A. REVIEW OF 2004 OPERATING RESULTS

Notwithstanding intense competition in both core businesses, the Group continued to grow its Pay TV and broadband subscriber bases and improved its profitability in 2004.

Consolidated turnover increased by 11% or HK$229 million to HK$2,372 million reflecting an increase of HK$154 million in Pay TV turnover and a HK$72 million increase in Internet & Multimedia turnover.

Operating costs before depreciation increased by 14% to HK$1,544 million as programming cost increased by 22% to HK$791 million due primarily to the carriage of UEFA Euro 2004 and higher other programme acquisition costs. Network and other operating costs increased by 5% to HK$381 million due to an increase in network repair and maintenance costs and provision for obsolete inventories. Selling, general and administrative expenses increased by 9% to HK$373 million due primarily to higher marketing expenses and sales costs.

Earnings before interest, tax and depreciation rose by 5% to HK$828 million.

Depreciation decreased by 1% to HK$532 million due mainly to the expiration of depreciation cycles on network assets, partly offset by further capital investments.

Profit from operations rose by HK$45 million or 18% to HK$296 million.

Finance costs decreased by HK$15 million with a corresponding HK$8 million drop in interest income to deliver HK$7 million savings in net finance costs mainly due to the full redemption of HK$300 million of fixed rate convertible bonds in November 2003. An income tax provision of HK$12 million was made for the potential tax liability from a leveraged leasing transaction. Please refer to the Contingent Liabilities section for further details.

Net profit attributable to shareholders increased by 29% or HK$64 million to HK$284 million.

Basic earnings per share were 14.1 cents as compared to 10.9 cents in 2003.

B. SEGMENTAL INFORMATION

Pay Television

Subscribers grew by 47,000 or 7% to 702,000 notwithstanding new competition in the market. Net subscriber addition of 20,000 was achieved during the second half of the year as subscriber growth picked up again in the fourth quarter after a soft third quarter. ARPU improved by 2% to HK$225, largely attributable to an increase in commercial airtime revenue. As a result, turnover increased by 9% to HK$1,888 million. Operating costs after depreciation increased by 10% to HK$1,420 million due to rises in programming costs. Operating profit increased by 6% to HK$469 million.

Internet & Multimedia

Broadband subscribers grew by 34,000 or 13% to 291,000. Momentum was rejuvenated in the second half as net subscriber addition increased to 28,000 due mainly to successful service enhancement through network upgrade, bundling strategies and introduction of value-added services. ARPU increased by 9% to HK$140. The Group also launched a VoIP conveyance service during the second half of 2004 and had over 29,000 lines in service as of the end of 2004. Turnover increased by 18% to HK$481 million. Operating costs after depreciation increased by 6% to HK$525 million due to rises in network and marketing costs. Operating loss on a full cost allocation basis nearly halved to HK$44 million. On an incremental basis, this business segment has continued to be profitable since 2002.

C. LIQUIDITY AND FINANCIAL RESOURCES

As of December 31, 2004, the Group had net cash of HK$115 million, as compared to HK$29 million a year ago.

The consolidated net asset value of the Group as at December 31, 2004 was HK$1,828 million, or HK$0.91 per share. The Group's assets were free from any charge.

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. To the extent that there was any exchange risk, the Group made use of financial instruments, where appropriate, to manage those risks.

Capital expenditure during the year amounted to HK$428 million as compared to HK$437 million in the preceding year. Major items included investments on digital set-top boxes, cable modems and related broadband equipment, television production facilities as well as further network upgrade and expansion. The digital conversion program on the Pay TV service has largely been completed.

The Group is comfortable with its present financial and liquidity position. Further ongoing capital expenditure and new business development will be funded by cash to be generated from operations and, if needed, bank borrowings or other external sources of funds.

D. CONTINGENT LIABILITIES

At December 31, 2004, there were contingent liabilities in respect of guarantees, indemnities and letters of awareness given by the Company on behalf of subsidiaries relating to overdraft and guarantee facilities of banks up to HK$662 million of which only HK$546 million was utilised by the subsidiaries.

The Group is in discussion with the Inland Revenue Department ("IRD") regarding previous years' tax affairs of The Cable Leasing Partnership and The Network Leasing Partnership ("the Partnerships") under the Group, pursuant to a leveraged leasing arrangement the Group had entered into during 1993 to 1995 which expired in September 2003.

To preserve its right, the IRD has issued protective assessments up to HK$272 million against various Group entities for the period from 1995/96 to 2003/04. The Group has since objected to the assessments and the IRD has granted unconditional holdover for HK$247 million of the assessment amount, and conditional holdover for the remaining HK$25 million. For the latter, the Partnerships have purchased HK$18 million Tax Reserve Certificates before December 31, 2004 and HK$7 million after year end, in satisfaction of the holdover condition.

The outcome of the discussions is uncertain. Based on the tax consultant's advice, however, management is of the view that the Group's tax exposure as at December 31, 2004 under the protective assessments would amount to HK$106 million, of which up to HK$64 million would be indemnified by Wharf Communications Limited as tax liability pertaining to events occurring up to the Group's Initial Public Offering on November 1, 1999, such that the contingent tax exposure for the Group is estimated at HK$42 million. After a provision of HK$12 million made in 2004, the maximum further tax liability is estimated at HK$30 million.

E. HUMAN RESOURCES

The Group had a total of 2,982 employees at the end of 2004 (at December 2003: 2,847). Total salaries and related costs incurred in the corresponding period amounted to HK$753 million (2003: HK$728 million).

The Group is dedicated to attracting, developing and retaining the best people, and strives to offer its employees a challenging and yet harmonious working environment where teamwork and a responsible attitude towards the community are encouraged. The Group's performance management system of accountability for business performance and its pay for performance culture offer every staff member the opportunity to share in its success.

To honour its obligations as a good corporate citizen and further its involvement in building a more caring and cohesive community in Hong Kong, the Group has established a Corporate Volunteer Team since 2002 to encourage active and persistent participation in community services in terms of real engagement. The Group's commitment to the society also includes donations to the underserved communities through various non-profit organizations and social welfare agencies.