有線寬頻 I-CABLE

i-CABLE COMMUNICATIONS LIMITED

2005 INTERIM REPORT

About the Company

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

WELL BRACED FOR NEW COMPETITION

Results Highlights – One million subscribers and a record half

- Turnover rose by 6% to HK$1,223 million (2004: HK$1,154 million).
- Net profit rose by 5% to HK$155 million (2004: HK$147 million).
- Earnings per share rose by 5% to 7.7 cents (2004: 7.3 cents).
- Capital expenditure declined by 47% to HK$125 million (2004: HK$235 million).
- Free cashflow before dividends rose by 50% to HK$123 million (2004: HK$82 million).
- Interim dividend per share rose by 17% to 3.5 cents (2004: 3.0 cents).

Pay TV – Brunt of cost pressure due to competition has been taken

- Subscribers grew by 5% to 718,000 (2004: 682,000).
- ARPU decreased by 3% to HK$216 (2004: HK$222).
- Turnover increased by 3% to HK$948 million (2004: HK$920 million).
- Operating profit decreased by 17% to HK$195 million (2004: HK$235 million).

Internet & Multimedia – Record profit even as competitors are in search of their first breakeven

- Broadband subscribers grew by 14% to 301,000 (2004: 263,000).
- ARPU increased by 1% to HK$144 (2004: HK$142).
- Turnover increased by 20% to HK$279 million (2004: HK$232 million).
- Record high operating profit of HK$31 million after two and a half years of losses (2004: operating loss of HK$27 million).

Group Results

The unaudited Group profit attributable to Shareholders for the six months ended June 30, 2005 amounted to HK$155 million, as compared to HK$147 million for the corresponding period in 2004. Basic and diluted earnings per share were both 7.7 cents for 2005, as compared to both 7.3 cents last year.

Interim Dividend

The Board has declared an interim dividend in respect of the six-month period ended June 30, 2005 of 3.5 cents (2004: 3 cents) per share, payable on Friday, October 7, 2005 to Shareholders on record as at September 30, 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

With competition intensifying on all fronts, the first half of 2005 was trying. However, the Group withstood the challenges with some degree of success and continued to report growth in subscription, revenue and profit.

Competitive attention focused on the Pay TV sector during the period. Both above and below the line, competitors' attack on the market was much more aggressive. We in turn unbundled our basic package, at the expense of yield, to protect our subscriber base and to grow it by 2% in 6 months (and 5% in 12 months) to 718,000 as at the end of June. However, first half turnover was only 3% higher than a year ago and was 2% lower than in the preceding half.

On the other hand, despite extensive below-the-line free offers made by competitors, broadband subscribers rose by 3% in 6 months (and 14% in 12 months) to 301,000 as at the end of June. Turnover was 20% higher than a year ago and 13% higher than in the preceding half. Significantly, this returned the Internet & Multimedia segment to profitability after 2.5 consecutive years of operating losses and actually set a record high operating profit.

On a consolidated basis, turnover for the first half of 2005 rose by 6% to HK$1,223 million (2004: HK$1,154 million) and net profit rose by 5% to HK$155 million (2004: HK$147 million), despite a 12% increase in operating costs before depreciation to HK$816 million (2004: HK$731 million) primarily due to pressure on programming costs.

The remainder of the year will continue to be challenging, as our competitors for both Pay TV and broadband services will spare no effort to attempt to chip away our leadership position in the market.

Operating Environment and Competition

In the first half of 2005, competition in both the Pay TV and broadband sectors was more intense than at any time since the Group began operation 12 years ago. Bundled "triple play" service of television, voice and data was the main battlefield.

The latest competitor to join that battlefield is TVB's Galaxy, rebranded SuperSUN TV after having secured new investors. Galaxy has concluded an agreement for its service to be distributed over Hutchison Global Communications' broadband network and to be bundled with the latter's voice and data services. NOW Broadband TV, meanwhile, continued to play aggression in marketing its services.

These developments caused the Group's Pay TV subscription growth to stutter and the Group rolled out mini packages, at a lower price point, with a higher profile marketing campaign to respond.

In the meantime, bundled packages continued to spur growth for our broadband subscription in a keenly contested operating environment. The Group's packages have proven to be competitive in sustaining the growth momentum which has been rebuilding since the middle of last year.

The Group will continue to monitor market developments closely and will adjust its marketing strategy accordingly. Swift action taken by the Group has so far managed to contain the impact of competition with some degree of success, albeit at the expense of margin erosion in some sectors. The outlook for the remainder of the year will remain harsh and the Group has to work very hard to stay on top of the game.

Pay TV Service

A more rugged terrain to grow subscription and margin erosion characterised performance of this core business in the first half of 2005, as new operators stepped up their attack in the Pay TV market.

Subscribers grew by 36,000 or 5% to 718,000 year-on-year while growth in the first half of this year slowed to 16,000 from 20,000 in the second half of 2004. ARPU decreased slightly by 3% to HK$216, primarily due to the rollout and aggressive marketing of mini packages in response to changing market conditions. Turnover increased by 3% to HK$948 million, aided partly by higher commercial airtime revenue. Operating costs after depreciation increased by 10% to HK$754 million primarily due to the aforementioned increase in programming costs. Operating profit decreased by 17% to HK$195 million.

To stay ahead of competitors, the Group continued to enhance its programming platform. The first half of 2005 saw the enhancement of CABLE TV's news platform. News 1 was transformed to a financial service channel during trading hours and a new Live News Channel was launched to provide live carriage of Legislative Council meetings and important press conferences to viewers. The channels are fast gaining recognition.

On the sports front, the exclusive carriage of English Premier League was well received by viewers. The Soccer Betting Channel, catering to alternative needs of soccer fans, has been quick in building up viewership. Among other highlights, CABLE TV was the host broadcaster for major international sports events in Hong Kong, including the Rugby Sevens World Cup and the FIVB World Grand Prix Volleyball.

The second half of the year will see enhancement of CABLE TV's entertainment platform. In July, a daily parenting programme was launched in the Children Channel in weekday primetime, providing informative and educational programmes that are suitable for parents and children to watch together. In August, a nightly primetime life-magazine programme will be launched on the Entertainment Channel, offering to viewers information on latest social and gourmet trends in Hong Kong and overseas in a lively and fast-paced format.

These new programming initiatives are intended to further enhance the 'stickiness' of our platform to more diversified groups of viewers and hence our penetration.

Internet and Multimedia Services

The recovery trend for this core business continued in the first half of the year as a result of service upgrade, bundling strategies and continued introduction of value-added service.

Broadband subscribers grew by 37,000 or 14% to 301,000 year-on-year. ARPU increased by HK$2 to HK$144. The VoIP conveyance service reported 69,000 lines in service as of the period end, as compared to 29,000 at the end of 2004. Turnover increased by 20% to HK$279 million. Operating costs after depreciation decreased by 4% to HK$248 million due primarily to savings achieved in depreciation and selling, general and administrative expenses. Operating profit reported a record high figure of HK$31 million as compared to an operating loss of HK$27 million incurred a year ago.

At the same time as we grew our broadband access service, we also continued to enhance our multimedia content service as a source of additional income for this sector of our business. A new music download portal was soft launched in July with participation of major music labels, making it one of the most comprehensive music download sites in Hong Kong.

Our bundled packages have proven to be competitive in the marketplace, enabling us to fend off competition with some success and put us back on the track of profitability for this core business, when we believe competitors are still in search of their breakeven. Nevertheless, we need to constantly refine our products, improve our after sales service and sharpen our marketing in the wake of intense competition.

New Markets

Not only has the Group's satellite channel, Horizon Channel, expanded its distribution in China, we have formally concluded a carriage agreement with China Information Broadcast Network Company Limited, under which mobile phone users in China can now access video clips of the showbiz world from that channel.

Following the successful conclusion of an agreement with Kowloon Canton Railway Corporation earlier this year, trial runs of our news service to monitors on board KCR trains have begun. The service, branded Newsline Express, is expected to be launched in August.

The Group's movie production venture, Sundream Motion Pictures Limited, has also made significant progress in the interim. Shooting of the first film will begin in early August, with production of several more movies beginning during the remainder of the year.

Outlook

Through service enhancement and timely response to changes in market conditions, the Group managed to emerge relatively unscathed from a keen competitive marketplace in the first half of 2005, reporting growth in performance for its core businesses.

However, with other Pay TV players beginning to establish themselves in the market, competition will only become more severe in the remainder of the year. While our programming platform, now parading close to 100 channels, still leads the rest of the pack, we need to market our products more effectively and spend our resources more intelligently to stay on top. At the same time, we shall continue to look beyond the conventional market for new opportunities.

On the broadband service front, while we are encouraged by the business returning to a profitable growth track, we shall continue to enhance our service by improving our after sales service and the introduction of more value-added services. We shall continue to look out for new opportunities to expand our multimedia content provision service.

Competition poses challenges to us as well as to our competitors. But we believe we can prevail with our expertise in running Pay TV and broadband services and in producing multimedia contents; our experience in marketing our products and our established infrastructure in servicing customers.

Financial Review

A. Review of 2005 Interim Results

The Group continued to achieve profitable growth in the first six months ended June 30, 2005 with increase in both Pay TV and broadband subscriber bases despite further intensifying competition, particularly in the Pay TV market, with the deployment of innovative bundling and other marketing strategies.

Consolidated turnover increased by 6% or HK$68 million to HK$1,223 million with a HK$47 million increase in Internet & Multimedia turnover and a HK$28 million increase in Pay TV turnover.

Operating costs before depreciation increased by 12% to HK$816 million as programming costs increased by 15% to HK$421 million due to increase acquisition costs for sports rights and other programme enhancements. Network and other operating costs increased by 5% to HK$197 million due mainly to transponder costs of a satellite service which commenced in September 2004 and an increase in customer fulfillment costs. Selling, general and administrative expenses increased by 12% to HK$198 million due primarily to increase in Pay TV marketing and sales spending to fend off competition.

Earnings before interest, tax, depreciation and amortization or EBITDA dropped slightly by 4% to HK$407 million.

Depreciation decreased by 8% to HK$251 million due to lower depreciation charges on analogue set-top boxes, cable modems and network assets resulting from expiry of their depreciation cycle.

Profit from operations rose by HK$6 million or 4% to HK$156 million.

Income tax charges for the period represented a HK$5 million additional provision for the potential tax liability from a leveraged leasing arrangement, as partly set off by the recognition of HK$3 million net deferred tax assets for the Group.

Net profit attributable to shareholders increased by 5% or HK$8 million to HK$155 million.

Basic earnings per share were 7.7 cents as compared to 7.3 cents in 2004.

B. Liquidity and Financial Resources

As of June 30, 2005, the Group had net cash of HK$147 million, as compared to net cash of HK$30 million a year ago.

The consolidated net asset value of the Group as at June 30, 2005 was HK$1,892 million, or HK$0.94 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.

Capital expenditure during the period amounted to HK$125 million as compared to HK$235 million in the same period last year. Major items included further network upgrade and expansion, broadband and VoIP equipment, television production facilities as well as investment in information systems.

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. The Group also had total short-term bank credit facilities of approximately HK$670 million which remained unutilized as of June 30, 2005.

C. Contingent Liabilities

At June 30, 2005, 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$431 million have been utilised by the subsidiaries.

Subsequent to the end of the period under review, the Group has reached a settlement agreement with the Inland Revenue Department on a tax dispute concerning a leveraged leasing arrangement already expired in September 2003. Net of the amount indemnified by Wharf Communications Limited as tax liability pertaining to events occurring up to the Group's Initial Public Offering on November 1, 1999, the Group's HK$17 million share of the settlement payment has been fully provided up to the end of June 2005.

D. Human Resources

The Group had a total of 3,273 employees at the end of the first half of 2005. Total salaries and related costs incurred during the corresponding period amounted to HK$389 million (2004: HK$371 million). The Group has a performance bonus scheme in place to motivate and reward employee performance to fulfill the Group's business targets.

As a good corporate citizen, we continue our dedication to contribute towards the building of a more caring and cohesive society in terms of real engagement. In appreciation of the involvement of our Corporate Volunteer team in serving the needy, the Secretariat of Steering Committee on Promotion of Volunteer Service has presented us *the Gold Award for Volunteer Service*, and the Hong Kong Council of Social Service has once again awarded us *the Caring Company Logo*.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the financial period under review, the Company has complied with all those code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited which became applicable to the Company in respect of the period under review, except for one code provision with respect to the roles of chairman and chief executive officer to be performed by different individuals. The deviation is deemed necessary as, given the nature and size of the Company's business, it is at this stage considered to be more efficient to have one single person to hold both positions.

Consolidated Profit and Loss Account

For the six months ended June 30, 2005 – unaudited

	Note	Six months ended June 30, 2005 HK$'000	2004 HK$'000
Turnover	2	**1,222,818**	1,154,447
Programming costs		**(420,514)**	(366,624)
Network and other operating expenses		**(197,411)**	(187,535)
Selling, general and administrative expenses		**(198,210)**	(177,069)
Profit from operations before depreciation		**406,683**	423,219
Depreciation		**(250,712)**	(273,740)
Profit from operations		**155,971**	149,479
Interest income	3	**411**	3
Finance costs	3	**(134)**	(72)
Non-operating income / (expense)		**944**	(1,494)
Profit before taxation	3	**157,192**	147,916
Income tax	4	**(1,950)**	(620)
Profit attributable to shareholders		**155,242**	147,296
Dividends attributable to the period			
Final dividend in respect of the previous financial year, declared during the period		**90,866**	80,769
Interim dividend declared after the balance sheet date		**70,673**	60,577
	6	**161,539**	141,346
Earnings per share			
Basic	5	**7.7 cents**	7.3 cents
Diluted	5	**7.7 cents**	7.3 cents

The notes on pages 12 to 21 form part of this interim financial report.

Consolidated Balance Sheet

At June 30, 2005 – unaudited

	Note	At June 30, 2005 HK$'000 (unaudited)	At December 31, 2004 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	7	**1,916,238**	2,050,787
Programming library	8	**121,204**	127,311
Deferred tax assets		**146,585**	108,963
Non-current investments	9	**9,725**	9,725
		2,193,752	2,296,786
Current assets			
Inventories		**11,068**	16,195
Accounts receivable from trade debtors	10	**125,907**	118,237
Deposits, prepayments and other receivables		**124,990**	116,119
Amounts due from fellow subsidiaries		**8,500**	1,416
Amount due from immediate holding company		**5,448**	320
Cash at bank and in hand		**147,306**	115,013
		423,219	367,300
Current liabilities			
Amounts due to trade creditors	11	**66,570**	109,302
Accrued expenses and other payables		**267,082**	354,024
Receipts in advance and customers' deposits		**208,070**	220,564
Taxation	14	**17,031**	12,022
Amounts due to fellow subsidiaries		**22,729**	31,572
		581,482	727,484
Net current liabilities		**(158,263)**	(360,184)
Total assets less current liabilities		**2,035,489**	1,936,602
Non-current liabilities			
Deferred tax liabilities		**143,474**	108,963
NET ASSETS		**1,892,015**	1,827,639
Capital and reserves			
Share capital	12	**2,019,234**	2,019,234
Reserves		**(127,219)**	(191,595)
		1,892,015	1,827,639

The notes on pages 12 to 21 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended June 30, 2005 – unaudited

		Reserves				
	Share capital HK$'000	Share premium HK$'000	Special capital reserve HK$'000	Revenue reserve HK$'000	Total reserves HK$'000	Total HK$'000
Balance at January 1, 2004*	2,019,234	4,838,365	–	(5,172,951)	(334,586)	1,684,648
Profit for the period	–	–	–	147,296	147,296	147,296
Dividend approved in respect of the previous year	–	–	–	(80,769)	(80,769)	(80,769)
Balance at June 30, 2004*	2,019,234	4,838,365	–	(5,106,424)	(268,059)	1,751,175
Balance at January 1, 2005*	2,019,234	4,838,365	3,345	(5,033,305)	(191,595)	1,827,639
Profit for the period	–	–	–	155,242	155,242	155,242
Dividend approved in respect of the previous year	–	–	–	(90,866)	(90,866)	(90,866)
Transfer to special capital reserve**	–	–	2,898	(2,898)	–	–
Balance at June 30, 2005*	**2,019,234**	**4,838,365**	**6,243**	**(4,971,827)**	**(127,219)**	**1,892,015**

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

** *The special capital reserve is non-distributable and it should be applied for the same purposes as the share premium account.*

The notes on pages 12 to 21 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended June 30, 2005 – unaudited

	Six months ended June 30,	
	2005 HK$'000	2004 HK$'000
Operating activities		
Profit before taxation	**157,192**	147,916
Adjustments for:		
Net finance costs	**(277)**	69
Depreciation	**250,712**	273,740
Amortisation of programming library	**38,378**	49,677
Others	**3,382**	3,484
Operating profit before change in working capital	**449,387**	474,886
Change in working capital	**(131,257)**	(112,361)
Cash generated from operations	**318,130**	362,525
Interest received	**350**	3
Interest paid	**(134)**	(72)
Hong Kong taxation paid	**–**	(2,961)
Overseas taxation paid	**(52)**	(19)
Net cash from operating activities	**318,294**	359,476
Investing activities		
Purchase of property, plant and equipment	**(148,647)**	(227,269)
Other net investing activities	**(46,547)**	(50,041)
Net cash used in investing activities	**(195,194)**	(277,310)
Net cash used in financing activities	**(90,807)**	(80,716)
Net increase in cash and cash equivalents	**32,293**	1,450
Cash and cash equivalents at January 1	**115,013**	28,915
Cash and cash equivalents at June 30	**147,306**	30,365

The notes on pages 12 to 21 form part of this 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 Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards that are effective or available for early adoption for accounting periods beginning on or after January 1, 2005. We believe the adoption of these new and revised accounting policies will not have a material impact on the Group's financial position or results of operations.

The same accounting policies adopted in the annual accounts for the year ended December 31, 2004 have been applied to the interim financial report.

2. Turnover

Turnover comprises principally subscription and installation fees for cable television and Internet services, Internet Protocol Point wholesale services and also includes equipment rental, advertising income net of agency deductions, marketing contributions, channel service fees, channel distribution fees, television relay service income, programme licensing income, fibre network and satellite television systems maintenance income, project management service fees, sales of satellite television systems, portal and mobile content service income, television magazine sales, late payment charges to subscribers and similar income.

Segment information

Business segment

	Segment revenue		Segment result	
	Six months ended June 30,		Six months ended June 30,	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Pay television	**948,368**	920,166	**194,843**	235,330
Internet and multimedia	**279,293**	232,462	**30,839**	(26,520)
Unallocated	**1,537**	1,819	**(69,711)**	(59,331)
Inter-segment elimination	**(6,380)**	–	**–**	–
	1,222,818	1,154,447		
Profit from operations			**155,971**	149,479
Interest income			**411**	3
Finance costs			**(134)**	(72)
Non-operating income / (expense)			**944**	(1,494)
Income tax			**(1,950)**	(620)
Profit attributable to shareholders			**155,242**	147,296

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,	
	2005	2004
	HK$'000	HK$'000
Interest income		
Interest income from deposits with banks and other financial institutions	**(411)**	(3)
Finance costs		
Interest expenses on bank loans and overdrafts repayable within five years	**134**	72
Other items		
Depreciation	**250,712**	273,740
Amortisation of programming library*	**38,378**	49,677

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

4. Income tax in the consolidated profit and loss account

Taxation in the consolidated profit and loss account represents:

	Six months ended June 30,	
	2005	2004
	HK$'000	HK$'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the period	**–**	–
Under-provision in respect of prior year	**–**	589
	–	589
Current tax – Overseas		
Tax for the period	**61**	31
Provision for protective assessments on leasing partnerships *(Note 14(a))*	**5,000**	–
Deferred tax *(Note 14(b))*		
Benefit of previously unrecognised tax losses now recognised	**14,105**	–
Reversal of temporary differences	**(17,216)**	–
	(3,111)	–
	1,950	620

The provision for Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the period. Taxation for overseas subsidiaries is charged at the appropriate current rate of tax ruling in the relevant country.

5. Basic and diluted earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$155,242,000 (2004: HK$147,296,000) and the weighted average number of ordinary shares outstanding during the period of 2,019,234,400 (2004: 2,019,234,400).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK$155,242,000 (2004: HK$147,296,000) and the weighted average number of ordinary shares of 2,019,234,400 (2004: 2,019,234,400) after adjusting for the effects of all dilutive potential ordinary shares.

No share options were exercised in the current and prior periods. Accordingly this has no dilutive effect on the number of shares for both periods.

6. Dividends

	Six months ended June 30,	
	2005	2004
	HK$'000	HK$'000
Final dividend of 4.5 cents per share (2004: 4 cents) in respect of the previous financial year, declared during the period	**90,866**	80,769
Interim dividend declared after the balance sheet date of 3.5 cents per share (2004: 3 cents)	**70,673**	60,577
	161,539	141,346

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

	2005 HK$'000
Net book value at January 1	**2,050,787**
Additions – Network, decoders, cable modems and television production systems	**103,990**
– Others	**20,669**
Disposals	**(704)**
Depreciation	**(250,712)**
Impairment loss	**(4,326)**
Reclassification	**(3,466)**
Net book value at June 30	**1,916,238**

8. Programming library

	2005 HK$'000
Net book value at January 1	**127,311**
Programming licences and rights acquired	**32,271**
Amortisation	**(38,378)**
Net book value at June 30	**121,204**

9. Non-current investments

	At June 30, 2005 HK$'000	At December 31, 2004 HK$'000
Unlisted equity securities	**9,725**	9,725

10. 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, 2005 HK$'000	At December 31, 2004 HK$'000
0 to 30 days	**92,472**	75,521
31 to 60 days	**10,690**	19,612
61 to 90 days	**12,841**	13,588
Over 90 days	**9,904**	9,516
	125,907	118,237

The Group has a defined credit policy. The general credit terms allowed range from 0 to 60 days.

11. Amounts due to trade creditors

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

	At June 30, 2005 HK$'000	At December 31, 2004 HK$'000
0 to 30 days	**4,403**	5,490
31 to 60 days	**11,159**	21,814
61 to 90 days	**13,437**	26,989
Over 90 days	**37,571**	55,009
	66,570	109,302

12. Share capital

There was no movement in the share capital of the Company during the six months ended June 30, 2005.

At June 30, 2005, 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, 2005**	**Lapsed during the period**	**At June 30, 2005**
February 8, 2000	April 1, 2001 to December 31, 2009	HK$10.49	15,640,000	(270,000)	15,370,000
February 19, 2001	July 1, 2002 to December 31, 2005	HK$3.30	11,691,600	(314,000)	11,377,600
October 9, 2002	January 1, 2004 to December 31, 2005	HK$3.30	380,000	–	380,000

13. Special capital reserve

In 2004, the issued share capital of a subsidiary under the Group was reduced ("Capital Reduction") and the credit arising from the Capital Reduction was applied to eliminate the accumulated losses standing in the profit and loss account of the subsidiary as at September 30, 2004.

An undertaking was given to the Court by the subsidiary in connection with the Capital Reduction (the "Undertaking"). Pursuant to the Undertaking, any future recoveries or reversals of provisions in respect of: 1) assets owned or held under finance and operating leases against which charges to depreciation were made as at September 30, 2004; and 2) provisions made by the subsidiary in respect of certain assets held by the subsidiary as at September 30, 2004; collectively the relevant assets ("relevant assets"), to the extent that such recoveries exceed the written down amounts of the relevant assets, up to an aggregate amount of HK$1,958,524,266, will be credited to a special capital reserve. While any debt or liability of, or claim against, the subsidiary at the date of the Capital Reduction remains outstanding and the person entitled to the benefit thereof has not agreed otherwise, the special capital reserve shall not be treated as realised profits. The subsidiary shall be at liberty to apply the special capital reserve for the same purposes as a share premium account may be applied.

The amount to be credited to the special capital reserve is subject to a limit ("Limit"), which was HK$1,958,524,266 as at the date of the capital reduction. The Limit may be reduced by the amount of any increase in the issued share capital or in the share premium account of the subsidiary resulting from an issue of shares for cash or other consideration or upon a capitalisation of distributable reserves. The subsidiary shall be at liberty to transfer the amount so reduced to the general reserves of the subsidiary and the same shall become available for distribution. The Limit may also be reduced after the disposal or other realisation of any of the relevant assets by the amount of the charge to depreciation or provision made in relation to such asset as at September 30, 2004 less such amount as is credited to the special capital reserve as a result of such disposal or realisation.

In the event that the amount standing to the credit of the special capital reserve exceeds the Limit, the subsidiary shall be at liberty to transfer the amount of any such excess to the general reserves of the subsidiary, which shall become available for distribution.

As at June 30, 2005, the Limit of the special capital reserve, as reduced by HK$4,913,654 (at December 31, 2004: HK$916,109) related to recoveries and reversals of provisions of the relevant assets, was HK$1,953,610,612 (at December 31, 2004: HK$1,957,608,157), and the amount standing to the credit of the special capital reserve was HK$6,242,865 (at December 31, 2004: HK$3,344,694).

14. Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	At June 30, 2005 HK$'000	At December 31, 2004 HK$'000
Overseas taxation	**31**	22
Provision for protective assessments on leasing partnerships *(Note 4)*	**17,000**	12,000
	17,031	12,022

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	**Depreciation allowances in excess of related depreciation** HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At January 1, 2005	238,875	(238,875)	–
Charged/(credited) to consolidated profit and loss account *(Note 4)*	(17,216)	14,105	(3,111)
At June 30, 2005	221,659	(224,770)	(3,111)

	At June 30, 2005 HK$'000	At December 31, 2004 HK$'000
Net deferred tax assets recognised on the balance sheet	**(146,585)**	(108,963)
Net deferred tax liabilities recognised on the balance sheet	**143,474**	108,963
	(3,111)	–

(c) Deferred tax assets not recognised:

The Group has not recognised deferred tax assets in respect of the following:

	At June 30, 2005 HK$'000	At December 31, 2004 HK$'000
Future benefit of tax losses	**747,273**	899,873
Provision for obsolete inventories	**13**	35
Provision for bad and doubtful debts	**557**	426
	747,843	900,334

15. Commitments

Capital commitments outstanding as of June 30, 2005 not provided for in the accounts were as follows:

	At June 30, 2005 HK$'000	At December 31, 2004 HK$'000
Capital commitments		
– Authorised and contracted for	**37,408**	17,366
– Authorised but not contracted for	**98,793**	61,313
	136,201	78,679
Programming and other commitments		
– Authorised and contracted for	**569,903**	695,255
– Authorised but not contracted for	**67,100**	80,835
	637,003	776,090
Operating lease commitments		
– Within one year	**16,994**	25,810
– After one year but within five years	**29,772**	32,126
– After five years	**58,327**	60,608
	105,093	118,544
	878,297	973,313

16. Contingent liabilities

As at June 30, 2005, there were contingent liabilities in respect of the following:

(a) 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.

(b) Guarantees, indemnities and letters of awareness to banks totalling HK$662 million (December 31, 2004: HK$662 million) in respect of overdraft and guarantee facilities given by those banks to the subsidiaries. Of this amount, at June 30, 2005, HK$431 million (December 31, 2004: HK$546 million) was utilised by the subsidiaries.

(c) Subsequent to the end of the period under review, the Group has reached a settlement agreement with the Inland Revenue Department on a tax dispute concerning a leveraged leasing arrangement already expired in September 2003. Net of the amount indemnified by Wharf Communications Limited as tax liability pertaining to events occurring up to the Group's Initial Public Offering on November 1, 1999, the Group's HK$17 million share of the settlement payment has been fully provided up to the end of June 2005.

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, 2004 continue to take place during this interim reporting period.

During the six months ended June 30, 2005, the only new significant and material related party transactions entered into by the Group pertained to a sales and servicing agent agreement with Wharf T&T Limited ("WTT"). In April 2005, two subsidiaries under the Group and WTT entered into an agreement to mutually appoint each other as a non-exclusive sales and servicing agent for service plans that may comprise one or more of pay-TV, broadband and telephony services. For each subscription agreement for these service plans, the soliciting party will charge the other parties a one-off payment of HK$120 in the month of sale and a monthly sum of HK$20 for the contractual term of the relevant subscription contract. The said service fees may from time to time be negotiated and varied by the parties on an arm's length basis with regard to the prevailing market conditions and the servicing costs. During the first six months of 2005, the aggregate service fees payable or receivable by the Group to or from WTT under the agreement did not exceed HK$3 million.

18. Post balance sheet events

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, 2005 has been reviewed by the audit committee of the Company.

20. Approval of interim financial report

The interim financial report was approved by the Directors on August 8, 2005.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' DEALING IN SECURITIES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors and all the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

DIRECTORS' INTERESTS IN SHARES

At June 30, 2005, 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"), and the percentages which the shares represented to the issued share capitals of the Company, Wharf and Harbour Centre respectively are also set out below:

	No. of shares (percentage of issued capital)	**Nature of interest**
The Company		
Mr. Stephen T. H. Ng	1,065,005 (0.0527%)	Personal interest
Mr. Samuel S. F. Wong	3,000 (0.0001%)	Personal interest
Wharf		
Mr. Stephen T. H. Ng	650,057 (0.0266%)	Personal interest
Harbour Centre		
Mr. F. K. Hu	50,000 (0.0159%)	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.*

DIRECTORS' INTERESTS IN SHARES *(continued)*

Set out below are particulars of interests (all being personal interests) in options to subscribe for ordinary shares of the Company granted under the Share Option Scheme of the Company held by Directors of the Company during the financial period (no movement in such options recorded during the period):

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	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	241,500	01/07/2003 to 31/12/2005	3.30	10

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 Issuers (the "Model Code"):

(i) there were no interests, both long and short positions, held as at June 30, 2005 by any of the Directors or Chief Executive of the Company in shares, underlying shares or 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 any shares, underlying shares or 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 as at June 30, 2005, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register") and the percentages which the shares represented to the issued share capital of the Company:

	Names	No. of ordinary shares (percentage of issued capital)
(i)	Wharf Communications Limited	1,480,505,171 (73.32%)
(ii)	The Wharf (Holdings) Limited	1,480,505,171 (73.32%)
(iii)	WF Investment Partners Limited	1,480,505,171 (73.32%)
(iv)	Wheelock and Company Limited	1,481,442,626 (73.37%)
(v)	HSBC Trustee (Guernsey) Limited	1,481,442,626 (73.37%)
(vi)	Marathon Asset Management Limited	121,332,000 (6.01%)

Notes: *(1)* *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 (v) 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) and (iv) in (v).*

(2) *Due to the amalgamation of Bermuda Trust (Guernsey) Limited with HSBC Trustee (Guernsey) Limited into one company known as HSBC Trustee (Guernsey) Limited with effect from January 1, 2005, the name of Bermuda Trust (Guernsey) Limited, which appeared in the Register prior to January 1, 2005, has been accordingly amended to become HSBC Trustee (Guernsey) Limited.*

All the interests stated above represented long positions and as at June 30, 2005, there were no short position interests recorded in the 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".

Set out below are particulars and movements during the financial period of the Company's outstanding share options which were granted to approximately 1,700 employees (two of them being Directors of the Company), all working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance and are participants with options not exceeding the respective individual limits:

	Date granted (Day/Month/Year)	**No. of ordinary shares represented by unexercised options outstanding as at January 1, 2005**	**No. of ordinary shares represented by options lapsed during the financial period**	**No. of ordinary shares represented by unexercised options outstanding as at June 30, 2005**	**Period during which rights exercisable** (Day/Month/Year)	**Price per share to be paid on exercise of options** (HK$)
(i)	08/02/2000	15,640,000	(270,000)	15,370,000	01/04/2001 to 31/12/2009	10.49
(ii)	19/02/2001	11,691,600	(314,000)	11,377,600	01/07/2002 to 31/12/2005	3.30
(iii)	09/10/2002	380,000	–	380,000	01/01/2004 to 31/12/2005	3.30
		27,711,600	(584,000)	27,127,600		

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 Monday, September 26, 2005 to Friday, September 30, 2005, 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 Friday, September 23, 2005.

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

Hong Kong, August 8, 2005

As at the date of this interim report, the Board of Directors of the Company comprises Mr. Stephen T. H. Ng, Mr. Samuel S. F. Wong and Mr. Quinn Y. K. Law, and five independent non-executive Directors, namely, Mr. F. K. Hu, Mr. Victor C. W. Lo, Dr. Dennis T. L. Sun, Sir Gordon Y. S. Wu and Mr. Anthony K. K. Yeung.