

ANNUAL REPORT
2012

BUSINESS MODEL

i-CABLE Communications Limited is an integrated broadcasting, communications, advertising and multimedia services provider in Hong Kong, commanding one of the largest and most influential TV viewer and communications service user bases in town.

It owns and operates one of the near universal wireline telecommunications networks in Hong Kong, over which it provides Television, Broadband, Telephony and multimedia services to well over one million households and businesses.

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

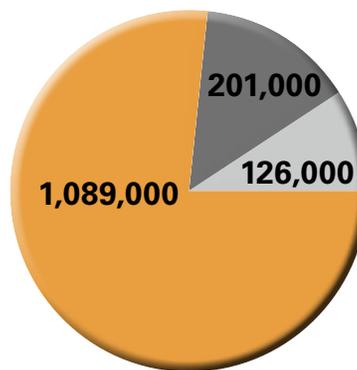
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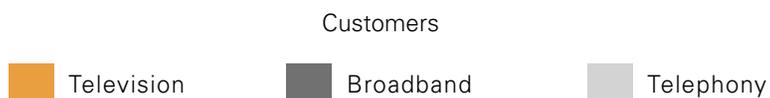
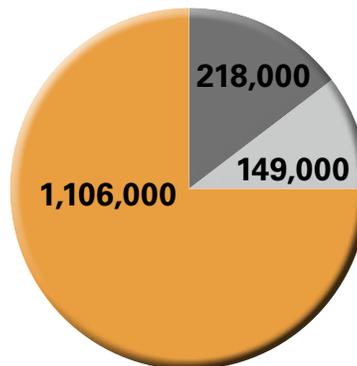
Group Results

The loss attributable to Shareholders for the year ended December 31, 2012 amounted to HK\$278 million, as compared to HK\$180 million in 2011. Basic and diluted loss per share were both HK\$0.14 (2011: HK\$0.09). Exclusion of non-recurrent items would have reduced net loss to a comparable level as 2011.

December 2012



December 2011



Corporate Information

BOARD OF DIRECTORS

Stephen T H Ng Chairman & Chief Executive Officer

William J H Kwan Chief Financial Officer

Paul Y C Tsui

Independent Non-executive Directors

T K Ho

Herman S M Hu, *BBS, JP*

Roger K H Luk, *BBS, JP*

Patrick Y W Wu

GROUP EXECUTIVES

Stephen T H Ng Chairman & Chief Executive Officer

William J H Kwan Chief Financial Officer

Ronald Y C Chiu Executive Director,
*i-CABLE News Limited and
i-CABLE Sports Limited*

Samuel C C Tsang Executive Director,
*i-CABLE Entertainment
Limited and Hong Kong Cable
Enterprises Limited*

Simon K K Yu Senior Vice President,
*i-CABLE Network Operations
Limited*

Helina Wong Vice President,
*Subscription Marketing &
Sales*

S Y Wai Vice President,
*External Affairs & Service
Operations*

COMPANY SECRETARY

Wilson W S Chan, *FCIS*

AUDITORS

KPMG, Certified Public Accountants

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

REGISTRARS

Tricor Tengis Limited
26th Floor, Tesbury Centre, 28 Queen's Road East,
Wanchai, Hong Kong

REGISTERED OFFICE

16th Floor, Ocean Centre, Harbour City, Canton Road,
Kowloon, Hong Kong

Telephone: (852) 2118 8118

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PRINCIPAL BUSINESS ADDRESS

Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan,
Hong Kong

CORPORATE WEBSITE

www.i-cablecomm.com

ENQUIRIES

info@i-cablecomm.com

Chairman's Statement

2012 was both eventful and exciting.

Years of hard work and meticulous planning brought us success in proudly presenting the much-anticipated London Olympics to the Hong Kong audience in July and August.

The Games were available on pay and free television as well as the new media of Internet and mobile. Multiple signal formats comprising SD, HD and 3D, live streaming, archived clips and traditional analogue were transmitted around the clock to cover every possible device of video reception for the entire population. Everybody could see the competitions at home, at the workplace or on-the-go entirely at his or her own convenience. It was a first in Hong Kong in almost every possible respect – from variety of sports covered, duration of live events broadcast, diversity of programmes produced, to the best picture in town, unrivalled mobile availability, as well as audience penetration enabled by unprecedented cross-platform delivery.

Top-notch European football leagues and other sports events brought us good subscription and advertising revenue and provided fans with non-stop world class sports excitement. Our much-heralded news and entertainment platforms continued to garner praises and support from customers.

Upgrades in our network architecture, transmission technologies, HD capacity and customer service made significant headway during the year from continual efforts to strengthen our competitiveness and adaptability in a market that constantly calls for change and improvement. Aggressive pricing and keen competition in the market, however, continued to put pressure on us despite our proactive market initiatives, flexible service packages and continual service quality enhancements.

On the financial side, the harsh operating environment continued to impact our key business segments despite an on-par consolidated turnover, stringent controls to keep cost increases in check and prudent business strategies to ensure sustainable and balanced development. A net loss of HK\$278 million was reported but, if non-recurrent items had been excluded, the net loss would have been comparable to 2011's HK\$180 million. The anticipated decrease in programming costs in 2013, notably on the cessation of the Group's Barclays Premier League broadcast rights at the end of the current football season, may have a significant favourable effect on the Group's financial results.

Chairman's Statement (continued)

The telecommunications, broadcasting and entertainment landscape continued to be affected by shifting tides of technology. Pay TV is a case in point. Many once considered that pay TV had a distinct edge over traditional free TV services in terms of multi-channel programme choice and diversity. These days, free TV operators are making use of their expanded channel capacity in digital format not previously possible in the analogue era, allowing them to satisfy TV viewers who would otherwise opt for pay services.

In another arena, pay and free TV operators both face the threats and opportunities that go by the name of new media. The availability of premium programming content online, generally illegally, continues to be a serious threat. That aside, another question is how to mitigate TV ratings and advertising revenue losses to online viewing on the one hand, and how to capture and measure the fast increasing mobile and multi-screen viewership on the other.

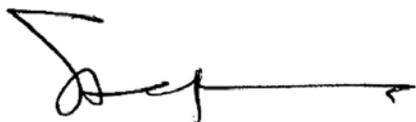
We are very mindful of these developments. And it was against this background that we did not renew the rights to the BPL for the next three seasons when its price became unsustainable, despite competitive bidding through to the final round. In the bid we had taken into account illegal viewing online. Surges in online streaming traffic during every match clearly attest to the seriousness of the problem, which has already reached alarming proportions on our own broadband network and must be rather rampant when taking into account other carriers' networks as well. Until more effective measures had been put in place to arrest such piracy, aggressively outbidding each other for programming rights was not in line with prudent business sense.

The mobile and fixed line markets were equally dynamic, with operators facing multi-faceted competition and aggressively poaching each other's customers. As far as the average consumer was concerned, fixed is becoming more substitutable by mobile, particularly for voice services. Like TV operators, they too were facing technology advances that could be either threats or opportunities in the form of a double-edged sword.

Our response to the above is to ensure that we always have at our disposal a good mix of delivery platforms (including efforts by Group affiliate Fantastic Television Limited to secure a free TV licence), highly portable premier content both acquired and locally produced, and dynamic business strategies to effectively put all these to good use. Coupled with continuous system upgrades and customer service enhancements, they enable us to meet new challenges ahead and drive customer and revenue growth.

Come October 2013, the Group will be celebrating its 20th anniversary. I had the greatest pleasure and honour to be part of the team that started such a challenging and rewarding project. Two decades have flown by and my colleagues and I continue to take pride in being able to serve our fellow Hong Kong citizens to meet their needs for telecommunications, broadcasting, information and entertainment services.

Please accept my sincerest thanks once again for your continuous support to make possible the Group's achievements and progress as well as our plans and strategy for future growth and success.

A handwritten signature in black ink, appearing to read 'Stephen T H Ng', with a long horizontal line extending to the right.

Stephen T H Ng

Chairman and Chief Executive Officer
i-CABLE Communications Limited
Hong Kong, March 5, 2013

Business Review

COMPETITION AND OPERATING ENVIRONMENT

Competitive pressure remained high and the operating environment challenging.

Following strong growth in recent years, there were signs of our television customer base entering a new phase in a saturating market. Television turnover remained roughly on par with the previous year, but we faced substantially higher programming costs from London Olympics and European football rights.

Competition in the Broadband and Telephony sectors remained keen, with price wars impacting our turnover and customer base.

TELEVISION SERVICES

Customer attrition in the second half of 2012 increased slightly over the first half, as customer commitments to service plans ahead of the 2010 FIFA World Cup came to their maturity. Further customer attrition is expected in 2013, upon expiry of our current rights to the BPL in May. Our decision to refrain from paying an unsustainable price for these rights for a further term would free up considerable resources for other programming investments.

Despite the customer base contraction, this segment's turnover still saw a moderate increase over last year's mainly due to higher advertising income.

INTERNET & MULTIMEDIA

The second half of the year saw some easing in the protracted price war with fixed line service providers setting higher prices and resuming various service charges previously waived. However, the truce was short-lived and ended with the introduction at the turn of the New Year of a fresh round of aggressive offers.

In our market where the penetration rates of residential fixed line, household broadband and mobile data services rank among the highest in the world, telecommunications service providers have little breathing space from competition.

Network upgrades and enhancements in the past few years have started to bear fruit and have substantially increased our bandwidth capabilities and efficiencies, allowing us to offer a full range of services to customers having different needs at very competitive prices to help bring about a rebound in both customer base and subscription sales towards the end of the year.

PROGRAMMING

Long recognised for our creativity and originality, CABLE TV continued to boast, as ever, a rich collection of acquired and locally produced premium programming, providing viewers with a wide range of information and entertainment choices.

Entertainment

CEN, the world's first round-the-clock Cantonese entertainment news channel, continued to outshine the competition with instant coverage of latest news and gossips, bold choice of hot topics and unmatched scope of celebrities, personalities and events. During the year, its programme format and presentation received a major boost from new initiatives such as live phone-in sessions and instant online posting of comments to strengthen participation of and interaction with viewers.

Simulcasting in SD and HD formats, our Entertainment Channel kept viewers engaged with popular drama series and blockbuster movies as well as shows ranging over variety, life-style, home decor, food and cooking, paranormal, geomancy, travelogues, entertainment news and celebrity interviews.

Our suite of local and international movie channels continued to be an effective draw card. Hot on the heels of last year's introduction of our first-of-its-kind "Cine p." movie channel screening award-winning non-mainstream titles, our film-loving customers were served with a whole new level of home entertainment through "Thrill". As Asia's only movie channel dedicated to the horror and suspense genres, "Thrill" carries the best pick of such titles from Hollywood and Asia keeping viewers entertained but on the edge of their seats.

During the year, a good number of channels were added to strengthen our programming offers. High definition versions of world-renowned international channels "Fashion TV", "Nat Geo Wild" and "Discovery World" were added to our channel line-up, enabling our viewers to enjoy their favourite shows through our best-in-town HDTV picture quality. Another addition much welcomed by younger viewers here were "chM" and its HD version "chM HD", a Korean channel providing K-POP music, drama, variety shows, entertainment news and lifestyle programmes. Tapping into the fast-growing popularity of Chinese TV productions, more high-rating satellite channels were brought to Hong Kong giving both locals and visitors a great diversity of quality programming from across the mainland.

Sports

Following our years of success in bringing to Hong Kong one world-class sports competition after another, the year saw the Group proudly presenting London Olympics as the Official Hong Kong Broadcaster. Multiple media platforms were deployed to bring the excitement of the Games to home TVs, computer screens and mobile devices ensuring that nobody would miss out on anything wherever they were and regardless of the time of day.

Our Pay TV platform telecast over 1,600 hours of Games programming in multiple TV formats, of which over 900 hours were live broadcasts. To ensure that Hong Kong people would be among the world's most privileged viewers enjoying the best viewing experience possible, we invested in a dedicated 3D channel with live coverage of the opening and closing ceremonies and various high viewer interests competitions. Three of our main Olympic Channels were simulcast live on www.i-cable.com and mobile apps allowing the entire Hong Kong population free public access to extensive and exclusive Games programming. We also sublicensed the free TV rights to local over-the-air operators to enrich viewers' choice and particularly address the need of those having access to traditional analogue TV only. Fully in the spirit of the Olympic Charter, the Group spared no effort in bringing to Hong Kong the Olympic frenzy from London in ways and on a scale never seen before.

Business Review (continued)

Perhaps the most popular spectator sport in town, football continued to be featured prominently on our sports platform. Very well received during the year was the introduction of BPL matches in 3D for TV format. Also available on our sports platform were the UEFA Leagues, German Bundesliga and other events, giving fans non-stop football action from the best clubs around the world. A wide variety of programming featuring different sports was also available to our customers throughout the year.

News

Our 24-hour breaking news updates and in-depth reporting continued to win respect and praises from the community and brought our news team multiple awards for their professionalism and dedication. During the year, our news services were also named by fellow local journalists in an independent survey by the Chinese University of Hong Kong as among the top most-watched news media in Hong Kong.

Year 2012 was a very eventful and trying year for Hong Kong's news corps, stretched thin to the end trying to keep up with the never-ending stream of current events. Our professional news team turned in yet another year of impressive work covering everything that mattered on Hong Kong's daily agenda such as controversial public elections and political appointments, high profile corruption cases, spiraling housing prices, the heartbreaking marine tragedy claiming many lives on National Day, and the many social and political issues that dominated daily headlines.

ADVERTISING SERVICES

Thanks to a vibrant consumer economy and strong premium programming of acquired and own productions, our advertising business reported double-digit revenue growth over the past year, fully demonstrating our leadership position in the industry as a top advertising medium and the most-watched pay TV in town.

Hong Kong Cable News Express Limited, our successful business venture providing train commuters with news, finance, sports and entertainment programming, continued to bring in strong financial contributions. With more and more trains equipped with display screens scheduled to start service, this business arm has good potential for further growth in terms of both advertising revenue and viewership. The Group would continue to explore advertising sales potential from our online presence including websites and mobile apps as well as other digital means to develop this revenue source.

SUNDREAM MOTION PICTURES

Sundream has over the years developed into a full-fledged film business sourcing and distributing high quality movies for local cinemas and TV operators as well as starting new productions with local and mainland partners.

Throughout the entire year, cinema houses screened Sundream movies of different genres from around the world either through individual releases or in the form of mini-film festivals.

Year 2013's line-up will be stronger than ever, with a rich list of exciting titles scheduled for commercial screenings including multiple award winning and nominated productions such as "The Master" and "Silver Linings Playbook".

Corporate and Community Affairs

HUMAN RESOURCES

As our most valuable and cherished resource, the Group's dedicated and professional staff team put in tremendous efforts enabling the Group to fulfill a hugely tall order of business tasks and objectives. At year-end, we had 2,605 employees (2011: 2,829). During the year, gross salaries and related costs of HK\$719 million (2011: HK\$709 million) were incurred.

CORPORATE SOCIAL RESPONSIBILITY

The Group firmly believes that businesses have a key role to play in making society better. We attach great importance to staff participation in community activities, motivating and encouraging colleagues to extend a helping hand to the needy and underprivileged.

During the year, staff members devoted a good amount of their time to take part in various kinds of volunteering work serving the elderly, children and youths as well as families in need of better social help and support. Leading charitable organisations that we worked with included the Community Chest, ORBIS, Social Welfare Department, Hong Kong Sheng Kung Hui Welfare Council and Hong Kong Christian Service. Activities and events included free photo-taking services for underprivileged families, collection of books and stationery for donation to needy children as well as various other large-scale fundraising initiatives. The Group also teamed up with Youth Outreach for the first time to organise activities for youngsters and participate in their outreach efforts helping youths experiencing personal or family crises.

The Group continued to receive the "Caring Company Scheme 5 Years Plus Logo" in 2012 from the Hong Kong Council of Social Service in recognition of our continuous commitment as a socially responsible corporation. CABLE TV also received from the same organisation the "Caring Company Logo" for the third year.

In the second year of our participation in the Wharf Group's much celebrated corporate social responsibility initiative, Project WeCan, we staged visits and activities for secondary students from the participating schools, enabling them to learn about our work as a leading player in the local broadcasting, telecommunications and entertainment industries and possible future career opportunities for them through guided tours to our various facilities and presentations by staff representatives.

We continued to demonstrate our environmental responsibility through on-going environmental protection initiatives. For instance, we participated for the fourth consecutive year in the "Earth Hour" campaign, encouraging our staff to be mindful of energy saving wherever possible and promoting this initiative on our online platform. During the year, further reductions were achieved in our power, water and fuel consumption as compared to the previous year.

Outlook

The telecommunications, broadcasting and entertainment businesses are in a state of flux with service operators and content providers trying to keep up with the tide of changes.

Traditional demarcations differentiating various types of services, contents, delivery platforms and users from one another are fading. Those who used to be upstream or downstream business partners could easily become one's competitors these days. Cross-sector competition is becoming more and more commonplace.

In the light of these developments, we would ensure that our strategies would be prudent yet enterprising, and bold yet sustainable, when we press ahead with investments in premier programming acquisition and production, system and infrastructure upgrades, customer service enhancements and value-added features enabling us to meet new challenges and drive customer and revenue growths.

The anticipated decrease in programming costs in 2013, notably on the cessation of the Group's BPL broadcast rights at the end of the current football season, may have a significant favourable effect on the Group's financial results.

Business Strategy

The Group endeavours to sharpen its services to attain higher customer satisfaction, which will in turn drive customer and revenue growth. Specifically, the Group pursues the following:

- (a) acquire and produce quality content to meet local tastes;
- (b) invest in infrastructure, network and delivery platforms to enhance service level and customer convenience;
- (c) unlock the value of our programming assets by distributing these on additional platforms and internationally; and
- (d) manage our processes to always stay cost-effective.

Financial Review

(A) REVIEW OF 2012 RESULTS

Consolidated turnover increased by 1% to HK\$2,127 million.

Operating costs before depreciation increased by 6% to HK\$2,149 million. Programming costs increased by 9% and cost of sales 20%, while selling, customer service, general and administrative expenses decreased by 5% and network costs 1%.

EBITDA loss was HK\$22 million (2011: EBITDA gain HK\$78 million).

Net loss was HK\$278 million (2011: HK\$179 million). Basic and diluted loss per share was HK\$0.14 (2011: HK\$0.09).

(B) SEGMENTAL INFORMATION

Television

TV services customers decreased by 17,000 in 2012 to 1,089,000. Turnover slightly increased to HK\$1,757 million, mainly attributable to higher advertising income. Operating costs before depreciation increased by 6% to HK\$1,787 million, primarily due to London Olympics and major soccer leagues partly offset by lower selling, customer service, general and administrative expenses and cost of sales. EBITDA loss of HK\$30 million was recorded (2011: EBITDA gain HK\$69 million).

Internet & Multimedia

Broadband services customers decreased by 17,000 in 2012 to 201,000, and Telephony services customers decreased by 23,000 to 126,000. Turnover decreased by HK\$1 million to HK\$338 million. Operating costs before depreciation increased by 4% to HK\$221 million. EBITDA decreased by 7% to HK\$118 million (2011: HK\$127 million).

(C) LIQUIDITY AND FINANCIAL RESOURCES

As of December 31, 2012, the Group had bank deposits and cash, net of bank borrowings, of HK\$188 million (2011: HK\$338 million).

The consolidated net asset value of the Group as at December 31, 2012 was HK\$1,284 million, or HK\$0.64 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\$209 million (2011: HK\$199 million). Major items included HD set-top-boxes, DOCSIS 3.0 cable modems, call centre telephone system upgrade as well as TV production and broadcast facilities for HD channels and London Olympics.

The Group's ongoing capital expenditure and new business development will be funded by internal cash flows generated from operations and bank facilities.

(D) CONTINGENT LIABILITIES

At December 31, 2012, 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\$206 million (2011: HK\$206 million), of which HK\$100 million (2011: Nil) have been utilised by the subsidiaries.

(E) HUMAN RESOURCES

The Group had 2,605 employees at the end of 2012 (2011: 2,829). Total gross amount of salaries and related costs incurred in the corresponding period amounted to HK\$719 million (2011: HK\$709 million).

Corporate Governance Report

(A) CORPORATE GOVERNANCE PRACTICES

During the first three-month period in the financial year under review, all the applicable code provisions in the Code on Corporate Governance Practices (which were effective during that three-month period), as set out in Appendix 14 of the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) then in force, were met by the Company, with one exception as regards Code Provision A.2.1 (the “First Deviation”) as explained under section (D) below.

During the remaining nine-month period in the financial year under review (i.e. April 1 to December 31, 2012), all the code provisions in the Corporate Governance Code (which is set out in the current version of Appendix 14 of the Listing Rules) were met by the Company, with the exception of two deviations, namely, (i) the First Deviation (as explained under section (D) below); and (ii) Code Provision A.6.7 (as explained under section (C)(I) below). The application of the relevant principles and the reasons for the aforesaid deviations from the Code Provisions are stated in the relevant sections below.

(B) DIRECTORS’ SECURITIES TRANSACTIONS

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 of the Company who were in office during the financial year ended December 31, 2012, all of them have confirmed that they have complied with the required standard set out in the Model Code and the code of conduct adopted by the Company regarding directors’ securities transactions during the financial year.

(C) BOARD OF DIRECTORS

(I) Composition of the Board, number of Board/General meetings and Directors’ attendance

The Company’s Board has a balance of skills and experience and a balanced composition of executive and non-executive directors. Five Board meetings and one general meeting were held during the financial year ended December 31, 2012. The composition of the Board and attendance of the Directors are set out below:

Directors	Attendance/Number of Meeting(s)	
	Board Meetings	General Meeting
<i>Chairman and Chief Executive Officer</i> Stephen T H Ng	5/5	1/1
<i>Chief Financial Officer</i> William J H Kwan	5/5	1/1
<i>Non-executive Director</i> Paul Y C Tsui	4/5	1/1
<i>Independent Non-executive Directors</i> T K Ho	5/5	1/1
Herman S M Hu (<i>appointed with effect from April 1, 2012</i>)	3/3	1/1
Roger K H Luk	5/5	1/1
Patrick Y W Wu	5/5	1/1
Anthony K K Yeung (<i>resigned with effect from June 1, 2012</i>)	3/3	0/1

Mr Yeung was absent from the last Annual General Meeting of the Company held in May 2012 due to his other important engagement at the relevant time. This is a deviation from Code Provision A.6.7 which provides that Independent Non-executive Directors (“INED(s)”) and other Non-executive Directors of the Company should, *inter alia*, attend general meetings.

Each Director of the Company has been appointed on the strength of his calibre, experience and stature, and his potential to contribute to the proper guidance of the Group and its businesses. Apart from formal meetings, matters requiring Board approval were arranged by means of circulation of written resolutions.

Corporate Governance Report (continued)

(C) BOARD OF DIRECTORS (continued)

(II) Operation of the Board

The Company is headed by an effective Board which makes decisions objectively in the interests of the Company. The Company's management has closely monitored changes to regulations that affect its corporate affairs and businesses, and changes to accounting standards, and adopted appropriate reporting format in its interim report, annual report and other related documents to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. Where these changes are pertinent to the Company or Directors' disclosure obligations, the Directors are either briefed during Board meetings or issued with regular updates and materials to keep them abreast of their responsibilities and of the conduct, business activities and development of the Group. Newly appointed Directors receive briefings and orientation on their legal and other responsibilities as a Director and the role of the Board. The Company has also provided appropriate information in a timely manner to the Directors to enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.

There is a clear division of responsibilities between the Board and the management. Decisions on important matters are specifically reserved to the Board while decisions on the Group's general operations are delegated to the management. Important matters include those affecting the Group's strategic policies, major investment and funding decisions and major commitments relating to the Group's operations.

(III) Directors' Continuous Professional Development

The Company has arranged for Directors to attend training sessions which place emphasis on the roles, functions and duties of a listed company director. In addition to the training arranged by the Company, some of the Directors also received training organised by other companies and provided records thereof to the Company.

According to the records of training maintained by the Company Secretary, during the financial year under review, all the current Directors pursued continuous professional development and relevant details are set out below:

Directors	Type of trainings (See Remarks)
Stephen T H Ng	A, B
William J H Kwan	A, B
Paul Y C Tsui	A, B
T K Ho	A, B
Herman S M Hu	A, B
Roger K H Luk	A, B
Patrick Y W Wu	A, B

Remarks: A: attending seminars and/or conferences and/or forums

B: reading journals, updates, articles and/or materials, etc.

(D) CHAIRMAN AND CHIEF EXECUTIVE

Mr Stephen T H Ng serves as the Chairman and Chief Executive Officer of the Company. This is a deviation from Code Provision A.2.1 with respect to the roles of chairman and chief executive (or chief executive officer) to be performed by different individuals. Such deviation is deemed necessary as, given the nature and size of the Company's business, it is at this stage considered to be more efficient to have one single person to hold both positions. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, with more than half of them being INEDs.

(E) NON-EXECUTIVE DIRECTORS

All those existing Directors of the Company who do not hold any executive office of the Company (including INEDs) have their respective terms of appointment coming to an end normally three years after their appointment to the Board or (in the case of Directors who were re-elected to the Board at previous Annual General Meetings) their last re-election as Directors. The re-election of each of those INEDs who has served on the Board for more than nine years is subject to (i) a separate resolution to be approved by Shareholders at the relevant Annual General Meeting; and (ii) further information being given to Shareholders together with the notice of meeting regarding the reasons why the Board believes the relevant Director is still independent and should be re-elected.

(F) BOARD COMMITTEES

(I) Audit Committee

The Company has set up an Audit Committee ("AC") with all its members appointed from the INEDs.

All AC members have sufficient experience in reviewing audited financial statements as aided by the auditors of the Group whenever required. In addition, Mr Roger K H Luk has the appropriate professional qualifications or experience in financial matters.

Three AC meetings were held during the financial year ended December 31, 2012. Attendance of the AC members is set out below:

Members	Attendance/Number of Meetings
T K Ho, Chairman (<i>Chairman of AC from May 29, 2012 onwards</i>)	3/3
Roger K H Luk (<i>Member of AC from May 29, 2012 onwards</i>)	1/1
Patrick Y W Wu	3/3

- (i) The terms of reference of the AC are aligned with the provisions set out in the Corporate Governance Code as recently revised which comes into force from April 1, 2012 onwards (the "CG Code") and the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Given below are the main duties of the AC:

(A) Relationship with the Company's auditors

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of their resignation or dismissal;
- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences; and
- (c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

(B) Review of financial information of the Company

- (a) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgemental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

Corporate Governance Report *(continued)*

(F) BOARD COMMITTEES *(continued)*

(I) Audit Committee *(continued)*

(B) Review of financial information of the Company (continued)

- (b) regarding (B)(a) above:
 - (i) members of the Committee should liaise with the Company's Board and Senior Management and the Committee must meet, at least twice a year, with the Company's auditors; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors.

(C) Oversight of the Company's financial reporting system and internal control procedures

- (a) to review the Company's financial controls, internal control and risk management systems;
- (b) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (c) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (d) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- (e) to review the Group's financial and accounting policies and practices;
- (f) to review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;
- (g) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (h) to report to the Board on the matters in the Code Provisions in the Listing Rules;
- (i) to establish procedures for (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;
- (j) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (k) to act as the key representative body for overseeing the Company's relations with the external auditors; and
- (l) to consider other topics, as defined by the Board.

(D) Review and reassessment of these terms of reference

At least annually, the Committee shall review and reassess the adequacy of these terms of reference and recommend any proposed changes to the Board for approval.

(F) BOARD COMMITTEES *(continued)*

(I) Audit Committee *(continued)*

- (E) *Oversight of the Company's Corporate Governance Matters*
- (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
 - (b) to review and monitor the training and continuous professional development of Directors and Senior Management;
 - (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
 - (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
 - (e) to consider other topics, as defined by the Board.
- (ii) During the financial year ended December 31, 2012, a Whistleblowing Policy & Procedures of the Group was established and approved by the Company's AC, which has the delegated authority and responsibility, for employees and those who deal with the Group (e.g. customers and suppliers) to raise concerns, in confidence, with the Head of Human Resources Department, and any and all relevant complaints received may then be referred to the AC and/or Chief Executive Officer about possible improprieties in any matter related to the Group.
- (iii) The other work performed by the AC for the financial year ended December 31, 2012 is summarised below:
- (a) approval of the remuneration and the appointment and the terms of engagement of the external auditors;
 - (b) review of the external auditors' independence and objectivity and the effectiveness of audit process in accordance with applicable standards;
 - (c) review of the half-year and annual financial statements before submission to the Board, with particular consideration of the points mentioned in paragraph (i)(B) above regarding the duties of the AC;
 - (d) discussion with the external auditors before the audit commences, the nature and scope of the audit;
 - (e) review of the audit programme of the internal audit function;
 - (f) review of the Group's financial controls, internal control and risk management systems;
 - (g) meeting with the external auditors without executive Board members present; and
 - (h) approval of a Corporate Governance Policy and a Shareholders Communication Policy of the Company.

(II) Compensation Committee

The Company has set up a Compensation Committee ("CC") consisting of two INEDs.

One CC meeting was held during the financial year ended December 31, 2012. Attendance of the CC members is set out below:

Members	Attendance/Number of Meeting
T K Ho <i>(Chairman of CC from May 29, 2012 onwards)</i>	1/1
Patrick Y W Wu <i>(Member of CC from May 29, 2012 onwards)</i>	1/1

Corporate Governance Report *(continued)*

(F) BOARD COMMITTEES *(continued)*

(II) Compensation Committee *(continued)*

- (i) The terms of reference of the CC are aligned with the provisions set out in the CG Code. Given below are the main duties of the CC:
 - (a) to make recommendations to the Board on the Company's policy and structure for all Directors' and Senior Management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
 - (b) to review and approve the management's remuneration proposals by reference to the Board's corporate goals and objectives;
 - (c) either:
 - (i) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and Senior Management; or
 - (ii) to make recommendations to the Board on the remuneration packages of individual executive Directors and Senior Management.

This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

- (d) to make recommendations to the Board on the remuneration of non-executive Directors;
 - (e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
 - (f) to review and approve compensation payable to executive Directors and Senior Management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
 - (g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
 - (h) to ensure that no Director or any of his associates is involved in deciding his own remuneration;
 - (i) to advise Shareholders on how to vote with respect to any service contracts of Directors that require Shareholders' approval under the Listing Rules;
 - (j) to decide with respect to the Employee Share Option Scheme (if any):
 - (i) the Employees to whom Options shall be granted;
 - (ii) the number of Shares subject to each Option;
 - (iii) the date on which Options shall be granted; and
 - (iv) the Subscription Price; and
 - (k) to review any compensation related or other issues as requested by the Board.
- (ii) The work performed by the CC, which has the delegated authority and responsibility, for the financial year ended December 31, 2012 is summarised below:
 - (a) review of the Company's policy and structure for all remuneration of Directors and Senior Management;
 - (b) consideration and approval of the emoluments for all Directors and Senior Management; and
 - (c) review of the level of fees for Directors and AC Members.

(F) BOARD COMMITTEES *(continued)*

(II) Compensation Committee *(continued)*

The basis of determining the emoluments payable to its Directors and Senior Management by the Company is by reference to the level of emoluments normally paid by a listed company in Hong Kong to directors and senior executives of comparable calibre and job responsibilities so as to ensure a fair and competitive remuneration package as is fit and appropriate. The basis of determining the fee payable to each of the Directors of the Company, currently at the rate of HK\$60,000 per annum, and the fee payable to each of those Directors who are also Members of the AC of the Company, currently at the rate of HK\$20,000 per annum, is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors.

(III) Nomination Committee

The Company has set up a Nomination Committee comprising 3 members, namely, the Chairman of the Company Mr Stephen T H Ng (as the chairman of the Committee) and two INEDs, namely, Mr T K Ho and Mr Patrick Y W Wu (member of the Committee from May 29, 2012 onwards).

- (i) The terms of reference of the Nomination Committee are aligned with the provisions set out in the CG Code. Given below are the main duties of the Nomination Committee:
 - (a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
 - (b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
 - (c) to assess the independence of INEDs; and
 - (d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the chief executive.
- (ii) The work performed by the Nomination Committee for the financial year ended December 31, 2012 is the nomination of a candidate, for the Board's approval, as an INED of the Company to fill a vacancy on the Board occasioned by the resignation of an INED of the Company.

During the financial year ended December 31, 2012, no physical meeting of the Nomination Committee was held and the nomination of the INED as mentioned above was dealt with by way of circulation of written resolution approved by the Nomination Committee.

(IV) Corporate Governance Functions

While the Board is and remains to be principally responsible for the corporate governance functions of the Company, it has delegated the relevant duties to the AC to ensure the proper performance of corporate governance functions of the Company. In this connection, the terms of reference of the AC include various duties relating to corporate governance matters which are set out in paragraph "(E) Oversight of the Company's Corporate Governance Matters" on page 17 under sub-section "(I) Audit Committee" of section "(F) BOARD COMMITTEES" above.

(G) AUDITORS' REMUNERATION

The fees in relation to the audit services for the financial year ended December 31, 2012 provided by KPMG, the external auditors of the Company, amounted to HK\$2.8 million.

(H) INTERNAL CONTROL

The Directors are ultimately responsible for the internal control system of the Group and, through the AC, have reviewed the effectiveness of the system, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting functions, and their training programmes and budget. The internal control system comprises a well-defined organisational structure with specified limits of authority in place. Areas of responsibility of each business and operational units are also clearly defined to ensure effective checks and balances.

Corporate Governance Report (continued)

(H) INTERNAL CONTROL (continued)

Procedures have been designed for safeguarding assets against unauthorised use or disposition, maintenance of proper accounting records, assurance of the reliability of financial information for internal use or publication and compliance with relevant legislation and regulations. Such procedures are designed to manage risks of failure in operational systems and can provide reasonable assurance against material errors, losses or fraud.

The internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Group. Findings regarding internal control matters are reported to the AC. The external auditors have access to a full set of internal audit reports.

A review of the effectiveness of the Group's internal control system and procedures covering all controls, including financial, operational and compliance and risk management, and the adequacy of, *inter alia*, resources, qualifications, experience and training of staff of the Company's accounting and financial reporting function was conducted by the AC and subsequently reported to the Board during the financial year ended December 31, 2012. Based on the result of the review, in respect of the financial year ended December 31, 2012, the Directors considered that the internal control system and procedures of the Group were effective and adequate.

(I) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended December 31, 2012, which give a true and fair view of the affairs of the Company and of the Group and of the Group's results and cash flow for the year then ended and in compliance with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for the financial year ended December 31, 2012:

- (i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;
- (ii) prudent and reasonable judgements and estimates are made; and
- (iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

(J) COMMUNICATION WITH SHAREHOLDERS

A Shareholders Communication Policy was adopted by the Company on March 12, 2012 to ensure that Shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and the investment community to engage actively with the Company.

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. Annual and interim reports are published/printed and printed copies of such reports or notifications of publication thereof on the Company's website are sent to all Shareholders. Such reports and press releases are posted and are available for download at the Company's corporate website www.i-cablecomm.com. Constantly being updated in a timely manner, the website contains a wide range of additional information on the Group's business activities. As a standard part of the investor relations programme to maintain a constant dialogue on the Group's performance and objectives, senior executives hold regular briefings and attend conferences with institutional investors and financial analysts.

The Company encourages its Shareholders to attend Annual General Meetings to ensure a high level of accountability and for Shareholders to stay informed of the Group's strategy and goals.

The Board and external auditors attend the Annual General Meetings to answer Shareholders' questions.

(K) SHAREHOLDERS' RIGHTS

(I) Convene an Extraordinary General Meeting

Pursuant to Section 113 of the Hong Kong Companies Ordinance, on requisition by one or more Shareholders in aggregate holding not less than 5% of the paid-up capital of the Company carrying the right to vote at general meetings, the Directors of the Company must convene an extraordinary general meeting.

(II) Send Enquiries to the Board

The Company's corporate website provides email address, postal address, fax number and telephone number by which Shareholders may at any time address their concerns or enquiries to the Company's Board.

(III) Make Proposals at General Meetings

(i) The procedures for proposing candidate(s) for election as Director(s) at a Shareholders' meeting are set out in the Corporate Information section of the Company's corporate website.

(ii) The procedures for proposing resolution(s) to be moved at a Shareholders' meeting are as follows:

Shareholder(s) can submit a written requisition to move a resolution at a Shareholders' meeting pursuant to Section 115A of the Hong Kong Companies Ordinance if they –

- (a) represent not less than 2.5% of the total voting rights of all Shareholders having at the date of the requisition a right to vote at the Shareholders' meeting; or
- (b) are no less than 50 Shareholders holding the Company's shares on which there has been paid up an average sum, per Shareholder, of not less than HK\$2,000.

The written requisition must –

- (c) state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the Shareholders' meeting;
- (d) contain the signatures of all the requisitionists (which may be contained in one document or in several documents in like form);
- (e) be deposited at the Company's registered office (16th Floor, Ocean Centre, Harbour City, Canton Road, Kowloon, Hong Kong) for the attention of the Company Secretary not less than 6 weeks (as required in most circumstances under the applicable laws) before the Shareholders' meeting in the case of a requisition requiring notice of a resolution and not less than 1 week before the Shareholders' meeting in the case of any other requisition; and
- (f) be accompanied by a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitionists to all Shareholders in accordance with the requirements under the applicable laws and rules.

Report of the Directors

The Directors submit herewith their Report and the Audited Financial Statements for the financial year ended December 31, 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its subsidiaries which principally affected the results, assets or liabilities of the Group are set out in Note 17 to the Financial Statements on page 63.

RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group for the financial year ended December 31, 2012 are set out in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income on pages 32 and 33 respectively.

Appropriations and movements in reserves during the financial year are set out in the Consolidated Statement of Changes in Equity on page 36.

DIVIDEND

The Directors do not recommend the payment of any dividend in respect of the financial year ended December 31, 2012.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the financial year are set out in Note 12 to the Financial Statements on pages 60 and 61.

DONATIONS

The Group made donations during the financial year totalling HK\$16,600.

DIRECTORS

The Directors of the Company during the financial year were Mr Stephen T H Ng, Mr William J H Kwan, Mr T K Ho, Mr Herman S M Hu (appointed with effect from April 1, 2012), Mr Roger K H Luk, Mr Paul Y C Tsui, Mr Patrick Y W Wu and Mr Anthony K K Yeung (resigned with effect from June 1, 2012).

Messrs William J H Kwan and Roger K H Luk are due to retire from the Board at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

INTERESTS IN CONTRACTS

No contract of significance in relation to the Company's business to which the Company, its subsidiaries or its ultimate holding company or any subsidiary of that ultimate holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during that financial year.

MANAGEMENT CONTRACTS

There was in existence during the year ended December 31, 2012 a management services agreement dated November 1, 1999 with Wharf Limited (a wholly-owned subsidiary of The Wharf (Holdings) Limited ("Wharf")), as revised by supplemental agreements, whereby Wharf Limited agreed to continue to provide or procure the provision of services including corporate secretarial services, treasury services, provision of management personnel and other general corporate services to the Group for a term expiring on December 31, 2015. Mr Stephen T H Ng and Mr Paul Y C Tsui were directors of Wharf and/or Wharf Limited and are accordingly regarded as interested in the said agreement.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the financial year was the Company, its subsidiaries or its ultimate holding company or any subsidiary of that ultimate holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, with the exception that there existed certain outstanding options to subscribe for ordinary shares of Wharf granted under Wharf's Share Option Scheme (the "Scheme") to certain employees/directors of Wharf group, some of whom were Directors of the Company during the financial year.

Under the rules of the Scheme, shares of Wharf would be issued at such prices as being equal to the highest of (i) the indicative price as specified in the written offer; (ii) the closing price on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the options; (iii) the average closing price on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iv) the nominal value of a share of Wharf; and the relevant options would be exercisable during such periods, not being beyond the expiration of 10 years from the date of offer for the grant of relevant options, as determined by the board of directors of Wharf. During the financial year, no share of Wharf was issued to any Director of the Company under the Scheme.

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 year.

AUDITORS

The Financial Statements now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment.

By Order of the Board

Wilson W S Chan

Secretary

Hong Kong, March 5, 2013

Report of the Directors (continued)

SUPPLEMENTARY CORPORATE INFORMATION

(A) BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGERS ETC.

(i) Directors

Stephen Tin Hoi NG, *Chairman and Chief Executive Officer (Age: 60)*

Mr Ng has been Director and Chief Executive Officer of the Company since 1999 and became its Chairman in August 2001. He also serves as a member and the chairman of the Company's Nomination Committee. He is the deputy chairman of publicly-listed Wheelock and Company Limited ("Wheelock"), which is the ultimate holding company of the Company, and deputy chairman and managing director of publicly-listed The Wharf (Holdings) Limited ("Wharf"), of which the Company is a subsidiary, as well as chairman of Harbour Centre Development Limited ("HCDL") and chairman of Wheelock Properties (Singapore) Limited ("WPSL"), both being publicly-listed fellow subsidiaries of the Company. Furthermore, Mr Ng is chairman of Modern Terminals Limited, chairman and chief executive officer of Wharf T&T Limited ("WTT"), and director and chief executive officer of Wharf Communications Limited ("Wharf Communications"), all being fellow subsidiaries of the Company, as well as a director of certain subsidiaries of the Company. Mr Ng is also the chairman of Joyce Boutique Holdings Limited ("Joyce") and a non-executive director of Greentown China Holdings Limited ("Greentown"), both being publicly-listed companies in Hong Kong.

Mr Ng attended Ripon College in Ripon, Wisconsin, USA and the University of Bonn, Germany, from 1971 to 1975, and graduated with a major in mathematics. He is a vice chairman of The Hong Kong General Chamber of Commerce and a council member of the Employers' Federation of Hong Kong. He was also a member of the Hong Kong Port Development Council until December 31, 2012.

The basic salary and various allowances (covered by service contract) of Mr Ng for the year 2013, calculated on an annualised basis, would be approximately HK\$1.80 million (2012: HK\$2.00 million) per annum.

William Jut Ho KWAN, *Director and Chief Financial Officer (Age: 49)*

Mr Kwan was appointed Chief Financial Officer in January 2006 and a Director of the Company in February 2007. He is responsible for finance, accounting, planning, corporate development, investor relations, new media development, film production and distribution, broadcasting and engineering operations, commercial dealings with acquired channels, human resources and administration. He is also a director of certain subsidiaries of the Company. Under the existing service contract between the Group and Mr Kwan, his basic salary and various allowances for the year 2013, calculated on an annualised basis, would be approximately HK\$1.99 million (2012: HK\$1.91 million) per annum.

Ting Kwan HO, *Director (Age: 68)*

Mr Ho has been an Independent Non-executive Director ("INED") of the Company since 2009. He also serves as a member and the chairman of each of the Company's Audit Committee and Compensation Committee, and a member of the Company's Nomination Committee. Mr Ho has over 40 years of comprehensive experience in the television broadcasting industry. He joined Television Broadcasts Limited ("TVB"), publicly listed in Hong Kong, in 1968. He was appointed general manager-television broadcasting of TVB in November 1995, became its group general manager in 2002, and was appointed a director of TVB in June 2003. In April 2005, he resigned from TVB but remained as a director until April 2007. In mid-2007, Mr Ho joined Asia Television Limited and became its chief operating officer until his retirement at the end of 2008.

Herman Shao Ming HU, *BBS, JP, Director (Age: 59)*

Mr Hu, *BSc, FCIBSE, FHKIE, MIEEE. C. Eng.*, has been appointed an INED of the Company with effect from April 1, 2012. He is the chairman of Ryoden Development Limited. Mr Hu has been elected to be a Deputy of the 12th National People's Congress. He also serves as a member of Standing Committees of the Chinese People's Political Consultative Conference, Shanghai and All-China Federation of Industry and Commerce. He is also the Council Chairman of City University of Hong Kong, a member of Hong Kong Sports Commission, a director of Hong Kong Cyberport Management Company Limited, a member of Council on Human Reproductive Technology, an Honorary Court Member of Hong Kong University of Science & Technology, a member of the Election Committee of the Government of the HKSAR and the Vice Patron of The Community Chest of Hong Kong.

SUPPLEMENTARY CORPORATE INFORMATION *(continued)*

(A) BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGERS ETC. *(continued)*

(i) Directors *(continued)*

Roger Koon Hoo LUK, *BBS, JP, Director (Age: 61)*

Mr Luk, *FHKIB*, has been an INED of the Company since 2010. He also serves as a member of the Company's Audit Committee. He has over 30 years of comprehensive experience in accounting and financial management. He joined Hang Seng Bank in 1975, became the bank's director and deputy chief executive in 1994 and then became managing director and deputy chief executive of the bank in 1996 until his retirement in May 2005. Mr Luk is an INED of three companies publicly listed in Hong Kong, namely, China Properties Group Limited, Computime Group Limited and Hung Hing Printing Group Limited, and also an INED of AXA General Insurance Hong Kong Limited and Octopus Cards Limited. Mr Luk was formerly an INED of Wheelock Properties Limited ("WPL" formerly a listed public company until it became a wholly-owned subsidiary of Wheelock in July 2010) from February 2008 to July 2010. He also serves as a council member and the treasurer of The Chinese University of Hong Kong, and a member of The Town Planning Board. Mr Luk also served in the past on the Court and Council of Hong Kong Baptist University, the Advisory Committee on New Broad-based Taxes, the Personal Data (Privacy) Advisory Committee, the Central Policy Unit of the Hong Kong Government, the Statistics Advisory Board, the Broadcasting Authority, the Advisory Committee and the Investor Education Advisory Committee of the Securities and Futures Commission, the Barristers Disciplinary Tribunal Panel and was a non-official member of the Operations Review Committee of the Independent Commission Against Corruption. He was an appointed member of the Hong Kong Legislative Council from 1992 to 1995, and also a member of the first Election Committee of the Legislative Council.

Mr Luk graduated with a Bachelor of Social Sciences Degree in Statistics from The University of Hong Kong and also holds a Master of Business Administration Degree granted by The Chinese University of Hong Kong. He is also a Non-official Justice of the Peace and was awarded the honour of Bronze Bauhinia Star in 2004 in recognition of his contributions to public services.

Paul Yiu Cheung TSUI, *Director (Age: 66)*

Mr Tsui, *FCCA, FCPA, FCMA, FCIS, CGA-Canada*, has been a Director of the Company since 2009. He is an executive director and group chief financial officer of both Wheelock and Wharf. Mr Tsui joined Wheelock/Wharf group in 1996 and became Wheelock's director in 1998. He is presently a director of HCDL and WPSL, both being publicly-listed fellow subsidiaries of the Company. Furthermore, he is the vice chairman of WPL as well as a director of certain subsidiaries of the Company. Mr Tsui is also a director of Joyce and a non-executive director of Greentown.

Patrick Yung Wei WU, *Director (Age: 60)*

Mr Wu has been an INED of the Company since 2007. He also serves as a member of each of the Company's Audit Committee, Compensation Committee and Nomination Committee. Mr Wu is a managing director of American Appraisal Associates, Inc. ("AAA") and the president & managing director of American Appraisal China Limited, AAA's key operation in Asia. Mr Wu has worked both in industry as a senior executive with extensive management experience and in private practice as a lawyer. Prior to joining AAA, he was a partner of an international law firm with particular responsibility for China trade advice. Mr Wu was educated in Hong Kong and the United Kingdom. He graduated from the University of London in 1974 with a Bachelor's Degree in Science, and obtained his Master of Business Administration Degree from the Cass Business School, City University in London in 1976. Mr Wu was admitted as a solicitor of the Supreme Court in the UK in 1982 and in Hong Kong also in 1982 and is a member (non-practising) of The Law Society of Hong Kong. He is also an active member of various professional organisations, chambers of commerce and the business community in Hong Kong.

Notes: (1) Wheelock and Wharf (Mr Stephen T H Ng and Mr Paul Y C Tsui being directors of both of them) have interests in the share capital of the Company discloseable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO").

(2) The Company confirms that it has received written confirmation from each of the INEDs of the Company confirming their independence pursuant to Rule 3.13 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and considers them independent.

Report of the Directors (continued)

SUPPLEMENTARY CORPORATE INFORMATION (continued)

(A) BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGERS ETC. (continued)

(ii) Senior Management

Stephen T H Ng, *Chairman & Chief Executive Officer*

William J H Kwan, *Director & Chief Financial Officer*

Ronald Y C Chiu, *Executive Director, i-CABLE News Limited and i-CABLE Sports Limited (Age: 60)*

Mr Chiu was appointed Assistant News Controller in June 1993 and was instrumental in the launch of the first 24-hour Cantonese language News Channel in the world. Mr Chiu was promoted to News Controller in 1994 and appointed as Vice President, News & Sports in 2002. He became an executive director of i-CABLE News Limited and i-CABLE Sports Limited in September 2005 responsible for operating channels of the Sports and News platform. Prior to joining the Company, Mr Chiu held various senior news positions in the television industry. His experience spans from reporting, editing, news anchoring; to planning and execution of news coverage as well as management of news operations. He was made Honorary University Fellow of the Hong Kong Baptist University in 2012 in recognition of his contributions to broadcasting news.

Samuel C C Tsang, *Executive Director, i-CABLE Entertainment Limited and Hong Kong Cable Enterprises Limited (Age: 56)*

Mr Tsang was appointed Enterprises Director in 1995 to take charge of international programme licensing and advertising sales for the station. He became chief operating officer of Hong Kong Cable Enterprises Limited ("HKCE") when it was set up in 2000 to take over advertising sales of Hong Kong Cable Television Limited ("HKC"). He became General Manager of both HKCE and Hong Kong Cable News Express Limited on March 1, 2005. Mr Tsang has extensive experience in media and marketing, specialising in new business establishment in Mainland China and Hong Kong. He assumed the additional position of Executive Director, i-CABLE Entertainment Limited, in March 2011, and is also responsible for the operation and development of the Group's entertainment platform.

Simon K K Yu, *Senior Vice President, i-CABLE Network Operations Limited (Age: 58)*

Mr Yu joined the Wharf group in 1987 and has held various administration and audit positions in the Wharf group. He was appointed corporate controller-operations of Wharf Communications in 1992, responsible for operations, accounting, finance, control, administration and personnel. In 1996, Mr Yu was appointed Administration and Audit Director of HKC. He became Vice President-i-CABLE Network Operations Limited in 2006 to take charge of operations of the company's HFC & MMDS networks.

Helina Wong, *Vice President, Subscription Marketing & Sales (Age: 42)*

Ms Wong joined the Company in July 2012 and is responsible for the growth and development of our Pay TV, Broadband and Telephony services. She started her career in advertising before moving to the telecommunications sector. Before joining the Company, she was General Manager of ecTelecom Limited, a Wharf Group subsidiary, providing residential and SME users with telecommunications solutions.

SYWai, *Vice President, External Affairs & Service Operations (Age: 48)*

Mr Wai joined the Group in 2011 and is responsible for external affairs, legal and regulatory affairs as well as customer service. He came from a diverse media, public affairs and business background, having held key positions in private and public organisations in Hong Kong before joining the Company.

SUPPLEMENTARY CORPORATE INFORMATION *(continued)*

(B) DIRECTORS' INTERESTS IN SHARES

At December 31, 2012, Directors of the Company had the following beneficial interests, all being long positions, in the securities of the Company, Wharf (which is the Company's parent company), Wheelock (which is Wharf's parent company), Wharf Finance (2014) Limited, Wharf Finance (No. 1) Limited and Wheelock Finance Limited (all being fellow subsidiaries of the Company), and the percentages (where applicable) which the relevant securities represented to the issued share capitals of the six relevant companies respectively are also set out below:

	Quantity held (percentage of issued capital, where applicable)	Nature of interest
The Company – Ordinary Shares		
Stephen T H Ng	1,265,005 (0.0629%)	Personal interest
Wheelock – Ordinary Shares		
Stephen T H Ng	300,000 (0.0148%)	Personal interest
Wharf – Ordinary Shares		
Stephen T H Ng <i>(Note 1)</i>	2,304,445 (0.0761%)	Personal interest
Paul Y C Tsui <i>(Note 2)</i>	1,500,000 (0.0495%)	Personal interest
Wharf Finance (2014) Limited – Convertible Bonds due 2014		
Roger K H Luk <i>(Note 3)</i>	HK\$2,000,000	Personal interest
Wharf Finance (No. 1) Limited – HKD Fixed Rate Notes due 2020		
Roger K H Luk	HK\$4,000,000	Personal interest
Wheelock Finance Limited – HKD Guaranteed Notes due 2017		
Roger K H Luk	HK\$2,000,000	Personal interest

Notes: (1) Of the 2,304,445 Wharf shares, 1,500,000 shares represent the outstanding options granted to Mr Stephen T H Ng under Wharf's share option scheme.

(2) The 1,500,000 Wharf shares represent the outstanding options granted to Mr Paul Y C Tsui under Wharf's share option scheme.

(3) Regarding the HK\$2,000,000 worth of convertible bonds held by Mr Roger K H Luk (as set out above), in the event of the conversion rights attached thereto being fully exercised, 22,222 shares (representing 0.0007% of the issued share capital) of Wharf would be issued.

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the SFO in respect of information required to be notified to the Company and the Stock Exchange by the Directors and/or Chief Executive of the Company pursuant to the SFO or to the Model Code for Securities Transactions by Directors of Listed Issuers, there were no interests, both long and short positions, held as at December 31, 2012 by any of the Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), nor had there been any rights to subscribe for any shares, underlying shares or debentures of the Company and its associated corporations held by any of them at any time during the financial year.

Report of the Directors (continued)

(C) 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 December 31, 2012, 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) The Wharf (Holdings) Limited	1,480,505,171 (73.60%)
(ii) Wheelock and Company Limited	1,481,442,626 (73.65%)
(iii) HSBC Trustee (Guernsey) Limited	1,481,442,626 (73.65%)

Notes: (1) 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 (iii) above to the extent that the shareholding stated against party (i) above was entirely duplicated or included in that against party (ii) above, and the shareholdings stated against parties (ii) and (iii) represented the same block of shares.

(2) Wheelock's deemed shareholding interests stated above were held through, inter alia, its two wholly-owned subsidiaries, namely, Wheelock Investments Limited and WF Investment Partners Limited.

(3) Wharf's deemed shareholding interests stated above were held through its wholly-owned subsidiary, namely, Wharf Communications Limited.

All the interests stated above represented long positions and as at December 31, 2012, there were no short position interests recorded in the Register.

(D) RETIREMENT SCHEME AND MANDATORY PROVIDENT FUND

The principal retirement scheme operated by the Group is a defined contribution retirement scheme for its employees, established under a trust deed. Other fellow subsidiaries of the Company also participate in the scheme.

The scheme is funded by contributions from employees and employers. The employees and employers contribute respectively to the scheme sums which represent percentages of the employees' salaries as defined under the trust deed. Forfeited contributions may be utilised by the employers to reduce contributions.

The Group's principal retirement scheme is closed to new employees joining after October 1, 2000 while existing members of the scheme can continue to accrue future benefits.

Employees joining after October 1, 2000 will participate in the Mandatory Provident Fund ("MPF") with terms as stipulated by the MPF Authority. The Group will also provide voluntary top-up benefits to employees receiving a monthly basic salary exceeding the statutory limits prescribed by the MPF Ordinance.

The Group's retirement scheme costs before capitalisation and charged to the consolidated income statement during the financial year ended December 31, 2012 amounted to HK\$20,166,826 (2011: HK\$19,875,614) which were incurred after utilisation of forfeitures to reduce the Group's contributions of HK\$436,463 (2011: HK\$786,778).

Note: The total employers' cost in respect of the retirement scheme of the Group, including the cost related to the MPF which is not operated by the Group, charged to consolidated income statement during the financial year ended December 31, 2012 amounted to HK\$35,966,364 (2011: HK\$34,870,090).

SUPPLEMENTARY CORPORATE INFORMATION *(continued)*

(E) DIRECTORS' INTERESTS IN COMPETING BUSINESS

Set out below is information disclosed pursuant to Rule 8.10 of the Listing Rules:

Two Directors of the Company, namely, Mr Stephen T H Ng and Mr Paul Y C Tsui, being also directors of WTT (a wholly-owned subsidiary of Wharf), are considered as having an interest in WTT under Rule 8.10 of the Listing Rules.

WTT currently holds a Unified Carrier Licence to provide, *inter alia*, telecommunications services to commercial customers. WTT is therefore a potential competitor of the Group for the provision of facility-based telecommunication services at present and in future.

In order to protect the interests of the Group, prior to the date of listing of shares of the Company on the Stock Exchange, each of Wharf and Wharf Communications (being a wholly-owned subsidiary of Wharf) has covenanted with the Company, subject to certain conditions, not to, and to use its best endeavours to procure that none of the directly or indirectly held subsidiaries (including WTT) and associated companies of Wharf will, either alone or jointly with any other party, directly and indirectly carry on, or be engaged or concerned or interested in or assist, any business in Hong Kong which would compete directly or indirectly with the TV and Internet access businesses of the Group from time to time.

The Group considers that its interests in the relevant sector of its communications businesses are adequately safeguarded and the Group is capable of carrying on its communications businesses independently of, and at arm's length from, WTT.

For further safeguarding of the interests of the Group, the INEDs and the Audit Committee of the Company would on a regular basis review the business and operational results of the Group to ensure, *inter alia*, that the Group's communications businesses are and continue to be run on the basis that they are independent of, and at arm's length from, that of the Wharf group.

(F) MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended December 31, 2012:

- (i) the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases; and
- (ii) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

(G) BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

As of December 31, 2012, the Group had banking facilities of HK\$200 million, of which HK\$100 million had been utilised as at the end of the reporting period and are set out in Note 28 to the Financial Statements on page 67.

(H) PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the financial year ended December 31, 2012.

Report of the Directors (continued)

SUPPLEMENTARY CORPORATE INFORMATION (continued)

(I) DISCLOSURE OF CONNECTED TRANSACTIONS

- (i) Set out below is information in relation to certain continuing connected transactions (the "Transactions") between the Company (the Company being a 73.84%-owned subsidiary of Wharf) and/or its subsidiaries (together, the "Group") and other subsidiaries or affiliates of Wharf, which were substantially disclosed in an announcement of the Company dated November 24, 2009 and are required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of the Company:

Description of the Transactions	Amounts for
	the financial year ended December 31, 2012 HK\$ million
(1) Master Tenancy Agreement Amount paid/payable by the Group	45.2
(2) Master Licence Agreement for Wharf group to occupy premises Amount received/receivable by the Group	6.4
(3) Master Services Agreement 1. Amount received/receivable by the Group 2. Amount paid/payable by the Group	13.9 30.1
(4) Management services provided by Wharf group Amount paid/payable by the Group	9.5

The above transactions are subject to various annual cap amounts previously disclosed in the abovementioned announcement of the Company. The purposes of entering into the Transactions are for the continued operation and growth of the Group's business, for generation of recurrent rental revenue to the Group and/or maintaining revenue stream for the Group.

Various agreements regarding the above transactions expired on December 31, 2012. On December 14, 2012, the Company and/or its subsidiary(ies) entered into several renewal agreements for renewing all of the abovementioned agreements for a further term of three years from January 1, 2013. Subsequently on December 18, 2012, a supplemental agreement to the renewal master tenancy agreement (being one of those renewal agreements as for the renewal of the master tenancy agreement numbered (1) above) was entered into between the Company and Wharf whereby certain major terms of the renewal master tenancy agreement were revised including, *inter alia*, the change of the duration of the renewal master tenancy agreement to two years commencing January 1, 2013.

- (ii) Confirmation from Directors etc.

The Directors, including the INEDs, of the Company have reviewed the Transactions and have confirmed that the Transactions were entered into:

- by the Group in the ordinary and usual course of its business;
- either on normal commercial terms or, if there are not sufficient comparable transactions, on terms that are no less favourable than those available to or from (as appropriate) independent third parties; and
- in accordance with the relevant agreements governing such Transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

Furthermore, the auditors of the Company have advised the following:

- the Transactions had been approved by the Company's Board of Directors;
- the Transactions, including those which involved provisions of goods or services by the Group, are in accordance with the pricing policies of the Group, where applicable;
- the Transactions were entered into in accordance with the terms of the related agreements governing the Transactions; and
- the relevant cap amounts have not been exceeded during the financial year ended December 31, 2012.

Note: Certain particulars of the related party transactions entered into by the Group during the financial year ended December 31, 2012 under review have been disclosed in Note 36 to the Financial Statements on pages 76 and 77. Those related party transactions also constitute connected transactions (as defined in the Listing Rules) for the Company.

Independent Auditor's Report



Independent auditor's report to the shareholders of i-CABLE Communications Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of i-CABLE Communications Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 32 to 79, which comprise the consolidated and company statements of financial position as at December 31, 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

March 5, 2013

Consolidated Income Statement

For the year ended December 31, 2012

	<i>Note</i>	2012 HK\$'000	2011 HK\$'000
Turnover	<i>3,4</i>	2,127,204	2,109,558
Programming costs		(1,427,602)	(1,304,848)
Network expenses		(222,519)	(225,465)
Selling, general and administrative and other operating expenses		(389,423)	(408,898)
Cost of sales		(109,910)	(91,958)
(Loss)/profit from operations before depreciation		(22,250)	78,389
Depreciation	<i>5</i>	(252,479)	(258,197)
Loss from operations	<i>4</i>	(274,729)	(179,808)
Interest income	<i>5</i>	842	826
Finance costs, net	<i>5</i>	(3,605)	(1,389)
Impairment losses on investment	<i>5</i>	(1,083)	–
Non-operating income/(expenses)	<i>5</i>	5,674	(2,860)
Loss before taxation	<i>5</i>	(272,901)	(183,231)
Income tax	<i>6(a)</i>	(5,434)	3,802
Loss for the year		(278,335)	(179,429)
Attributable to:			
Equity shareholders of the Company		(278,335)	(179,832)
Non-controlling interests		–	403
Loss for the year		(278,335)	(179,429)
Loss per share	<i>11</i>		
Basic		(13.8) cents	(8.9) cents
Diluted		(13.8) cents	(8.9) cents

The notes on pages 39 to 79 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2012

	<i>Note</i>	2012 HK\$'000	2011 HK\$'000
Loss for the year		(278,335)	(179,429)
<hr/>			
Other comprehensive income for the year (after reclassification adjustment)			
Exchange difference on translation of foreign subsidiaries' financial statements	10	(115)	(864)
<hr/>			
Total comprehensive income for the year		(278,450)	(180,293)
<hr/>			
Attributable to:			
Equity shareholders of the Company		(278,450)	(180,837)
Non-controlling interests		-	544
<hr/>			
Total comprehensive income for the year		(278,450)	(180,293)

The notes on pages 39 to 79 form part of these financial statements.

Consolidated Statement of Financial Position

At December 31, 2012

	Note	2012 HK\$'000	2011 HK\$'000
Non-current assets			
Property, plant and equipment	12	1,024,223	1,074,806
Programming library	13	108,945	106,816
Other intangible assets	14	3,767	4,006
Interest in associate	15	–	–
Deferred tax assets	30(b)	322,551	336,041
Other non-current assets	16	58,580	58,826
		1,518,066	1,580,495
Current assets			
Inventories	19	5,947	5,886
Accounts receivable from trade debtors	20	88,936	87,145
Deposits, prepayments and other receivables	20	62,202	161,752
Amounts due from fellow subsidiaries	21	1,823	901
Cash and cash equivalents	22	288,287	338,359
		447,195	594,043
Current liabilities			
Amounts due to trade creditors	23	106,488	93,397
Accrued expenses and other payables	23	184,266	197,861
Receipts in advance and customers' deposits	23	208,034	205,638
Current taxation	30(a)	696	22
Amounts due to fellow subsidiaries	25	27,043	49,976
Amount due to immediate holding company	26	1,770	1,816
		528,297	548,710
Net current (liabilities)/assets		(81,102)	45,333
Total assets less current liabilities		1,436,964	1,625,828
Non-current liabilities			
Deferred tax liabilities	30(b)	44,009	53,708
Other non-current liabilities	27	8,592	9,307
Bank loans	28	100,000	–
		152,601	63,015
NET ASSETS		1,284,363	1,562,813
Capital and reserves			
Share capital	29	2,011,512	2,011,512
Reserves		(727,149)	(448,699)
Total equity attributable to equity shareholders of the Company		1,284,363	1,562,813
Non-controlling interests		–	–
TOTAL EQUITY		1,284,363	1,562,813

The notes on pages 39 to 79 form part of these financial statements.

Approved and authorised for issue by the Board of Directors on March 5, 2013.

Stephen T H Ng
Chairman and Chief Executive Officer

William J H Kwan
Director and Chief Financial Officer

Company Statement of Financial Position

At December 31, 2012

	Note	2012 HK\$'000	2011 HK\$'000
Non-current assets			
Investments in subsidiaries	17	12	12
Amounts due from subsidiaries	18	7,471,321	7,710,257
		7,471,333	7,710,269
Current assets			
Prepayments and other receivables	20	637	95
Amounts due from fellow subsidiaries	21	421	222
Cash and cash equivalents	22	196,498	249,997
		197,556	250,314
Current liabilities			
Accrued expenses, other payables and deposit received	23	2,595	2,861
Amounts due to subsidiaries	24	784,075	697,776
Amounts due to fellow subsidiaries	25	4,930	5,417
		791,600	706,054
Net current liabilities		(594,044)	(455,740)
NET ASSETS		6,877,289	7,254,529
Capital and reserves			
Share capital	29	2,011,512	2,011,512
Reserves		4,865,777	5,243,017
TOTAL EQUITY		6,877,289	7,254,529

The notes on pages 39 to 79 form part of these financial statements.

Approved and authorised for issue by the Board of Directors on March 5, 2013.

Stephen T H Ng
Chairman and Chief Executive Officer

William J H Kwan
Director and Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended December 31, 2012

Attributable to equity shareholders of the Company

	Attributable to equity shareholders of the Company											
	Share capital	Share premium	Special capital reserve	Exchange reserve	Capital redemption reserve	Fair value reserve	Revenue reserve	Other reserve	Total reserves	Total	Non-controlling interests	Total equity
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group												
Balance at January 1, 2011*	2,011,512	4,838,365	13,944	4,655	7,722	–	(5,132,548)	–	(267,862)	1,743,650	3,239	1,746,889
Loss for the year	–	–	–	–	–	–	(179,832)	–	(179,832)	(179,832)	403	(179,429)
Other comprehensive income for the year	–	–	–	(1,005)	–	–	–	–	(1,005)	(1,005)	141	(864)
Total comprehensive income for the year	–	–	–	(1,005)	–	–	(179,832)	–	(180,837)	(180,837)	544	(180,293)
Transfer to special capital reserve	29(c) (ii)	–	–	19	–	–	(19)	–	–	–	–	–
Liquidation of a subsidiary	–	–	–	–	–	–	–	–	–	–	(3,783)	(3,783)
Balance at December 31, 2011*	2,011,512	4,838,365	13,963	3,650	7,722	–	(5,312,399)	–	(448,699)	1,562,813	–	1,562,813
Balance at January 1, 2012*	2,011,512	4,838,365	13,963	3,650	7,722	–	(5,312,399)	–	(448,699)	1,562,813	–	1,562,813
Loss for the year	–	–	–	–	–	–	(278,335)	–	(278,335)	(278,335)	–	(278,335)
Other comprehensive income for the year	–	–	–	(115)	–	–	–	–	(115)	(115)	–	(115)
Total comprehensive income for the year	–	–	–	(115)	–	–	(278,335)	–	(278,450)	(278,450)	–	(278,450)
Transfer to special capital reserve	29(c) (ii)	–	–	4	–	–	(4)	–	–	–	–	–
Balance at December 31, 2012*	2,011,512	4,838,365	13,967	3,535	7,722	–	(5,590,738)	–	(727,149)	1,284,363	–	1,284,363

* 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 39 to 79 form part of these financial statements.

Statement of Changes in Equity

For the year ended December 31, 2012

	Reserves						Total Equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Revenue reserve HK\$'000	Other reserve HK\$'000	Total reserves HK\$'000	
Company							
Balance at January 1, 2011	2,011,512	4,838,365	7,722	632,216	–	5,478,303	7,489,815
Loss for the year and total comprehensive income for the year	–	–	–	(235,286)	–	(235,286)	(235,286)
Balance at December 31, 2011	2,011,512	4,838,365	7,722	396,930	–	5,243,017	7,254,529
Balance at January 1, 2012	2,011,512	4,838,365	7,722	396,930	–	5,243,017	7,254,529
Loss for the year and total comprehensive income for the year	–	–	–	(377,240)	–	(377,240)	(377,240)
Balance at December 31, 2012	2,011,512	4,838,365	7,722	19,690	–	4,865,777	6,877,289

The notes on pages 39 to 79 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31, 2012

<i>Note</i>	2012 HK\$'000	2011 HK\$'000
Operating activities		
Loss before taxation	(272,901)	(183,231)
Adjustments for:		
Finance costs, net	3,605	1,389
Interest income	(842)	(826)
Depreciation	252,479	258,197
Amortisation of programming library	93,917	82,752
Impairment losses on investment	1,083	–
Impairment losses on programming library	3,796	4,785
Impairment losses on property, plant and equipment	1,595	2,173
Net (gain)/loss on disposal of property, plant and equipment	(5,674)	2,860
Gain on liquidation of a subsidiary	–	(2,629)
Operating profit before changes in working capital	77,058	165,470
Decrease/(increase) in inventories	4,963	(465)
Increase in accounts receivable from trade debtors	(1,791)	(19,762)
Decrease/(increase) in deposits, prepayments and other receivables	93,514	(30,449)
(Increase)/decrease in amounts due from fellow subsidiaries	(1,675)	2,544
Increase in amounts due to trade creditors	10,661	24,138
Increase/(decrease) in accrued expenses and other payables	655	(2,180)
Increase in receipts in advance and customers' deposits	1,681	31,698
(Decrease)/increase in amounts due to fellow subsidiaries	(22,933)	21,742
Net change in amount due to immediate holding company	(46)	–
Cash generated from operations	162,087	192,736
Interest received	936	760
Overseas tax paid	(964)	(315)
Net cash generated from operating activities	162,059	193,181
Investing activities		
Purchase of property, plant and equipment	(214,516)	(222,990)
Additions to programming library	(106,299)	(83,992)
Proceeds from disposal of club debenture	239	–
Proceeds from disposal of property, plant and equipment	8,492	8,690
Net cash used in investing activities	(312,084)	(298,292)
Financing activities		
Amount paid to non-controlling interests on the liquidation of a subsidiary	–	(3,783)
Dividends paid to equity shareholders of the Company	–	(1)
Drawdown of bank loans	100,000	–
Net cash generated from/(used in) financing activities	100,000	(3,784)
Net decrease in cash and cash equivalents	(50,025)	(108,895)
Effect of foreign exchange rates changes	(47)	572
Cash and cash equivalents at January 1	338,359	446,682
Cash and cash equivalents at December 31	288,287	338,359

The notes on pages 39 to 79 form part of these financial statements.

Notes to the Financial Statements

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 any 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, 2012, comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as available-for-sale (see Note 1(s)) and derivative financial instruments (see Note 1(z)) are stated at their fair value.

The Group had net current liabilities as of December 31, 2012 of HK\$81,102,000 (2011: Net current assets HK\$45,333,000). The directors of the Company have given careful consideration to the future liquidity of the Group and have adopted the going concern basis in the preparation of these financial statements based on the following:

As of December 31, 2012, the Group had banking facilities of HK\$200,000,000, of which HK\$100,000,000 had been utilised as of the end of the reporting period. Subsequent to the end of the reporting period, a further net HK\$65,000,000 was subsequently drawn down to meet short term seasonal cash requirements.

The above banking facilities mature in early January 2014, and were subject to the Group’s compliance with various financial and non-financial covenants. The directors have reviewed the Group’s compliance with such covenants during the current year and are confident in the Group’s continued ability to comply with such covenants up to the scheduled maturity date – and that the Group will have recourse to additional financing, should the need arise.

The directors are taking steps to improve the Group’s liquidity and financial performance, including active cost-saving and other measures to improve the Group’s operating cash flows and financial position.

In the opinion of the directors, in light of the above, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern 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 major sources of estimation uncertainty are discussed in Note 37.

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

(c) Subsidiaries and non-controlling interests

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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, 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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note 1(u) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(s)) or, when appropriate, the cost on initial recognition of an investment in an associate (see Note 1(d)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(t)).

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Notes 1(f) and (t)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

1. Significant accounting policies *(continued)*

(d) Associates *(continued)*

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(s)).

In the Company's statement of financial position, investment in an associate is stated at cost less impairment losses (see Note 1(t)).

(e) 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 statement of financial position 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 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.

(f) Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 1(t)).

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.

(g) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 1(t)). The cost of self-constructed items of property, plant and equipment includes the cost of 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 production overheads and borrowing costs (see Note 1(o)).

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.

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

(g) Property, plant and equipment and depreciation (continued)

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.

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.

(h) 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 the 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(g). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(t). 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 are recognised in profit or loss as an integral part of the aggregate net lease payments made.

1. Significant accounting policies *(continued)*

(i) 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 statement of financial position at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses (see Note 1(t)). 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(t)). Costs 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 estimated 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 impairment losses (see Note 1(t)). Costs include all direct costs associated with the production of films. Impairment losses are made for costs which are in excess of the expected future revenue generated by these films. Costs of films are transferred to film rights upon completion.

(j) 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 the end of each reporting period.

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.

(i) Club debentures

The Group's club debentures are stated in the statement of financial position at cost less impairment losses (see Note 1(t)), on an individual basis.

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

(k) 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.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 1(t)), 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 allowance for impairment of doubtful debts.

(m) 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 statement of cash flows.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 access services, and Voice Over Internet Protocol telephony 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(n)(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) Revenue from theatrical distribution is recognised when the films are exhibited.
- (vi) Revenue from distribution of films is recognised upon delivery of the master tapes to the customers.
- (vii) Income from licensing of TV rights 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.
- (viii) Magazine advertising income is recognised upon the publication of the edition in which the advertisement is placed.
- (ix) Sales of magazines are recognised when the magazines are delivered and the title has passed.
- (x) Income from network maintenance and operation is recognised at the time when services are provided.
- (xi) 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 integral part of the aggregate net lease payments receivables. Contingent rentals are recognised as income in the accounting period in which they are earned.

1. Significant accounting policies *(continued)*

(n) Revenue recognition *(continued)*

- (xii) Dividend income from investments in equity securities is recognised when the shareholder's right to receive payment is established.
- (xiii) Interest income is recognised as it accrues using the effective interest method.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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.

(p) 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 except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

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

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

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

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

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

(p) Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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.

(q) 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 end of the reporting period. 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. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after January 1, 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. 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 relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(r) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.

1. Significant accounting policies *(continued)*

(r) Related parties *(continued)*

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(s) Investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries and associates, 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 statement of financial position at cost less impairment losses (see Note 1(t)).

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in Note 1(n)(xii), and where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in Note 1(n)(xiii). When these investments are derecognised or impaired (see Note 1(t)), the cumulative gain or loss is reclassified from equity to profit or loss.

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

(t) Impairment of assets

- (i) Impairment of investments in equity securities and other receivables
- Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:
- significant financial difficulty of the debtor;
 - a breach of contract, such as a default or delinquency in interest or principal payments;
 - it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
 - significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
 - a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

(t) Impairment of assets (continued)

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

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in subsidiaries and associates (including those recognised using the equity method (see Note 1(d))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 1(t)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 1(t)(ii).
- 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 carried at cost 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. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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.

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

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

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

- property, plant and equipment;
- programming library (including film rights, perpetual film rights and films in progress);
- other intangible assets; and
- goodwill.

1. Significant accounting policies (continued)

(t) 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 fair value less costs to sell 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 the 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 if 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(t)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and 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. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(u) 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(x)(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.

(v) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Notes to the Financial Statements *(continued)*

1. Significant accounting policies *(continued)*

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(x) 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(x)(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 assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition 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(x)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with Note 1(x)(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)*

(y) Employee benefits

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 and programming library not yet recognised as an expense.

(z) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in 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(aa)).

(aa) 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 gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. 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 reclassified from equity to be 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 reclassified from equity to 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).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to 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 until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(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 in other comprehensive income and accumulated separately in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to profit or loss. The ineffective portion is recognised immediately in profit or loss.

Notes to the Financial Statements (continued)

2. Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. These include the amendments to HKFRS 7, *Financial instruments: Disclosures – Transfer of financial assets* and amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*. None of these developments are relevant to the Group's financial statements.

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

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, service and related fees for Television and Internet (including Telephony) services. It 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.

The Group's customer base is diversified and no single customer with whom transactions have exceeded 10% of the Group's revenues. The Group has no significant concentrations of credit risk from customers.

4. 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, Television relay service, programme licensing, network maintenance, and miscellaneous Television related businesses.

The Internet and Multimedia segment includes operations related to Broadband Internet access services, portal operation, mobile content licensing, Voice Over Internet Protocol telephony services as well as other Internet access related businesses.

Management evaluates performance primarily based on earnings before interest, taxation, depreciation and amortisation ("EBITDA") and earnings before interest and taxation ("EBIT"). Management defines EBITDA to mean earnings before interest income, finance costs, impairment losses on investment, non-operating income/expenses, provision for income tax, depreciation of property, plant and equipment but after amortisation of programming rights.

Inter-segment pricing is generally determined at arm's length basis.

Segment assets principally comprise all tangible assets, intangible assets and current assets with the exception of interest in associate, investments in equity securities and deferred tax assets. Segment liabilities include all liabilities and borrowings directly attributable to and managed by each segment with the exception of current taxation and deferred tax liabilities.

In addition to receiving segment information concerning EBITDA and EBIT, management is provided with segment information concerning revenue (including inter-segment revenue).

4. Segment information *(continued)*

Information regarding the Group's reportable segments as provided to the Group's Senior Management for the purposes of resource allocation and assessment of segment performance for the years ended December 31, 2012 and 2011 is set out below:

Business segments

	Television		Internet and Multimedia		Unallocated		Total	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Revenue from external customers	1,742,433	1,737,460	338,102	338,825	46,669	33,273	2,127,204	2,109,558
Inter-segment revenue	14,537	11,331	386	1,072	6,441	7,110	21,364	19,513
Reportable segment revenue	1,756,970	1,748,791	338,488	339,897	53,110	40,383	2,148,568	2,129,071
Reportable segment results ("EBITDA")	(29,998)	68,816	117,624	126,561	(108,545)	(115,771)	(20,919)	79,606
Reportable segment results ("EBIT")	(184,199)	(94,658)	25,918	38,983	(115,117)	(122,916)	(273,398)	(178,591)
Inter-segment elimination							(1,331)	(1,217)
Loss from operations							(274,729)	(179,808)
Interest income							842	826
Finance costs, net							(3,605)	(1,389)
Impairment losses on investment							(1,083)	–
Non-operating income/ (expenses)							5,674	(2,860)
Income tax							(5,434)	3,802
Loss for the year							(278,335)	(179,429)

Notes to the Financial Statements (continued)

4. Segment information (continued)

A reconciliation of reportable segment EBITDA to loss before taxation is provided as follows:

	2012 HK\$'000	2011 HK\$'000
Total segment EBITDA	(20,919)	79,606
Depreciation	(252,479)	(258,197)
Total segment EBIT	(273,398)	(178,591)
Inter-segment elimination	(1,331)	(1,217)
Interest income	842	826
Finance costs, net	(3,605)	(1,389)
Impairment losses on investment	(1,083)	–
Non-operating income/(expenses)	5,674	(2,860)
Loss before taxation	(272,901)	(183,231)
	Segment assets	
	2012 HK\$'000	2011 HK\$'000
Television	909,453	1,051,154
Internet and Multimedia	432,322	419,707
Unallocated assets	300,935	366,553
	1,642,710	1,837,414
Interest in associate	–	–
Deferred tax assets	322,551	336,041
Investments in equity securities	–	1,083
	1,965,261	2,174,538
	Segment liabilities	
	2012 HK\$'000	2011 HK\$'000
Television	440,753	341,639
Internet and Multimedia	111,808	102,197
Unallocated liabilities	83,632	114,159
	636,193	557,995
Current taxation	696	22
Deferred tax liabilities	44,009	53,708
	680,898	611,725

Geographical segments

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

5. Loss before taxation

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

	2012 HK\$'000	2011 HK\$'000
Interest income		
Interest income from deposits with banks and other financial institutions	(804)	(779)
Other interest income	(38)	(47)
	(842)	(826)
Finance costs, net		
Net loss on forward exchange contract	9	1,389
Interest expenses on bank loan	3,596	–
	3,605	1,389
Other items		
Depreciation		
– assets held for use under operating leases	39,919	39,102
– other assets	212,560	219,095
Amortisation of programming library*	93,917	82,752
Impairment losses		
– trade and other receivables	5,136	4,657
– property, plant and equipment	1,595	2,173
– programming library	3,796	4,785
– investments in equity securities	1,083	–
Reversal of impairment losses on trade and other receivables	(1,057)	(1,282)
Cost of inventories	19,053	15,318
Rentals payable under operating leases in respect of land and buildings	61,287	61,139
Contributions to defined contribution retirement plans	34,041	32,886
Auditor's remuneration – audit service		
– charge for the year	2,852	2,719
– under-provision in respect of prior years	186	187
Net foreign exchange gain **	(3,101)	(4,488)
Rentals receivable under operating leases in respect of		
– subleased land and buildings	(8,237)	(6,796)
– owned plant and machinery	(13,110)	(14,937)
Net (gain)/loss on disposal of property, plant and equipment	(5,674)	2,860

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

** Net foreign exchange (loss)/gain of approximately HK\$(50,000) and HK\$3,151,000 are included within programming costs and selling, general and administrative and other operating 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:

	2012 HK\$'000	2011 HK\$'000
Depreciation and amortisation	346,396	340,949
Staff costs	687,591	708,431
Other operating expenses	1,367,946	1,239,986
Total operating costs	2,401,933	2,289,366

Notes to the Financial Statements (continued)

6. Income tax in the consolidated income statement

(a) Income tax in the consolidated income statement represents:

	2012 HK\$'000	2011 HK\$'000
Current tax – Overseas		
Tax for the year	1,643	234
Over-provision in respect of prior years	–	(1,772)
	1,643	(1,538)
Deferred tax		
Utilisation of prior years' tax losses recognised	24,805	22,971
Benefit of previously unrecognised tax losses now recognised	(15,981)	(15,800)
Reversal of temporary differences	(5,033)	(9,435)
	3,791	(2,264)
Income tax	5,434	(3,802)

The provision for Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

	2012 %	2011 %
Statutory income tax rate	(16.5)	(16.5)
Tax effect of non-deductible expenses	15.8	16.3
Tax effect of non-taxable revenue	(0.3)	(0.2)
Tax effect of unused tax losses not recognised	8.6	7.9
Tax effect of previously tax losses now recognised	(5.9)	(8.6)
Differential tax rate on subsidiaries' income	0.2	–
Over-provision in respect of prior years	–	(1.0)
Effective income tax rate	1.9	(2.1)

7. Directors' emoluments

Details of Directors' emoluments are as follows:

Name of directors	Directors' fees HK\$'000	Basic salaries, housing and other allowances, and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	Discretionary bonuses and/or performance related bonuses HK\$'000	Total emoluments HK\$'000
2012					
Independent Non-executive Directors:					
T K Ho	80	–	–	–	80
Roger K H Luk	72	–	–	–	72
Anthony K K Yeung	33	–	–	–	33
Patrick Y W Wu	80	–	–	–	80
Herman S M Hu	45	–	–	–	45
Non-executive Director:					
Paul Y C Tsui	60	–	–	–	60
Executive Directors:					
Stephen T H Ng	60	2,004	77	4,000	6,141
William J H Kwan	60	1,909	191	970	3,130
Total for 2012	490	3,913	268	4,970	9,641
2011					
Independent Non-executive Directors:					
T K Ho	80	–	–	–	80
Roger K H Luk	60	–	–	–	60
Anthony K K Yeung	80	–	–	–	80
Patrick Y W Wu	80	–	–	–	80
Non-executive Director:					
Paul Y C Tsui	60	–	–	–	60
Executive Directors:					
Stephen T H Ng	60	1,908	117	4,000	6,085
William J H Kwan	60	1,800	180	870	2,910
Total for 2011	480	3,708	297	4,870	9,355

There was no compensation for loss of office and/or inducement for joining the Group paid/payable to the Company's Directors in respect of the years ended December 31, 2012 and December 31, 2011.

Except for Directors' fees of HK\$490,000 (2011: HK\$480,000), certain Directors' emoluments disclosed above were paid directly by the Company's intermediate 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 36(iv)).

Notes to the Financial Statements (continued)

8. Individuals with highest emoluments and emoluments of Senior Management

(a) Five highest paid individuals

Of the five individuals with the highest emoluments, two (2011: two) are Directors whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other three (2011: three) individuals are as follows:

	2012 HK\$'000	2011 HK\$'000
Basic salaries, housing and other allowances, and benefits in kind	5,610	5,688
Retirement scheme contributions	505	504
Discretionary bonuses and/or performance related bonuses	2,835	2,470
Compensation for loss of office	–	–
Inducement for joining the Group	–	–
	8,950	8,662

The emoluments of the three (2011: three) individuals with the highest emoluments are within the following bands:

HK\$	2012 Number of individuals	2011 Number of individuals
2,000,001 - 2,500,000	1	1
2,500,001 - 3,000,000	–	1
3,000,001 - 3,500,000	2	1
	3	3

(b) Emoluments of Senior Management

Of the eight (2011: nine) senior managers' emoluments (including one senior manager who left the Group during the year), two (2011: two) are Directors whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other six (2011: seven) senior managers are as follows:

HK\$	2012 Number of senior managers	2011 Number of senior managers
Below 1,000,000	1	3
1,000,001 - 1,500,000	2	–
2,000,001 - 2,500,000	1	2
2,500,001 - 3,000,000	–	1
3,000,001 - 3,500,000	2	1
	6	7

9. Loss attributable to equity shareholders of the Company

The consolidated loss attributable to equity shareholders of the Company includes a loss of HK\$377,240,000 (2011: HK\$235,286,000) which has been dealt with in the financial statements of the Company.

	2012 HK\$'000	2011 HK\$'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	(377,240)	(235,286)
Company's loss for the year	(377,240)	(235,286)

10. Other comprehensive income

Reclassification adjustment relating to components of other comprehensive income

	2012 HK\$'000	2011 HK\$'000
Exchange reserve:		
Exchange difference on translation of foreign subsidiaries' financial statements	(115)	1,765
Reclassification adjustment for amounts transferred to profit or loss:		
– liquidation of a subsidiary	–	(2,629)
Net movement in the exchange reserve during the year recognised in other comprehensive income	(115)	(864)

11. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of HK\$278,335,000 (2011: HK\$179,832,000) and the weighted average number of ordinary shares outstanding during the year of 2,011,512,400 (2011: 2,011,512,400).

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to ordinary equity shareholders of the Company of HK\$278,335,000 (2011: HK\$179,832,000) and the weighted average number of ordinary shares of 2,011,512,400 (2011: 2,011,512,400) after adjusting for the effects of all dilutive potential ordinary shares.

Notes to the Financial Statements (continued)

12. Property, plant and equipment

	Group						
	Network, decoders, cable modems and television production systems HK\$'000	Furniture, fixtures, other equipment and motor vehicles HK\$'000	Leasehold land and buildings in Hong Kong and PRC			Leasehold improvements HK\$'000	Total HK\$'000
			Long leases HK\$'000	Medium leases HK\$'000	Short leases HK\$'000		
Cost							
At January 1, 2011	5,454,484	673,789	11,425	45,237	70	326,416	6,511,421
Additions	178,817	16,884	–	–	–	3,607	199,308
Disposals	(71,437)	(14,729)	–	–	–	(3,397)	(89,563)
Reclassification to inventories	(939)	–	–	–	–	–	(939)
Exchange reserve	5	1,092	–	1,476	–	420	2,993
At December 31, 2011	5,560,930	677,036	11,425	46,713	70	327,046	6,623,220

At January 1, 2012	5,560,930	677,036	11,425	46,713	70	327,046	6,623,220
Additions	182,745	19,766	–	–	–	6,668	209,179
Disposals	(183,613)	(10,675)	(3,306)	–	(70)	(1,402)	(199,066)
Reclassification to inventories	(4,059)	–	–	–	–	–	(4,059)
Exchange reserve	–	(57)	–	(78)	–	(22)	(157)
At December 31, 2012	5,556,003	686,070	8,119	46,635	–	332,290	6,629,117

Accumulated depreciation							
At January 1, 2011	4,468,205	613,162	2,660	6,181	70	274,721	5,364,999
Charge for the year	220,502	25,677	280	1,543	–	10,195	258,197
Impairment loss	2,173	–	–	–	–	–	2,173
Written back on disposals	(60,986)	(14,639)	–	–	–	(2,388)	(78,013)
Reclassification to inventories	(318)	–	–	–	–	–	(318)
Exchange reserve	5	1,003	–	234	–	134	1,376
At December 31, 2011	4,629,581	625,203	2,940	7,958	70	282,662	5,548,414

At January 1, 2012	4,629,581	625,203	2,940	7,958	70	282,662	5,548,414
Charge for the year	217,873	22,846	242	1,568	–	9,950	252,479
Impairment loss	1,595	–	–	–	–	–	1,595
Written back on disposals	(182,537)	(10,656)	(1,793)	–	(70)	(1,192)	(196,248)
Reclassification to inventories	(1,274)	–	–	–	–	–	(1,274)
Exchange reserve	–	(41)	–	(20)	–	(11)	(72)
At December 31, 2012	4,665,238	637,352	1,389	9,506	–	291,409	5,604,894

Net book value							
At December 31, 2012	890,765	48,718	6,730	37,129	–	40,881	1,024,223
At December 31, 2011	931,349	51,833	8,485	38,755	–	44,384	1,074,806

Impairment loss results from loss recognised on abandonment of lost or damaged property, plant and equipment. In 2012, of the total impairment loss of HK\$1,595,000 (2011: HK\$2,173,000) was made for decoders and cable modems which had become obsolete during normal usage or were leased to subscribers in the ordinary course of the Television subscription and Broadband Internet access business, and had not been returned after the services were terminated.

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

The estimated useful lives of certain Standard-definition ("SD") set-top-boxes are affected by the fastest growing High-definition ("HD") technology and services. During the year 2012, the Group revised the estimated useful lives of previously deployed SD set-top-boxes that were returned in 2012. This change in accounting estimates reflects the Group's best estimates of the remaining useful life of the SD set-top-boxes. The change in useful lives has increased the depreciation charge for 2012 by approximately HK\$12,286,000 and will decrease the depreciation charge for the year ended 31 December 2013 by approximately HK\$3,577,000.

During the year of 2011, the Group revised the estimated useful lives of undeployed SD set-top-boxes which reflected the Group's best estimates of the remaining useful life of the SD set-top-boxes as at December 31, 2011. The change in useful lives has increased the depreciation charge for 2011 by approximately HK\$15,810,000 and decreased the depreciation charge for the year ended December 31, 2012 by approximately HK\$3,546,000.

These changes in estimates do not have any effect on the total depreciation expenses of those SD set-top-boxes during the SD set-top-boxes' lives as the effect of such change represents a timing difference.

As at December 31, 2012, the gross carrying amounts of property, plant and equipment of the Group held for use in operating leases were HK\$263,053,000 (2011: HK\$228,463,000) and the related accumulated depreciation was HK\$134,998,000 (2011: HK\$112,739,000).

13. Programming library

	Group		
	Internally developed HK\$'000	Acquired HK\$'000	Total HK\$'000
Cost			
At January 1, 2011	69,977	481,144	551,121
Additions	–	80,766	80,766
Written off	–	(104,096)	(104,096)
At December 31, 2011	69,977	457,814	527,791
At January 1, 2012	69,977	457,814	527,791
Additions	–	99,842	99,842
Written off	–	(79,620)	(79,620)
At December 31, 2012	69,977	478,036	548,013
Accumulated amortisation			
At January 1, 2011	69,479	368,055	437,534
Charge for the year	498	82,254	82,752
Impairment loss	–	4,785	4,785
Written off	–	(104,096)	(104,096)
At December 31, 2011	69,977	350,998	420,975
At January 1, 2012	69,977	350,998	420,975
Charge for the year	–	93,917	93,917
Impairment loss	–	3,796	3,796
Written off	–	(79,620)	(79,620)
At December 31, 2012	69,977	369,091	439,068
Net book value			
At December 31, 2012	–	108,945	108,945
At December 31, 2011	–	106,816	106,816

The management of the Group undertook a review of its programming library to assess the recoverability of film rights. As a result of the assessment, an impairment loss of HK\$3,796,000 (2011: HK\$4,785,000) was made.

Notes to the Financial Statements (continued)

14. Other intangible assets

	Group
	Club Debentures
	HK\$'000
Cost less impairment losses	
At January 1, 2011 and December 31, 2011	4,006
At January 1, 2012	4,006
Disposal	(239)
At December 31, 2012	3,767

15. Interest in associate

	Group	
	2012	2011
	HK\$'000	HK\$'000
Share of net assets	-	-

Details of the Group's interest in associate are as follows:

Name of associate	Form of business structure	Place of incorporation/ operation	Principal activities	Particulars of issued and paid up capital	Proportion of ownership interest
FRM Film InvestCo LLC	Incorporated	State of Delaware, USA	Investment holding	Capital contribution US\$25,000,000	30%

In respect of the year ended December 31, 2012, the Group has not taken into account the effect of transactions or events of the associate as the associate was inactive during the current year. Since the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to HK\$Nil (2011: HK\$Nil) and no recognition of future losses as the Group has no legal or constructive obligation in respect of such losses.

16. Other non-current assets

	Group	
	2012	2011
	HK\$'000	HK\$'000
Deposits, prepayments and other receivables	41,856	39,533
Amounts due from fellow subsidiaries	12,910	12,157
Other assets	3,814	6,053
Unlisted equity securities, at cost less impairment losses	-	1,083
	58,580	58,826

17. Investments in subsidiaries

	Company	
	2012 HK\$'000	2011 HK\$'000
Unlisted shares, at cost	12	12

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	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 2 non-voting deferred shares of HK\$1 each	100	–
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	Television and Internet and Multimedia	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 2 non-voting deferred shares of HK\$1 each	–	100
i-CABLE News Limited	Hong Kong	Programme production and channel operation	10,000,000 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	Hong Kong	Network operation	500,000 ordinary shares of HK\$1 each	–	100
i-CABLE Telecom Limited	Hong Kong	Telephony	1 ordinary share of HK\$1	–	100
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	300,000,000 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\$34,600,000	–	100

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

Notes to the Financial Statements (continued)

18. Amounts due from subsidiaries

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

19. Inventories

	Group	
	2012 HK\$'000	2011 HK\$'000
Spare parts and consumables	5,947	5,886

20. Trade and other receivables

Trade and other receivables comprise:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Accounts receivable from trade debtors	88,936	87,145	–	–
Deposits, prepayments and other receivables	62,202	161,752	637	95
	151,138	248,897	637	95

- (a) Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis, based on the invoice date as of the end of the reporting period:

	Group	
	2012 HK\$'000	2011 HK\$'000
0 to 30 days	18,991	24,106
31 to 60 days	27,478	22,337
61 to 90 days	17,458	18,861
Over 90 days	25,009	21,841
	88,936	87,145

The Group's credit policy is set out in Note 31(a).

- (b) Impairment losses in respect of accounts receivable from trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts receivable from trade debtors directly (see Note 1(t)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
Balance at beginning of year	8,382	11,090
Impairment loss for the year	5,136	4,657
Reversal of impairment losses in prior year	(1,057)	(1,282)
Written off	(4,268)	(6,121)
Exchange difference	–	38
Balance at end of year	8,193	8,382

20. Trade and other receivables *(continued)*

- (c) (i) 13% (2011: 13%) of the gross trade receivables relate to the Television and Internet and Multimedia access subscription businesses. There is no significant concentration of credit risk with respect to these trade receivables as the customer bases are widely dispersed in different sectors. The Group has given a credit term of 30 days to these customers. Impairment losses in respect of receivables arising from these subscription businesses are recognised once the receivable is more than 90 days overdue.
- (ii) The ageing analysis of accounts receivable from trade debtors from advertising and distribution businesses that are neither individually nor collectively considered to be impaired are as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
Not yet due	8,732	8,646
Less than 1 month past due	27,355	23,406
1 to 3 months past due	30,077	30,409
3 to 6 months past due	11,401	9,179
Over 6 months past due	1,749	373
	70,582	63,367
	79,314	72,013

Receivables that were not impaired relate to accounts receivables from advertising and programme distribution businesses that the Group had continuing business relationship and have a good track record with the Group. Impairment losses are recognised based on the credit history of the customers, and are made on balances overdue for a period of 90 to 270 days. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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 36).

22. Cash and cash equivalents

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Deposits with banks and other financial institutions	–	50,000	–	50,000
Cash at bank and in hand	288,287	288,359	196,498	199,997
	288,287	338,359	196,498	249,997

Notes to the Financial Statements (continued)

23. Trade and other payables

Trade and other payables comprise:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Amounts due to trade creditors	106,488	93,397	–	–
Accrued expenses and other payables	184,266	197,861	2,595	2,861
Receipts in advance and customers' deposits	208,034	205,638	–	–
	498,788	496,896	2,595	2,861

An ageing analysis of amounts due to trade creditors, based on the invoice date is set out as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
0 to 30 days	24,006	14,999
31 to 60 days	30,709	24,271
61 to 90 days	16,821	21,504
Over 90 days	34,952	32,623
	106,488	93,397

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 36).

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 36).

26. Amount due to immediate holding company

The amount due 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 36).

27. Other non-current liabilities

	Group	
	2012 HK\$'000	2011 HK\$'000
Accrued expenses and other payables	8,068	8,068
Receipts in advance and customers' deposits	524	1,239
	8,592	9,307

28. Bank loans

	Group	
	2012 HK\$'000	2011 HK\$'000
Unsecured bank loans, repayable after 1 year but within 2 years	100,000	–

- (a) All the interest bearing borrowings are carried at amortised cost. None of the non-current interest bearing borrowings is expected to be settled within one year. The Group's borrowings are considered by management to be effectively denominated in Hong Kong Dollar.
- (b) As at December 31, 2012, the Group had banking facilities of HK\$200,000,000, of which HK\$100,000,000 had been utilised as of the end of the reporting period.
- (c) The bank loan is scheduled to mature in early January 2014.
- (d) The Group's borrowing is attached with financial covenants which require that at any time, the Group's consolidated tangible net worth is not less than and the ratio of borrowing to consolidated tangible net worth is not more than certain required levels. During the year ended December 31, 2012, all these covenants have been complied with by the Group.

29. Capital, reserves and dividends

(a) Dividends

The board of directors of the Company does not recommend the payment of any dividends for the year ended December 31, 2012 (2011: HK\$Nil).

(b) Authorised and issued share capital

	2012		2011	
	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	2,011,512	2,011,512
Shares repurchased and cancelled	–	–	–	–
At December 31	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.

(c) Nature and purpose of reserves

- (i) Share premium and capital redemption reserve
The application of the share premium account and the capital redemption reserve account is governed by Section 48B and 49H respectively 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 income statement of that subsidiary as at September 30, 2004.

Notes to the Financial Statements (continued)

29. Capital, reserves and dividends (continued)

(c) Nature and purpose of reserves (continued)

(ii) Special capital reserve (continued)

An undertaking was given to the Court by the subsidiary in connection with the Capital Reduction (the "Undertaking"). Pursuant to the Undertaking, any future recoveries or reversals of provisions in respect of: 1) assets owned or held under finance and operating leases against which charges to depreciation were made as at September 30, 2004; and 2) provisions made by the subsidiary in respect of certain assets held by the subsidiary as at September 30, 2004; collectively the relevant assets ("relevant assets") to the extent that such recoveries exceed the written down amounts of the relevant assets, up to an aggregate amount of HK\$1,958,524,266, will be credited to a special capital reserve. While any debt or liability of, or claim against, the subsidiary at the date of the Capital Reduction remains outstanding and the person entitled to the benefit thereof has not agreed otherwise, the special capital reserve shall not be treated as realised profits. The subsidiary shall be at liberty to apply the special capital reserve for the same purposes as a share premium account may be applied.

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

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

As at December 31, 2012, the Limit of the special capital reserve, as reduced by HK\$6,150,650 (2011: HK\$3,390,683) related to recoveries and reversals of provisions of the relevant assets, was HK\$883,037,461 (2011: HK\$889,188,111), and the amount standing to the credit of the special capital reserve was HK\$13,966,675 (2011: HK\$13,963,125).

(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(q).

(iv) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in Notes 1(s) and (t).

(v) Other reserve

The other reserve comprises the share of an associate's reserve of the Group as at December 31, 2009. The amount had been recognised in profit or loss during the year ended December 31, 2010. Since the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to HK\$Nil (2011: HK\$Nil) and no recognition of future losses as the Group has no legal or constructive obligation in respect of such losses.

(vi) Distributability of reserves

At December 31, 2012, reserves of the Company available for distribution to equity shareholders of the Company amounted to HK\$19,690,000 (2011: revenue reserve HK\$396,930,000).

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to support the Group's stability and growth, by pricing products and services commensurately with the level of risk.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholders return, taking into consideration the future of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

29. Capital, reserves and dividends *(continued)*

(d) Capital management *(continued)*

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group made no changes to its capital management objectives, policies or processes during the years ended December 31, 2012 and December 31, 2011.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

30. Income tax in the consolidated statement of financial position

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

	Group	
	2012 HK\$'000	2011 HK\$'000
Overseas taxation	696	22

(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 year are as follows:

	Group		
	Depreciation allowances in excess of related depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
Deferred tax arising from:			
At January 1, 2011	90,544	(370,613)	(280,069)
(Credited)/charged to profit or loss (Note 6(a))	(9,435)	7,171	(2,264)
At December 31, 2011	81,109	(363,442)	(282,333)
At January 1, 2012	81,109	(363,442)	(282,333)
(Credited)/charged to profit or loss (Note 6(a))	(5,033)	8,824	3,791
At December 31, 2012	76,076	(354,618)	(278,542)

	Group	
	2012 HK\$'000	2011 HK\$'000
Net deferred tax assets recognised in the consolidated statement of financial position	(322,551)	(336,041)
Net deferred tax liabilities recognised in the consolidated statement of financial position	44,009	53,708
	(278,542)	(282,333)

(c) Deferred tax assets not recognised:

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

	Group	
	2012 HK\$'000	2011 HK\$'000
Future benefit of tax losses	369,332	362,375
Impairment loss for bad and doubtful accounts	50	63
	369,382	362,438

Notes to the Financial Statements (continued)

31. Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's businesses. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are 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 90 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 and its compliance with lending covenants. 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.

The following table show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

	Group							
	2012				2011			
	Contractual undiscounted cash outflow				Contractual undiscounted cash outflow			
Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount in the consolidated statement of financial position HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount in the consolidated statement of financial position HK\$'000	
Amounts due to trade creditors	106,488	–	106,488	106,488	93,397	–	93,397	93,397
Accrued expenses and other payables	184,266	8,068	192,334	192,334	197,861	8,068	205,929	205,929
Receipts in advance and customers' deposits	208,034	524	208,558	208,558	205,638	1,239	206,877	206,877
Amounts due to fellow subsidiaries	27,043	–	27,043	27,043	49,976	–	49,976	49,976
Amount due to immediate holding company	1,770	–	1,770	1,770	1,816	–	1,816	1,816
Bank loans	2,228	100,018	102,246	100,000	–	–	–	–
	529,829	108,610	638,439	636,193	548,688	9,307	557,995	557,995

31. Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

	Group					
	2012			2011		
	Contractual undiscounted cash outflow/(inflow)			Contractual undiscounted cash outflow/(inflow)		
	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	Total contractual undiscounted cash flow HK\$'000
Derivatives settled gross:						
Forward exchange contracts at fair value through profit or loss						
– Outflow	–	–	–	27,339	–	–
– Inflow	–	–	–	(26,130)	–	–

Note: Forward exchange contracts were remeasured to fair values at the end of each reporting period. The negative fair value of forward exchange contracts at December 31, 2011 were HK\$1,200,000.

	Company							
	2012				2011			
	Contractual undiscounted cash outflow				Contractual undiscounted cash outflow			
	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount in the Company statement of financial position HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount in the Company statement of financial position HK\$'000
Accrued expenses and other payables	2,595	–	2,595	2,595	2,861	–	2,861	2,861
	2,595	–	2,595	2,595	2,861	–	2,861	2,861

	Company					
	2012			2011		
	Contractual undiscounted cash outflow/(inflow)			Contractual undiscounted cash outflow/(inflow)		
	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	Total contractual undiscounted cash flow HK\$'000
Derivative settled gross:						
Forward exchange contracts at fair value through profit or loss						
– Outflow	–	–	–	27,339	–	–
– Inflow	–	–	–	(26,130)	–	–

Notes to the Financial Statements (continued)

31. Financial risk management and fair values (continued)

(c) Interest rate risk

At December 31, 2012, the Group's interest rate risk arises primarily from the HK\$100,000,000 term loan. Bank loans at variable rates expose the Group to cash flow interest rate risk.

At December 31, 2011, the Group had short-term deposits with bank and other financial institutions amounting to HK\$50,000,000, with original maturities of 7 to 31 days at market interest rates.

Apart from the foregoing, the Group has no other significant income-generating financial assets or interest-bearing financial liabilities. The Group's revenue, expenses and cash flows are substantially independent of changes in market interest rates.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the end of the reporting period and the periods in which they reprice:

Interest rate risk	Group				Company			
	Total		Effective interest rate		Total		Effective interest rate	
	2012 HK\$'000	2011 HK\$'000	2012 %	2011 %	2012 HK\$'000	2011 HK\$'000	2012 %	2011 %
Floating rate:								
Cash and cash equivalents	288,287	288,359	0.01	0.02	196,498	199,997	-	-
Bank loans	(100,000)	-	3.60	-	-	-	-	-
	188,287	288,359			196,498	199,997		
Fixed rate:								
Cash and cash equivalents	-	50,000	-	1.25	-	50,000	-	1.25

At December 31, 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's loss after tax and increased/decreased the revenue reserve by approximately HK\$1,883,000 (2011: HK\$3,384,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax (and revenue reserve) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's loss after tax (and revenue reserve) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2011.

(d) Currency risk

(i) Forecast transactions

The Group is exposed to currency risk primarily through programmes acquisition 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.

31. Financial risk management and fair values *(continued)*

(d) Currency risk *(continued)*

(ii) Recognised assets and liabilities

In respect of trade and other receivables and payables denominated in foreign currencies, the Group manages the net exposure by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(iii) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from forward exchange contract, forecast transactions and recognised assets or liabilities denominated in currencies other than the functional currency of the entity to which they relate.

	Group					
	2012			2011		
	Renminbi '000	Euros '000	United States Dollars '000	Renminbi '000	Euros '000	United States Dollars '000
Trade and other receivables	8	649	5,207	36	6	20,814
Cash and cash equivalents	7,808	51	450	3,667	22	1,893
Trade and other payables	(558)	(15)	(6,837)	(868)	(7)	(5,083)
Exposure arising from recognised assets and liabilities	7,258	685	(1,180)	2,835	21	17,624
Highly probable forecast purchases	-	(12,418)	(89,260)	-	(2,253)	(127,056)
Notional amount of forward exchange contracts at fair value through profit or loss	-	-	-	-	2,600	-
Overall net exposure	7,258	(11,733)	(90,440)	2,835	368	(109,432)
	Company					
	2012			2011		
	Renminbi '000	Euros '000	United States Dollars '000	Renminbi '000	Euros '000	United States Dollars '000
Notional amount of forward exchange contracts at fair value through profit or loss and overall net exposure	-	-	-	-	2,600	-

Notes to the Financial Statements (continued)

31. Financial risk management and fair values (continued)

(d) Currency risk (continued)

(iv) Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss after tax (and revenue reserve) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	Group			
	2012		2011	
	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and revenue reserve HK\$'000	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and revenue reserve HK\$'000
Renminbi	5%	371	5%	145
Euros	5%	4,923	5%	159

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's loss after tax and revenue reserve measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2011.

32. Fair values

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2012 and 2011.

As at December 31, 2012, the management adopted valuation technique in which significant inputs are not based on observable market data to estimate the fair value of the unquoted available-for-sale equity security investment.

33. Jointly controlled assets

At December 31, 2012, 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:

	Group	
	2012 HK\$'000	2011 HK\$'000
Assets:		
Programming library	39	392
Prepayments and other receivables	1,514	1,300
	1,553	1,692
Liabilities:		
Receipts in advance and customers' deposits	83	-

34. Commitments

Commitments outstanding as at December 31, 2012 not provided for in the financial statements were as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Capital commitments				
(i) Property, plant and equipment				
– Authorised and contracted for	23,588	30,815	–	–
– Authorised but not contracted for	127,711	175,426	–	–
	151,299	206,241	–	–
(ii) Acquisition of equity interests in prospective subsidiary and associate				
– Authorised and contracted for	3,057	3,066	–	–
– Authorised but not contracted for	–	–	–	–
	3,057	3,066	–	–
	154,356	209,307	–	–
Programming and other commitments				
– Authorised and contracted for	830,604	1,008,554	–	–
– Authorised but not contracted for	99,926	80,331	–	–
	930,530	1,088,885	–	–
Operating lease commitments				
– Within one year	52,607	48,154	–	–
– After one year but within five years	47,698	81,421	–	–
– After five years	26,087	29,935	–	–
	126,392	159,510	–	–
	1,211,278	1,457,702	–	–

(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 two 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 decoders to subscribers under operating leases which are renewable on a monthly basis. None of the leases includes contingent rentals.

Notes to the Financial Statements (continued)

34. Commitments (continued)

(b) Future operating lease income

- (i) The total future minimum sublease payments receivable under non-cancellable subleases at December 31, 2012 amounted to HK\$13,697,000 (2011: HK\$21,015,000).
- (ii) The total future minimum lease payments receivable in respect of decoders and other equipment under non-cancellable operating leases are as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
Within one year	1,097	1,176
After one year but within five years	–	–
	1,097	1,176

35. Contingent liabilities

As at December 31, 2012, 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\$206,000,000 (2011: HK\$206,000,000) in respect of overdraft and guarantee facilities given by those banks to the subsidiaries. Of this amount, at December 31, 2012, HK\$100,000,000 (2011: HK\$Nil) was utilised by the subsidiaries.

As at the end of the reporting period, the Company has issued three separate guarantees to a bank in respect of banking facilities granted to two wholly owned subsidiaries. As at December 31, 2012, 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\$100,000,000 (2011: HK\$Nil).

36. 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, 2012:

	2012 HK\$'000	2011 HK\$'000
Rentals payable and related management fees on land and buildings (Note (i))	49,087	46,502
Rentals receivable on land and buildings (Note (ii))	(6,066)	(5,688)
Network repairs and maintenance services charges (Note (iii))	(8,630)	(9,279)
Management fees (Note (iv))	9,458	9,050
Computer services (Note (v))	1,826	1,669
Leased line and Public Non-Exclusive Telecommunications Service ("PNETS") charges and international bandwidth access charges (Note (vi))	10,286	26,735
Internet Protocol Point wholesale services charge (Note (vii))	–	(25,775)
Agency fees (Note (viii))	–	(6,679)
Telephony services fees (Note (ix))	11,322	4,227
Disposal of NETMAP System (Note (x))	–	(7,500)
Acquisition of a subsidiary (Note (xi))	–	–

36. 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, 2012, related rental deposits amounted to HK\$10,708,851 (2011: HK\$9,925,000).
- (ii) This represents rentals 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 fellow subsidiaries 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 service charges received from a fellow subsidiary in relation to the Internet Protocol Point wholesale services.
- (viii) This represents service charges received from a fellow subsidiary in relation to the agency services.
- (ix) This represents service charges paid to a fellow subsidiary in relation to the telephony services.
- (x) This represents consideration received from a fellow subsidiary in relation to disposal of a computer software system, which is known as the NETMAP System.
- (xi) This represents consideration of \$1 paid to a fellow subsidiary in relation to acquisition of a subsidiary in the prior year.

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 7 and certain of the highest paid employees as disclosed in Note 8, is as follows:

	2012 HK\$'000	2011 HK\$'000
Short-term employee benefits	20,871	21,308
Post-employment benefits	961	1,020
	21,832	22,328

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

37. 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(p), 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(g), 1(i)(i), 1(i)(iv), 1(i)(v), 1(k), 1(l), 1(t), and Note 32 contain information about the assumptions and risk factors relating to useful lives of property, plant and equipment, net realisable value of commissioned programmes, films rights and perpetual film rights and films in progress, impairment of property, plant and equipment, other intangible assets, inventories, loans and receivables, and unlisted equity instruments.

The useful lives of property, plant and equipment 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.

Notes to the Financial Statements (continued)

37. Accounting estimates and judgements (continued)

Net realisable values of commissioned programmes, films rights and perpetual film rights and films in progress are estimated based on the 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 is 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, 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 may need to be made to reduce the carrying value of individual programme or film to its realisable amount.

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

The estimated useful lives of certain Standard-definition ("SD") set-top-boxes are affected by the fastest growing High-definition ("HD") technology and services. During the year 2012, the Group revised the estimated useful lives of previously deployed SD set-top-boxes that were returned in 2012. This change in accounting estimates reflects the Group's best estimates of the remaining useful life of the SD set-top-boxes. The change in useful lives has increased the depreciation charge for 2012 by approximately HK\$12,286,000 and will decrease the depreciation charge for the year ended 31 December 2013 by approximately HK\$3,577,000.

During the year of 2011, the Group revised the estimated useful lives of undeployed SD set-top-boxes which reflected the Group's best estimates of the remaining useful life of the SD set-top-boxes as at December 31, 2011. The change in useful lives has increased the depreciation charge for 2011 by approximately HK\$15,810,000 and decreased the depreciation charge for the year ended December 31, 2012 by approximately HK\$3,546,000.

These changes in estimates do not have any effect on the total depreciation expenses of those SD set-top-boxes during the SD set-top-boxes' lives as the effect of such change represents a timing difference.

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.

38. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2012

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and the new standards which are not yet effective for the year ended December 31, 2012 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 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 except for the following developments are expected to result in amended disclosures in the financial statements including restatement of comparative amounts in the first period of adoption:

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, <i>Presentation of financial statements</i> – <i>Presentation of items of other comprehensive income</i>	July 1, 2012
HKFRS 10, <i>Consolidated financial statements</i>	January 1, 2013
HKFRS 11, <i>Joint arrangements</i>	January 1, 2013
HKFRS 12, <i>Disclosure of interests in other entities</i>	January 1, 2013
HKFRS 13, <i>Fair value measurement</i>	January 1, 2013
HKAS 27, <i>Separate financial statements (2011)</i>	January 1, 2013
HKAS 28, <i>Investments in associates and joint ventures</i>	January 1, 2013
Revised HKAS 19, <i>Employee benefits</i>	January 1, 2013
<i>Annual Improvements to HKFRSs 2009-2011 Cycle</i>	January 1, 2013
HKFRS 9, <i>Financial Instruments</i>	January 1, 2015

39. Post Balance Sheet Event

Of the Group's available banking facilities of HK\$200,000,000 as of December 31, 2012 the Group had drawn down term loan of HK\$100,000,000 as of the end of the reporting period. Subsequent to the end of the reporting period, the Group drew down a further net revolving loan of HK\$65,000,000 to meet short term seasonal cash requirements. The above banking facilities are scheduled to mature in early January 2014.

40. Parent and ultimate controlling party

The Directors consider the parent and the ultimate controlling party at December 31, 2012 to be Wharf Communications Limited and Wheelock and Company Limited, respectively, both of which are incorporated in Hong Kong. Wheelock and Company Limited produces financial statements available for public use.

41. Approval of financial statements

The financial statements were approved and authorised for issue by the Directors on March 5, 2013.

Five-year Financial Summary

(Expressed in HK\$ million)

	2008	2009	2010	2011	2012
Results					
Turnover	2,080	1,754	2,002	2,110	2,127
Operating expenses	(2,161)	(1,798)	(2,251)	(2,290)	(2,402)
Loss from operations	(81)	(44)	(249)	(180)	(275)
Interest income	6	–	–	1	1
Finance costs, net	–	–	–	(1)	(4)
Non-operating (expenses)/income	(2)	(1)	1	(3)	6
Impairment losses on investment	(2)	(2)	(1)	–	(1)
Share of loss of associate	(17)	–	(41)	–	–
Loss before taxation	(96)	(47)	(290)	(183)	(273)
Income tax	(15)	7	23	4	(5)
Loss for the year	(111)	(40)	(267)	(179)	(278)
Attributable to:					
Equity shareholders of the Company	(110)	(41)	(267)	(179)	(278)
Non-controlling interests	(1)	1	–	–	–
Loss for the year	(111)	(40)	(267)	(179)	(278)
Assets and Liabilities					
Property, plant and equipment	1,157	1,153	1,146	1,075	1,024
Programming library	132	114	114	107	109
Other intangible assets	4	4	4	4	4
Interest in associate	39	38	–	–	–
Deferred tax assets	330	330	343	336	323
Other non-current assets	172	82	111	59	59
Current assets	936	914	602	594	447
Total assets	2,770	2,635	2,320	2,175	1,966
Current liabilities	615	542	502	549	528
Deferred tax liabilities	81	74	63	54	44
Other non-current liabilities	20	8	8	9	9
Bank loans	–	–	–	–	100
Total liabilities	716	624	573	612	681
Share capital	2,012	2,012	2,012	2,012	2,012
Reserves	37	(4)	(268)	(449)	(727)
Total equity attributable to equity shareholders of the Company	2,049	2,008	1,744	1,563	1,285
Non-controlling interests	5	3	3	–	–
Total liabilities and equity	2,770	2,635	2,320	2,175	1,966

Olympic Games
2008/2012

Live Football in 3D
2012

English Premier League
1996 – 2007/2010 – 2013

Cable TV Goes On Air
1993

FIFA World Cup
2002/2006/2010

Two Million Premises Reached
2003

Broadband Service
2000

CABLE TV Goes Mobile
2012

Entertainment News Channel
2003

Newsline Express
2005

Asian Games
1998/2002/2006/2010

UEFA Cup
2009 – 2012

Full Network Digitisation
2005

Multimedia Services
1999

UEFA Champions League
2009 – 2015

Sundream Motion Pictures
2005

Winter Olympic Games
2006/2010

Cable No 1 Channel
2007

Digitised News Centre
2002

UEFA Europa League
2012 – 2015

Dial-up Internet Service
1999

UEFA European Championship
1996/2000/2004



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