

FINANCIAL REVIEW

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A. Review of 2006 Results

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

Consolidated turnover increased by HK\$107 million or 4% to HK\$2,548 million with increases across Pay TV, Internet & Multimedia and new businesses.

Operating costs before depreciation increased by 14% to HK\$1,921 million as programming costs increased by 16% to HK\$1,005 million due primarily to the carriage of 2006 FIFA World Cup, enhancement of the movie platform with the launch of "HMC" at the beginning of the year and the capturing of film production cost of Sundream's movie projects released this year. Network and other operating costs increased by 13% to HK\$451 million due mainly to increase in customer fulfillment costs, cost of sales and reorganisation costs pertaining to network team reorganisation during the year. Selling, general and administrative expenses increased by 11% to HK\$465 million due primarily to higher marketing and sales spending.

Earnings before interest, tax, depreciation and amortisation or EBITDA decreased by 18% to HK\$627 million.

Depreciation decreased by 11% to HK\$428 million due to lower depreciation charges on cable modems, leasehold improvement and network assets following the expiry of their depreciation cycle.

Profit from operations decreased by HK\$81 million or 29% to HK\$198 million.

After HK\$28 million of deferred tax expense recorded for the year (compared to a deferred tax credit of HK\$305 million in 2005), net profit attributable to shareholders decreased by 69% or HK\$400 million to HK\$182 million.

Basic and diluted earnings per share were 9.0 cents as compared to 28.8 cents in 2005.

B. Segmental Information

Pay Television

Subscribers increased by 48,000 or 7% year-on-year to 786,000 notwithstanding intense competition. ARPU decreased by 4% to HK\$203, primarily due to the rollout of mini packages and selective packages in response to changing market conditions. Turnover increased by HK\$11 million to HK\$1,895 million. Operating costs after depreciation increased by 6% to HK\$1,647 million primarily due to the aforementioned increase in programming, network operations related and marketing costs. Operating profit decreased by 26% to HK\$248 million.

Internet and Multimedia

Broadband subscribers increased by 8,000 or 2% year-on-year to 328,000 in a maturing market with service enhancement through network upgrade, bundling strategies and the continued introduction of value-added services. ARPU decreased slightly by 2% to HK\$136. There were 168,000 voice lines in service at the end of 2006 as compared to 120,000 a year ago. Turnover increased by 7% to HK\$596 million. Operating costs after depreciation decreased by 3% to HK\$467 million due primarily to savings achieved in depreciation. Operating profit reported a record high HK\$129 million as compared to HK\$78 million a year ago.

C. Liquidity and Financial Resources

Net cash inflow reached HK\$234 million. After dividend payment of HK\$172 million. Net cash increased to HK\$586 million at December 31, 2006, as compared to HK\$352 million a year ago.

The consolidated net asset value of the Group as at December 31, 2006 was HK\$2,262 million or HK\$1.1 per share. As at December 31, 2006, the Group had property, plant and equipment of net book value of approximately HK\$848,000 (December 31, 2005: Nil) held under finance lease contract.

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\$200 million as compared to HK\$282 million last year. Major items included further network upgrade and expansion, electronic data processing equipment, TV production facilities and buildings.

The Group is comfortable with its present financial and liquidity position. Further capital expenditure and new business development will be funded by cash to be generated from operations and, if needed, bank borrowings or other external sources of funds. The Group also had total short-term bank credit facilities of approximately HK\$509 million which remained unutilised as of December 31, 2006.

D. Contingent Liabilities

At December 31, 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 HK\$107 million had been utilised by the subsidiaries.

E. Human Resources

The Group had a total of 3,016 employees at the end of 2006 (2005: 3,275). Total gross amount of salaries and related costs incurred in the corresponding period amounted to HK\$828 million (2005: HK\$793 million).

The Group attracts, retains and motivates the best people by promoting a pay for performance culture, linking remuneration and reward to Group performance.

Being a caring employer, the Group continued to participate in social welfare activities through donations to non-profit organisations and social welfare agencies as well as encouraging employees to participate in volunteer services.