有線寬頻 i-CABLE

2006
INTERIM REPORT

STOCK CODE: 1097

i-CABLE COMMUNICATIONS LIMITED

About the Company

i-CABLE Communications Limited is Hong Kong's leading integrated communications company.

It is one of the largest producers of video and multimedia content in Hong Kong; owns and operates one of two near universal Broadband telecommunications networks in the territory; and offers Pay TV, Broadband and voice services at the same time.

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

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

RECORD TURNOVER AMIDST MARGIN PRESSURE

Results Highlights

- Turnover increased by 4% to HK$1,274 million (2005: HK$1,223 million).
- Net profit before tax decreased by 42% to HK$91 million (2005: HK$157 million).
- Net profit after tax decreased by 59% to HK$64 million (2005: HK$155 million).
- Capital expenditure decreased by 3% to HK$121 million (2005: HK$125 million).
- Interim dividend per share unchanged at 3.5 cents (2005: 3.5 cents).

Pay TV – Record subscriber number despite fierce competition

- Subscribers increased by 4% in the period to 770,000.
- Turnover increased by 2% to HK$966 million (2005: HK$948 million).
- ARPU decreased by 3% to HK$209 (2005: HK$216).
- Operating profit decreased by 50% to HK$98 million (2005: HK$195 million).

Internet & Multimedia – Record operating profit in a maturing market

- Broadband subscribers virtually unchanged in the period at 321,000.
- Turnover increased by 6% to HK$296 million (2005: HK$279 million).
- ARPU decreased by 6% to HK$136 (2005: HK$144).
- Operating profit increased by 121% to HK$68 million (2005: HK$31 million).

Group Results

The unaudited Group profit for the six months ended June 30, 2006 amounted to HK$64 million, while the amount attributable to Shareholders net of minority interests was HK$63 million, as compared to HK$155 million for the corresponding period in 2005. Basic and diluted earnings per share were both 3.1 cents for 2006, as compared to both 7.7 cents last year.

Interim Dividend

The Board has declared an interim dividend in respect of the six-month period ended June 30, 2006 of 3.5 cents (2005: 3.5 cents) per share, payable on Monday, October 9, 2006 to Shareholders on record as at September 29, 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

The Group's main businesses continued to report volume growth during the period under review. However, keen competition put pressure on both price and costs to adversely affect operating results and profitability.

Unaudited consolidated turnover for the first half of 2006 rose by 4% to HK$1,274 million (2005: HK$1,223 million). Depreciation charges continued to fall. However, sharply higher operating expenses of HK$970 million (2005: HK$816 million) and deferred tax charges combined to reduce net profit to HK$64 million (2005: HK$155 million).

The 2006 FIFA World Cup was one of the main reasons behind the rise in operating expenses. However, it enabled the Group not only to raise its Pay TV subscription to 770,000 as at the end of June, for a 4% increase during the period, but also to attract a sizeable increase in advertising revenue. Broadband subscription was however flat during the period, rising to only 321,000.

Operating Environment and Competition

The period under review saw a business marriage between the dominant fixed line and broadcasting operators when PCCW and Galaxy, the pay TV associate of TVB, reached an agreement. The latter's service, which was rebranded TVB Pay Vision, has been made available on PCCW's pay TV service since May. The marriage was supplemented by a series of publicity blitz and below the line marketing activities. Early signs suggest that its impact on our own subscriber growth had been minimal. However, it is still too early to assess this development's impact on the Group's business.

Meanwhile, PCCW itself was the focal point of media attention. After several weeks of rumours and speculation about ownership changes, it was announced that the largest (and *de facto* controlling) stake in PCCW would be sold to a consortium led by investment banker Francis Leung. The sale is not expected to be completed until December this year and its impact, if any, on the market generally and on the Group specifically is not clear at this point in time.

Shortly after that announcement, speculation is rife in the market about the impending transfer of ownership over the largest (and *de facto* controlling) stake in TVB.

The Group will be watching these developments closely and will adjust its strategy accordingly if need arises.

Pay TV Service

In spite of keen competition, new subscriptions were acquired during the period to boost total subscription to 770,000 by the end of June, attributable mainly to the exclusive carriage of the 2006 FIFA World Cup.

Turnover rose by 2% to HK$966 million. However, it was more than offset by the increase in operating costs, in particular, the one-off spending on World Cup related programmes, the enhancement of the movie platform and other content enrichment initiatives. As a result, operating profit fell to HK$98 million (2005: HK$195 million). ARPU edged downward to HK$209 (2005: HK$216).

With increasing competition, both ARPU and subscription growth were under great pressure in 2006. TVB Pay Vision bundled its TV service with now TV in the first half of 2006, and continues its bundling strategy with HGC's Broadband service. They have all taken aggressive acquisition strategy to capture market share.

To cope with the new challenge, the Group continued to focus on triple-play offers and actively sold bundled packages to potential customers to deepen our tap into the market.

In the first half of the year, CABLE TV carried six new basic channels: "HMC" (for Hollywood Movie Channel), launched in January, strengthens the international movies platform. "Boomerang" and "CNN Headline News" enhance the variety of the children and news programming platform, while "MTV SEA", "MTV Mandarin" and "VH1 India" are non-stop music channels that enrich our music programming as well as attract more ethnic groups to our viewer mix.

With the newly added channels, CABLE TV is carrying over 100 TV channels.

Our locally produced channels and programmes continued to gain acclaim and viewership during the period.

Focal point for the first half of the year was undoubtedly the month-long 2006 FIFA World Cup that opened in June. The exclusive World Cup carriage in a carnival format, produced in a purpose-built studio at a Kowloon Bay exhibition centre with live audience, was a resounding success. Matches with popular teams of the tournament carried exclusively by CABLE TV were watched by over a million viewers. World Cup matches were star attractions at shopping malls with CABLE TV service. Many malls had made special viewing arrangements which attracted thousands of viewers during the World Cup period, thereby significantly enhancing the reach and recognition of CABLE TV.

The news platform continued to deliver following the completion of a relaunch at the beginning of the year. On top of timely news, Cable News offers top-rate documentaries and current affairs programmes to viewers. Documentaries produced by the team had won three medals at prestigious television awards in New York and Chicago.

The entertainment platform continued to gain recognition among viewers as well as in the showbiz industry. Cable Entertainment News has offered immediate and colourful reports on the showbiz world around the globe including prestigious film festivals and awards such as the Oscar, in Cannes and Berlin. Celebrating its third anniversary in July, the Channel will embark on a series of new programmes to further enhance the quality of service.

Meanwhile, self-produced cookery and astrology programmes on Cable Entertainment Channel have proven to be viewership winners. At the same time, the parenting programme on Children Channel was fast gaining recognition with many celebrities appearing on the programmes to share their experience on parenthood.

Content relevant to local tastes is a key to our success and the Group will continue to invest in that to bring more innovative programmes to our viewers.

Internet and Multimedia Services

Bundled services with Pay TV and telephone continued to be the main strategy for customer acquisition. In a maturing market, however, network enhancement and introduction of more value-added service were only able to maintain Broadband subscription at 321,000, with ARPU decreasing by 6% to HK$136 partly due to more bundled customers.

As a result, turnover increased by 6% to HK$296 million. An 8% dip in operating costs to HK$228 million due primarily to savings achieved in depreciation and overhead expense, brought record high operating profit of this sector to HK$68 million as compared to HK$31 million incurred a year ago.

During the period, more value-added services have been introduced with continued enhancement of multimedia content. A new multiplayer online role-playing game *Rappelz* was launched in the second quarter. The game was well received and proven to be a success of expanding the content offers of our Broadband service.

New Markets

In 2006, Horizon Channel has further established its channel recognition and its influence in both the PRC and overseas market. Besides landing in North and South America and Malaysia, Horizon Channel launched a daily segment in Japan's DTH platform SKY PerfecTV. Japanese audience can enjoy our flagship programme *Horizon Daily* and receive the most updated entertainment news.

The first title of the Group's film subsidiary, Sundream Motion Pictures, exceeded all expectations. Not only has *49 Days* returned satisfactory box office results when it was released in Hong Kong and Southeast Asia in February, the movie also bagged the Grand Prix in the Fukuoka Asian Film Festival in Japan.

Three other productions, including a mega movie, *A Battle of Wits*, are in post-production stage and the movies are expected to be released in the second half of this year. Shootings, meanwhile, have begun on three other movies for release in 2007.

Outlook

The outlook for the remainder of the year is challenging, particularly in the Pay TV segment, when the alliance formed by the dominant fixed line and broadcasting operators is expected to unleash its full force in the market.

But we have taken steps to enhance our programming services with the relaunch of news and movie platforms earlier this year. Further enhancement is on the way for our entertainment platform with the introduction of new content by our already well-known programme hosts. These developments, together with our unique and exclusive sports and soccer properties, will put us in a good position to fend off competition.

Our ventures into new markets are beginning to turn out results. Following a series of internal re-organisation, the Group has emerged with an organisation that enables us to make swifter decisions and to respond more effectively to a fast changing market.

The strategies that we have been pursuing in the period under review in sharpening our organisational focus, enhancing our programming and contents as well as strengthening our services and marketing efforts, have enabled the Group to maintain its leading position in the face of unrelenting competitive pressure.

We will continue to adhere to these success formulas with vigour. Combined with our various new initiatives, we are confident that we could prevail.

Financial Review

A. Review of 2006 Interim Results

The Group continued to achieve subscriber growth in the first six months ended June 30, 2006 in both Pay TV and Broadband businesses despite further intensifying competition, particularly in the Pay TV market, mainly due to the positive impact from the carriage of the 2006 FIFA World Cup and the deployment of bundling and marketing strategies.

Consolidated turnover increased by 4% or HK$51 million to HK$1,274 million with a HK$17 million increase in Pay TV turnover and a HK$16 million increase in Internet & Multimedia turnover.

Operating costs before depreciation increased by 19% to HK$970 million as programming costs increased by 25% to HK$524 million due primarily to higher one-off programming costs associated with the carriage of the 2006 FIFA World Cup, the enhancement of movie platform with the launch of "HMC" at the beginning of the year and the capturing of film production cost of our first movie *49 Days* released in February this year. Network and other operating costs increased by 8% to HK$214 million due mainly to increase in cost of sales. Selling, general and administrative expenses increased by 17% to HK$232 million due primarily to an increase in marketing and sales spending.

Earnings before interest, tax, depreciation and amortisation or EBITDA decreased by 25% to HK$304 million.

Depreciation decreased by 13% to HK$218 million due to lower depreciation charges on cable modems and network assets resulting from expiry of their depreciation cycles.

Profit from operations decreased by HK$70 million or 45% to HK$86 million.

After the net reversal of HK$27 million deferred tax credit during the period, net profit decreased by 59% or HK$92 million to HK$64 million. Net profit attributable to shareholders amounted to HK$63 million, as compared to HK$155 million for the corresponding period in 2005.

Basic earnings per share were 3.1 cents as compared to 7.7 cents in 2005.

B. Segmental Information

Pay Television

Subscribers increased by 32,000 or 4% in the period to 770,000 as compared to 16,000 or 2% during the same period last year. ARPU decreased slightly by 3% to HK$209, primarily due to the rollout of aggressive marketing campaign in response to changing market conditions. Turnover increased by 2% to HK$966 million, mainly attributable to strong commercial airtime performance. Operating costs after depreciation increased by 15% to HK$868 million primarily due to the aforementioned increase in programming costs. Operating profit decreased by 50% to HK$98 million.

Internet & Multimedia

Broadband subscribers in the period virtually unchanged at 321,000 with successful service enhancement through network upgrade, bundling strategies and the continued introduction of value-added services. ARPU decreased by HK$8 to HK$136. The VoIP conveyance service reported 146,000 lines in service as of the period end, as compared to 121,000 on 2005 year end. Turnover increased by 6% to HK$296 million. Operating costs after depreciation decreased by 8% to HK$228 million due primarily to savings achieved in depreciation. Operating profit increased by 121% or HK$37 million to a record high figure of HK$68 million year-on-year.

C. Liquidity and Financial Resources

As of June 30, 2006, the Group had net cash of HK$325 million, as compared to net cash of HK$147 million a year ago.

The consolidated net asset value of the Group as at June 30, 2006 was HK$2,213 million, or HK$1.10 per share. The Group's assets were free from any charge.

The Group's assets, liabilities, revenues and expenses were mainly denominated in Hong Kong dollars or U.S. dollars and the exchange rate between these two currencies has remained pegged.

Capital expenditure during the period amounted to HK$121 million, decreased by 3% comparing with the same period last year. Major items included further network upgrade and expansion, leasehold land and buildings, set-top boxes and cable modems, investment in information systems, television production facilities as well as other Internet & Multimedia equipment.

The Group is comfortable with its present financial and liquidity position. Further ongoing capital expenditure and new business development will be funded by cash to be generated from operations and, if needed, bank borrowings or other external sources of funds. The Group also had total short-term bank credit facilities of approximately HK$300 million which remained unutilised as of June 30, 2006.

D. Contingent Liabilities

At June 30, 2006, there were contingent liabilities in respect of guarantees, indemnities and letters of awareness given by the Company on behalf of subsidiaries relating to overdraft and guarantee facilities of banks up to HK$616 million, of which only HK$204 million have been utilised by the subsidiaries.

E. Human Resources

The Group had a total of 3,338 employees at the end of the first half of 2006. Total salaries and related staff costs incurred during the period amounted to HK$425 million (2005: HK$389 million). With the establishment of a performance based corporate culture within the Group, our staff are motivated to discharge their responsibilities and take ownership in achieving the Group's business targets.

Being a responsible corporate citizen, we continue to encourage our staff to engage in corporate volunteer service projects in support of building a caring and cohesive society. The response from our employees was encouraging. In recognition of our contribution to the society, the Group has consecutively received the Gold Award for Volunteer Service and the Caring Company Logo respectively by the Secretariat of Steering Committee on Promotion of Volunteer Service and the Hong Kong Council of Social Service since 2003.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the financial period under review, all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited were met by the Company, except in respect of one code provision providing for the roles of chairman and chief executive officer to be performed by different individuals. The deviation is deemed necessary as, given the nature and size of the Company's business, it is at this stage considered to be more efficient to have one single person to hold both positions. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals with a substantial number thereof being independent Non-executive Directors.

Consolidated Profit and Loss Account

For the six months ended June 30, 2006 – unaudited

	Note	Six months ended June 30, 2006 HK$'000	2005 HK$'000
Turnover	*2*	**1,274,135**	1,222,818
Programming costs		**(524,359)**	(420,514)
Network and other operating expenses		**(213,827)**	(197,411)
Selling, general and administrative expenses		**(231,741)**	(198,210)
Profit from operations before depreciation		**304,208**	406,683
Depreciation	*3*	**(217,955)**	(250,712)
Profit from operations		**86,253**	155,971
Interest income		**4,229**	411
Finance costs		**(1)**	(134)
Non-operating income		**544**	944
Profit before taxation	*3*	**91,025**	157,192
Income tax expense	*4*	**(27,475)**	(1,950)
Profit after taxation		**63,550**	155,242
Attributable to:			
Equity shareholders of the Company		**62,835**	155,242
Minority interests		**715**	–
Profit after taxation		**63,550**	155,242
Dividends payable to equity shareholders attributable to the period			
Final dividend in respect of the previous financial year, declared during the period		**100,962**	90,866
Interim dividend declared after the balance sheet date		**70,673**	70,673
	5	**171,635**	161,539
Earnings per share			
Basic	*6*	**3.1 cents**	7.7 cents
Diluted	*6*	**3.1 cents**	7.7 cents

The notes on pages 13 to 23 form part of this interim financial report.

Consolidated Balance Sheet

At June 30, 2006 – unaudited

	Note	At June 30, 2006 HK$'000 (unaudited)	At December 31, 2005 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*7*	**1,733,398**	1,838,336
Programming library	*8*	**168,629**	142,856
Goodwill	*9*	**5,729**	–
Deferred tax assets	*14*	**398,848**	434,266
Other financial assets	*10*	**8,225**	8,225
		2,314,829	2,423,683
Current assets			
Inventories		**8,844**	12,348
Accounts receivable from trade debtors	*11*	**192,513**	149,521
Deposits, prepayments and other receivables		**120,483**	144,314
Amounts due from fellow subsidiaries		**41,701**	12,669
Cash and cash equivalents		**324,922**	351,892
		688,463	670,744
Current liabilities			
Amounts due to trade creditors	*12*	**45,121**	70,466
Accrued expenses and other payables		**343,811**	392,951
Receipts in advance and customers' deposits		**238,230**	213,372
Obligations under finance leases		**963**	–
Current taxation	*14*	**49**	51
Amounts due to fellow subsidiaries		**32,961**	39,936
Amount due to immediate holding company		**42**	83
		661,177	716,859
Net current assets/(liabilities)		**27,286**	(46,115)
Total assets less current liabilities		**2,342,115**	2,377,568
Non-current liabilities			
Deferred tax liabilities	*14*	**121,141**	129,201
Obligations under finance leases		**280**	–
Provisions		**8,068**	–
		129,489	129,201
NET ASSETS		**2,212,626**	2,248,367
Capital and reserves			
Share capital		**2,019,234**	2,019,234
Reserves		**190,790**	229,133
Total equity attributable to equity shareholders of the Company	*13*	**2,210,024**	2,248,367
Minority interests		**2,602**	–
TOTAL EQUITY		**2,212,626**	2,248,367

The notes on pages 13 to 23 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended June 30, 2006 – unaudited

		Attributable to equity shareholders of the Company									
		Share capital	Share premium	Special capital reserve	Exchange reserve	Revenue reserve	Statutory reserve fund	Total reserves	Total	Minority interests	Total equity
	Note	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at January 1, 2005*		2,019,234	4,838,365	3,345	–	(5,033,305)	–	(191,595)	1,827,639	–	1,827,639
Profit for the period		–	–	–	–	155,242	–	155,242	155,242	–	155,242
Dividend approved in respect of the previous year	*5*	–	–	–	–	(90,866)	–	(90,866)	(90,866)	–	(90,866)
Transfer to special capital reserve		–	–	2,898	–	(2,898)	–	–	–	–	–
Balance at June 30, 2005*		2,019,234	4,838,365	6,243	–	(4,971,827)	–	(127,219)	1,892,015	–	1,892,015
Balance at January 1, 2006*		2,019,234	4,838,365	7,924	(187)	(4,616,969)	–	229,133	2,248,367	–	2,248,367
Profit for the period		–	–	–	–	62,835	–	62,835	62,835	715	63,550
Dividend approved in respect of the previous year	*5*	–	–	–	–	(100,962)	–	(100,962)	(100,962)	–	(100,962)
Translation of foreign subsidiaries' accounts		–	–	–	(116)	–	–	(116)	(116)	–	(116)
Acquisition of subsidiary		–	–	–	(100)	–	–	(100)	(100)	1,887	1,787
Transfer to statutory reserve fund	*13*	–	–	–	–	(167)	167	–	–	–	–
Transfer to special capital reserve	*13*	–	–	1,594	–	(1,594)	–	–	–	–	–
Balance at June 30, 2006*		2,019,234	4,838,365	9,518	(403)	(4,656,857)	167	190,790	2,210,024	2,602	2,212,626

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

The notes on pages 13 to 23 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended June 30, 2006 – unaudited

		Six months ended June 30,	
	Note	**2006** **HK$'000**	2005 HK$'000
Operating activities			
Profit before taxation		**91,025**	157,192
Adjustments for:			
Net finance costs		**(4,228)**	(277)
Depreciation	3	**217,955**	250,712
Amortisation of programming library	3	**43,712**	38,378
Others		**3,749**	3,382
Operating profit before change in working capital		**352,213**	449,387
Change in working capital		**(63,039)**	(131,257)
Cash generated from operations		**289,174**	318,130
Interest received		**4,197**	350
Interest paid		**(1)**	(134)
Hong Kong profits tax paid		**–**	–
Overseas tax paid		**(120)**	(52)
Net cash generated from operating activities		**293,250**	318,294
Investing activities			
Purchase of property, plant and equipment		**(148,368)**	(148,647)
Other net investing activities		**(72,111)**	(46,547)
Net cash used in investing activities		**(220,479)**	(195,194)
Net cash used in financing activities		**(99,647)**	(90,807)
Net (decrease)/increase in cash and cash equivalents		**(26,876)**	32,293
Effect of foreign exchange rate changes		**(94)**	–
Cash and cash equivalents at January 1		**351,892**	115,013
Cash and cash equivalents at June 30		**324,922**	147,306

The notes on pages 13 to 23 form part of this interim financial report.

1. Basis of preparation and comparative figures

The unaudited interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards that are effective or available for early adoption for accounting periods beginning on or after January 1, 2006. We believe the adoption of these new and revised accounting policies will not have a material impact on the Group's financial position or results of operations.

The same accounting policies adopted in the annual accounts for the year ended December 31, 2005 have been applied to the interim financial report.

2. Turnover

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, programme licensing income, film exhibition and distribution income, fibre network and satellite television systems maintenance income, project management service fees, portal and mobile content service income, and other related income.

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 Broadband and dial-up Internet access service, portal subscription, mobile content licensing, VoIP interconnection as well as other Internet access related businesses.

The unallocated segment includes satellite television and film and television programme production operations.

2. Turnover *(continued)*

Business segment

	Segment revenue		Segment result	
	Six months ended June 30,		Six months ended June 30,	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Pay television	**965,813**	948,368	**97,902**	194,843
Internet and multimedia	**295,774**	279,293	**68,053**	30,839
Unallocated	**20,105**	1,537	**(79,702)**	(69,711)
Inter-segment elimination	**(7,557)**	(6,380)	**–**	–
	1,274,135	1,222,818	**86,253**	155,971
Profit from operations			**86,253**	155,971
Interest income			**4,229**	411
Finance costs			**(1)**	(134)
Non-operating income			**544**	944
Income tax expense			**(27,475)**	(1,950)
Profit after taxation			**63,550**	155,242

Geographical segment

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.

3. Profit before taxation

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

	Six months ended June 30,	
	2006	2005
	HK$'000	HK$'000
Depreciation		
– assets held for use in operating leases	**(20,050)**	(27,709)
– others	**(197,905)**	(223,003)
	(217,955)	(250,712)
Amortisation of programming library*	**(43,712)**	(38,378)
Staff cost	**(385,589)**	(351,551)
Contribution to defined contribution plans	**(15,499)**	(14,038)
Cost of inventories used	**(7,699)**	(10,594)
Auditors' remuneration	**(1,754)**	(1,096)
Non-operating income		
Net gain on disposal of property, plant and equipment	**544**	944

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

4. Income tax in the consolidated profit and loss account

Income tax benefit/(expense) in the consolidated profit and loss account represents:

	Six months ended June 30,	
	2006	2005
	HK$'000	HK$'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the period	**–**	–
Current tax – Overseas		
Tax for the period	**(117)**	(61)
Provision for Hong Kong profits tax on leasing partnerships	**–**	(5,000)
Deferred tax (Note 14(b))		
Utilisation of prior year's tax losses recognised	**(40,182)**	(14,105)
Reversal of temporary differences	**12,824**	17,216
	(27,358)	3,111
Income tax expense	**(27,475)**	(1,950)

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

The provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the period. Taxation for the overseas subsidiaries is charged at the appropriate current rate of taxation ruling in the relevant country.

5. Dividends

Dividends payable to equity shareholders of the Company

	Six months ended June 30,	
	2006	2005
	HK$'000	HK$'000
Final dividend of 5 cents (2005: 4.5 cents) per share in respect of the previous financial year, declared during the period	**100,962**	90,866
Interim dividend declared after the balance sheet date of 3.5 cents (2005: 3.5 cents) per share	**70,673**	70,673
	171,635	161,539

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

6. 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$62,835,000 (2005: HK$155,242,000) and the weighted average number of ordinary shares outstanding during the period of 2,019,234,400 (2005: 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$62,835,000 (2005: HK$155,242,000) and the weighted average number of ordinary shares of 2,019,234,400 (2005: 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 2005 and 2006. Accordingly, this has no dilutive effect on the calculation of diluted earnings per share in both periods.

7. Property, plant and equipment

	HK$'000
Net book value at January 1, 2006	**1,838,336**
Additions – Network, decoders, cable modems and television production systems	**87,750**
– Others	**33,040**
Disposals	**(378)**
Depreciation	**(217,955)**
Impairment loss	**(4,293)**
Reclassification	**(3,080)**
Exchange reserve	**(22)**
Net book value at June 30, 2006	**1,733,398**

8. Programming library

	HK$'000
Net book value at January 1, 2006	**142,856**
Additions – Internally developed	**5,062**
– Acquired	**64,423**
Amortisation	**(43,712)**
Net book value at June 30, 2006	**168,629**

9. Goodwill

	HK$'000
Carrying amount at January 1, 2006	**–**
Addition during the period	**5,729**
Impairment loss recognised during the period	**–**
Carrying amount at June 30, 2006	**5,729**

Addition to goodwill during the period pertained to the acquisition of an interest in a company by the Group on April 30, 2006.

10. Other financial assets

	At June 30, 2006 HK$'000	At December 31, 2005 HK$'000
Unlisted available-for-sale equity securities	**8,225**	8,225

11. Accounts receivable from trade debtors

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

	At June 30, 2006 HK$'000	At December 31, 2005 HK$'000
0 to 30 days	**133,376**	83,267
31 to 60 days	**15,553**	27,874
61 to 90 days	**20,375**	15,681
Over 90 days	**23,209**	22,699
	192,513	149,521

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

12. Amounts due to trade creditors

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

	At June 30, 2006 HK$'000	At December 31, 2005 HK$'000
0 to 30 days	**1,905**	5,345
31 to 60 days	**15,378**	9,020
61 to 90 days	**6,550**	18,257
Over 90 days	**21,288**	37,844
	45,121	70,466

13. Capital and reserves

There was no movement in the share capital of the Company during the six months ended June 30, 2006.

At June 30, 2006, the outstanding options granted under the Company's share option scheme were:

			Number of options		
Date options granted	**Period during which options exercisable**	**Exercise price per share**	**At January 1, 2006**	**Lapsed during the period**	**At June 30, 2006**
February 8, 2000	April 1, 2001 to December 31, 2009	HK$10.49	15,160,000	(780,000)	14,380,000

No share options were granted or exercised during the current and prior periods.

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.

13. Capital and reserves *(continued)*

(ii) Special capital reserve *(continued)*

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

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

As at June 30, 2006, the Limit of the special capital reserve, as reduced by HK$1,057,187 (at December 31, 2005: HK$508,033,384) related to recoveries and reversals of provisions of the relevant assets, was HK$1,448,517,586 (at December 31, 2005: HK$1,449,574,773), and the amount standing to the credit of the special capital reserve was HK$9,518,395 (at December 31, 2005: HK$7,923,811).

(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.

(iv) Statutory reserve fund

Certain subsidiaries which are established in the People's Republic of China (the "PRC") are required to transfer 10% of their profits after tax calculated in accordance with the PRC accounting regulations to the statutory reserve fund until the reserve reaches 50% of their respective registered capital, upon which any further appropriation is at the director's recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or may be capitalised as paid-up capital of the subsidiaries.

(v) Distributability of reserves

After the balance sheet date, the Directors proposed an interim dividend of 3.5 cents per share (2005: 3.5 cents per share), amounting to HK$70,673,000 (2005: HK$70,673,000). This dividend has not been recognised as a liability at the balance sheet date.

14. Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	At June 30, 2006 HK$'000	At December 31, 2005 HK$'000
Overseas taxation	**49**	51

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	**Depreciation allowances in excess of related depreciation** HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At January 1, 2006	199,136	(504,201)	(305,065)
Charged/(credited) to consolidated profit and loss account *(Note 4)*	(12,824)	40,182	27,358
At June 30, 2006	186,312	(464,019)	(277,707)

	At June 30, 2006 HK$'000	At December 31, 2005 HK$'000
Net deferred tax assets recognised on the balance sheet	**(398,848)**	(434,266)
Net deferred tax liabilities recognised on the balance sheet	**121,141**	129,201
	(277,707)	(305,065)

(c) Deferred tax assets not recognised:

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

	At June 30, 2006 HK$'000	At December 31, 2005 HK$'000
Future benefit of tax losses	**442,710**	431,871
Provision for obsolete inventories	**13**	13
Impairment loss for bad and doubtful accounts	**572**	384
	443,295	432,268

15. Commitments

Commitments outstanding as of June 30, 2006 not provided for in the interim financial report were as follows:

	At June 30, 2006 HK$'000	At December 31, 2005 HK$'000
Capital commitments:		
(i) Property, plant and equipment		
– Authorised and contracted for	**18,566**	14,196
– Authorised but not contracted for	**115,114**	119,468
	133,680	133,664
(ii) Acquisition of equity interests in prospective subsidiary and associate		
– Authorised and contracted for	**2,405**	12,506
– Authorised but not contracted for	**–**	–
	2,405	12,506
	136,085	146,170
Programming and other commitments		
– Authorised and contracted for	**404,210**	465,019
– Authorised but not contracted for	**83,036**	80,006
	487,246	545,025
Operating lease commitments		
– Within one year	**41,545**	42,938
– After one year but within five years	**55,891**	75,386
– After five years	**54,935**	56,021
	152,371	174,345
	775,702	865,540

16. Contingent liabilities

As at June 30, 2006, there were contingent liabilities in respect of the following:

(a) The Company has undertaken to provide financial support to certain of its subsidiaries in order to enable them to continue to operate as going concerns.

(b) Guarantees, indemnities and letters of awareness to banks totalling HK$616 million (December 31, 2005: HK$616 million) in respect of overdraft and guarantee facilities given by those banks to the subsidiaries. Of this amount, at June 30, 2006, HK$204 million (December 31, 2005: HK$311 million) was utilised by the subsidiaries.

(c) 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 June 30, 2006 may amount up to HK$1,555,026. 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.

17. Material related party transactions

The significant and material related party transactions between the Group and related parties as set out in the annual accounts for the year ended December 31, 2005 continued to take place during this interim reporting period.

There were no new significant and material related party transactions entered by the Group during the six months ended June 30, 2006.

18. Non-adjusting post balance sheet event

After the balance sheet date the Directors proposed an interim dividend. Further details are disclosed in Note 5.

19. Review by the audit committee

The unaudited interim financial report for the six months ended June 30, 2006 has been reviewed with no disagreement by the Audit Committee of the Company.

20. Approval of interim financial report

The interim financial report was approved by the Directors on August 14, 2006.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' DEALING IN SECURITIES

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

DIRECTORS' INTERESTS IN SHARES

At June 30, 2006, Directors of the Company had the following beneficial interests, all being long positions, in the ordinary shares of the Company, of its parent company, namely, The Wharf (Holdings) Limited ("Wharf"), and of a subsidiary of Wharf, namely, Harbour Centre Development Limited ("Harbour Centre"), and the percentages which the shares represented to the issued share capitals of the Company, Wharf and Harbour Centre respectively are also set out below:

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

Note: The 50,000 shares regarding "Corporate Interest" in which Mr. F. K. Hu was taken to be interested as stated above was the interest held by a corporation in general meetings of which Mr. Hu was either entitled to exercise (or was taken under Part XV of the Securities and Futures Ordinance (the "SFO") to be able to exercise) or control the exercise of one-third or more of the voting power.

DIRECTORS' INTERESTS IN SHARES *(continued)*

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

Name of Director	Date granted (Day/Month/Year)	No. of ordinary shares represented by unexercised options outstanding throughout the period	Period during which rights exercisable (Day/Month/Year)	Price per share to be paid on exercise of options (HK$)	Consideration paid for the options granted (HK$)
Mr. Stephen T. H. Ng	08/02/2000	1,500,000	01/04/2001 to 31/12/2009	10.49	10

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

(i) there were no interests, both long and short positions, held as at June 30, 2006 by any of the Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO); and

(ii) there existed during the financial period no rights to subscribe for any shares, underlying shares or debentures of the Company which were held by any of the Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial period of any such rights by any of them.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company as at June 30, 2006, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register") and the percentages which the shares represented to the issued share capital of the Company:

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

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

All the interests stated above represented long positions and as at June 30, 2006, there were no short position interests recorded in the Register.

SHARE OPTION SCHEME

Details of share options granted to Director(s) of the Company are set out in the above section headed "Directors' interests in shares".

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

Date granted (Day/Month/Year)	**No. of ordinary shares represented by unexercised options outstanding as at January 1, 2006**	**No. of ordinary shares represented by options lapsed during the financial period**	**No. of ordinary shares represented by unexercised options outstanding as at June 30, 2006**	**Period during which rights exercisable** (Day/Month/Year)	**Price per share to be paid on exercise of options** (HK$)
08/02/2000	15,160,000	(780,000)	14,380,000	01/04/2001 to 31/12/2009	10.49

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

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial period under review.

BOOK CLOSURE

The Register of Members will be closed from Monday, September 25, 2006 to Friday, September 29, 2006, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to qualify for the abovementioned interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, September 22, 2006.

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

Hong Kong, August 14, 2006

As at the date of this interim report, the Board of Directors of the Company comprises Mr. Stephen T. H. Ng and Mr. Peter S. O. Mak, together with four independent non-executive Directors, namely, Mr. F. K. Hu, Dr. Dennis T. L. Sun, Sir Gordon Y. S. Wu and Mr. Anthony K. K. Yeung.