1. Significant accounting policies

(a) Statement of compliance

These financial statements 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 financial statements 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 certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2006, comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements 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 financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 40.

(c) Subsidiaries and controlled entities

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. 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.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

1. Significant accounting policies *(continued)*

(c) Subsidiaries and controlled entities *(continued)*

Where losses applicable to the minority interests exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority interests, are charged against the Group's interest except to the extent that the minority interests has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority interest's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with Note 1(t) depending on the nature of the liability.

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

(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(s)).

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(s)). 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(n)).

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 5 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 2 to 40 years.

1. Significant accounting policies *(continued)*

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

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%

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) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 1(f). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(s). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) 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.

1. Significant accounting policies *(continued)*

(h) 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(s)). 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(s)). 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(s)). 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.

(i) Other intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

1. Significant accounting policies *(continued)*

(i) Other intangible assets (other than goodwill) *(continued)*

(i) Club debentures

The Group's club debentures are stated at cost less any impairment losses (see Note 1(s)), on an individual basis.

(ii) Advertising rights

The Group's advertising rights are stated at cost less any impairment losses (see Note 1(s)) and are amortised using the straight-line basis over the estimated useful life of 2.7 years.

(j) 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.

(k) 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(s)), 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(s)).

(l) 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.

(m) 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(m)(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) Magazine advertising income is recognised upon the publication of the edition in which the advertisement is placed.

(vi) Revenue from theatrical distribution are recognised when the films are exhibited.

(vii) 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.

1. Significant accounting policies *(continued)*

(m) Revenue recognition *(continued)*

(viii) 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.

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

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

(n) 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.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss.

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 and taxable profit will be available against which the temporary difference can be utilised.

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.

1. Significant accounting policies *(continued)*

(o) Income tax *(continued)*

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.

(p) 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.

(q) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if :

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

1. Significant accounting policies *(continued)*

(q) Related parties *(continued)*

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(r) 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(s)).

Investments are recognised on the date the Group and/or the Company commits to purchase the investments. Investments are derecognised when:

(i) the contractual rights to the cash flows from the investment securities expire; or

(ii) the Group and/or the Company transfers the contractual rights to receive the cash flows of the investment securities.

(s) 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 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 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 equity securities are not reversed.

– For trade and other current receivables and other 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), where the effect of discounting is material.

  If in a subsequent period the amount of an 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.

(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
– other intangible assets.

1. Significant accounting policies *(continued)*

(s) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

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).

– 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.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 1(s)(i) and (ii)).

Impairment losses recognised in an interim period in respect of unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(t) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 1(v)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

1. Significant accounting policies *(continued)*

(u) 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 businesses, financial and corporate assets, tax balances and corporate and financing expenses.

(v) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 1(v)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with Note 1(v)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with Note 1(v)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other 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)*

(w) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement 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 financial statements.

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.

(x) 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(y)).

(y) 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)*

(y) 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 certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

Note 1 summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 41).

(a) Financial guarantees issued (Amendments to HKAS 39, Financial instruments: Recognition and measurement: Financial guarantee contracts)

In prior years, financial guarantees issued by the Group were disclosed as contingent liabilities in accordance with HKFRS 4, Insurance contracts and HKAS 37, Provisions, contingent liabilities and contingent assets. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon.

With effect from January 1, 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the Group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37. Further details of the new policy are set out in Note 1(v)(i).

This change in accounting policy has had no material impact on the results of the Group for the current and prior accounting periods.

3. Turnover

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 17 to the financial statements.

Turnover comprises principally subscription and related fees for Pay television and Internet services, Internet Protocol Point wholesale services and also includes advertising income net of agency deductions, channel service and distribution fees, programme licensing income, film exhibition and distribution income, network maintenance income, 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, 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, Voice Over Internet Protocol interconnection as well as other Internet access related businesses.

Business segments

	Segment revenue		Segment result	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Pay television	**1,895,221**	1,884,379	**248,224**	336,797
Internet and multimedia	**596,013**	558,084	**128,961**	77,676
Unallocated	**74,167**	13,311	**(178,437)**	(134,922)
Inter-segment elimination	**(17,806)**	(15,042)	**(291)**	–
	2,547,595	2,440,732		
Profit from operations			**198,457**	279,551
Interest income			**11,640**	3,335
Finance costs, net			**(7)**	(134)
Impairment loss on investment			**–**	(1,500)
Non-operating (expenses)/income			**(322)**	804
Income tax (expense)/benefit			**(28,649)**	300,398
Profit after taxation			**181,119**	582,454

	Segment assets		Segment liabilities	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Pay television	**1,242,902**	1,508,250	**383,812**	477,618
Internet and multimedia	**631,237**	696,152	**132,665**	124,521
	1,874,139	2,204,402	**516,477**	602,139
Unallocated assets/liabilities	**1,148,735**	824,654	**244,004**	178,550
	3,022,874	3,029,056	**760,481**	780,689

4. Segment information *(continued)*

Other information

	Additions to property, plant and equipment		Additions to programming library		Depreciation		Amortisation		Impairment loss on property, plant and equipment	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Pay television	**129,343**	174,033	**108,719**	67,484	**235,516**	259,977	**84,394**	73,549	**6,617**	4,353
Internet and multimedia	**63,802**	103,591	**–**	–	**188,223**	214,479	**–**	–	**1,459**	2,232
Unallocated	**7,070**	4,572	**35,244**	27,685	**4,382**	6,133	**19,646**	6,075	**3,565**	–
	200,215	282,196	**143,963**	95,169	**428,121**	480,589	**104,040**	79,624	**11,641**	6,585

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):

	2006 HK$'000	2005 HK$'000
Interest income		
Interest income from deposits with banks and other financial institutions	**(11,470)**	(3,307)
Other interest income	**(170)**	(28)
	(11,640)	(3,335)
Finance costs, net		
Finance charges on obligations under finance leases	**36**	–
Interest expenses on bank loans and overdrafts wholly repayable within five years	**1**	134
Fair value gain on forward foreign exchange contracts	**(30)**	–
	7	134

5. Profit before taxation *(continued)*

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

	2006 HK$'000	2005 HK$'000
Other items		
Depreciation		
– assets held for use under operating leases	**39,492**	48,704
– other assets	**388,629**	431,885
Amortisation of programming library*	**101,117**	79,624
Amortisation of other intangible assets**	**2,923**	–
Impairment losses		
– trade and other receivables	**14,401**	14,889
– property, plant and equipment	**11,641**	6,585
– investment in equity securities	**–**	1,500
Cost of inventories used	**12,999**	18,499
Rentals payable under operating leases in respect of land and buildings	**48,976**	43,790
Contributions to defined contribution retirement plans	**30,541**	28,423
Auditors' remuneration		
– audit services	**2,699**	2,440
– tax services	**–**	121
– other services	**438**	739
Dividend income from investment in equity securities	**(1,872)**	(3,833)
Net foreign exchange gain***	**(1,997)**	(1,416)
Rentals receivable under operating leases in respect of		
– subleased land and buildings	**(5,633)**	(4,822)
– owned plant and machinery	**(95,339)**	(99,498)

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

** *Amortisation of intangible assets is included within network and other operating expenses in the consolidated results of the Group.*

*** *Net foreign exchange gain of approximately HK$1,152,000 and HK$845,000 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:

	2006 HK$'000	2005 HK$'000
Depreciation and amortisation	**532,161**	560,213
Staff costs	**769,770**	716,751
Other operating expenses	**1,047,207**	884,217
Total operating costs	**2,349,138**	2,161,181

6. Non-operating (expenses)/income

This comprises:

	2006 HK$'000	2005 HK$'000
Net (loss)/gain on disposal of property, plant and equipment	**(322)**	804

7. Income tax in the consolidated profit and loss account

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

	2006 HK$'000	2005 HK$'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	**75**	4,512
Current tax – Overseas		
Tax for the year	**222**	153
Under provision in respect of prior year	**–**	2
	222	155
Deferred tax		
Utilisation of prior year's tax losses recognised	**64,150**	–
Recognition of prior year's tax losses	**–**	(265,326)
Reversal of temporary differences	**(35,798)**	(39,739)
	28,352	(305,065)
Income tax expense/(benefit)	**28,649**	(300,398)

The provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 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 countries.

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

	2006 %	2005 %
Statutory income tax rate	**17.5**	17.5
Tax effect of non-deductible expenses	**3.9**	0.2
Tax effect of non-taxable revenue	**(4.2)**	(0.8)
Utilisation of unrecognised tax losses of previous years	**(3.5)**	(23.2)
Tax effect of previously unrecognised tax losses now recognised	**–**	(101.8)
Tax effect of profits tax provision on leasing partnerships	**–**	1.6
Effective income tax rate	**13.7**	(106.5)

8. Directors' emoluments

Details of Directors' emoluments are as follows:

Name of directors	Directors' fees	Basic salaries, housing and other allowances, and benefits in kind	Retirement scheme contributions	Discretionary bonuses and/or performance related bonuses	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2006					
Independent non-executive directors:					
Fa Kuang Hu	**65**	**–**	**–**	**–**	**65**
Victor C.W. Lo	**29**	**–**	**–**	**–**	**29**
Dennis T. L. Sun	**65**	**–**	**–**	**–**	**65**
Gordon Y. S. Wu	**50**	**–**	**–**	**–**	**50**
Anthony K.K. Yeung	**65**	**–**	**–**	**–**	**65**
Non-executive director:					
Peter S.O. Mak	**21**	**60**	**1**	**–**	**82**
Executive director:					
Stephen T.H. Ng	**50**	**2,508**	**144**	**4,667**	**7,369**
Total for 2006	**345**	**2,568**	**145**	**4,667**	**7,725**
2005					
Independent non-executive directors:					
Fa Kuang 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

Except Directors' fees of HK$345,000 (2005: HK$437,000), 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 38(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 in prior years. The share options granted by Wharf to the Directors were not related to their services rendered to the Group.

9. Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2005: one) is a Director whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other four (2005: four) individuals are as follows:

	2006 HK$'000	2005 HK$'000
Basic salaries, housing and other allowances, and benefits in kind	**8,897**	9,071
Retirement scheme contributions	**557**	572
Discretionary bonuses and/or performance related bonuses	**4,042**	4,093
Compensation for loss of office	**–**	–
Inducement for joining the Group	**–**	–
	13,496	13,736

The emoluments of the four (2005: four) individuals with the highest emoluments are within the following bands:

HK$	2006 Number of individuals	2005 Number of individuals
2,500,001 – 3,000,000	**2**	1
3,000,001 – 3,500,000	**–**	1
3,500,001 – 4,000,000	**2**	2
	4	4

10. (Loss)/profit attributable to equity shareholders of the Company

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a loss of HK$134,000 (2005: a profit of HK$332,641,000) which has been dealt with in the financial statements of the Company.

	2006 HK$'000	2005 HK$'000
Amount of consolidated (loss)/profit attributable to equity shareholders dealt with in the Company's financial statements	**(134)**	332,641
Dividend from subsidiaries attributable to the profits of prior years declared and received during the year	**–**	743,123
Company's (loss)/profit for the year	**(134)**	1,075,764

11. Dividends

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

	2006 HK$'000	2005 HK$'000
Interim dividend declared and paid of 3.5 cents per share (2005: 3.5 cents per share)	**70,673**	70,673
Final dividend proposed after the balance sheet date of 5 cents per share (2005: 5 cents per share)	**100,962**	100,962
	171,635	171,635

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

	2006 HK$'000	2005 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 5 cents per share (2005: 4.5 cents per share)	**100,962**	90,866

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$182,115,000 (2005: HK$582,454,000) and the weighted average number of ordinary shares outstanding during the year 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$182,115,000 (2005: HK$582,454,000) 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 years.

13. Property, plant and equipment

	Group						
			Leasehold land and buildings in Hong Kong				
	Network, decoders, cable modems and television production systems	Furniture, fixtures, other equipment and motor vehicles	Long lease	Medium lease	Short lease	Leasehold improvements	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost							
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 to inventories	(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
At January 1, 2006	5,358,174	575,432	3,306	2,673	70	295,186	6,234,841
Additions	137,378	35,974	8,119	15,516	–	3,228	200,215
Disposals	(153,726)	(3,128)	–	–	–	(1,416)	(158,270)
Reclassification to inventories	(9,397)	–	–	–	–	–	(9,397)
Exchange reserve	–	522	–	–	–	104	626
At December 31, 2006	**5,332,429**	**608,800**	**11,425**	**18,189**	**70**	**297,102**	**6,268,015**
Accumulated depreciation							
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 to inventories	(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
At January 1, 2006	3,699,443	468,076	1,293	348	70	227,275	4,396,505
Charge for the year	378,206	39,016	246	260	–	10,393	428,121
Impairment loss	6,843	934	–	–	–	3,864	11,641
Written back on disposals	(152,204)	(2,901)	–	–	–	(1,300)	(156,405)
Reclassification to inventories	(3,510)	–	–	–	–	–	(3,510)
Exchange reserve	–	286	–	–	–	24	310
At December 31, 2006	**3,928,778**	**505,411**	**1,539**	**608**	**70**	**240,256**	**4,676,662**
Net book value							
At December 31, 2006	**1,403,651**	**103,389**	**9,886**	**17,581**	**–**	**56,846**	**1,591,353**
At December 31, 2005	1,658,731	107,356	2,013	2,325	–	67,911	1,838,336

As at December 31, 2006, the gross carrying amounts of property, plant and equipment of the Group held for use in operating leases were HK$230,545,000 (2005: HK$237,107,000) and the related accumulated depreciation was HK$140,953,000 (2005: HK$110,908,000).

13. Property, plant and equipment *(continued)*

(a) Property, plant and equipment held under finance leases

The Group leases certain equipment under finance leases expiring in two years. At the end of the lease term the Group has the option to purchase the leased equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals. During the year, additions to property, plant and equipment of the Group financed by new finance leases were HK$1,018,000 (2005: Nil). At the balance sheet date, the net book value of network, decoders, cable modems and television production systems held under finance leases of the Group was HK$848,000 (2005: Nil).

14. Programming library

	Group		
	Internally developed	**Acquired**	**Total**
	HK$'000	HK$'000	HK$'000
Cost			
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
At January 1, 2006	34,684	356,655	391,339
Additions	5,541	138,422	143,963
Written off	–	(70,137)	(70,137)
At December 31, 2006	**40,225**	**424,940**	**465,165**
Accumulated amortisation			
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
At January 1, 2006	10,108	238,375	248,483
Charge for the year	9,639	91,478	101,117
Written off	–	(70,137)	(70,137)
At December 31, 2006	**19,747**	**259,716**	**279,463**
Net book value			
At December 31, 2006	**20,478**	**165,224**	**185,702**
At December 31, 2005	24,576	118,280	142,856

15. Other intangible assets

	Group		
	Club debentures HK$'000	Advertising rights HK$'000	Total HK$'000
Cost			
At January 1, 2005, December 31, 2005 and January 1, 2006	4,006	–	4,006
Relating to a subsidiary acquired (Note 35)	–	11,692	11,692
At December 31, 2006	**4,006**	**11,692**	**15,698**
Accumulated amortisation			
At January 1, 2005, December 31, 2005 and January 1, 2006	–	–	–
Charge for the year	–	(2,923)	(2,923)
At December 31, 2006	**–**	**(2,923)**	**(2,923)**
Net book value			
At December 31, 2006	**4,006**	**8,769**	**12,775**
At December 31, 2005	4,006	–	4,006

16. Other non-current assets

	Group	
	2006 HK$'000	2005 HK$'000
Unlisted equity securities, at cost	**8,225**	8,225
Inventories	**7,726**	2,554
Deposits, prepayments and other receivables	**27,734**	35,037
Amounts due from fellow subsidiaries	**7,394**	7,827
	51,079	53,643

Included in other non-current assets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	Group		Company	
	2006 '000	2005 '000	**2006 '000**	2005 '000
British Pound Sterling	**GBP25**	–	**–**	–
Chinese Renminbi	**RMB59**	–	**–**	–
United States Dollars	**USD1,279**	USD100	**–**	–

17. Investments in subsidiaries

	Company	
	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**12**	12

17. Investments in subsidiaries *(continued)*

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

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 Entertainment Limited	Hong Kong	Programme production and channel operation	10,000,000 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
i-CABLE Sports Limited	Hong Kong	Programme production and channel operation	10,000,000 ordinary shares of HK$1 each	–	100
i-CABLE Network Operations Limited (Formerly "i-CABLE WebServe Limited")	Hong Kong	Internet and multimedia	500,000 ordinary shares of HK$1 each	–	100

17. 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	Indirectly
Rediffusion Satellite Services Limited	Hong Kong	Satellite television systems	1,000 ordinary shares of HK$10 each	–	100
Sundream Motion Pictures 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

* *This entity is registered as wholly foreign owned enterprises under PRC law and not audited by KPMG.*

18. Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, interest free, have no fixed terms of repayment, and are arisen in the ordinary course of business.

19. Inventories

	Group 2006 HK$'000	Group 2005 HK$'000
Spare parts and consumables	**1,198**	9,869
Less: Provision for obsolescence	**(87)**	(75)
	1,111	9,794

20. Trade and other receivables

Trade and other receivables comprise:

	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
Accounts receivable from trade debtors	**85,585**	84,150	**–**	–
Deposits, prepayments and other receivables	**64,445**	105,271	**1**	654
	150,030	189,421	**1**	654

20. Trade and other receivables *(continued)*

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

	Group	
	2006	2005
	HK$'000	HK$'000
0 to 30 days	**24,819**	24,019
31 to 60 days	**24,428**	24,153
61 to 90 days	**16,869**	15,681
Over 90 days	**19,469**	20,297
	85,585	84,150

The Group's credit policy is set out in Note 32(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	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
British Pound Sterling	**GBP2**	–	**–**	–
Chinese Renminbi	**RMB758**	RMB1,629	**–**	–
United States Dollars	**USD920**	USD140	**–**	–

21. Amounts due from fellow subsidiaries

The amounts due from fellow subsidiaries are unsecured, interest free and repayable on demand, and are arisen in the ordinary course of business (see Note 38).

22. Cash and cash equivalents

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits with banks and other financial institutions	**560,165**	320,610	**–**	–
Cash at bank and in hand	**26,032**	31,282	**910**	1,049
	586,197	351,892	**910**	1,049

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	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
British Pound Sterling	**–**	GBP4	**–**	–
Chinese Renminbi	**RMB9,532**	RMB1,905	**–**	–
United States Dollars	**USD508**	USD69	**USD5**	–

23. Trade and other payables

Trade and other payables comprise:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts due to trade creditors	**42,675**	70,466	**–**	–
Accrued expenses and other payables	**395,698**	392,951	**3,050**	4,229
Receipts in advance and customers' deposits	**107,527**	70,075	**–**	–
	545,900	533,492	**3,050**	4,229

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

	Group	
	2006	2005
	HK$'000	HK$'000
0 to 30 days	**3,806**	5,345
31 to 60 days	**3,916**	9,020
61 to 90 days	**6,537**	18,257
Over 90 days	**28,416**	37,844
	42,675	70,466

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	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
British Pound Sterling	**GBP154**	GBP499	**–**	–
Canadian Dollars	**CAD1**	–	**–**	–
Japanese Yen	**–**	JPY470	**–**	–
New Taiwan Dollars	**TWD763**	–	**–**	–
Chinese Renminbi	**RMB395**	RMB1,245	**–**	–
Swiss Francs	**CHF17**	–	**–**	–
United States Dollars	**USD9,914**	USD11,289	**USD1**	USD8

24. Amounts due to subsidiaries

The amounts due to subsidiaries are unsecured, interest free, and have no fixed terms of repayment, and are arisen in the ordinary course of business (see Note 38).

25. Amounts due to fellow subsidiaries

The amounts due to fellow subsidiaries are unsecured, interest free, and repayable on demand, and are arisen in the ordinary course of business (see Note 38).

26. 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, and is arisen in the ordinary course of business (see Note 38).

27. Obligations under finance leases

	Group 2006 Present value of the minimum lease payments HK$'000	Group 2006 Total minimum lease payments HK$'000	Group 2005 Present value of the minimum lease payments HK$'000	Group 2005 Total minimum lease payments HK$'000
Within one year	**705**	**723**	–	–
After one year but within two years	**72**	**73**	–	–
	777	**796**	–	
Less: total future interest expenses		**(19)**		–
Present value of lease obligations		**777**		–

28. Other non-current liabilities

	Group 2006 HK$'000	Group 2005 HK$'000
Accrued expenses and other payables	**9,248**	–
Receipts in advance and customers' deposits	**42,671**	77,926
Amount due to a fellow subsidiary	**2,051**	–
	53,970	77,926

29. 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.

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

	2006 Number of options	2006 Weighted-average exercise price per share HK$	2005 Number of options	2005 Weighted-average exercise price per share HK$
At January 1	**15,160,000**	**10.49**	27,711,600	7.36
Lapsed				
– Forfeited	**(3,060,000)**	**10.49**	(962,000)	6.89
– Expired	**–**	**–**	(11,589,600)	3.30
At December 31	**12,100,000**	**10.49**	15,160,000	10.49
Options vested and exercisable at December 31	**7,260,000**	**10.49**	9,096,000	10.49

29. Equity settled share-based transactions *(continued)*

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

Date granted	Exercise period	Exercise price	2006 Number	2005 Number
February 8, 2000	April 1, 2001 to December 31, 2009	HK$10.49	**12,100,000**	15,160,000

At December 31, 2006, the weighted average remaining contractual life of unexpired share options was 1.8 years (2005: 2.4 years).

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

30. Capital and reserves

(a) Authorised and issued share capital

	2006 HK$'000	2005 HK$'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.

30. Capital and reserves *(continued)*

(b) Nature and purpose of reserves *(continued)*

(ii) Special capital reserve (continued)

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, 2006, the Limit of the special capital reserve, as reduced by HK$516,824,140 (2005: HK$508,033,384) related to recoveries and reversals of provisions of the relevant assets, was HK$932,750,633 (2005: HK$1,449,574,773), and the amount standing to the credit of the special capital reserve was HK$13,771,309 (2005: HK$7,923,811).

(iii) Exchange reserve

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

(iv) Distributability of reserves

At December 31, 2006, reserves of the Company available for distribution to equity shareholders of the Company amounted to HK$1,136,835,000 (2005: HK$1,308,604,000).

After the balance sheet date, the Directors proposed a final dividend of 5 cents per share (2005: 5 cents per share), amounting to HK$100,962,000 (2005: HK$100,962,000). This dividend has not been recognised as a liability at the balance sheet date.

31. Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	Group	
	2006 HK$'000	2005 HK$'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 year are as follows:

Deferred tax arising from:	**Depreciation allowances in excess of related depreciation** HK$'000	**Tax losses** HK$'000	**Other** HK$'000	**Total** HK$'000
At January 1, 2005	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)
Addition through acquisition of subsidiary	–	–	3,508	3,508
Charged/(credited) to consolidated profit and loss account (Note 7(a))	(34,921)	64,150	(877)	28,352
At December 31, 2006	**164,215**	**(440,051)**	**2,631**	**(273,205)**

31. Income tax in the balance sheet *(continued)*

(b) Deferred tax assets and liabilities recognised *(continued)*:

	2006 **HK$'000**	2005 HK$'000
Net deferred tax assets recognised on the balance sheet	**(388,266)**	(434,266)
Net deferred tax liabilities recognised on the balance sheet	**115,061**	129,201
	(273,205)	(305,065)

(c) Deferred tax assets not recognised:

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

	2006 **HK$'000**	2005 HK$'000
Future benefit of tax losses	**422,655**	431,871
Provision for obsolete inventories	**–**	13
Impairment loss for bad and doubtful accounts	**1,035**	384
	423,690	432,268

32. Financial risk management objectives and policies

Exposure to credit, liquidity, interest rate and foreign 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, 2006, the Group had short-term deposits with bank and other financial institutions amounting to HK$560,165,000 (2005: HK$320,610,000), with original maturities of four 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.

32. Financial risk management objectives and policies *(continued)*

(c) Interest rate risk *(continued)*

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	
	2006 HK$'000	2005 HK$'000	**2006 %**	2005 %	**2006 HK$'000**	2005 HK$'000	**2006 %**	2005 %
Floating rate:								
Cash and cash equivalents	**26,032**	31,282	**0.59**	0.02	**910**	1,049	**–**	–
Fixed rate:								
Cash and cash equivalents	**560,165**	320,610	**3.77**	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, 2006, the Group had outstanding forward foreign exchange contract to buy foreign currency with a notional principal value of HK$101 million equivalent. The fair value of the contract was HK$30,000 at December 31, 2006 and included as "other receivables" in the financial statements (see Note 20).

(ii) Recognised assets and liabilities

In respect of trade and other 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.

33. Fair value of financial instruments

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2006 and 2005.

34. Jointly controlled assets

At December 31, 2006, the aggregate amounts of assets and liabilities recognised in the financial statements relating to the Group's interests in jointly controlled assets are as follows:

	2006 HK$'000	2005 HK$'000
Assets:		
Programming library	**14,857**	8,364
Prepayments and other receivables	**9,089**	3,336
Cash and cash equivalents	**2**	–
	23,948	11,700
Liabilities:		
Accrued expenses and other payables	**926**	–

35. Acquisition of a subsidiary

On April 30, 2006, the Group acquired 70% interest in 北京天意華卓然廣告有限公司 of approximately HK$10,232,000, satisfied in cash.

	2006 HK$'000
Net assets acquired:	
Accounts receivable from trade debtors	**8,249**
Deposits, prepayments and other receivables	**5,087**
Intangible asset	**11,692**
Cash and cash equivalents	**2,755**
Accrued expenses and other payables	**(9,113)**
Receipts in advance and customers' deposits	**(545)**
Deferred tax liability	**(3,508)**
Net assets acquired	**14,617**
Amount of net assets attributable to minority shareholders	**(4,385)**
Total purchase price paid, satisfied in cash	**10,232**
Less: cash of the subsidiary acquired	**(2,755)**
Net cash outflow in respect of the purchase of a subsidiary	**7,477**

The results of operations of 北京天意華卓然廣告有限公司 are consolidated and included in the financial statements of the Group from April 30, 2006 onward. This acquisition was not a material business combination as measured by either the purchase price, total assets or profit before and after taxation to the Group's financial condition and results of operations.

36. Commitments

Commitments outstanding as at December 31, 2006 not provided for in the financial statements were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Capital commitments				
(i) Property, plant and equipment				
– Authorised and contracted for	**12,782**	14,196	**–**	–
– Authorised but not contracted for	**121,278**	119,468	**–**	–
	134,060	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	**–**	–
	136,465	146,170	**–**	–
Programming and other commitments				
– Authorised and contracted for	**421,934**	465,019	**–**	–
– Authorised but not contracted for	**57,436**	80,006	**–**	–
	479,370	545,025	**–**	–
Operating lease commitments				
– Within one year	**41,195**	42,938	**–**	–
– After one year but within five years	**36,415**	75,386	**–**	–
– After five years	**54,742**	56,021	**–**	–
	132,352	174,345	**–**	–
	748,187	865,540	**–**	–

(a) Operating lease commitments

The Group leases a number of premises under operating leases for use as office premises, car parks, warehouses, district centres, 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.

36. Commitments *(continued)*

(b) Future operating lease income

(i) The total future minimum sublease payments receivable under non-cancellable subleases at December 31, 2006 amounted to HK$8,951,000 (2005: HK$12,336,000).

(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	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Within one year	**7,886**	9,587	**–**	–

37. Contingent liabilities

As at December 31, 2006, 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 (2005: HK$616 million) in respect of overdraft and guarantee facilities given by those banks to the subsidiaries. Of this amount, at December 31, 2006, HK$107 million (2005: HK$311 million) was utilised by the subsidiaries.

As at the balance sheet date, the Company has issued two separate guarantees to a bank in respect of overdraft facilities granted to two wholly owned subsidiaries which expires on August 31, 2007. At December 31, 2006, none of the overdraft facilities was drawn down by the subsidiaries. The Company has not recognised any deferred income in respect of the guarantees as their fair values cannot be reliably measured and the transaction price was HK$Nil.

38. Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions during the year ended December 31, 2006:

	2006 HK$'000	2005 HK$'000
Rentals payable and related management fees on land and buildings (Note (i))	**40,118**	36,141
Rentals receivable on land and buildings (Note (ii))	**(5,065)**	(4,464)
Network repairs and maintenance services charge (Note (iii))	**(22,484)**	(21,783)
Management fees (Note (iv))	**12,430**	12,630
Computer services (Note (v))	**16,598**	17,814
Leased line and Public Non-Exclusive Telecommunications Service ("PNETS") charges and international bandwidth access charges (Note (vi))	**21,684**	21,756
Project management fees (Note (vii))	**(3,421)**	(6,079)
Internet Protocol Point wholesale services charge (Note (viii))	**(39,490)**	(21,294)
Agency fees (Note (ix))	**(24,723)**	(14,185)

38. Material related party transactions *(continued)*

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, 2006, related rental deposits amounted to HK$8,583,000 (2005: 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$61,000 (2005: HK$608,000) constructed by a fellow subsidiary on behalf of the Group during the year ended December 31, 2006.

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.

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:

	2006 HK$'000	2005 HK$'000
Short-term employee benefits	**34,132**	35,917
Post-employment benefits	**1,367**	1,367
	35,499	37,284

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

39. Non-adjusting post balance sheet event

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

40. 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(o), 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. 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(h)(i), 1(j), 1(k), 1(s), and Note 33 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, other intangible assets, inventories, loans and receivables, and unlisted 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 realisable value. If revenue actually generated were to fall short of 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.

Property, plant and equipment, inventories, and various financial instruments including loans and receivables, equity instruments and other intangible assets 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 and other intangible assets in use represent the amount that these assets are expected to generate based on reasonable and supportable assumptions. The value of loans and receivables are calculated based on estimated future cash flows. The fair value of 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.

41. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended December 31, 2006 and which have not been adopted in these financial statements.

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 them is unlikely to have a significant impact on the Group's results of operations and financial position.

41. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2006 *(continued)*

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for accounting periods beginning on or after
HKFRS 7, Financial instruments: disclosures	January 1, 2007
Amendments to HKAS 1, Presentation of financial statements: capital disclosures	January 1, 2007
HK (IFRIC) 7, Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies	March 1, 2006
HK (IFRIC) 8, Scope of HKFRS 2 Share based payments	May 1, 2006
HK (IFRIC) 9, Reassessment of embedded derivatives under HKAS 39	June 1, 2006
HK (IFRIC) 10, Interim financial reporting and impairment	November 1, 2006
HK (IFRIC) 11, HKFRS 2 – Group and treasury share arrangements	March 1, 2007
HK (IFRIC) 12, Service concession arrangements	August 1, 2008

42. Parent and ultimate controlling party

The Directors consider the parent and the ultimate controlling party at December 31, 2006 to be Wharf Communications Limited and The Wharf (Holdings) Limited, respectively, both of which are incorporated in Hong Kong. The Wharf (Holdings) Limited produces financial statements available for public use.

43. Comparative figures

Certain comparative figures have been re-classified to conform with the current year's presentation.

44. Approval of financial statements

The financial statements were approved and authorised for issue by the Directors on March 5, 2007.

In addition to the Company's annual financial statements 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 financial statements 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 financial statements are based on the prior year's statutory financial statements presented at the previous Annual General Meeting.