有線寬頻 i-CABLE

STOCK CODE: 1097

2010
INTERIM REPORT

i-CABLE COMMUNICATIONS LIMITED

About the Company

i-CABLE Communications Limited is one of Hong Kong´s leading integrated communications companies.

It is one of the largest producers of video, film and multimedia content based in Hong Kong, for distribution over conventional and new media, with particular focus on news, information, sports and entertainment.

It owns and operates one of two near universal broadband telecommunications networks in Hong Kong, over which it provides Pay TV, Broadband and Voice services to well over one million subscribing households and businesses.

RESULTS HIGHLIGHTS

Television

- 2010 FIFA World Cup was a major draw card to rebuild business momentum. In addition, subscribers were thrilled by the sharpest High Definition pictures in town.
- However, the recognition of recurrent revenue from long term subscriber commitments very seriously lags the substantial non-recurrent programming costs booked in the period.
- A large operating loss for the period therefore resulted.
- Subscribers increased by 9% to 1,086,000 (2009 year end: 1,000,000). This represented the largest half yearly net gain ever.
- However, turnover increased by only 22% to HK$725 million (2009: HK$595 million).
- Operating expenses increased by 47% to HK$748 million (2009: HK$508 million), mainly due to special events including World Cup, Winter Olympics, etc.
- An operating loss of HK$102 million was reported (2009: HK$1 million profit).
- World Cup has jump-started business growth to build up to the opening in August of the new season for Barclays Premier League and UEFA Champions League, by far the most popular football leagues around the world today.
- Post-World Cup subscriber retention has also been very satisfactory.
- Asian Games in Guangzhou in November will further galvanize the attention of the Hong Kong public.
- However, costs in the second half of the year will be higher than in the first half to reflect the additional programming investment. Much more dynamic revenue growth will be needed.
- While its application for a Free TV licence is under evaluation, subsidiary Fantastic Television Limited has begun pre-mobilisation to enable service to be rolled out to 95% of all Hong Kong households within six months from licence award.

Internet & Multimedia

- Competition heightened in the period.
- Broadband subscribers decreased by 6% to 234,000 (2009 year end: 249,000).
- Turnover decreased by 13% to HK$231 million (2009: HK$266 million).
- Operating profit decreased by 32% to HK$55 million (2009: HK$81 million).
- Technology upgrade has been substantially completed for Hong Kong Island to enhance the service's competitiveness.

GROUP RESULTS

- Turnover increased by 12% to HK$962 million (2009: HK$862 million).
- A net loss of HK$106 million was reported for the core businesses due to the recognition timing mismatch for Pay TV. In addition, a one-off investment loss of HK$39 million in a film fund was booked.
- The Group loss attributable to Shareholders amounted to HK$146 million (2009: net profit of HK$5 million).
- Basic and diluted loss per share were both HK$0.072 (2009: earnings of HK$0.002).
- Capital expenditure decreased by 4% to HK$120 million (2009: HK$125 million).
- Net cash was HK$539 million as at June 30, 2010 (2009: HK$621 million).

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2010 (2009 interim dividend: Nil).

BUSINESS REVIEW

Overview

Strong programming line-up, particularly 2010 FIFA World Cup and the return of the Barclays Premier League ("BPL") to the CABLE TV platform, has brought a record increase in the number of Pay TV subscribers, contributing to a 12% growth of the Group's turnover during the period to HK$962 million.

The period also saw a firm reversal of subscription revenue dilution that had impacted the Television segment, as higher yield subscribers continued to return.

Riding on CABLE TV's exclusive full live coverage of the 64 matches of 2010 FIFA World Cup, the period also recorded substantial growth in airtime sales revenue.

However, due to a significant mismatch of timing of recognition of operating expenses and revenue from investments on premier programming in the books, as well as the recognition of a non-recurring loss from an investment in a film fund, net loss widened from HK$45 million in the second half of 2009 to HK$145 million during the first half of the year (2009: net profit of HK$5 million).

While the Group kept up with disciplined fiscal control, the booking of programming investments during the period has put pressure on overall operating costs. However, capital expenditure decreased by 4% to HK$120 million (2009: HK$125 million).

The Group's financial position remained solid, with net cash of HK$539 million as at June 30, 2010 (2009: HK$621 million).

Competition and Operating Environment

During the period, competition remained keen, particularly as our main competitor mounted aggressive marketing initiatives in an apparent attempt to cushion the impact of its loss of the broadcast rights of the BPL for the next three seasons.

We have, meanwhile, mounted our own waves of marketing and promotional campaigns, and successfully maximized the leverage of our prized acquired contents to grow our subscriber base, revenue and airtime sales.

Further expansion of digital terrestrial TV during the period continued to present a source of competition for the Group's Pay TV business although the impact has been modest so far. Cut-throat competition on the broadband front is, meanwhile, not expected to ease in the near future.

Three applications for licences to operate domestic free TV services are being processed by the regulators, including one submitted by i-CABLE on behalf of Fantastic Television.

Television

During the period, substantial growth was recorded in this business segment, with the Pay TV subscriber base expanding by 9% to 1,086,000 from 1,000,000 at the end of 2009 – the largest half-year net gain ever. Turnover increased by 22% to HK$725 million (2009: HK$595 million).

The encouraging growth was attributable to strong subscriber acquisition momentum starting with the introduction of HDTV services last fall, which was sustained through the period with a strong offering of much-anticipated premier sports programming, including the 2010 Winter Olympics, 2010 FIFA World Cup, and the new seasons of the BPL and UEFA Champions League – by far the most popular football leagues around the world today – and the UEFA Europa League set to kick off back-to-back in August. World Cup related programming and promotional activities that led up to the June 11 kick-off, as well as keen media attention on the free TV re-broadcasting issue, have helped to heighten subscriber interest. New programmes launched during the period on the News and Entertainment platforms also added to the attraction.

An operating loss of HK$102 million, an increase of 122% from HK$46 million in the second half of 2009, was nonetheless recorded due to increase in programming and marketing costs booked during the period (2009: operating profit of HK$1 million).

Post-World Cup subscriber retention has been very satisfactory. The Group's unrivalled sports actions on the Pay TV platform are expected to continue to drive subscription growth in the latter part of the year, as the BPL and premier European football actions took over from the World Cup fever. Asian Games in Guangzhou in November will further galvanize the attention of Hong Kong viewers.

Addition of new popular channels, the revamping of existing ones and continued efforts to expand our HDTV offerings planned for the second half are also expected to help to drive growth for this business segment.

Internet and Multimedia

The subscriber base came under attrition pressure as cross poaching of subscribers continued in earnest in a saturated market.

Broadband subscribers decreased by 6% in the period to 234,000 (2009: 249,000). Turnover decreased by 13% to HK$231 million (2009: HK$266 million). Operating profit of $55 million was 32% down from last year (2009: HK$81 million).

To protect our market share, we will persist with our policy of taking proactive steps to improve service and quality and step up customer retention efforts, which remain to be the most effective strategy to prevail in the face of the competitive conditions of Hong Kong's broadband market.

During the period, we completed roll-out of a technology upgrade on Hong Kong Island to meet the demand for high bandwidth connectivity services, and higher bandwidth applications were deployed. Works to roll-out the new generation of broadband service has begun in Kowloon.

Content Production, Distribution and Programming

Maintaining high attractiveness of our programming platforms, both by continuing to invest in acquired contents and perfecting existing programming has again proven to be a success formula for our Pay TV operation.

Under the long-standing strategy of balanced development of our flagship platforms of sports, news and entertainment, programme offerings have been strengthened during the period, with a number of new initiatives soon to be launched.

The entertainment platform has achieved breakthroughs. We have secured the appearance of popular singers, effectively breaking free of the *de facto* monopoly of artistes and popular singers by the dominant player in the local TV sector.

CABLE No. 1 Channel continued to gain popularity and has taken part in exploiting the Group's valuable exclusive broadcast rights of the 2010 FIFA World Cup by airing important matches and daily one-hour highlights programme. The channel was retransmitted on the digital platform of the free-to-air services during the World Cup hours, thereby further boosting the presence and the brand of the channel.

The format of travelogue programmes were refreshed, with new episodes adopting a thematic approach. The Entertainment Channel recorded its highest ratings in three years, and our entertainment crew made news themselves by becoming the only non-news production team to cover the Iceland volcanic ash attack.

Content attraction is also being further boosted by the launch of new premium and basic-pack channels in the second half of the year.

The Disney Channel Pack, comprising the Disney Channel and the Playhouse Disney Channel, is slated for launch in July.

CNC, which is carried exclusively on CABLE TV, is the first 24-hour Mandarin news channel affiliated to Xinhua News Agency, serving audiences around the world with global major events and news reports in a Chinese perspective.

On the sports front, riding on the success of the live high-definition coverage of the 2010 Winter Olympic Games in February and the 2010 FIFA World Cup in June and July, the sports platform will be bringing viewers exclusive events with expanded channel capacity and high definition TV capability.

The return of the BPL in mid-August will be followed by Europe's most coveted tournaments – the UEFA Champions League and the UEFA Europa League. Other top-notch events include the German Bundesliga and the 2010 Asian Games, Guangzhou towards the end of the year.

Outlook

The Group has persevered with its strategy of investing for the future, particularly in unique premier programming, even during difficult operating times when the local economy was stricken by the debilitating effects of the financial tsunami.

The strategy has again proven to be effective – as recovery of the economy began to take hold during the first half of the year, such investments have started to pay off as our attractive content drove strong subscriber and revenue growth.

In the second half of the year, we will continue to roll out superior programme and new service offering, including an expansion of the HD platform. While competition pressure is not expected to ease, we are confident that the powerful growth momentum we have seen will be sustained, and be reflected in the Group's financial performance in due course.

FINANCIAL REVIEW

A. Review of 2010 Interim Results

Consolidated turnover increased by 12% to HK$962 million.

Operating costs before depreciation increased by 31% to HK$944 million. Programming costs increased by 44%; selling, customer service, general and administrative expenses increased by 24% and cost of sales increased by 41%, while network costs decreased by 2%. Depreciation decreased by 9% to HK$126 million.

Net loss of HK$145 million was reported (2009: net profit of HK$5 million).

Basic loss per share was 7.2 cents as compared to earnings per share of 0.2 cents in 2009.

B. Segmental Information

Television

Pay TV subscribers increased by a record of 86,000 or 9% in the period to 1,086,000. Turnover increased by 22% to HK$725 million, mainly attributable to increase in higher yield subscriptions and strong commercial airtime sales. Operating costs after depreciation increased by 39% to HK$827 million primarily due to higher programming cost of 2010 FIFA World Cup. Operating loss of HK$102 million was reported (2009: operating profit of HK$1 million).

Internet & Multimedia

Broadband subscribers decreased by 16,000 or 6% in the period to 234,000 and the Voice conveyance service decreased by 5,000 or 3% to 147,000 lines in the period. Turnover decreased by 13% to HK$231 million. Operating costs after depreciation decreased by 4% to HK$177 million primarily due to lower depreciation charges. Operating profit decreased by 32% to HK$55 million (2009: HK$81 million).

C. Liquidity and Financial Resources

As of June 30, 2010, the Group had net cash of HK$539 million, as compared to HK$532 million at December 31, 2009.

The consolidated net asset value of the Group as at June 30, 2010 was HK$1,870 million, or HK$0.9 per share.

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

Capital expenditure during the period amounted to HK$120 million, 4% lower than the same period last year. Major items included High Definition ("HD") set-top-boxes, broadband network upgrade as well as television production facilities for HD channels.

The Group's ongoing capital expenditure and new business development will be funded by cash in hand and cash to be generated from operations plus, if needed, bank borrowings or other external sources of funds. The Group also had total short-term bank credit facilities of approximately HK$13 million which remained unutilised as of June 30, 2010.

D. Contingent Liabilities

At June 30, 2010, there were contingent liabilities in respect of guarantees, indemnities and letters of awareness given by the Company on behalf of subsidiaries relating to overdraft and guarantee facilities of banks up to HK$19 million, of which only HK$6 million have been utilised by the subsidiaries.

E. Human Resources

The Group had a total of 2,829 employees at the end of June 2010 (2009: 2,851). Total gross salaries and related costs incurred in the corresponding period amounted to HK$387 million (2009: HK$354 million).

With pay for performance culture, we nurture professionals and talents to strive for excellence.

The Group actively participates in community affairs. We were awarded the "Caring Company Scheme 5 Years Plus Logo" by the Hong Kong Council of Social Service in recognition of our continuous commitment in corporate social responsibility.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

Consolidated Income Statement

For the six months ended June 30, 2010 – unaudited

	Note	Six months ended June 30, 2010 HK$'000	2009 HK$'000
Turnover	3	**962,040**	861,655
Programming costs		**(545,973)**	(379,287)
Network expenses		**(118,628)**	(120,513)
Selling, general and administrative and other operating expenses		**(250,382)**	(201,743)
Cost of sales		**(29,023)**	(20,614)
Profit from operations before depreciation		**18,034**	139,498
Depreciation	4	**(126,447)**	(138,730)
(Loss)/profit from operations		**(108,413)**	768
Interest income		**61**	152
Finance costs		**–**	(1)
Impairment losses on investment		**–**	(1,006)
Non-operating income/(expenses)	4	**1,180**	(1,164)
Share of (loss)/profit of associate		**(39,081)**	805
Loss before taxation	4	**(146,253)**	(446)
Income tax	5	**762**	5,528
(Loss)/profit for the period		**(145,491)**	5,082
Attributable to:			
Equity shareholders of the Company		**(145,545)**	4,910
Non-controlling interests		**54**	172
(Loss)/profit for the period		**(145,491)**	5,082
(Loss)/earnings per share			
Basic	6	**(7.2) cents**	0.2 cents
Diluted	6	**(7.2) cents**	0.2 cents

The notes on pages 14 to 22 form part of this interim financial report.

Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2010 – unaudited

	Six months ended June 30, 2010 HK$'000	2009 HK$'000
(Loss)/profit for the period	**(145,491)**	5,082
Other comprehensive income for the period (after reclassification adjustment):		
Exchange difference on translation of foreign subsidiaries' financial statements	**(68)**	106
Available-for-sale securities: net movement in the fair value reserve	**4,282**	(207)
Share of post-acquisition reserve of associate	**935**	(908)
	5,149	(1,009)
Total comprehensive income for the period	**(140,342)**	4,073
Attributable to:		
Equity shareholders of the Company	**(140,396)**	3,885
Non-controlling interests	**54**	188
Total comprehensive income for the period	**(140,342)**	4,073

The notes on pages 14 to 22 form part of this interim financial report.

Consolidated Statement of Financial Position

At June 30, 2010 – unaudited

	Note	At June 30, 2010 HK$'000 (unaudited)	At December 31, 2009 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*7*	**1,144,619**	1,153,257
Programming library	*8*	**108,162**	113,794
Other intangible assets	*9*	**4,006**	4,006
Interest in associate		**–**	38,145
Deferred tax assets	*13*	**325,453**	330,305
Other non-current assets		**96,669**	81,511
		1,678,909	1,721,018
Current assets			
Inventories		**5,604**	4,542
Accounts receivable from trade debtors	*10*	**88,701**	55,742
Deposits, prepayments and other receivables		**216,693**	319,827
Amounts due from fellow subsidiaries		**4,491**	2,814
Cash and cash equivalents		**538,787**	530,852
		854,276	913,777
Current liabilities			
Amounts due to trade creditors	*11*	**151,264**	91,058
Accrued expenses and other payables		**241,070**	243,324
Receipts in advance and customers' deposits		**153,999**	155,595
Current taxation	*13*	**1,803**	2,132
Amounts due to fellow subsidiaries		**37,487**	48,110
Amount due to immediate holding company		**942**	1,872
		586,565	542,091
Net current assets		**267,711**	371,686
Total assets less current liabilities		**1,946,620**	2,092,704
Non-current liabilities			
Deferred tax liabilities	*13*	**68,205**	74,118
Other non-current liabilities		**8,472**	8,301
		76,677	82,419
NET ASSETS		**1,869,943**	2,010,285
Capital and reserves			
Share capital	*12*	**2,011,512**	2,011,512
Reserves		**(144,321)**	(3,925)
Total equity attributable to equity shareholders of the Company		**1,867,191**	2,007,587
Non-controlling interests		**2,752**	2,698
TOTAL EQUITY		**1,869,943**	2,010,285

The notes on pages 14 to 22 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended June 30, 2010 – unaudited

	Attributable to equity shareholders of the Company										Non-controlling interests	Total equity
	Share capital	Share premium	Special capital reserve	Exchange reserve	Capital redemption reserve	Fair value reserve	Revenue reserve	Other reserve	Total reserves	Total		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at January 1, 2009*	2,012,340	4,838,365	13,881	4,095	6,894	–	(4,823,737)	(1,996)	37,502	2,049,842	4,674	2,054,516
Total comprehensive income for the period	–	–	–	90	–	(207)	4,910	(908)	3,885	3,885	188	4,073
Share repurchased and cancelled	(828)	–	–	–	828	–	(474)	–	354	(474)	–	(474)
Share repurchase expenses	–	–	–	–	–	–	(6)	–	(6)	(6)	–	(6)
Transfer to special capital reserve	–	–	17	–	–	–	(17)	–	–	–	–	–
Balance at June 30, 2009*	2,011,512	4,838,365	13,898	4,185	7,722	(207)	(4,819,324)	(2,904)	41,735	2,053,247	4,862	2,058,109
Balance at January 1, 2010*	2,011,512	4,838,365	13,944	4,158	7,722	–	(4,865,182)	(2,932)	(3,925)	2,007,587	2,698	2,010,285
Total comprehensive income for the period	–	–	–	(68)	–	4,282	(145,545)	935	(140,396)	(140,396)	54	(140,342)
Balance at June 30, 2010*	2,011,512	4,838,365	13,944	4,090	7,722	4,282	(5,010,727)	(1,997)	(144,321)	1,867,191	2,752	1,869,943

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

The notes on pages 14 to 22 form part of this interim financial report.

Condensed Consolidated Statement of Cash Flow

For the six months ended June 30, 2010 – unaudited

	Six months ended June 30,	
	2010	2009
	HK$'000	HK$'000
Operating activities		
Loss before taxation	**(146,253)**	(446)
Adjustments for:		
Net finance costs	**(61)**	(151)
Depreciation	**126,447**	138,730
Amortisation of programming library	**41,151**	47,326
Others	**41,621**	1,398
Operating profit before change in working capital	**62,905**	186,857
Change in working capital	**79,752**	(85,966)
Cash generated from operations	**142,657**	100,891
Interest received	**63**	156
Interest paid	**–**	(1)
Overseas tax paid	**(629)**	(3,663)
Net cash generated from operating activities	**142,091**	97,383
Investing activities		
Purchase of property, plant and equipment	**(98,487)**	(101,610)
Other net investing activities	**(35,599)**	(63,651)
Net cash used in investing activities	**(134,086)**	(165,261)
Net cash used in financing activities	**(2)**	(483)
Net increase/(decrease) in cash and cash equivalents	**8,003**	(68,361)
Effect of foreign exchange rate changes	**(68)**	78
Cash and cash equivalents at January 1	**530,852**	689,636
Cash and cash equivalents at June 30	**538,787**	621,353

The notes on pages 14 to 22 form part of this interim financial report.

1. Basis of preparation and comparative figures

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

2. Changes in accounting policies

The HKICPA has issued two revised Hong Kong Financial Reporting Standards ("HKFRSs"), a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

– HKFRS 3 (revised 2008), Business combinations
– Amendments to HKAS 27, Consolidated and separate financial statements
– Amendments to HKAS 39, Financial instruments: Recognition and measurement – eligible hedged items
– HK(IFRIC) 17, Distributions of non-cash assets to owners

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

The amendments to HKAS 39 have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

The impact of the majority of the revisions to HKFRS 3, HKAS 27 and HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets arose in the current period. Any losses incurred by a non-wholly owned subsidiary will be allocated between controlling and non-controlling interests in proportion to their interests in that equity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests in the current period.

3. Turnover

Turnover comprises principally subscription and related fees for 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.

Segment information

The Group managed its businesses according to the nature of services provided. Management has determined two reportable operating segments for measuring performance and allocating resources. The segments are Television and Internet and multimedia.

The Television segment includes operations related to the Television subscription business, advertising, channel carriage, TV relay service, programme licensing, network maintenance, and miscellaneous Television related businesses.

The Internet and multimedia segment includes operations related to Broadband and dial-up Internet access services, portal subscription, mobile content licensing, Voice Over Internet Protocol interconnection as well as other Internet access related businesses.

Business segments for the six months ended June 30

	Television		Internet and multimedia		Unallocated		Total	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Revenue from external customers	**720,042**	583,528	**222,097**	260,293	**19,901**	17,834	**962,040**	861,655
Inter-segment revenue	**5,127**	11,429	**9,042**	5,229	**1,282**	1,223	**15,451**	17,881
Reportable segment revenue	**725,169**	594,957	**231,139**	265,522	**21,183**	19,057	**977,491**	879,536
Reportable segment results ("EBIT")	**(101,874)**	801	**54,608**	80,719	**(60,554)**	(80,321)	**(107,820)**	1,199
Inter-segment elimination							**(593)**	(431)
(Loss)/profit from operations							**(108,413)**	768
Interest income							**61**	152
Finance costs							**–**	(1)
Impairment losses on investment							**–**	(1,006)
Non-operating income/(expenses)							**1,180**	(1,164)
Share of (loss)/profit of associate							**(39,081)**	805
Income tax							**762**	5,528
(Loss)/profit for the period							**(145,491)**	5,082

4. Loss before taxation

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

	Six months ended June 30, 2010 HK$'000	2009 HK$'000
Depreciation		
– assets held for use under operating leases	**9,227**	9,169
– other assets	**117,220**	129,561
	126,447	138,730
Amortisation of programming library*	**41,151**	47,326
Staff costs	**371,503**	339,246
Contributions to defined contribution retirement plans	**16,642**	15,653
Cost of inventories	**5,756**	5,937
Auditors' remuneration	**1,267**	458
Non-operating (income)/expenses		
Net (gain)/loss on disposal of property, plant and equipment	**(1,180)**	1,164

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

5. Income tax in the consolidated income statement

Income tax income in the consolidated income statement represents:

	Six months ended June 30, 2010 HK$'000	2009 HK$'000
Current tax – Overseas		
Tax for the period	**(299)**	(233)
Deferred tax (Note 13(b))		
Utilisation of prior year's tax losses recognised	**(3,888)**	(1,706)
Reversal of temporary differences	**4,949**	7,467
	1,061	5,761
Income tax income	**762**	5,528

The provision for Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the period. Taxation for the overseas subsidiaries is charged at the appropriate current rate of taxation ruling in the relevant countries.

6. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of HK$145,545,000 (2009: profit HK$4,910,000) and the weighted average number of ordinary shares outstanding during the period of 2,011,512,400 (2009: 2,011,856,289).

Weighted average number of ordinary shares

	At June 30, 2010	At June 30, 2009
Issued ordinary shares at January 1	**2,011,512,400**	2,012,340,400
Effect of shares repurchased	**–**	(484,111)
Weighted average number of ordinary shares at June 30	**2,011,512,400**	2,011,856,289

(b) Diluted (loss)/earnings per share

The calculation of diluted loss per share is based on the loss attributable to equity shareholders of the Company of HK$145,545,000 (2009: profit HK$4,910,000) and the weighted average number of ordinary shares of 2,011,512,400 (2009: 2,011,856,289) after adjusting for the effects of all dilutive potential ordinary shares.

All of the Company's share options did not have intrinsic value throughout 2009 and 2010. Accordingly, this has no dilutive effect on the calculation of diluted earnings per share in both periods.

7. Property, plant and equipment

	HK$'000
Net book value at January 1, 2010	1,153,257
Additions – Network, decoders, cable modems and television production systems	109,331
– Others	11,075
Disposals	(751)
Depreciation	(126,447)
Impairment loss	(1,172)
Reclassification to inventories	(674)
Net book value at June 30, 2010	1,144,619

8. Programming library

	HK$'000
Net book value at January 1, 2010	113,794
Additions	38,067
Amortisation	(41,151)
Impairment loss	(2,548)
Net book value at June 30, 2010	108,162

9. Other intangible assets

	At June 30, 2010 HK$'000	At December 31, 2009 HK$'000
Club debentures	**4,006**	4,006

10. Accounts receivable from trade debtors

An ageing analysis of accounts receivable from trade debtors (net of allowance for doubtful debts) is set out as follows:

	At June 30, 2010 HK$'000	At December 31, 2009 HK$'000
0 to 30 days	**55,087**	21,394
31 to 60 days	**4,985**	15,272
61 to 90 days	**16,426**	10,087
Over 90 days	**12,203**	8,989
	88,701	55,742

The Group has a defined credit policy. The general credit terms allowed range from 0 to 90 days.

11. Amounts due to trade creditors

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

	At June 30, 2010 HK$'000	At December 31, 2009 HK$'000
0 to 30 days	**58,136**	7,314
31 to 60 days	**19,799**	14,970
61 to 90 days	**39,045**	17,274
Over 90 days	**34,284**	51,500
	151,264	91,058

12. Share capital

	At June 30, 2010		At December 31, 2009	
	No. of shares ('000)	HK$'000	No. of shares ('000)	HK$'000
Authorised				
Ordinary shares of HK$1 each	**8,000,000**	**8,000,000**	8,000,000	8,000,000
Issued and fully paid at January 1	**2,011,512**	**2,011,512**	2,012,340	2,012,340
Shares repurchased and cancelled	**–**	**–**	(828)	(828)
At end of period/year	**2,011,512**	**2,011,512**	2,011,512	2,011,512

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

13. Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	At June 30, 2010 HK$'000	At December 31, 2009 HK$'000
Overseas taxation	**1,803**	2,132

13. Income tax in the consolidated statement of financial position *(continued)*

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	**Depreciation allowances in excess of related depreciation**	**Tax losses**	**Total**
	HK$'000	HK$'000	HK$'000
At January 1, 2010	95,022	(351,209)	(256,187)
Charged/(credited) to consolidated income statement *(Note 5)*	(4,949)	3,888	(1,061)
At June 30, 2010	90,073	(347,321)	(257,248)

	At June 30, 2010	At December 31, 2009
	HK$'000	HK$'000
Net deferred tax assets recognised on the consolidated statement of financial position	**(325,453)**	(330,305)
Net deferred tax liabilities recognised on the consolidated statement of financial position	**68,205**	74,118
	(257,248)	(256,187)

(c) Deferred tax assets not recognised:

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

	At June 30, 2010	At December 31, 2009
	HK$'000	HK$'000
Future benefit of tax losses	**418,436**	401,937
Impairment loss for bad and doubtful accounts	**95**	174
	418,531	402,111

14. Commitments

Commitments outstanding as of June 30, 2010 not provided for in the interim financial report were as follows:

	At June 30, 2010 HK$'000	At December 31, 2009 HK$'000
Capital commitments		
(i) Property, plant and equipment		
– Authorised and contracted for	**32,830**	44,687
– Authorised but not contracted for	**104,860**	90,179
	137,690	134,866
(ii) Acquisition of equity interests in prospective subsidiary and associate		
– Authorised and contracted for	**2,838**	2,838
– Authorised but not contracted for	**–**	–
	2,838	2,838
	140,528	137,704

15. Contingent liabilities

As at June 30, 2010, there were contingent liabilities in respect of the following:

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

(b) Guarantees, indemnities and letters of awareness to banks totalling HK$19 million (December 31, 2009: HK$19 million) in respect of overdraft and guarantee facilities given by those banks to the subsidiaries. Of this amount, at June 30, 2010, HK$6 million (December 31, 2009: HK$6 million) was utilised by the subsidiaries.

As at the end of the reporting period, the Company has issued four separate guarantees to a bank in respect of banking facilities granted to two wholly-owned subsidiaries. At June 30, 2010, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued is the facilities drawn down by the wholly-owned subsidiaries of HK$6 million. The Company has not recognised any deferred income in respect of the guarantees as their fair values cannot be reliably measured and the transaction price was HK$nil.

(c) At the end of reporting period, the Company has contingent liabilities relating to a counter-indemnity given to an intermediate holding company of the Company in respect of the obligations and liabilities of the Group under the programming agreements with a supplier in respect of which the intermediate holding company has given guarantees.

At June 30, 2010, the Directors do not consider it probable that a claim will be made against the Company under the counter-indemnity as the probability of default payment for the programming agreements is remote.

16. Material related party transactions

The significant and material related party transactions between the Group and related parties as set out in the annual accounts for the year ended December 31, 2009 continued to take place during this interim reporting period.

There were no new significant and material related party transactions entered by the Group during the six months ended June 30, 2010.

17. Review by the audit committee

The unaudited interim financial report for the six months ended June 30, 2010 has been reviewed with no disagreement by the Audit Committee of the Company.

18. Approval of unaudited interim financial report

The unaudited interim financial report was approved by the Directors on August 10, 2010.

MODEL CODE FOR DIRECTORS' DEALING IN SECURITIES

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

DIRECTORS' INTERESTS IN SHARES

At June 30, 2010, Directors of the Company had the following beneficial interests, all being long positions, in the ordinary shares of the Company, The Wharf (Holdings) Limited ("Wharf") (which is the Company's parent company) and Wheelock and Company Limited ("Wheelock") (which is Wharf's parent company), and the percentages which the shares represented to the issued share capitals of the three relevant companies respectively are also set out below:

	No. of ordinary shares (percentage of issued capital)	**Nature of interest**
The Company		
Stephen T H Ng	1,265,005 (0.0629%)	Personal interest
Wheelock		
Stephen T H Ng	300,000 (0.0148%)	Personal interest
Wharf		
Stephen T H Ng	731,314 (0.0266%)	Personal interest

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the Securities and Futures Ordinance (the "SFO") in respect of information required to be notified to the Company and the Stock Exchange by the Directors and/or Chief Executive of the Company pursuant to the SFO or to the Model Code, there were no interests, both long and short positions, held as at June 30, 2010 by any Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), nor had there been any rights to subscribe for any shares, underlying shares or debentures of the Company held by any of them at any time during the financial period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company as at June 30, 2010, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register") and the percentages which the shares represented to the issued share capital of the Company:

	Names	**No. of ordinary shares** (percentage of issued capital)
(i)	Wharf Communications Limited	1,480,505,171 (73.60%)
(ii)	The Wharf (Holdings) Limited	1,480,505,171 (73.60%)
(iii)	WF Investment Partners Limited	1,480,505,171 (73.60%)
(iv)	Wheelock and Company Limited	1,481,442,626 (73.65%)
(v)	HSBC Trustee (Guernsey) Limited	1,481,442,626 (73.65%)
(vi)	Marathon Asset Management Limited	121,332,000 (6.03%)
(vii)	Matthews International Capital Management, LLC	141,739,000 (7.05%)

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

All the interests stated above represented long positions and as at June 30, 2010, there were no short position interests recorded in the Register.

CHANGES OF INFORMATION OF DIRECTORS

(A) Given below is the latest information regarding annual emoluments (covered by service contract(s)) for the year 2010 of any and all Director(s) of the Company for whom there has/have been change(s) of amounts of emoluments since the publication of the last annual report of the Company:

Director	#Salary and various allowances (calculated on annualised basis) HK$'000	##Discretionary annual bonus in cash HK$'000
Stephen T H Ng	1,852 *(2009: 1,784)*	3,600 *(2009: 2,700)*

\# *Not including the Director's fee of HK$60,000 per annum to each of the Directors of the Company which is payable by the Company.*

\#\# *Paid during the six-month period ended June 30, 2010, with the amounts of such discretionary annual bonuses fixed/decided unilaterally by the employers.*

(B) Given below is the latest information regarding, *inter alia*, the directorship(s) (if any) held at present and/or former directorship(s) (if any) held within the past three years in other listed public company(ies) in respect of any and all Director(s) of the Company for whom there has/have been change(s) in the relevant information since the publication of the last annual report of the Company:

Director	Present/Former directorship(s) in other listed public company(ies)
T K Ho	None *(Mr T K Ho, who was formerly a director of Television Broadcasts Limited, ceased to be its director in April 2007)*

PURCHASE, SALE OR REDEMPTION OF SHARES

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

By Order of the Board
Wilson W S Chan
Company Secretary

Hong Kong, August 10, 2010

As at the date of this interim report, the Board of Directors of the Company comprises Mr Stephen T H Ng, Mr William J H Kwan and Mr Paul Y C Tsui, together with three Independent Non-executive Directors, namely, Mr T K Ho, Mr Patrick Y W Wu and Mr Anthony K K Yeung.