有線寬頻 i-CABLE

i-CABLE COMMUNICATIONS LIMITED

2003 INTERIM REPORT

CABLE TV **10**th Anniversary

About the Company

i-CABLE Communications Limited is Hong Kong's leading integrated communications company that owns and operates one of two near universal broadband telecommunications networks in the territory; creates its own multimedia contents; and offers Pay TV and Internet including Broadband services at the same time.

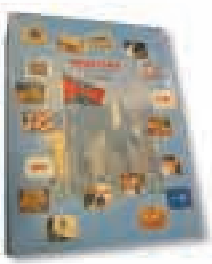
The Group's mission is to connect the people of Hong Kong with its growing portfolio of information, entertainment and telecommunications services to enhance their lifestyles.

DESIGN AND PRODUCTION: THE DESIGN ASSOCIATES LTD. www.tda.com.hk

Milestones of the **Decade**

92

July
Hong Kong Government invited tenders for subscription television licence



93

June
Hong Kong Cable (formerly Wharf Cable) awarded a 12-year licence

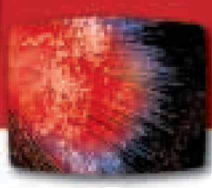
October
Hong Kong Cable went on air with eight channels; Asia's first 24-hour news channel launched

94

October
Launched Cineplex pay-per-view service, offering movies and top-notch sports events

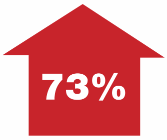
95

September
Completed fibre trunk; HFC conversion programme began



97

July
Obtained 73% growth of viewership from 1996 to become one of Hong Kong's top five media



98

May
HFC network passed 600,000 homes, achieved last milestone under subscription television licence

October
Celebrates 5th anniversary of Pay TV service

"More Than Just Television – A Way of Hong Kong Life Today"

99

March
i-CABLE dial-up Internet access service launched

May
i-CABLE Communications Limited incorporated

July
50,000 hours of non-stop news aired

November
i-CABLE Communications Limited successfully listed on Nasdaq in the US and Hong Kong Stock Exchange

00

January
Received FTNS licence

March
i-CABLE Broadband Service formally launched, using cable modem technology

December
First annual net profit achieved

01

February
i-CABLE Broadband Service available to 1 million homes

August
Commenced digital broadcasting migration plan

December
Achieved sevenfold increase in annual net profit and started to pay a dividend

02

OFFICIAL BROADCASTER

April
Launch of fully digitised news production centre, first in Hong Kong

June
Exclusive live broadcast of 2002 FIFA World Cup

2003

April
Horizon Channel granted limited landing right in China

July
Entertainment News Channel Launched

October
Celebrates 10th anniversary of Pay TV service

CABLE TV 10th Anniversary

RESULTS HIGHLIGHTS

- Turnover decreased by 8% to HK$1,037 million (2002: HK$1,123 million).
- EBITDA increased by 3% to HK$378 million to surpass all previous periods (2002: HK$368 million).
- Net profit decreased by HK$7 million to HK$95 million (2002: HK$103 million) after a HK$9 million tax provision (2002: nil).
- Capital expenditure declined by 49% to HK$178 million (2002: HK$352 million).
- An interim dividend per share of 1.5 cents (2002: 1.5 cents) will be paid.

PAY TV

- Subscribers grew by 4% year-on-year to 625,000 (2002: 600,000) against a weak economy.
- Turnover decreased by 4% to HK$844 million (2002: HK$877 million) while operating costs before depreciation decreased by 16% mainly due to the absence of 2002 FIFA World Cup.
- EBITDA increased by 19% to HK$353 million (2002: HK$297 million).
- Operating profit increased by 37% to HK$210 million (2002: HK$154 million).

INTERNET & MULTIMEDIA

- Broadband subscribers grew by 29% year-on-year to 247,000 (2002: 192,000).
- ARPU declined by 41% to HK$125 (2002: HK$213) due to aggressive pricing strategy but has stabilised during the period of review.
- Turnover decreased by 21% to HK$193 million (2002: HK$246 million) due to ARPU erosion.
- EBITDA decreased by 44% to HK$71 million (2002: HK$127 million) with an operating loss of HK$48 million (2002: operating profit of HK$31 million) reported.

GROUP RESULTS

The unaudited Group profit attributable to Shareholders for the six months ended June 30, 2003 amounted to HK$95 million, as compared to HK$103 million for the corresponding period in 2002. Basic and diluted earnings per share were both 4.7 cents for 2003, as compared with 5.1 cents and 5.0 cents respectively last year.

INTERIM DIVIDEND

The Board has declared an interim dividend in respect of the half-year period ended June 30, 2003 of 1.5 cents (2002: 1.5 cents) per share, payable on Monday, October 13, 2003 to Shareholders on record as at October 6, 2003.

BUSINESS REVIEW

Overview

The Group has been operating in a very challenging and competitive environment in recent years. The already weak economy suffered a further blow in the first half of 2003 as Hong Kong was hit by the outbreak of the infectious disease SARS, which significantly dampened business and consumer spending sentiments.

Against such a backdrop, the Group managed to report a net profit of HK$95 million for the first six months of this year, a marginal decrease in the order of HK$7 million (or 7%) when compared with the same period last year. Turnover decreased by 8% to HK$1,037 million. However, effective cost control brought a 13% (or HK$97 million) decrease in operating cost before depreciation to HK$659 million. As a result, EBITDA rose by 3% to HK$378 million to surpass all previous periods while EBITDA margin increased to 36% from 33% in the first half of 2002.

On the Pay TV front, subscribers grew by 4% year over year to 625,000. However, revenue decreased by 4% due to the absence of any comparable mega-attraction for programming similar to the World Cup in 2002. In Broadband, while a subscriber growth of 29% to 247,000 was achieved year-on-year, turnover decreased due to ARPU erosion resulting from an aggressive pricing strategy in a keenly competitive market.

As Hong Kong emerged from the SARS outbreak and confidence gradually began to return, the Group will strive to regain the growth momentum for its core businesses which was disrupted in the first half.

Operating Environment and Competition

Galaxy has once again obtained approval from the Government to extend the deadline for its rollout milestone until the first quarter of 2004. Meanwhile, in addition to Yes TV and TV Plus, which are already in operation, PCCW-HKT and Hong Kong Broadband have disclosed plans to launch Pay TV services in the third quarter of this year. While these developments have yet to challenge our leading position in the Pay TV market, the Group will continue to enhance its programmes and sharpen its marketing and customer service to prepare for imminent additional competition.

Keen competition continued to impact on the Group's Broadband business in the first half of 2003 but the decline in ARPU appears to have been arrested as the market began to stabilise, and the Group's aggressive pricing strategy has enabled it to continue to deepen its market penetration during the period under review.

Pay TV

Irrespective of the weak economy and the absence of any mega programming impetus like the World Cup last year, the Group managed to report a steady 4% year-on-year subscriber growth to 625,000 with the implementation of a variety of new marketing campaigns.

The subscriber growth also indicated that anti-piracy measures, in particular, digitisation of television service, implemented by the Group has been effective. About half of the Group's subscribers are now receiving digital television service and the pace of conversion will accelerate in the latter half of the year.

Turnover decreased by HK$34 million to HK$844 million year-on-year but increased by HK$11 million when compared to the second half of 2002, reflecting the resilience of this core business against a difficult business environment. ARPU was HK$219, compared to HK$244 and HK$222 in the first and second halves of 2002 respectively.

Continuing tight control over programming and other operating costs enabled EBITDA to improve by HK$57 million or 19% to HK$353 million while operating profit rose by HK$57 million or 37% to HK$210 million.

On top of introducing new channels to its platform, the Group started to introduce sports events on a "Pay-per-event" basis as a means to offer additional choice to subscribers and to derive additional revenue. Events introduced during the first half included World Cup Cricket, NCAA basketball finals and NHL playoff matches. Riding on the success of the month-long World Cup Cricket, a new premium channel of World Cricket Live was introduced in April. These initiatives also served to further consolidate the Group's position as the leading Sports station in Hong Kong.

Five new channels were launched in the first half of 2003. The Basic Package was enhanced with Creation TV and Macao Cultural Channel. ABC, TVE and NHK World TV were added to the International Package to expand its appeal to viewers. By August, the Group is offering 62 programming channels on its digital platform.

The news platform more than lived up to the expectations of viewers in the first half with coverage of the military conflict in Iraq and the tragic outbreak of the infectious disease SARS in Hong Kong. Cable News became an important source of information for many with its live and in-depth coverage round the clock at every stage of the crises. Not only have the news channels gained significant viewership growth during the period, CABLE TV's news platform also gained wide acclaim and recognition from the community as an accurate and timely tool of information.

Efforts to enhance local production continued during the period. As a result, viewership of other original channels inclusive of Entertainment and Children increased during the period. Entertainment Channel focused on developing weekend viewing and recorded marked viewership increase for its talk shows, dramas and self produced programmes such as *Maria's Kitchen* and *Unbelievable*.

In July, the much talked about Entertainment News Channel was officially launched, providing round the clock reports on happenings in the local and international entertainment world. Even before its launch, the channel was successful in getting attention from the media, making its launch a much-anticipated event. Asia Plus, a Chinese infotainment satellite channel originating from Taiwan, was also launched exclusively in August.

To offset the adverse effect of a weak commercial airtime market, Hong Kong Cable Enterprises ("HKCE") focused on developing new products to create market demand. That successfully opened new fronts.

Meanwhile, HKCE has also been successful in licensing the Group's digital content to other service providers, including mobile phone operators as well as overseas television stations.

Internet and Multimedia

The Group continued its aggressive pricing strategy for the Broadband business during the period under review in order to further penetrate the competitive market. Despite a growth of 22,000 new subscribers in the first half of 2003 to reach 247,000, turnover dropped by 21% to HK$193 million year-on-year due to an erosion of ARPU in order of 41% to HK$125, which began to stabilise during the period.

The drop in turnover caused a decline in EBITDA to HK$71 million. Coupled with a HK$22 million increase in depreciation with the expansion of the subscriber base, this business unit recorded a net operating loss of HK$48 million against a HK$31 million profit generated in the first six months of 2002.

On top of amassing market share, the Group has also spent much effort to further enhance its service quality and customer satisfaction by deploying new transmission technology for its Broadband service. The efforts have been effective in expanding our network capacity to accommodate more customers and to enhance product quality to retain existing subscribers. The Group will also develop value-added services to create competitive advantages for its access service.

The Group's multimedia portals, with their unique and fresh content, continued to gain recognition and subscribers. Parallel with market changes and consumers' demands, new premium portals, such as a dedicated football portal, were introduced when the new football season started.

Prospects

The conflict in the Gulf and the outbreak of SARS have inflicted further damages to the economy during the period under review, posing even greater challenges to our businesses as the Group needed to brace with keener competition at the same time.

Against such a backdrop, the Group managed to report sustained subscriber growth for both Pay TV and Broadband in the first half of 2003, at the expense of sacrificing short-term profit margin particularly for the Broadband business.

We shall work rigorously to continue to build our subscriber base, to develop revenue enhancement opportunities and to refine our operation efficiency in the face of the more challenging and competitive environment ahead of us.

To prepare for the launch of new competitive Pay TV services, the Group has taken steps to enhance its programme offerings with the launch of a 24-hour Entertainment News

Channel in July. At the same time, exclusive distribution agreements have been renewed for popular satellite channels such as CNNI, Discovery and AXN. More premium channels as well as pay-per-event sports programmes have been acquired to generate additional revenue.

On the Broadband service front, the proactive steps we have taken to improve service quality and customer retention efforts are beginning to bear fruit. New transmission technology deployed since last year has expanded our network capacity to accommodate new customers and to improve further on service quality.

Following the grant of landing right of our satellite channel in selected compounds in China, plans are afoot to further enhance its content and to begin marketing the channel in the Mainland in the second half of the year.

The Group will celebrate the 10th anniversary of its Pay TV service in October. In the past decade, we have grown from an eight-channel subscription television service provider to become a fully integrated communications company that offers a wide array of entertainment and telecommunications services, transmitted over our own near universal network, with programmes produced by state-of-the-art digital facilities.

Although the growth momentum of our core businesses has been temporarily affected by the challenging economic environment, the Group is optimistic that our solid business foundation built over the past decade, the active steps that we have taken to constantly improve and the investment that we have made to build for the future, will steer us through the current economic difficulties.

COMMENTARY ON INTERIM RESULTS

A. Review of 2003 Interim Results

Consolidated turnover decreased by 8% to HK$1,037 million. Pay TV turnover declined by 4% to HK$844 million as last year's turnover was boosted by the 2002 FIFA World Cup related airtime sales revenues. Internet & Multimedia turnover decreased by 21% to HK$193 million as a result of erosion in Broadband ARPU which fell by 41% year-on-year to HK$125. While protecting and growing the revenue base under the current weak economic environment will continue to be challenging, comfort is taken from the fact that the World Cup impact is non-recurring and the Group's Broadband ARPU has stabilised in the past few months.

The Group continues to be vigilant on keeping its costs under control. Operating costs before depreciation decreased by 13% or HK$97 million to HK$659 million. The decrease was primarily attributable to a 21% or HK$87 million fall in programming costs due to the non-recurring World Cup related programming costs incurred in 2002. Network and other operating costs remained stable at HK$174 million. Selling, general and administrative expenses decreased by 5% to HK$167 million due mainly to lower marketing costs.

As a result of the cost savings, earnings before interest, tax, depreciation and amortization or EBITDA rose by 3% to HK$378 million while EBITDA margin increased to 36% from 33% in 2002.

Depreciation increased by 9% to HK$264 million due mainly to capital investments in digital set-top boxes, cable modems and related broadband equipment to cater for subscriber growth and services enhancement. Operating profit thus dropped by HK$12 million to HK$114 million.

The early partial redemption of the fixed rate convertible bonds in October 2002 led to an 80% or HK$17 million reduction in net financing costs as around HK$27 million savings in finance expenses more than offset a HK$9 million corresponding drop in interest income.

Profit before taxation increased marginally to HK$104 million despite a weak economy and keen competition. A HK$9 million charge was made for additional profits tax payable on the Group's leveraged leasing transactions, following this year's increase in profits tax rate from 16% to 17.5%.

As a result of the tax charge, net profit attributable to shareholders for the first half of 2003 decreased by HK$7 million or 7% to HK$95 million.

Basic earnings per share were 4.7 cents as compared to 5.1 cents in 2002.

B. Segmental Information

Pay TV

Subscribers grew steadily by 20,000 in the first half of 2003 to reach 625,000 as a result of new marketing and retention initiatives. Both turnover and operating expenses were lower in the first half as expected in the absence of the World Cup impact last year. Turnover decreased by HK$34 million to

HK$844 million year-on-year but increased by HK$11 million when compared to the second half of 2002. ARPU was HK$219, compared to HK$244 and HK$222 in the first and second halves of 2002 respectively.

Continuing tight control over programming and other operating costs enabled EBITDA to improve by HK$57 million or 19% to HK$353 million while operating profit rose by HK$57 million or 37% to HK$210 million.

Internet & Multimedia

Subscribers grew by 22,000 in the first half of 2003 to 247,000 as overall market growth slowed down compared to last year. The Group has continued to adopt an aggressive pricing strategy in a continuing highly competitive environment. As a result, ARPU declined by 41% year-on-year to HK$125 but has stabilised in recent months. Turnover dropped by 21% to HK$193 million due to the ARPU erosion.

The decrease in turnover flowed through to the bottom line as EBITDA decreased by 44% to HK$71 million while operating costs before depreciation was essentially flat. This coupled with a HK$22 million increase in depreciation to reverse net operating results to a HK$48 million loss this year against a HK$31 million profit generated in the first six months of 2002.

C. Liquidity and Financial Resources

The Group's net debt level fell during the period under review by 33% to HK$130 million at June 30, 2003, being HK$304 million of bank loans, HK$300 million of fixed rate convertible bonds due to be repaid in November 2003, offset by HK$468 million deposits with financial institutions and HK$6 million of cash and cash equivalents. The ratio of net debt to total assets as at June 30, 2003 was 5%, against 7% one year earlier. All the Group's borrowings, and cash and cash equivalents were denominated in Hong Kong dollars.

The consolidated net asset value of the Group as at June 30, 2003 was HK$1,590 million, or HK$0.79 per share. There was no charge on any of the Group's assets.

The Group's assets, liabilities, revenues and expenses were mainly denominated in Hong Kong dollars or U.S. dollars and the exchange rate between these two currencies has remained pegged. The Group thereby did not expect to be affected to any significant extent by fluctuations in exchange rates. There was also no need to make use of any financial instruments for hedging purpose.

Capital expenditure during the period amounted to HK$178 million as compared to HK$352 million in the same period last year. Major items included investments on digital set-top boxes, cable modems, as well as further network upgrade and expansion. These items are expected to continue to be the major areas of capital expenditures for the Group in the second half of 2003. Ongoing capital expenditures are expected to be funded by cash generated from operations and if needed by bank borrowings or other external sources of funds.

D. Contingent Liabilities

At June 30, 2003, 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 of up to HK$139 million of which only HK$8 million was utilised by the subsidiaries.

The Group is in discussion with the Inland Revenue Department regarding the deductibility of certain interest payments claimed in previous years' tax computations with estimated maximum net exposure to the Group of HK$40 million at June 30, 2003. The outcome of the discussion is uncertain but management is of the view that there are ample grounds to support the deductibility of the interest expenses.

E. Human Resources

The Group had a total of 2,640 employees at the end of the first half of 2003. Total salaries and related costs incurred in the corresponding period amounted to HK$360 million.

The Group has always operated as a meritocracy, by which the top performers are adequately rewarded for their contributions and under-performance is effectively addressed, so that the employee base could remain a competitive asset.

We finished our first year of a more rigorous performance management system of accountability for business performance, and all colleagues had a portion of their compensation tied to the Group's performance, giving everyone a stake in the Group's results.

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 months ended June 30, 2003.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Six months ended June 30, 2003 – unaudited

		Six months ended June 30,	
		2003	2002
	Note	**HK$'000**	HK$'000
Turnover	2	**1,036,705**	1,122,980
Programming costs		**(317,648)**	(404,349)
Network and other operating expenses		**(174,393)**	(175,406)
Selling, general and administrative expenses		**(166,693)**	(175,616)
Profit from operations before depreciation		**377,971**	367,609
Depreciation		**(264,352)**	(242,010)
Profit from operations	2	**113,619**	125,599
Interest income	3	**5,055**	14,447
Finance costs	3	**(9,403)**	(36,001)
Non-operating expense		**(5,050)**	(1,477)
Profit before taxation	3	**104,221**	102,568
Taxation	4	**(8,931)**	–
Profit attributable to shareholders		**95,290**	102,568
Dividends attributable to the period			
Final dividend in respect of the previous financial year, declared during the period		**30,289**	–
Interim dividend declared after the balance sheet date		**30,289**	30,210
	6	**60,578**	30,210
Earnings per share			
Basic	5	**4.7 cents**	5.1 cents
Diluted	5	**4.7 cents**	5.0 cents

CONSOLIDATED BALANCE SHEET

At June 30, 2003 – unaudited

	Note	At June 30, 2003 HK$'000 (unaudited)	At December 31, 2002 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	7	**2,213,626**	2,302,189
Programming library	8	**137,903**	148,851
Deferred tax asset		**120,818**	107,198
Non-current investments	9	**9,725**	20,957
		2,482,072	2,579,195
Current assets			
Inventories		**22,378**	24,477
Accounts receivable from trade debtors	12	**96,233**	89,480
Deposits, prepayments and other receivables		**51,039**	32,312
Amounts due from fellow subsidiaries		**7,809**	8,197
Deposits with financial institutions	11	**468,000**	468,000
Investments in debt securities	10	**–**	15,746
Cash and cash equivalents		**5,833**	6,696
		651,292	644,908
Current liabilities			
Amounts due to trade creditors	13	**44,240**	53,448
Accrued expenses and other payables		**292,294**	322,547
Receipts in advance and customers' deposits		**289,526**	383,751
Interest-bearing borrowings		**603,681**	686,299
Taxation		**72,073**	2,007
Dividend payable in respect of the previous financial year		**30,289**	–
Amounts due to fellow subsidiaries		**24,863**	16,758
Amount due to immediate holding company		**150**	531
		1,357,116	1,465,341
Net current liabilities		**(705,824)**	(820,433)
Total assets less current liabilities		**1,776,248**	1,758,762

CONSOLIDATED BALANCE SHEET *(continued)*

At June 30, 2003 – unaudited

	Note	**At June 30, 2003 HK$'000 (unaudited)**	At December 31, 2002 HK$'000 (restated)
Non-current liabilities			
Deferred tax liabilities		**186,479**	233,994
NET ASSETS		**1,589,769**	1,524,768
Capital and reserves			
Share capital	14	**2,019,234**	2,019,234
Reserves		**(429,465)**	(494,466)
		1,589,769	1,524,768

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended June 30, 2003 – unaudited

	Six months ended June 30, 2003 HK$'000	2002 HK$'000
Operating activities		
Profit before taxation	**104,221**	102,568
Adjustments for:		
Net finance costs	**4,348**	21,554
Depreciation	**264,352**	242,010
Amortisation of programming library	**42,955**	100,298
Others	**8,246**	1,477
Operating profit before change in working capital	**424,122**	467,907
Change in working capital	**(145,863)**	66,037
Cash generated from operations	**278,259**	533,944
Interest received	**6,108**	13,707
Interest paid	**(9,457)**	(1)
Net cash from operating activities	**274,910**	547,650
Investing activities		
Purchase of property, plant and equipment	**(177,843)**	(378,426)
Other net investing activities	**(15,312)**	(280,814)
Net cash used in investing activities	**(193,155)**	(659,240)
Net cash used in financing activities	**(82,618)**	–
Net decrease in cash and cash equivalents	**(863)**	(111,590)
Cash and cash equivalents at January 1	**6,696**	1,204,053
Cash and cash equivalents at June 30	**5,833**	1,092,463
Analysis of the balances of cash and cash equivalents		
Deposits with banks and other financial institutions	**–**	999,267
Investment in money market fund	**–**	78,000
Cash at bank and on hand	**5,833**	15,196
	5,833	1,092,463

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2003 – unaudited

	Note	Share capital HK$'000	Share premium HK$'000	Revenue reserve HK$'000	Total HK$'000
Balance at January 1, 2003*					
As reported previously		2,019,234	4,838,365	(5,345,831)	1,511,768
Prior period adjustment arising from a change in accounting policy for income taxes**	1	–	–	13,000	13,000
Balance at January 1, 2003, restated		2,019,234	4,838,365	(5,332,831)	1,524,768
Dividend approved in respect of the previous year		–	–	(30,289)	(30,289)
Profit for the period		–	–	95,290	95,290
Balance at June 30, 2003*		**2,019,234**	**4,838,365**	**(5,267,830)**	**1,589,769**

* *Included in the Group's revenue reserve at January 1 and June 30, 2003 was positive goodwill written off against reserves in prior years amounting to HK$197,785,000.*

** *As a result of the prior year adjustment arising from a change in accounting policy for income taxes, the debit balance of revenue reserve at January 1, 2002 was reduced by HK$13,000,000.*

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.

Except as disclosed below, the same accounting policies adopted in the annual accounts for the year ended December 31, 2002 have been applied to the interim financial report.

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

With effect from January 1, 2003, in order to comply with SSAP12 (revised) "Income taxes", the Group has adopted a new policy for deferred tax. All deferred tax assets and liabilities arising from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases, along with deferred tax assets arising from unused tax losses and unused tax credits, to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised, are recognised based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using tax rates enacted or substantially enacted at the balance sheet date.

The new accounting policy has been adopted retrospectively with the debit balance of revenue reserve as at January 1, 2002 restated and reduced by HK$13 million.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

2. Segment information

Business segment

	Segment revenue Six months ended June 30,		Segment result Six months ended June 30,	
	2003 HK$'000	2002 HK$'000	**2003 HK$'000**	2002 HK$'000
Pay TV	**843,914**	877,421	**210,202**	153,667
Internet and multimedia	**192,791**	245,559	**(47,662)**	30,607
	1,036,705	1,122,980	**162,540**	184,274
Unallocated corporate expenses			**(48,921)**	(58,675)
Profit from operations			**113,619**	125,599

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

3. Profit before taxation

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

	Six months ended June 30, 2003 HK$'000	2002 HK$'000
Interest income		
Interest income from listed investments	**(205)**	(643)
Interest income from deposits with banks and other financial institutions	**(4,850)**	(13,510)
Other interest income	**–**	(294)
	(5,055)	(14,447)
Finance costs		
Interest expenses on bank loans and overdrafts repayable within five years	**3,403**	1
Interest expenses on convertible bonds repayable within five years	**6,000**	36,000
	9,403	36,001
Other items		
Depreciation	**264,352**	242,010
Amortisation of programming library*	**42,955**	100,298

* *Amortisation of programming library is included within programming costs in the consolidated profit and loss account of the Group.*

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

4. Taxation

Taxation in the consolidated profit and loss account represents:

	Six months ended June 30, 2003 HK$'000	2002 HK$'000
Provision for Hong Kong Profits Tax for the period	**70,066**	5,442
Transferred from deferred tax	**(61,135)**	(5,442)
	8,931	–

The provision for Hong Kong Profits Tax is calculated separately on the taxable profit of each entity within the Group at 17.5% (2002: 16%).

5. Basic and diluted earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$95,290,000 (2002: HK$102,568,000) and the weighted average number of ordinary shares outstanding during the period of 2,019,234,400 (2002: 2,014,000,000).

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK$95,290,000 (2002: HK$102,568,000) and the weighted average number of ordinary shares of 2,019,234,400 (2002: 2,031,401,900) 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

6. Dividends

	Six months ended June 30, 2003 HK$'000	2002 HK$'000
Final dividend in respect of the previous financial year, declared during the period	**30,289**	–
Interim dividend declared after the balance sheet date of 1.5 cents per share (2002: 1.5 cents)	**30,289**	30,210
	60,578	30,210

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

7. Property, plant and equipment

	2003 HK$'000
Net book value at January 1	**2,302,189**
Additions – Network, decoders, cable modems and television production systems	**151,492**
– Others	**26,619**
Disposals	**(8,355)**
Depreciation	**(264,352)**
Impairment loss	**(1,951)**
Reclassification	**7,984**
Net book value at June 30	**2,213,626**

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

8. Programming library

	2003
	HK$'000
Net book value at January 1	**148,851**
Programming licences and rights acquired	**32,007**
Amortisation	**(42,955)**
Net book value at June 30	**137,903**

9. Non-current investments

	At June 30, 2003	At December 31, 2002
	HK$'000	HK$'000
Unlisted equity securities	**9,725**	20,957

10. Investments in debt securities

	At June 30, 2003	At December 31, 2002
	HK$'000	HK$'000
Listed outside Hong Kong, at market value	**–**	15,746

11. Deposits with financial institutions

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

12. 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, 2003 HK$'000	At December 31, 2002 HK$'000
0 to 30 days	**73,925**	63,700
31 to 60 days	**9,915**	12,951
61 to 90 days	**6,884**	6,327
Over 90 days	**5,509**	6,502
	96,233	89,480

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

13. Amounts due to trade creditors

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

	At June 30, 2003 HK$'000	At December 31, 2002 HK$'000
0 to 30 days	**17,361**	13,746
31 to 60 days	**10,950**	15,304
61 to 90 days	**5,520**	16,560
Over 90 days	**10,409**	7,838
	44,240	53,448

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

14. Share capital

There was no movement in the share capital of the Company during the six months ended June 30, 2003.

At June 30, 2003, 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, 2003	Lapsed during the period	At June 30, 2003
February 8, 2000	April 1, 2001 to December 31, 2009	HK$10.49	17,820,000	(940,000)	16,880,000
February 19, 2001	July 1, 2002 to December 31, 2003	HK$3.30	27,243,800	(1,235,500)	26,008,300
February 19, 2001	July 1, 2002 to December 31, 2005	HK$3.30	13,099,800	(529,000)	12,570,800
October 9, 2002	January 1, 2004 to December 31, 2005	HK$3.30	380,000	–	380,000

15. Capital commitments

Capital commitments outstanding as of June 30, 2003 not provided for in the accounts were as follows:

	At June 30, 2003 HK$'000	At December 31, 2002 HK$'000
Authorised and contracted for		
– Plant and equipment	**65,355**	61,006
– Programming rights	**182**	13
	65,537	61,019
Authorised but not contracted for		
– Plant and equipment	**93,209**	77,871
– Programming rights	**19,327**	13,672
	112,536	91,543

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

16. Contingent liabilities

As at June 30, 2003, there were contingent liabilities in respect of the following:

(a) Nil amount of performance bond (December 31, 2002: HK$10 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$139 million (December 31, 2002: HK$19 million) in respect of overdraft and guarantee facilities given by those banks to the subsidiaries. Of this amount, at June 30, 2003, HK$8 million (December 31, 2002: HK$7 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, 2003 amounted to HK$104 million (December 31, 2002: HK$99 million), of which HK$64 million (December 31, 2002: HK$64 million) will be indemnified by the immediate holding company.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

17. 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, 2002 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, 2003.

18. Post balance sheet event

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

19. Review by the audit committee

The unaudited interim financial report for the six months ended June 30, 2003 has been reviewed by the audit committee of the Company.

DIRECTORS' INTERESTS IN SHARES

At June 30, 2003, Directors of the Company had the following beneficial interests, all being long positions, 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	1,000,000	Personal interest
Mr. Samuel S. F. Wong	3,000	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 Part XV of the Securities and Futures Ordinance (the "SFO") to be able to exercise) or control the exercise of one-third or more of the voting power.

As at June 30, 2003, Directors 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 ordinary shares represented by unexercised options outstanding throughout the period	Period during which rights exercisable (Day/Month/Year)	Price per share to be paid on exercise of options (HK$)	Consideration paid for the options granted (HK$)
Mr. Stephen T. H. Ng	(i)	08/02/2000	1,500,000	01/04/2001 to 31/12/2009	10.49	10
	(ii)	19/02/2001	150,000	01/04/2003 to 31/12/2003	3.30	10
	(iii)	19/02/2001	700,000	01/07/2002 to 31/12/2005	3.30	10
Mr. Samuel S. F. Wong	(i)	08/02/2000	700,000	01/04/2001 to 31/12/2009	10.49	10
	(ii)	19/02/2001	65,500	01/04/2003 to 31/12/2003	3.30	10
	(iii)	19/02/2001	241,500	01/07/2002 to 31/12/2005	3.30	10

DIRECTORS' INTERESTS IN SHARES *(continued)*

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the SFO in respect of information required to be notified to the Company and the Stock Exchange pursuant to the SFO or to the Model Code for Securities Transactions by Directors of Listed Companies:

(i) there were no interests, both long and short positions, held as at June 30, 2003 by any of the Directors or Chief Executive of the Company in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), and

(ii) there existed during the financial period no rights to subscribe for shares, underlying shares and debentures of the Company which were held by any of the 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 5% or more of the nominal value of any class of 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, 2003 as recorded in the register kept by the Company under section 336 of the SFO:

	Names	No. of Ordinary Shares
(i)	Wharf Communications Limited	1,600,009,246
(ii)	The Wharf (Holdings) Limited	1,600,009,246
(iii)	Diplock Holdings Limited	1,602,624,303
(iv)	WF Investment Partners Limited	1,602,624,303
(v)	Wheelock and Company Limited	1,603,046,729
(vi)	Bermuda Trust (Guernsey) Limited	1,603,046,729
(vii)	Marathon Asset Management Limited	102,212,000

Note: For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of the shareholdings stated against parties (i) to (vi) above to the extent that the shareholding stated against party (i) above was entirely duplicated or included in that against party (ii) above, with the same duplication of the shareholdings in respect of (ii) in (iii), (iii) in (iv), (iv) in (v) and (v) in (vi).

All the interests stated above represented long positions and as at June 30, 2003, there were no short positions recorded in the said register.

SHARE OPTION SCHEME

Details of share options granted to Directors of the Company 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 employees (all being participants with options not exceeding the respective individual limits, and including Directors who were 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 Jan. 1, '03	No. of ordinary shares represented by options lapsed/ exercised during the financial period	No. of ordinary shares represented by unexercised options outstanding as at June 30, '03	Period during which rights exercisable (Day/Month/Year)	Price per share to be paid on exercise of options (HK$)
(i)	08/02/2000	17,820,000	(940,000)	16,880,000	01/04/2001 to 31/12/2009	10.49
(ii)	19/02/2001	27,243,800	(1,235,500)	26,008,300	01/07/2002 to 31/12/2003	3.30
(iii)	19/02/2001	13,099,800	(529,000)	12,570,800	01/07/2002 to 31/12/2005	3.30
(iv)	09/10/2002	380,000	–	380,000	01/01/2004 to 31/12/2005	3.30
		58,543,600	**(2,704,500)**	**55,839,100**		

Except as disclosed above, no share option of the Company was issued, exercised, cancelled, lapsed or outstanding throughout the financial period.

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, September 30, 2003 to Monday, October 6, 2003, 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, September 29, 2003.

By Order of the Board
Wilson W. S. Chan
Secretary

Hong Kong, August 14, 2003