current liabilities			
Bank overdrafts		**–**	8,357
Amounts due to trade creditors	13	**92,031**	46,829
Accrued expenses and other payables		**375,389**	400,992
Receipts in advance and customers' deposits		**397,032**	390,280
Taxation payable		**7,530**	2,088
Dividend payable in respect of previous year		**50,350**	–
Amounts due to fellow subsidiaries		**17,911**	12,831
Amount due to immediate holding company	14	**36,796**	500
		977,039	861,877
Net current assets		**343,750**	535,182
Total assets less current liabilities		**3,431,090**	3,393,994

CONSOLIDATED BALANCE SHEET (continued)

At June 30, 2002 – unaudited

	Note	At June 30 2002 HK$'000	At December 31 2001 HK$'000
Capital and reserves			
Share capital	15	**2,014,000**	2,014,000
Reserves		**(528,087)**	(570,625)
		1,485,913	1,443,375
Non-current liabilities			
Interest-bearing borrowings		**1,800,000**	1,800,000
Deferred taxation		**145,177**	150,619
		1,945,177	1,950,619
		3,431,090	3,393,994

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended June 30, 2002 – unaudited

Six months ended June 30	2002 HK$'000	2001 HK$'000
Cash generated from operations	**533,944**	307,232
Interest received	**13,707**	38,401
Interest paid	**(1)**	(72,007)
Net cash from operating activities	**547,650**	273,626
Net cash used in investing activities	**(659,240)**	(341,437)
Net decrease in cash and cash equivalents	**(111,590)**	(67,811)
Cash and cash equivalents at January 1	**1,204,053**	1,533,110
Cash and cash equivalents at June 30	**1,092,463**	1,465,299
Analysis of the balances of cash and cash equivalents		
Deposits with banks and other financial institutions	**999,267**	1,462,481
Investment in money market fund	**78,000**	–
Cash at bank and on hand	**15,196**	6,834
Bank overdrafts	**–**	(4,016)
	1,092,463	1,465,299

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2002 – unaudited

	Share capital HK$'000	Share premium HK$'000	Investment revaluation reserve HK$'000	Revenue reserve HK$'000	Total HK$'000
Balance at January 1, 2002*	2,014,000	4,826,326	(14,500)	(5,382,451)	1,443,375
Dividend approved in respect of the previous year	–	–	–	(50,350)	(50,350)
Deficit on revaluation of investments and net loss not recognised in the profit and loss account	–	–	(9,680)	–	(9,680)
Profit for the period	–	–	–	102,568	102,568
Balance at June 30, 2002*	**2,014,000**	**4,826,326**	**(24,180)**	**(5,330,233)**	**1,485,913**

* *Included in the Group's revenue reserve at January 1 and June 30, 2002 is positive goodwill written off against reserves in prior years amounting to HK$197,785,000.*

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. Basis of preparation and comparative figures

The unaudited interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The same accounting policies adopted in the annual accounts for the year ended December 31, 2001 have been applied to the interim financial report.

In this interim reporting period, the presentation requirements under the following revised SSAPs issued by the HKSA are adopted:

(a) SSAP 1 (revised) "Presentation of financial statements" by which the Consolidated Statement of Recognised Gains and Losses is replaced by the Consolidated Statement of Changes in Equity; and

(b) SSAP 15 (revised) "Cash Flow Statements" by which a revised classification of activities from which cash flows are derived has been made. In particular, interest received and interest paid previously classified as "cash flow from returns on investments and servicing of finance" have become classified as "cash flow from operating activities" with effect from this interim reporting period.

Comparative figures have been adjusted to conform with the changes in presentation in this interim reporting period.

2. Segment information

Business segment

	Segment revenue		Segment result	
Six months ended June 30	**2002** **HK$'000**	2001 HK$'000	**2002** **HK$'000**	2001 HK$'000
Pay television	**877,421**	802,131	**153,667**	184,651
Internet and multimedia	**245,559**	132,306	**30,607**	(50,747)
	1,122,980	934,437	**184,274**	133,904
Unallocated corporate expenses			**(58,675)**	(58,487)
Operating profit			**125,599**	75,417

Geographical segment

During the periods presented, less than 10% of the Group's turnover and operating profit were derived from activities conducted outside Hong Kong.

3. Profit before taxation

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

Six months ended June 30	2002 HK$'000	2001 HK$'000
Interest income		
Interest income from listed investments	**(643)**	(8,691)
Interest income from deposits with banks and other financial institutions	**(13,510)**	(28,794)
Other	**(294)**	–
	(14,447)	(37,485)
Finance expense		
Interest expenses on bank overdrafts repayable within five years	**1**	7
Interest expenses on convertible bonds, repayable within five years	**36,000**	36,000
	36,001	36,007
Other items		
Depreciation	**242,010**	208,537
Amortisation of programming library*	**100,298**	57,073

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

4. Taxation

Taxation in the consolidated profit and loss account represents:

Six months ended June 30	2002 HK$'000	2001 HK$'000
Provision for Hong Kong Profits Tax for the period	**5,442**	4,448
Deferred tax credit	**(5,442)**	(4,448)
	–	–

The provision for Hong Kong Profits Tax is calculated separately on the taxable profit of each entity within the Group at the rate of 16% (2001: 16%).

5. Basic and diluted earnings per share

The calculation of basic earnings per share is based on the net profit of HK$102,568,000 (2001: HK$76,540,000) and the weighted average number of ordinary shares outstanding during the period of 2,014,000,000 (2001: 2,014,000,000).

The calculation of diluted earnings per share is based on the net profit of HK$102,568,000 (2001: HK$76,540,000) and the weighted average number of ordinary shares of 2,031,401,900 (2001: 2,021,739,900) after adjusting for the effects of all dilutive potential ordinary shares.

The potential issue of ordinary shares in connection with the Company's convertible bonds would not give rise to a decrease in earnings per share and therefore had no dilutive effect on the calculation of diluted earnings per share.

6. Interim dividend

Six months ended June 30	**2002** **HK$'000**	2001 HK$'000
Interim dividend declared after the balance sheet date of 1.5 cents per share (2001: Nil)	**30,210**	–

The interim dividend declared after the balance sheet date has not been recognised as a liability at the balance sheet date.

7. Property, plant and equipment

	2002 HK$'000
Net book value at January 1	**2,257,267**
Additions – Network, decoders, cable modems and television production systems	**313,879**
– Others	**37,936**
Disposals	**(2,187)**
Depreciation	**(242,010)**
Reclassification	**(1,032)**
Net book value at June 30	**2,363,853**

8. Programming library

	2002 HK$'000
Net book value at January 1	**210,620**
Programming licences and rights acquired	**45,143**
Amortisation	**(100,298)**
Net book value at June 30	**155,465**

9. Non-current investments

	At June 30 2002 HK$'000	At December 31 2001 HK$'000
Unlisted equity securities	**69,095**	78,925

10. Non-current deposits and debt securities

	At June 30 2002 HK$'000	At December 31 2001 HK$'000
Deposits with financial institutions	**468,000**	312,000
Debt securities listed outside Hong Kong	**47,011**	–
Less: Debt securities expected to be realised within one year of the balance sheet date included under current assets	**(16,084)**	–
	30,927	–
	498,927	312,000
Market value of listed securities (include listed debt securities expected to be realised within one year of the balance sheet date)	**47,011**	–

The deposits placed with financial institutions and maturing in 2003 are credit-linked to investment grade debt securities issued by corporates, including a fellow subsidiary.

11. Accounts receivable from trade debtors

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

	At June 30 2002 HK$'000	At December 31 2001 HK$'000
0 to 30 days	**102,550**	71,550
31 to 60 days	**9,638**	13,916
61 to 90 days	**12,720**	7,270
Over 90 days	**5,738**	5,287
	130,646	98,023

The Group has a defined credit policy. The general credit terms allowed range from 0 to 30 days.

12. Cash and cash equivalents

	At June 30 2002 HK$'000	At December 31 2001 HK$'000
Deposits with banks and other financial institutions	**999,267**	1,209,944
Investment in money market fund	**78,000**	–
Cash at bank and on hand	**15,196**	2,466
	1,092,463	1,212,410

13. Amounts due to trade creditors

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

	At June 30 2002 HK$'000	At December 31 2001 HK$'000
0 to 30 days	**15,523**	7,389
31 to 60 days	**14,473**	17,172
61 to 90 days	**6,941**	8,584
Over 90 days	**55,094**	13,684
	92,031	46,829

14. Amount due to immediate holding company

Included in amount due to immediate holding company is convertible bond interest of HK$36,000,000 (December 31, 2001: Nil).

15. Share capital

There was no movement in the share capital of the Company during the six months ended June 30, 2002.

At June 30, 2002, the outstanding options granted under the Company's share option scheme were:

			Number of options		
Date options granted	Period during which options exercisable	Exercise price per share	At January 1 2002	Lapsed during the period	At June 30 2002
February 8, 2000	April 1, 2001 to December 31, 2009	HK$10.49	18,960,000	(440,000)	18,520,000
February 19, 2001	July 1, 2002 to December 31, 2003	HK$3.30	33,001,000	(1,076,000)	31,925,000
February 19, 2001	July 1, 2002 to December 31, 2005	HK$3.30	14,882,000	(285,000)	14,597,000

16. Capital commitments

Capital commitments outstanding as of June 30, 2002 not provided for in the accounts were as follows:

	At June 30 2002 HK$'000	At December 31 2001 HK$'000
Authorised and contracted for		
– Plant and equipment	**69,751**	160,743
– Programming rights	**114**	2,626
	69,865	163,369
Authorised but not contracted for		
– Plant and equipment	**121,539**	132,343
– Programming rights	**8,377**	28,907
	129,916	161,250

17. Contingent liabilities

As at June 30, 2002, there were contingent liabilities in respect of the following:

(a) Performance bond amounting to HK$10 million (December 31, 2001: HK$20 million) given to the Telecommunications Authority of Hong Kong as required under the Group's fixed telecommunications network services licence.

(b) The Company has undertaken to provide financial support to certain of its subsidiaries in order to enable them to continue to operate as going concerns.

(c) Guarantees, indemnities and letters of awareness to banks totalling HK$119 million (December 31, 2001: HK$151 million) in respect of overdraft and guarantee facilities given by those banks to the subsidiaries. Of this amount, at June 30, 2002, HK$17 million (December 31, 2001: HK$41 million) was utilised by the subsidiaries.

(d) The Group is currently in discussion with the Inland Revenue Department regarding the deductibility of certain interest payments claimed in previous years' tax computations. The outcome of the discussion is uncertain. The management of the Group is of the view that there are ample grounds to support the deductibility of the interest expense and accordingly, no provision has been made in this respect. In addition, the immediate holding company has indemnified the Group against any liability for tax which may arise in consequence of an event occurring on or before November 1, 1999. It is estimated that the maximum tax exposure at June 30, 2002 amounted to HK$95 million (December 31, 2001: HK$97 million), of which HK$64 million (December 31, 2001: HK$72 million) will be indemnified by the immediate holding company.

18. Related party transactions

The significant and material related party transactions between the Group and related parties as set out in the annual accounts for the year ended December 31, 2001 continue to take place during the interim reporting period. There is no new significant and material related party transactions entered into by the Group with related parties during the six months ended June 30, 2002.

19. Post balance sheet event

After the balance sheet date the directors declared an interim dividend. Further details are disclosed in Note 6.

20. Review by the audit committee

The unaudited interim financial report for the six months ended June 30, 2002 has been reviewed by the audit committee of the Company.

DIRECTORS' INTERESTS IN SHARES

At June 30, 2002, Directors of the Company had the following beneficial interests in the ordinary shares of the Company, of its parent company, namely, The Wharf (Holdings) Limited ("Wharf"), and of a subsidiary of Wharf, namely, Harbour Centre Development Limited ("Harbour Centre"):

	No. of Shares	Nature of Interest
The Company		
Mr. Stephen T. H. Ng	750,000	Personal interest
Wharf		
Mr. Stephen T. H. Ng	650,057	Personal interest
Harbour Centre		
Mr. F. K. Hu	50,000	Corporate interest

Note: The 50,000 shares regarding 'Corporate Interest' in which Mr. F. K. Hu was taken to be interested as stated above was the interest held by a corporation in general meetings of which Mr. Hu was either entitled to exercise (or was taken under the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") to be able to exercise) or control the exercise of one-third or more of the voting power.

As at June 30, 2002, a Director of the Company had the following personal interests in options to subscribe for ordinary shares of the Company granted under the Share Option Scheme of the Company:

Name of Director		Date granted (Day/Month/ Year)	No. of shares represented by unexercised options outstanding as at 01/01/2002	No. of shares represented by unexercised options outstanding as at 30/06/2002	Period during which rights exercisable (Day/Month /Year)	Price per share to be paid on exercise of options (HK$)	Consi-deration paid for the options granted (HK$)
Mr Stephen T H Ng	(i)	08/02/2000	1,500,000	1,500,000	01/04/2001 to 31/12/2009	10.49	10
	(ii)	19/02/2001	300,000	300,000	01/07/2002 to 31/12/2003	3.30	10
	(iii)	19/02/2001	800,000	800,000	01/07/2002 to 31/12/2005	3.30	10

Save as disclosed above, as recorded in the register kept by the Company under section 29 of the SDI Ordinance in respect of information required to be notified to the Company and the Stock Exchange pursuant to the SDI Ordinance or to the Model Code for Securities Transactions by Directors of Listed Companies:

(i) there were no interests held as at June 30, 2002 by any Directors and Chief Executive of the Company in securities of the Company and its associated corporations (within the meaning of the SDI Ordinance), and

(ii) there existed during the financial period no rights to subscribe for equity or debt securities of the Company which were held by any Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial period of any such rights by any of them.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties which were, directly or indirectly, interested in 10% or more of the nominal value of the share capital of the Company and the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at June 30, 2002 as recorded in the register kept by the Company under section 16(1) of the SDI Ordinance:

	Names	**No. of Ordinary Shares**
(i)	Wharf Communications Limited	1,600,009,246
(ii)	The Wharf (Holdings) Limited	1,600,009,246
(iii)	WF Investment Partners Limited	1,602,624,303
(iv)	Wheelock and Company Limited	1,603,046,729
(v)	Bermuda Trust (Guernsey) Limited	1,603,046,729

Note: For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of all of the above-stated shareholdings to the extent that the shareholdings stated against parties (i) and (ii) above represent the same block of shares; such shareholdings are entirely duplicated or included in the shareholdings stated against party (iii) above, with the same duplication of the shareholdings in respect of (iii) in (iv) and (iv) in (v). All of the abovenamed parties were deemed to be interested in the relevant shareholdings under the SDI Ordinance as at June 30, 2002.

SHARE OPTION SCHEME

Details of share options granted to Director(s) of the Company under the Company's Employee Share Option Plan are set out in the above section headed "Directors' interests in shares".

Particulars, and movements during the financial period, of the Company's outstanding share options, which were granted to approximately 1,700 employees (including a Director who was granted share options) working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance, were as follows:-

	Date granted (Day/Month/ Year)	No. of ordinary shares represented by unexercised options outstanding as at 01/01/2002	No. of ordinary shares represented by options lapsed during the financial period	No. of ordinary shares represented by unexercised options outstanding as at 30/06/2002	Period during which rights exercisable (Day/Month/ Year)	Price per share to be paid on exercise of options (HK$)	Consideration paid for the options granted (HK$)
(i)	08/02/2000	18,960,000	440,000	18,520,000	01/04/2001 to 31/12/2009	10.49	10
(ii)	19/02/2001	33,001,000	1,076,000	31,925,000	01/07/2002 to 31/12/2003	3.30	10
(iii)	19/02/2001	14,882,000	285,000	14,597,000	01/07/2002 to 31/12/2005	3.30	10
		66,843,000	**1,801,000**	**65,042,000**			

The closing price of the ordinary shares of the Company immediately before the date of offer of the share options per (ii) and (iii) above was HK$3.90 per share.

No share option was exercised or cancelled during the financial period. Apart from the Director and employees mentioned above, no option was granted to any other categories of participants as stated in rule 17.07 of the Listing Rules.

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.

BOOK CLOSURE

The Register of Members will be closed from Tuesday, October 8, 2002 to Friday, October 11, 2002, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to qualify for the abovementioned interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, not later than 4:00 p.m. on Monday, October 7, 2002.

By Order of the Board

Wilson W. S. Chan

Secretary

Hong Kong, August 20, 2002