



Financial Review

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(A) REVIEW OF 2005 RESULTS

The Group continued to expand both Pay TV and Broadband subscriber bases with enhanced programme and innovative bundling and other marketing strategies, notwithstanding intense competition particularly in the Pay TV market.

Consolidated turnover increased by HK\$69 million or 3% to HK\$2,441 million mainly due to HK\$78 million increase in Internet & Multimedia turnover.

Operating costs before depreciation increased by 9% to HK\$1,681 million as programming costs increased by 9% to HK\$864 million due to increased costs for sports rights and other programme enhancements. Network and other operating costs increased by 4% to HK\$398 million due mainly to increase in customer fulfillment costs and direct costs incurred for the Newline Express launched on Kowloon-Canton Railway Corporation lines in August 2005. Selling, general and administrative expenses increased by 12% to HK\$419 million due primarily to higher Pay TV marketing and sales spending.

Earnings before interest, tax, depreciation and amortisation or EBITDA dropped by 8% to HK\$760 million.

Depreciation decreased by 10% to HK\$481 million due to lower depreciation charges on set-top boxes, cable modems and network assets following the expiry of their depreciation cycle.

Profit from operations dropped by HK\$16 million or 5% to HK\$280 million.

Income tax credit of HK\$300 million represented net deferred tax credit of HK\$305 million recorded in respect of the recognition of HK\$325 million tax losses as deferred tax assets as partly set off by HK\$20 million increase in deferred tax liabilities, and HK\$5 million additional provision upon the settlement of a tax dispute over a leveraged leasing arrangement.

Net profit attributable to shareholders increased by 105% or HK\$298 million to HK\$582 million.

Basic earnings per share were 28.8 cents as compared to 14.1 cents in 2004.

(B) SEGMENTAL INFORMATION

Pay Television

Subscribers grew by 36,000 or 5% to 738,000 year-on-year notwithstanding intense competition. ARPU decreased by 6% to HK\$212, primarily due to the rollout of mini packages in response to changing market conditions. Turnover edged downwards by HK\$4 million to HK\$1,884 million. Operating costs after depreciation increased by 9% to HK\$1,548 million primarily due to the aforementioned increase in programming, network operations related, and marketing costs. Operating profit decreased by 28% to HK\$337 million.

Internet & Multimedia

Broadband subscribers grew by 29,000 or 10% year-on-year to 320,000 due to successful service enhancement through network upgrade, bundling strategies and the continued introduction of value-added services. ARPU remained virtually unchanged at HK\$139. There were 120,000 VoIP lines in service at the end of 2005 as compared to 29,000 a year ago. Turnover increased by 16% to HK\$558 million. Operating costs after depreciation decreased by 8% to HK\$480 million due primarily to savings achieved in depreciation and selling, general and administrative expenses. Operating profit reported a record high HK\$78 million as compared to an operating loss of HK\$44 million incurred a year ago.

(C) LIQUIDITY AND FINANCIAL RESOURCES

Net cash inflow reached record high HK\$399 million. After dividend payment of HK\$161 million, net cash increased to HK\$352 million at December 31, 2005, as compared to HK\$115 million a year ago.

The consolidated net asset value of the Group as at December 31, 2005 was HK\$2,248 million or HK\$1.1 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\$282 million as compared to HK\$428 million last year. Major items included further network upgrade and expansion, Broadband and VoIP equipment and TV production facilities.

The Group is comfortable with its present financial and liquidity position. Further 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\$305 million which remained unutilised as of December 31, 2005.

(D) CONTINGENT LIABILITIES

At December 31, 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\$616 million, of which only HK\$311 million had been utilised by the subsidiaries.

(E) HUMAN RESOURCES

The Group had a total of 3,275 employees at the end of 2005 (2004: 2,982). Total gross amount of salaries and related costs incurred in the corresponding period amounted to HK\$793 million (2004: HK\$753 million).

The Group is committed to building sustainable competitive advantages through the commitment and excellent performance of its people, supported by a unique corporate culture, which is characterised by fair and justice, open communication, personal accountability, trust and mutual respect. The Group's pay for performance culture should continue to attract, nurture, and retain the best talent and offer incentives to motivate and reward outstanding performance.

Being a good corporate citizen, the Group promotes social welfare through both making donations to non-profit organisations and social welfare agencies and encouraging employees to participate in volunteer services.