1. Significant accounting policies

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after January 1, 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these accounts is provided in Note 2.

(b) Basis of preparation of the accounts

The consolidated accounts for the year ended December 31, 2005, comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the accounts is the historical cost basis except for certain available-for-sale equity securities which are stated at their fair value (see Note 1(q)).

The preparation of accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates with a significant risk of material adjustment in the next year are discussed in Note 36.

(c) Subsidiaries and controlled entities

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the Board of Directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern their financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts from the date that control commences until the date the control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(r)).

1. Significant accounting policies *(continued)*

(d) Jointly controlled assets

Jointly controlled assets are assets of a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has control over its share of future economic benefits earned from the assets.

The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the balance sheets and classified according to their nature. Liabilities and expenses incurred directly in respect of its interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred by the joint ventures, are recognised in profit or loss when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see Note 1(r)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated in the balance sheet at cost, less accumulated depreciation and impairment losses (see Note 1(r)). The cost of self-constructed items of property, plant and equipment includes materials, labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads and borrowing costs (see Note 1(l)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated on a straight-line basis to write off the cost less their estimated residual value, if any, of the equipment required to support a fully operating network and cable television system at rates determined by the estimated useful lives of the assets ranging from five to 20 years, adjusted by the appropriate pre-maturity fraction during the pre-maturity period, which began with the first earned subscriber revenue on October 31, 1993 and was to continue until the earlier of the attainment of a predetermined subscriber level and December 31, 1996. The pre-maturity period ended on November 30, 1996, when the predetermined subscriber level was attained. Depreciation is calculated on a straight-line basis to write off the costs, less the estimated residual value, if any, of other assets at rates determined by the estimated useful lives ranging from two to 40 years.

The principal annual depreciation rates used are as follows:

Network, decoders, cable modems and television production systems	5% to 50%
Furniture, fixtures, other equipment and motor vehicles	10% to 33.33%
Buildings situated on leasehold land*	Higher of 2.5% or percentage to amortise the asset cost over the unexpired term of land leases
Leasehold improvements	8.33%

1. Significant accounting policies *(continued)*

(f) Property, plant and equipment and depreciation *(continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Under certain circumstances, the Group may have an obligation to dismantle part of its network upon request by concerned parties. Owing to the absence of such history, no reliable estimate can be reasonably made in respect of such potential obligation.

* *This represents units in industrial and commercial buildings which the Directors consider impracticable to split the cost into land and buildings.*

(g) Programming costs

(i) Programming library

Programming library consists of presentation rights for commissioned programmes and acquired programmes for showing on the Group's television channels, and commissioned programmes and films for licensing purposes.

Presentation rights are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and any impairment losses (see Note 1(r)). Amortisation is charged to profit or loss on an accelerated basis over the licence period or over the estimated number of future showings. Subsequent expenditure on programmes after initial acquisition is recognised as an expense when incurred.

Commissioned programmes and films for licensing purposes comprise direct production costs and production overheads, and are stated at the lower of amortised cost or net realisable value. Costs are amortised on an individual programme/film basis in the ratio of the current year's gross revenues to management's forecast of the total ultimate gross revenues from all sources.

(ii) Live programmes

Live programmes consist of third party feed programmes and are charged to profit or loss upon telecast of the programmes. Payments made in advance or in arrears of programme cost recognition are recorded as prepayments or accruals, as appropriate.

(iii) In-house developed programmes

In-house developed programmes consist primarily of news, documentary and general entertainment programmes with short lead-time from production to telecast. The costs of in-house developed programmes are accordingly recognised as expenses in the period in which they are incurred.

(iv) Film rights and perpetual film rights

Film rights generated by the Group or perpetual film rights acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses (see Note 1(r)). Costs less provision for impairment losses represent the carrying value transferred from films in progress upon completion or the purchase price of the perpetual film rights, and are amortised at rates calculated to write off the costs in proportion to the expected revenues from exhibition, the reproduction and distribution of audio visual products, the licensing of video rights and other broadcast rights following their release. Such rates are subject to annual review by the directors.

(v) Films in progress

Films in progress are stated at cost less any provision for impairment losses (see Note 1(r)). Costs include all direct costs associated with the production of films. Provisions are made for costs which are in excess of the expected future revenue generated by these films. The balance of film production costs payable at year-end is disclosed as commitments. Costs of films are transferred to film rights upon completion.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined by the Group based on the expected replacement cost of the inventories net of provision for obsolescence.

1. Significant accounting policies *(continued)*

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (See Note 1(r)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see Note 1(r)).

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(k) Revenue recognition

Revenue is recognised in profit or loss provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably as follows:

(i) Income from the provision of subscription television services, Internet services, and Internet Protocol Point wholesale services is recognised at the time when the services are provided.

(ii) Installation fees are recognised upon completion of the related installation work to the extent of direct selling costs.

(iii) Where packaged service fees comprise a number of elements and the fees can be allocated on a reasonable basis into elements of subscription service and installation service, revenue is recognised in accordance with the accounting policies set out in Notes 1(k)(i) and (ii). Where packaged service fees cannot be allocated into individual elements, the fees are deferred and recognised evenly over the term of the service period.

(iv) Advertising income net of agency deductions is recognised on telecast of the advertisement. When an advertising contract covers a specified period, the related income is recognised evenly over the contract period.

(v) Programme licensing income is recognised in full upon delivery of the programmes concerned in accordance with the terms of the licence contracts, and is stated net of withholding tax.

(vi) Rental income receivable under operating leases is recognised in profit or loss in equal installments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(vii) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(viii) Interest income is recognised as it accrues using the effective interest method.

(l) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

1. Significant accounting policies *(continued)*

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1. Significant accounting policies *(continued)*

(n) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received or granted are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(o) Foreign currency translation

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after January 1, 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before January 1, 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(p) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(q) Investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, are as follows:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see Note 1(r)).

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see Note 1(r)) and, in the case of monetary items such as foreign exchange gains and losses which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

1. Significant accounting policies *(continued)*

(r) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, any impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;
– investments in subsidiaries;
– programming library; and
– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1. Significant accounting policies *(continued)*

(r) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(s) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise non-domestic television services and film and programme licensing business, financial and corporate assets, tax balances and corporate and financing expenses.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1. Significant accounting policies *(continued)*

(v) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group, except to the extent that they are included in the cost of property, plant and equipment not yet recognised as an expense.

(ii) Share-based payments

The Group has taken advantage of the transitional provisions of HKFRS 2 in respect of equity-settled share-based payments, as all of the Group's existing share options were granted to employees on or before November 7, 2002 and there have not been any modifications to the terms or conditions of such grants since the effective date of HKFRS 2, January 1, 2005. Accordingly, no employee benefit cost or obligation was recognised in these accounts.

The fair value of any future share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using an option-pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to the revenue reserve).

To the extent that any modifications to the terms and conditions on which the existing share options were granted, including cancellations and settlements, the effects of any such modifications that increase the total fair value of the share-based payment arrangements or are otherwise beneficial to the employees, will be recognised in accordance with the provisions of HKFRS 2.

(w) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see Note 1(x)).

(x) Hedging

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in equity. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

1. Significant accounting policies *(continued)*

(x) Hedging *(continued)*

(i) Cash flow hedges (continued)

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is removed from equity and recognised in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in profit or loss.

(ii) Hedge of net investments in foreign operations

The portion of the gain or loss on remeasurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity until the disposal of the foreign operation, at which time the cumulative gain or loss recognised directly in equity is recognised in profit or loss. The ineffective portion is recognised immediately in profit or loss.

2. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after January 1, 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in Note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these accounts.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 37).

(a) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from January 1, 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in Note 1(v).

The Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the Group's existing employee share options as at January 1, 2004, December 31, 2004 and December 31, 2005 as all such options were granted to employees on or before November 7, 2002.

No adjustments to the opening balances as at January 1, 2004 or the accounts for the year ended December 31, 2004 and 2005 are required as all options were granted on or before November 7, 2002 and there have not been any modifications to the terms or conditions of any grants. Accordingly, HKFRS 2 has been applied prospectively to new grants since January 1, 2005 or to unvested options existing as at January 1, 2005 of which terms and conditions have been modified. There were no share options granted or modifications to any existing share options during the year ended December 31, 2005. Details of the employee share option scheme are set out in Note 26.

2. Changes in accounting policies *(continued)*

(b) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

(i) Amortisation of goodwill

In prior years:

- positive or negative goodwill which arose prior to January 1, 2001 was taken directly to reserves at the time it arose, and was not recognised in the profit and loss account until disposal or impairment of the acquired business;
- positive goodwill which arose on or after January 1, 2001 was amortised on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment; and
- negative goodwill which arose on or after January 1, 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the profit and loss account as those expected losses were incurred.

With effect from January 1, 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill but tests it at least annually for impairment. Also with effect from January 1, 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in profit or loss as it arises. Further details of these new policies are set out in Note 1(e).

The new policy in respect of the amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3.

The Group has taken advantage of the transitional arrangements under HKFRS 3, in accordance with which goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before January 1, 2001) will not be recognised in profit or loss on disposal or impairment of the acquired business, or under any other circumstances.

The change in policy relating to positive and negative goodwill had no effect on the accounts as there were no business combinations during the year ended December 31, 2005 and there was no negative goodwill deferred as at December 31, 2004.

(c) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

With effect from January 1, 2005, in order to comply with HKAS 32 and HKAS 39, the Group has changed its accounting policies relating to financial instruments to those as set out in Notes 1(i), (q), (s), (w) and (x).

(i) Investments in equity securities

In prior years, non-trading securities were stated in the balance sheet at fair value. Changes in fair value were recognised in the investment revaluation reserve until the security was sold, collected, or otherwise disposed of, or until there was objective evidence that the security was impaired, at which time the relevant cumulative gain or loss would be transferred from the investment revaluation reserve to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments would be reversed when the circumstances and events that led to the impairment ceased to exist and there was persuasive evidence that the new circumstances and events would persist for the foreseeable future.

Trading securities were stated in the balance sheet at fair value, with changes in fair value recognised in the profit and loss account as they arose.

With effect from January 1, 2005, and in accordance with the transitional provisions of HKAS 39, the Group's non-trading securities and trading securities are redesignated as available-for-sale securities and financial assets at fair value through profit or loss, respectively, and carried at fair value. There are no material adjustments arising from the adoption of the new policies for the Group's securities. Further details of the new policies are set out in Note 1(q).

2. Changes in accounting policies *(continued)*

(c) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement) *(continued)*

(ii) Derivative financial instruments

In prior years, derivative financial instruments entered into by management to hedge the foreign currency risk of a committed future transaction were recognised on an accruals basis with reference to the timing of recognition of the hedged transaction.

With effect from January 1, 2005, and in accordance with HKAS 39, all derivative financial instruments entered into by the Group are stated at fair value. Changes in the fair value of derivatives held as hedging instruments in a cash flow hedge are recognised in equity to the extent that the hedge is effective and until the hedged transaction occurs. Any other changes in fair value of the derivatives are recognised in profit or loss. Further details of the new policies are set out in Notes 1(w) and (x). The Group did not enter into any derivative financial instruments during 2005.

(d) Retranslation of goodwill on consolidation of a foreign operation (HKAS 21, The effects of changes in foreign exchange rates)

In prior years, goodwill arising on the acquisition of a foreign operation was translated at the exchange rates ruling at the transaction dates.

With effect from January 1, 2005, in order to comply with HKAS 21, the Group has changed its accounting policy relating to retranslation of goodwill. Under the new policy, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and is retranslated at exchange rates ruling at the balance sheet date, together with the retranslation of the net assets of the foreign operation. Further details of the new policy are set out in Note 1(o).

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and is only applied to acquisitions occurring on or after January 1, 2005. As the Group has not acquired any new foreign operations since that date, the change in policy has had no impact on the accounts for the year ended December 31, 2005.

(e) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in Note 1(p) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

3. Turnover

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 16 to the accounts.

Turnover comprises principally subscription and related fees for Pay 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 other related income.

4. Segment information

The Pay television segment includes operations related to the Pay television subscription business, advertising, channel carriage, television relay service, programme licensing, network maintenance, project management service, and miscellaneous Pay television related businesses.

The Internet and multimedia segment includes operations related to the Broadband Internet access service, dial-up business, portal subscription, mobile content licensing, VoIP interconnection as well as other Internet access related businesses.

Business segments

	Segment revenue		Segment result	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Pay television	**1,884,379**	1,888,448	**336,797**	468,868
Internet and multimedia	**558,084**	480,574	**77,676**	(44,227)
Unallocated	**13,311**	6,133	**(134,922)**	(128,924)
Inter-segment elimination	**(15,042)**	(3,428)	**–**	–
	2,440,732	2,371,727		
Profit from operations			**279,551**	295,717
Interest income			**3,335**	24
Finance costs			**(134)**	(238)
Impairment loss on investment			**(1,500)**	–
Income tax benefit/(expense)			**300,398**	(12,665)
Non-operating income			**804**	1,499
Profit attributable to equity shareholders of the Company			**582,454**	284,337

	Segment assets		Segment liabilities	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Pay television	**1,560,187**	1,578,387	**529,555**	527,595
Internet and multimedia	**705,584**	803,767	**133,953**	151,504
	2,265,771	2,382,154	**663,508**	679,099
Unallocated assets/liabilities	**828,656**	281,932	**182,552**	157,348
	3,094,427	2,664,086	**846,060**	836,447

Other information

	Additions to property, plant and equipment		Additions to programming library		Depreciation		Amortisation		Impairment loss on property, plant and equipment	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Pay television	**174,033**	243,330	**67,484**	65,358	**259,977**	279,263	**73,549**	84,822	**4,353**	1,372
Internet and multimedia	**103,591**	182,575	**–**	–	**214,479**	247,300	**–**	–	**2,232**	2,452
Unallocated	**4,572**	2,571	**27,685**	12,642	**6,133**	5,550	**6,075**	8,038	**–**	–
	282,196	428,476	**95,169**	78,000	**480,589**	532,113	**79,624**	92,860	**6,585**	3,824

Geographical segments

No geographical segment information is shown as, during the periods presented, less than 10% of the Group's segment revenue, segment result and segment assets are derived from activities conducted outside Hong Kong.

5. Profit before taxation

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

	2005 HK$'000	2004 HK$'000
Interest income		
Interest income from deposits with banks and other financial institutions	**(3,307)**	(24)
Other interest income	**(28)**	–
	(3,335)	(24)
Finance costs		
Interest expenses on bank loans and overdrafts wholly repayable within five years	**134**	238
Other items		
Depreciation:		
– assets held for use under operating leases	**48,704**	59,211
– other assets	**431,885**	472,902
Amortisation of programming library*	**79,624**	92,860
Impairment losses		
– trade and other receivables	**14,889**	10,607
– property, plant and equipment	**6,585**	3,824
– investment in equity securities	**1,500**	–
Cost of inventories	**18,499**	21,866
Rentals payable under operating leases in respect of land and buildings	**43,790**	41,160
Contributions to defined contribution retirement plans	**28,423**	26,700
Auditors' remuneration		
– audit services	**2,440**	2,147
– tax services	**121**	289
– other services	**739**	610
Dividend income from investment in equity securities	**(3,833)**	–
Net foreign exchange gain**	**(1,416)**	(513)
Rentals receivable under operating leases in respect of:		
– subleased land and buildings	**(4,822)**	(4,725)
– owned plant and machinery	**(99,498)**	(93,733)

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

** *Net foreign exchange gain of approximately HK$471,000 and HK$945,000 are included within programming costs and selling, general and administrative expenses in the consolidated results of the Group, respectively.*

Operating expenses are analysed by nature in compliance with HKAS 1, "Presentation of Financial Statements" as follows:

	2005 HK$'000	2004 HK$'000
Depreciation and amortisation (including amortisation of programming library)	**560,213**	624,973
Staff costs	**716,751**	669,959
Other operating expenses	**884,217**	781,078
Total operating costs	**2,161,181**	2,076,010

6. Non-operating income

This comprises:

	2005 HK$'000	2004 HK$'000
Net gain on disposal of property, plant and equipment	**804**	1,499

7. Income tax in the consolidated profit and loss account

(a) Taxation in the consolidated profit and loss account represents:

	2005 HK$'000	2004 HK$'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	**–**	–
Under provision in respect of prior year	**–**	589
	–	589
Current tax – Overseas		
Tax for the year	**153**	76
Under provision in respect of prior year	**2**	–
	155	76
Provision for Hong Kong Profits Tax on leasing partnerships	**4,512**	12,000
Deferred tax		
Benefit of previously unrecognised tax losses now recognised	**(265,326)**	–
Reversal of temporary differences	**(39,739)**	–
	(305,065)	–
Income tax (benefit)/expense	**(300,398)**	12,665

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

In 2005, the Group reached a settlement agreement with the Inland Revenue Department on a tax dispute concerning a leveraged leasing arrangement which expired in September 2003. An additional provision of HK$4,512,000 was made during 2005 to bring the total provision, including the HK$12,000,000 provision made during 2004, to HK$16,512,000, representing the Group's share of the final settlement amount, 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 provision was fully settled as at December 31, 2005.

7. Income tax in the consolidated profit and loss account *(continued)*

(b) Reconciliation between tax (benefit)/expense and accounting profit at applicable tax rates:

	2005 %	2004 %
Statutory income tax rate	**17.5**	17.5
Tax effect of non-deductible expenses	**0.2**	0.2
Tax effect of non-taxable revenue	**(0.8)**	(0.3)
Under provision in prior year	**–**	0.2
Utilisation of unrecognised tax losses of previous years	**(23.2)**	(17.4)
Tax effect of previously unrecognised tax losses now recognised	**(101.8)**	–
Tax effect of profits tax provision on leasing partnerships	**1.6**	4.1
Effective income tax rate	**(106.5)**	4.3

8. Directors' emoluments

Details of Directors' emoluments are as follows:

Name of directors	Directors' fees HK$'000	Basic salaries, housing and other allowances, and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Discretionary bonuses and/or performance related bonuses HK$'000	Total emoluments HK$'000
2005					
Independent non-executive directors:					
F.K. Hu	**65**	**–**	**–**	**–**	**65**
Victor C.W. Lo	**50**	**–**	**–**	**–**	**50**
Dennis T. L. Sun	**65**	**–**	**–**	**–**	**65**
Gordon Y. S. Wu	**50**	**–**	**–**	**–**	**50**
Anthony K.K. Yeung	**65**	**–**	**–**	**–**	**65**
Non-executive director:					
Quinn Y.K. Law	**42**	**165**	**16**	**62**	**285**
Executive directors:					
Stephen T.H. Ng	**50**	**2,427**	**136**	**4,747**	**7,360**
Samuel S.F. Wong	**50**	**1,740**	**130**	**772**	**2,692**
Total for 2005	**437**	**4,332**	**282**	**5,581**	**10,632**
2004					
Independent non-executive directors:					
F.K. Hu	20	–	–	–	20
Victor C.W. Lo	20	–	–	–	20
Dennis T. L. Sun	20	–	–	–	20
Gordon Y. S. Wu	20	–	–	–	20
Anthony K.K. Yeung	5	–	–	–	5
Non-executive director:					
Quinn Y.K. Law	20	193	14	63	290
Executive directors:					
Stephen T.H. Ng	20	2,000	120	4,000	6,140
Samuel S.F. Wong	20	1,704	128	880	2,732
Total for 2004	145	3,897	262	4,943	9,247

Except Directors' fees of HK$437,000 (2004: HK$145,000), certain Directors' emoluments disclosed above were paid directly by the Company's ultimate holding company, The Wharf (Holdings) Limited ("Wharf"), (or its wholly owned subsidiaries) to the relevant Directors. Wharf recovered such costs from the Group by charging a management fee (see Note 34(iv)).

In addition to the above emoluments, certain Directors were granted share options under the Company's share option scheme and Wharf's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Share Option Scheme of the Company" in Supplementary Corporate Information.

9. Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2004: one) is a Director whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other four (2004: four) individuals are as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries, housing and other allowances, and benefits in kind	**9,071**	8,907
Retirement scheme contributions	**572**	499
Discretionary bonuses and/or performance related bonuses	**4,093**	4,073
Compensation for loss of office	**–**	–
Inducement for joining the Group	**–**	–
	13,736	13,479

The emoluments of the four (2004: four) individuals with the highest emoluments are within the following bands:

HK$	**2005 Number of individuals**	2004 Number of individuals
2,500,001 – 3,000,000	**1**	1
3,000,001 – 3,500,000	**1**	1
3,500,001 – 4,000,000	**2**	2
	4	4

10. Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$332,641,000 (2004: loss of HK$251,000) which has been dealt with in the accounts of the Company.

	2005 HK$'000	2004 HK$'000
Amount of consolidated profit/(loss) attributable to equity shareholders dealt with in the Company's accounts	**332,641**	(251)
Dividend from subsidiaries attributable to the profits of prior years declared and received during the year	**743,123**	77,571
Company's profit for the year	**1,075,764**	77,320

11. Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2005 HK$'000	2004 HK$'000
Interim dividend declared and paid of 3.5 cents per share (2004: 3 cents per share)	**70,673**	60,577
Final dividend proposed after the balance sheet date of 5 cents per share (2004: 4.5 cents per share)	**100,962**	90,866
	171,635	151,443

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

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2005 HK$'000	2004 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 4.5 cents per share (2004: 4 cents per share)	**90,866**	80,769

12. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK$582,454,000 (2004: HK$284,337,000) and the weighted average number of ordinary shares outstanding during the year 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 equity shareholders of the Company of HK$582,454,000 (2004: HK$284,337,000) 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.

All of the Company's share options did not have intrinsic value throughout 2004 and 2005. Accordingly, this has no dilutive effect on the calculation of diluted earnings per share in both years.

13. Property, plant and equipment

	Group						
	Network, decoders, cable modems and television production systems	Furniture, fixtures, other equipment and motor vehicles	Leasehold land and buildings in Hong Kong — Long lease	Leasehold land and buildings in Hong Kong — Medium lease	Leasehold land and buildings in Hong Kong — Short lease	Leasehold improvements	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost							
At January 1, 2004	5,093,569	514,200	3,306	2,673	70	281,209	5,895,027
Additions	389,165	33,329	–	–	–	5,982	428,476
Disposals	(303,271)	(5,520)	–	–	–	–	(308,791)
Reclassification	(10,185)	–	–	–	–	–	(10,185)
At December 31, 2004	5,169,278	542,009	3,306	2,673	70	287,191	6,004,527
At January 1, 2005	5,169,278	542,009	3,306	2,673	70	287,191	6,004,527
Additions	232,683	41,548	–	–	–	7,965	282,196
Disposals	(34,871)	(8,330)	–	–	–	–	(43,201)
Reclassification	(8,916)	–	–	–	–	–	(8,916)
Exchange reserve	–	205	–	–	–	30	235
At December 31, 2005	**5,358,174**	**575,432**	**3,306**	**2,673**	**70**	**295,186**	**6,234,841**
Accumulated depreciation							
At January 1, 2004	3,137,606	409,302	1,141	214	70	176,965	3,725,298
Charge for the year	471,596	34,196	76	67	–	26,178	532,113
Impairment loss	3,236	588	–	–	–	–	3,824
Written back on disposals	(299,785)	(5,344)	–	–	–	–	(305,129)
Reclassification	(2,366)	–	–	–	–	–	(2,366)
At December 31, 2004	3,310,287	438,742	1,217	281	70	203,143	3,953,740
At January 1, 2005	3,310,287	438,742	1,217	281	70	203,143	3,953,740
Charge for the year	418,887	37,431	76	67	–	24,128	480,589
Impairment loss	6,585	–	–	–	–	–	6,585
Written back on disposals	(33,936)	(8,180)	–	–	–	–	(42,116)
Reclassification	(2,380)	–	–	–	–	–	(2,380)
Exchange reserve	–	83	–	–	–	4	87
At December 31, 2005	**3,699,443**	**468,076**	**1,293**	**348**	**70**	**227,275**	**4,396,505**
Net book value							
At December 31, 2005	**1,658,731**	**107,356**	**2,013**	**2,325**	**–**	**67,911**	**1,838,336**
At December 31, 2004	1,858,991	103,267	2,089	2,392	–	84,048	2,050,787

As at December 31, 2005, the gross carrying amounts of property, plant and equipment of the Group held for use in operating leases were HK$237,107,000 (2004: HK$284,583,000) and the related accumulated depreciation was HK$110,908,000 (2004: HK$114,499,000).

14. Programming library

	Group		
	Internally developed	Acquired	Total
	HK$'000	HK$'000	HK$'000
Cost			
At January 1, 2004	13,451	419,061	432,512
Additions	11,021	66,979	78,000
Written off	–	(121,149)	(121,149)
At December 31, 2004	24,472	364,891	389,363
At January 1, 2005	24,472	364,891	389,363
Additions	10,212	84,957	95,169
Written off	–	(93,193)	(93,193)
At December 31, 2005	**34,684**	**356,655**	**391,339**
Accumulated amortisation			
At January 1, 2004	500	289,841	290,341
Charge for the year	6,284	86,576	92,860
Written off	–	(121,149)	(121,149)
At December 31, 2004	6,784	255,268	262,052
At January 1, 2005	6,784	255,268	262,052
Charge for the year	3,324	76,300	79,624
Written off	–	(93,193)	(93,193)
At December 31, 2005	**10,108**	**238,375**	**248,483**
Net book value			
At December 31, 2005	**24,576**	**118,280**	**142,856**
At December 31, 2004	17,688	109,623	127,311

15. Other financial assets

	Group	
	2005	2004
	HK$'000	HK$'000
Unlisted available-for-sale equity securities (2004: Non-trading securities)	**8,225**	9,725

16. Investments in subsidiaries

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**12**	12

16. Investments in subsidiaries *(continued)*

(a) The subsidiaries of the Company at December 31, 2005 were as follows:

All of these controlled subsidiaries are defined under Note 1(c) and have been consolidated into the group accounts.

Name of company	Place of incorporation/ operation	Principal activities	Particulars of issued capital, all fully paid	Proportion of ownership interest Directly	Proportion of ownership interest Indirectly
Apex Victory Limited	British Virgin Islands	Programme licensing	500 ordinary shares of US$1 each	100	–
Cable Network Communications Limited	Hong Kong	Investment holding	100 ordinary shares of HK$1 each	100	–
			2 non-voting deferred shares of HK$1 each	–	–
Hong Kong Cable Enterprises Limited	Hong Kong	Advertising airtime and programme licensing	2 ordinary shares of HK$1 each	–	100
Hong Kong Cable News Express Limited	Hong Kong	Advertising airtime	2 ordinary shares of HK$10 each	–	100
Hong Kong Cable Television Limited	Hong Kong	Pay television	750,000,000 ordinary shares of HK$1 each	–	100
i-CABLE China Limited	British Virgin Islands	Investment holding	500 ordinary shares of US$1 each	–	100
i-CABLE Enterprises Limited	British Virgin Islands	Publications	500 ordinary shares of US$1 each	100	–
i-CABLE Entertainment Limited**	Hong Kong	Programme production and channel operation	10,000,000 ordinary shares of HK$1 each	–	100
i-CABLE Media Limited**	Hong Kong	Investment holding	2 ordinary shares of HK$1 each	100	–
i-CABLE Network Limited	Hong Kong	Network operation	100 ordinary shares of HK$1 each	–	100
			2 non-voting deferred shares of HK$1 each	–	–
i-CABLE News Limited**	Hong Kong	Programme production and channel operation	10,000,000 ordinary shares of HK$1 each	–	100
i-CABLE Satellite Television Limited	Hong Kong	Non-domestic television services	2 ordinary shares of HK$1 each	–	100

16. Investments in subsidiaries *(continued)*

Name of company	Place of incorporation/ operation	Principal activities	Particulars of issued capital, all fully paid	Proportion of ownership interest Directly	Proportion of ownership interest Indirectly
i-CABLE Sports Limited**	Hong Kong	Programme production and channel operation	10,000,000 ordinary shares of HK$1 each	–	100
i-CABLE Ventures Limited	British Virgin Islands	Investment holding	500 ordinary shares of US$1 each	100	–
i-CABLE WebServe Limited	Hong Kong	Internet and multimedia	500,000 ordinary shares of HK$1 each	–	100
Maspon Company Limited	Hong Kong	Investment holding	100 ordinary shares of HK$1 each	–	100
			2 non-voting deferred shares of HK$1 each	–	–
Rediffusion Engineering Limited	Hong Kong	Systems installation and operation	100 ordinary shares of HK$1 each	–	100
			2 non-voting deferred shares of HK$1 each	–	–
Rediffusion (Hong Kong) Limited	Hong Kong	Cable television relay services	100 ordinary shares of GBP0.50 each	–	100
			40,000 non-voting deferred shares of GBP0.50 each	–	–
Rediffusion Satellite Services Limited	Hong Kong	Satellite television systems	1,000 ordinary shares of HK$10 each	–	100
Riddlewood Company Limited	Hong Kong	Investment holding	2 ordinary shares of HK$1 each	–	100
Sundream Motion Pictures Limited (Formerly "i-CABLE Cineplex Limited")	Hong Kong	Film production	10,000,000 ordinary shares of HK$1 each	–	100
廣州市寬訊技術服務有限公司*	The People's Republic of China	Technical services	HK$1,000,000	–	100
廣州棟樑材影視技術諮詢有限公司*	The People's Republic of China	Market research and consulting services	HK$1,000,000	–	100

16. Investments in subsidiaries *(continued)*

Details of partnerships held indirectly through subsidiaries at December 31, 2005 were as follows:

Name of partnership	Law under which incorporated	Principal activity	Percentage of interest
The Cable Leasing Partnership	Hong Kong	Inactive	100
The Network Leasing Partnership	Hong Kong	Inactive	100

* *These entities are registered as wholly foreign owned enterprises under PRC law and not audited by KPMG.*

** *Incorporated during 2005.*

(b) Subsidiaries established after December 31, 2005 were as follows:

Name of company	Place of incorporation/ operation	Principal activities	Particulars of issued capital, all fully paid	Proportion of ownership interest	
				Directly	Indirectly
i-CABLE International Distribution Limited (established on February 13, 2006)	Hong Kong	Programme distribution	2 ordinary shares of HK$1 each	–	100
i-CABLE International Distribution (BVI) Limited (established on February 13, 2006)	British Virgin Islands	Programme distribution	500 ordinary shares of US$1 each	–	100

17. Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

18. Inventories

	Group	
	2005	2004
	HK$'000	HK$'000
Spare parts and consumables	**27,101**	36,271
Less: Provision for obsolescence	**(14,753)**	(20,076)
	12,348	16,195

The amount of inventories expected to be recovered through consumption after more than one year is HK$2,554,000 (2004: HK$4,969,000). All of the other inventories are expected to be recovered within one year.

19. Trade and other receivables

Trade and other receivables comprise:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accounts receivable from trade debtors	**149,521**	118,237	**–**	–
Deposits, prepayments and other receivables	**144,314**	116,119	**654**	799
	293,835	234,356	**654**	799

19. Trade and other receivables *(continued)*

The amount of deposits, prepayments and other receivables that is expected to be recovered after more than one year is HK$8,287,000 (2004: HK$42,306,000), of which HK$887,000 (2004: HK$344,000) relates to miscellaneous deposits refundable in respect of leases expiring in the next twelve months for which the Group intends to renew. All of the other trade and other receivables are expected to be recovered within one year.

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

	Group	
	2005	2004
	HK$'000	HK$'000
0 to 30 days	**83,267**	75,521
31 to 60 days	**27,874**	19,612
61 to 90 days	**15,681**	13,588
Over 90 days	**22,699**	9,516
	149,521	118,237

The Group's credit policy is set out in Note 29(a).

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	Group		Company	
	2005	2004	**2005**	2004
	'000	'000	**'000**	'000
Renminbi	**RMB1,629**	RMB797	**–**	–
United States Dollars	**USD668**	USD329	**–**	–

20. Amounts due from fellow subsidiaries

The amounts due from fellow subsidiaries are unsecured, interest free and repayable on demand.

Apart from amounts totalling HK$7,827,000 (2004: HK$1,416,000) which is expected to be recovered after more than one year, the remaining balance is expected to be recovered within one year.

21. Cash and cash equivalents

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits with banks and other financial institutions	**320,610**	–	**–**	–
Cash at bank and in hand	**31,282**	115,013	**1,049**	495
	351,892	115,013	**1,049**	495

21. Cash and cash equivalents *(continued)*

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	Group		Company	
	2005	2004	**2005**	2004
	'000	'000	**'000**	'000
British Pound Sterling	**GBP4**	GBP16	**–**	–
Renminbi	**RMB1,905**	RMB589	**–**	–
United States Dollars	**USD69**	USD122	**–**	–

22. Trade and other payables

Trade and other payables comprise:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts due to trade creditors	**70,466**	109,302	**–**	–
Accrued expenses and other payables	**392,951**	354,024	**4,229**	3,241
Receipts in advance and customers' deposits	**213,372**	220,564	**–**	–
	676,789	683,890	**4,229**	3,241

The amount of receipts in advance and customers' deposits that is expected to be settled after more than one year is HK$79,296,000 (2004: HK$84,531,000), of which an amount of HK$74,271,000 (2004: HK$74,535,000) relates to items that are due on demand or callable by subscribers upon service termination. All of the other trade and other payables are expected to be settled within one year.

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

	Group	
	2005	2004
	HK$'000	HK$'000
0 to 30 days	**5,345**	5,490
31 to 60 days	**9,020**	21,814
61 to 90 days	**18,257**	26,989
Over 90 days	**37,844**	55,009
	70,466	109,302

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	Group		Company	
	2005	2004	**2005**	2004
	'000	'000	**'000**	'000
British Pound Sterling	**GBP499**	GBP11	**–**	–
Euros	**–**	EUR25	**–**	–
Japanese Yen	**JPY470**	–	**–**	–
Renminbi	**RMB1,245**	–	**–**	–
Swiss Francs	**–**	CHF10	**–**	–
United States Dollars	**USD11,717**	USD17,326	**USD8**	USD8

23. Amounts due to subsidiaries

The amounts due to subsidiaries are unsecured, interest free, and have no fixed terms of repayment.

24. Amounts due to fellow subsidiaries

The amounts due to fellow subsidiaries are unsecured, interest free, and repayable on demand.

25. Amount due from/(to) immediate holding company

The amount due from/(to) immediate holding company is unsecured, interest free, and has no fixed terms of repayment.

26. Equity settled share-based transactions

Pursuant to the Company's share option scheme, the Board of Directors is authorised to grant options to eligible employees to subscribe for ordinary shares of the Company at prices as determined by the Board of Directors in accordance with the terms of the scheme.

Details of the share option scheme are disclosed under the paragraph "Share Option Scheme of the Company" in Supplementary Corporate Information.

(a) The number and weighted average exercise prices of share options are as follows:

	2005		2004	
	Number of options	**Weighted-average exercise price per share HK$**	Number of options	Weighted-average exercise price per share HK$
At January 1	**27,711,600**	**7.36**	28,791,500	7.36
Lapsed				
– Forfeited	**(962,000)**	**6.89**	(1,079,900)	7.49
– Expired	**(11,589,600)**	**3.30**	–	–
At December 31	**15,160,000**	**10.49**	27,711,600	7.36
Options vested and exercisable at December 31	**9,096,000**	**10.49**	15,009,600	4.80

(b) Terms of unexpired and unexercised share options at balance sheet date:

Date granted	**Exercise period**	**Exercise price**	**2005 Number**	2004 Number
February 8, 2000	April 1, 2001 to December 31, 2009	HK$10.49	**15,160,000**	15,640,000
February 19, 2001	July 1, 2002 to December 31, 2005	HK$3.30	**–**	11,691,600
October 9, 2002	January 1, 2004 to December 31, 2005	HK$3.30	**–**	380,000
			15,160,000	27,711,600

At December 31, 2005, the weighted average remaining contractual life of unexpired share options was 2.4 years (2004: 2.81 years).

(c) No share options were granted or exercised during the current and prior years.

27. Capital and reserves

(a) Authorised and issued share capital

	2005 HK$'000	2004 HK$'000
Authorised		
8,000,000,000 ordinary shares of HK$1 each	**8,000,000**	8,000,000
Issued and fully paid		
2,019,234,400 ordinary shares of HK$1 each	**2,019,234**	2,019,234

(b) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

(ii) Special capital reserve

The special capital reserve is non-distributable and it should be applied for the same purpose as the share premium account. 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 that 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 December 31, 2005, the Limit of the special capital reserve, as reduced by HK$508,033,384 (2004: HK$916,109) related to recoveries and reversals of provisions of the relevant assets, was HK$1,449,574,773 (2004: HK$1,957,608,157), and the amount standing to the credit of the special capital reserve was HK$7,923,811 (2004: HK$3,344,694).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 1(o).

(iv) Distributability of reserves

At December 31, 2005, reserves of the Company available for distribution to equity shareholders of the Company amounted to HK$1,308,604,000 (2004: HK$394,379,000).

After the balance sheet date, the Directors proposed a final dividend of 5 cents per share (2004: 4.5 cents per share), amounting to HK$100,962,000 (2004: HK$90,866,000). This dividend has not been recognised as a liability at the balance sheet date.

28. Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	Group 2005 HK$'000	Group 2004 HK$'000
Overseas taxation	**51**	22
Provision for Hong Kong Profits Tax on leasing partnerships (Note 7(a))	**–**	12,000
	51	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 year 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, 2004	251,236	(251,236)	–
(Credited)/charged to consolidated profit and loss account (Note 7(a))	(12,361)	12,361	–
At December 31, 2004	238,875	(238,875)	–
Credited to consolidated profit and loss account (Note 7(a))	(39,739)	(265,326)	(305,065)
At December 31, 2005	**199,136**	**(504,201)**	**(305,065)**

	2005 HK$'000	2004 HK$'000
Net deferred tax assets recognised on the balance sheet	**(434,266)**	(108,963)
Net deferred tax liabilities recognised on the balance sheet	**129,201**	108,963
	(305,065)	–

(c) Deferred tax assets not recognised:

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

	2005 HK$'000	2004 HK$'000
Future benefit of tax losses	**431,871**	899,873
Provision for obsolete inventories	**13**	35
Impairment loss for bad and doubtful accounts	**384**	426
	432,268	900,334

29. Financial risk management objectives and policies

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below:

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a defined credit policy in place with general credit terms ranging from 0 to 60 days. The exposure to credit risks is monitored on an ongoing basis. The Group has no significant concentrations of credit risk from customers. Subscription revenue from customers is settled mainly in cash or via major credit cards.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. The Group's objective is to maintain a balance between the continuity of funding and the flexibility through use of bank overdrafts and bank loans. In addition, banking facilities have been put in place for contingency purposes.

(c) Interest rate risk

At December 31, 2005, the Group had short-term deposits with bank and other financial institutions amounting to HK$320,610,000 (2004: Nil), with original maturities ranging from 4 to 6 days at market interest rates. Apart from the foregoing, the Group has no other significant income-generating financial assets or interest-bearing financial liabilities. The Group's revenue, expenses and cash flows are substantially independent of changes in market interest rates.

Effective interest rates and repricing analysis

In respect of income-earning financial assets, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice:

Interest rate risk	Group				Company			
	One year or less Total		Effective interest rate		One year or less Total		Effective interest rate	
	2005 HK$'000	2004 HK$'000	**2005 %**	2004 %	**2005 HK$'000**	2004 HK$'000	**2005 %**	2004 %
Floating rate:								
Cash and cash equivalents	**31,282**	115,013	**0.02**	0.03	**1,049**	495	**–**	–
Fixed rate:								
Cash and cash equivalents	**320,610**	–	**3.65**	–	**–**	–	**–**	–

(d) Foreign currency risk

(i) Forecast transactions

The Group is exposed to foreign currency risk primarily through programming licensing activities whereby a substantial portion of our programming costs on overseas content is settled in United States dollars. In view of the continued support from the Hong Kong SAR Government to maintain the peg of the Hong Kong dollar to the United States dollar, management does not expect that there will be any significant currency risk associated with programming cost commitments denominated in United States dollars. Management also enters into forward exchange contracts from time to time to hedge forecast transactions. At December 31, 2005, there were no outstanding foreign exchange contracts that were recognised as derivative financial instruments in the accounts.

(ii) Recognised assets and liabilities

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group manages the net exposure by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

30. Fair value of financial instruments

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2005 and 2004.

The fair value of the unlisted available-for-sale equity securities is estimated based on a combination of valuation techniques including use of recent arm's length market transactions of the underlying securities and references to the fund manager's estimated fair value adjusted for specific circumstances of the investment.

31. Jointly controlled assets

At December 31, 2005, the aggregate amounts of assets and liabilities recognised in the accounts relating to the Group's interests in jointly controlled assets are as follows:

	2005 HK$'000	2004 HK$'000
Assets:		
Programming library	**8,364**	–
Trade and other receivables	**3,336**	–
	11,700	–
Liabilities:		
Accrued expenses and other payables	**–**	–

32. Commitments

Commitments outstanding as at December 31, 2005 not provided for in the accounts were as follows:

	Group		Company	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Capital commitments				
(i) Property, plant and equipment				
– Authorised and contracted for	**14,196**	17,366	**–**	–
– Authorised but not contracted for	**119,468**	61,313	**–**	–
	133,664	78,679	**–**	–
(ii) Acquisition of equity interests in prospective subsidiary and associate				
– Authorised and contracted for	**12,506**	–	**–**	–
– Authorised but not contracted for	**–**	–	**–**	–
	12,506	–	**–**	–
	146,170	78,679	**–**	–
Programming and other commitments				
– Authorised and contracted for	**465,019**	695,255	**–**	–
– Authorised but not contracted for	**80,006**	80,835	**–**	–
	545,025	776,090	**–**	–
Operating lease commitments				
– Within one year	**42,938**	25,810	**–**	–
– After one year but within five years	**75,386**	32,126	**–**	–
– After five years	**56,021**	60,608	**–**	–
	174,345	118,544	**–**	–
	865,540	973,313	**–**	–

32. Commitments *(continued)*

(a) Operating lease commitments

The Group leases a number of premises under operating leases for use as office premises, car parks, warehouses, district centres, retail shops, remote camera sites, multipoint microwave distribution system transmission sites and hub sites. The terms of the leases vary and may be renewable on a monthly basis or run for an initial period of three to fifteen years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually adjusted every two to three years to reflect market rentals. None of the leases includes contingent rentals.

Some of the leased properties have been sublet by the Group under operating leases. The terms of the subleases vary and may be renewable on a monthly basis or run for an initial period of three years, with an option to renew the lease after that date at which time all terms are renegotiated.

The Group leases out cable modem equipment and decoders to subscribers under operating leases which are renewable on a monthly basis. None of the leases includes contingent rentals.

(b) Future operating lease income

(i) The total future minimum sublease payments receivable under non-cancellable subleases at December 31, 2005 amounted to HK$12,336,000 (2004: HK$4,210,000).

(ii) The total future minimum lease payments receivable in respect of cable modem equipment and decoders under non-cancellable operating leases are as follows:

	Group		Company	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Within one year	**9,587**	9,377	**–**	–

(c) Other commitments

During 2004, the Group entered into a forward exchange contract with a financial institution to hedge certain firmly committed, non-Hong Kong dollar commercial transactions in 2005. The Group had, as at December 31, 2004, an outstanding forward contract to buy foreign currency with a notional principal value of HK$101 million equivalent.

There were no similar commitments outstanding as at December 31, 2005.

33. Contingent liabilities

As at December 31, 2005, there were contingent liabilities in respect of the following:

(i) 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.

(ii) Guarantees, indemnities and letters of awareness to banks totalling HK$616 million (2004: HK$662 million) in respect of overdraft and guarantee facilities given by those banks to the subsidiaries. Of this amount, at December 31, 2005, HK$311 million (2004: HK$546 million) was utilised by the subsidiaries.

(iii) A litigation was lodged by the Secretary of Justice on behalf of the Government of the Hong Kong Special Administrative Region (the "Government") against Hong Kong Cable Television Limited ("HKC"), a subsidiary of the Group, for the settlement of subscription royalty of HK$1,237,190 which remained outstanding, and interest accrued on the said outstanding amount. The outstanding subscription royalty of HK$1,237,190 arose from a dispute between the Government and HKC over the interpretation of the calculation basis of HKC's 2000 subscription royalty payable. If HKC is found to be liable, HKC's liability for the amount claimed plus interest accrued up to December 31, 2005 may amount up to HK$1,489,804. The management is of the view, based on legal advice, that it is not probable that the court will find a case against HKC. No provision has accordingly been made in this respect.

34. Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these accounts, the Group entered into the following material related party transactions during the year ended December 31, 2005:

	2005 HK$'000	2004 HK$'000
Rentals payable and related management fees on land and buildings (Note (i))	**36,141**	35,413
Rentals receivable on land and buildings (Note (ii))	**(4,464)**	(4,467)
Network repairs and maintenance services charge (Note (iii))	**(21,783)**	(21,191)
Management fees (Note (iv))	**12,630**	11,634
Computer services (Note (v))	**17,814**	14,049
Leased line and Public Non-Exclusive Telecommunications Service ("PNETS") charges and international bandwidth access charges (Note (vi))	**21,756**	24,771
Project management fees (Note (vii))	**(6,079)**	(6,512)
Internet Protocol Point wholesale services charge (Note (viii))	**(21,294)**	(1,417)
Agency fees (Note (ix))	**(14,185)**	(1,104)

Notes:

(i) These represent rentals and related management fees paid to fellow subsidiaries in respect of office premises, car parks, warehouses, district centres and hub sites. As at December 31, 2005, related rental deposits amounted to HK$7,511,000 (2004: HK$7,511,000).

(ii) This represents rental received from a fellow subsidiary in respect of the lease of office premises.

(iii) This represents service charges to a fellow subsidiary in relation to the operation, repair and maintenance of ducts, cables and ancillary equipment.

(iv) This represents costs incurred by a fellow subsidiary on the Group's behalf which were recharged to the Group.

(v) This represents service charges paid to a fellow subsidiary for computer system maintenance and consulting services provided.

(vi) These represent service fees paid to a fellow subsidiary in respect of the leasing of datalines, PNETS charges and international bandwidth access charges incurred.

(vii) This represents fees received from a fellow subsidiary for the provision of project management services.

(viii) This represents service charges to a fellow subsidiary in relation to the Internet Protocol Point wholesale services.

(ix) This represents service charges to a fellow subsidiary in relation to the agency services.

Included in Note 13 were additions to property, plant and equipment totalling HK$608,000 (2004: HK$732,000) constructed by a fellow subsidiary on behalf of the Group during the year ended December 31, 2005.

The immediate holding company has issued deeds of indemnity in respect of certain taxation and costs arising in respect of the period prior to November 1, 1999. The Group is not charged for these indemnities.

34. Material related party transactions *(continued)*

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	2005 HK$'000	2004 HK$'000
Short-term employee benefits	**35,917**	33,951
Post-employment benefits	**1,367**	1,181
	37,284	35,132

Total remuneration included in "staff costs" (See Note 5).

35. Non-adjusting post balance sheet event

After the balance sheet date the Directors proposed a final dividend. Further details are disclosed in Note 11.

36. Accounting estimates and judgements

Management considers the key source of estimation uncertainty lies in the recognition of deferred tax assets from unused tax losses. As explained in Note 1(m), all deferred tax assets to the extent that it is probable that future taxable profits will be available against which they can be utilised, are recognised.

During the second half of 2005, additional deferred tax assets from unused tax losses of a subsidiary were recognised pursuant to a change in circumstances including, among others, stabilisation of the subsidiary's operating environment and finalisation of an organisation restructure plan, that reduced uncertainties surrounding the subsidiary's future taxable profits. Accordingly, management's judgement about the realisability of the tax losses changed to conclude it appropriate for the subject subsidiary to recognise all its tax losses at December 31, 2005 as deferred tax assets.

In addition to the tax charge to future years' profit or loss upon utilisation of the deferred tax assets, it is possible that adverse changes to the operating environment or the Group's organisation structure could cause a future write-down of the deferred tax assets recognised.

Apart from deferred tax assets, management also makes estimates and assumptions that affect the reported amounts of other assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. Notes 1(f), 1(g)(i), 1(h), 1(i), 1(q), and Note 30 contain information about the assumptions and risk factors relating to useful lives of property, plant and equipment, net realisable value of commissioned programmes, impairment provisions for property, plant and equipment, inventories, loans and receivables, and available-for-sale equity instruments.

On useful lives of property, plant and equipment, these are estimated at the time such assets are acquired and are based on historical experience with similar assets, also taking into account the anticipated technological or industrial changes in order to determine the amount of depreciation expense to be recorded during any reporting period. If these changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation expense in future periods.

Net realisable value of commissioned programmes and films are estimated based on their projected future revenue to be derived from all applicable territories and windows less cost to sell, taking into account historical performances of films and programmes with comparable budgets, casts, or other relevant qualities. Impairment provisions are made for carrying costs that are in excess of the expected future revenue to be generated by these programmes and films. Films in progress are stated at cost less any impairment provisions, taking into account the project status, and estimated relisable value. If revenue actually generated were to fall short of our forecasts, or there are changes in total projected ultimate gross revenues, amortisation may need to be increased, or impairment provision may need to be made to reduce the carrying value of individual programme or film to its realisable amount.

36. Accounting estimates and judgements *(continued)*

Property, plant and equipment, inventories, and various financial instruments including loans and receivables and available-for-sale equity instruments are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may exceed the realisable value. If any such indication exists, the asset's realisable value is estimated and an impairment loss is recognised.

The value of property, plant and equipment and inventories in use represent the amount that these assets are expected to earn based on reasonable and supportable assumptions. The value of loans and receivables are calculated based on estimated future cash flows. The fair value of available-for-sale equity instruments are estimated based on a combination of valuation techniques including use of recent arm's length market transactions of the underlying securities and references to the fund managers' estimated fair value as adjusted for specific circumstances of the investment including recent fund raising results and financial outlook.

Actual results may differ from these estimates under different assumptions or conditions.

37. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended December 31, 2005

Up to the date of issue of these accounts, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended December 31, 2005 and which have not been adopted in these accounts:

	Effective for accounting periods beginning on or after
Amendments to HKAS 39, Financial instruments: Recognition and measurement:	
– Cash flow hedge accounting of forecast intragroup transactions	January 1, 2006
– The fair value option	January 1, 2006
– Financial guarantee contracts	January 1, 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
– HKAS 1, Presentation of financial statements	January 1, 2006
– HKAS 27, Consolidated and separate financial statements	January 1, 2006
– HKFRS 3, Business combinations	January 1, 2006
HKFRS 7, Financial instruments: disclosures	January 1, 2006
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	January 1, 2006
HK (IFRIC) 4, Determining whether an arrangement contains a lease	January 1, 2006

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on December 1, 2005 and would be first applicable to the Group's accounts for the period beginning January 1, 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of the applicable amendments, new standards and interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

38. Parent and ultimate holding company

The Directors consider the parent and the ultimate holding company at December 31, 2005 to be Wharf Communications Limited and The Wharf (Holdings) Limited, respectively, both of which are incorporated in Hong Kong. The Wharf (Holdings) Limited produces accounts available for public use.

39. Approval of accounts

The accounts were approved and authorised for issue by the Directors on March 2, 2006.

In addition to the Company's annual accounts prepared pursuant to the requirements of the Hong Kong Companies Ordinance, each year the Company also prepares a number of special purpose financial reports for filing with different regulatory bodies and which may be approved by the directors at different times during the year. Once approved, the Company's annual Hong Kong accounts which have been prepared under the Companies Ordinance are not subsequently updated for the issuance of such special purpose financial reports, and accordingly comparative amounts in these accounts are based on the prior year's statutory accounts presented at the previous Annual General Meeting.