

Deferred taxation

We recognized deferred tax assets for all deductible temporary differences and operating loss carry forwards to the extent it is probable that future taxable profits will be available against which the asset can be utilized. The recognition of deferred tax assets requires judgment regarding the results of future operations, including the assumption that there will be sufficient future operations to allow us to utilize the related deferred tax assets. Our management projects future taxable income by considering all available information, including projected future taxable profit by taking into consideration of the effect of our capital expenditures and other plans (such as the technological changes and future market trends), tax planning strategies, historical taxable incomes, and the expiration period of the unused tax losses carry forwards of each of our Company and subsidiaries.

As of August 31, 2011 and 2012, we had not recognized deferred tax assets in respect of unused tax losses of HK\$8.1 million and HK\$59.8 million respectively, because it was not probable that future taxable profits could be generated to utilize the tax losses. All tax losses are subject to agreement with local tax authorities. Any changes in the estimate of future operations could change the recognition of our deferred tax assets, which could significantly affect our results of operations.

Operating Results

The following table sets forth, for the years indicated, a summary of our results of operations.

	For the year ended August 31,			
	2010 HK\$	2011 HK\$	2012 HK\$	2012 US\$
	(in thousands)			
Continuing operations⁽¹⁾				
Revenue	—	—	3,762	485
Cost of sales	—	—	(6,006)	(774)
Valuation gains on investment properties	—	—	18,200	2,347
Other operating expenses	(21,932)	(23,481)	(104,960)	(13,533)
Other income/(loss), net	(7,696)	3,456	19,920	2,568
Finance costs, net	(21,289)	(7,303)	(2,455)	(317)
Loss before taxation	(50,917)	(27,328)	(71,539)	(9,224)
Income tax expenses	(5,611)	(4,782)	(2,281)	(294)
Loss from continuing operations	(56,528)	(32,110)	(73,820)	(9,518)
Discontinued operations				
Profit from discontinued operations	273,394	346,025	3,771,694	486,294
Profit for the year	216,866	313,915	3,697,874	476,776

Note:

- (1) Following the disposal of our Telecom Business in May 2012, the Telecom Business was reclassified as discontinued operations for fiscal 2012 and the comparative figures for fiscal 2011 and fiscal 2010 were retrospectively reclassified as discontinued operations.

Fiscal 2012 Compared to Fiscal 2011

Revenue. We commenced our Multimedia Production Business and disposed of our Telecom Business in fiscal 2012. Our revenue from the Multimedia Production Business primarily consists of licensing fees and artiste management fee. We recorded revenue of HK\$3.8 million in fiscal 2012, primarily reflecting the licensing fee received from the Telecom Business to broadcast the news content produced by the news production operation unit and the income received from our artiste management functions. We had no revenue for fiscal 2011 for the continuing operations relating to our Multimedia Production Business.

Cost of sales. Cost of sales in fiscal 2012 were HK\$6.0 million, primarily consisting of talent costs and other production costs which are directly attributable to the revenue generated from licensing of programme rights and provision of artiste management services. There were no cost of sales in fiscal 2011 for the continuing operations.

Valuation gains on investment properties. Valuation gains on investment properties were HK\$18.2 million, consisting of the change in fair value of the investment properties held by us.

Other operating expenses. Our other operating expenses increased to HK\$105.0 million in fiscal 2012 from HK\$23.5 million in fiscal 2011. The increase is mainly due to increased talent costs and other operating expenses. The increase in talent costs is mainly attributable to uncapitalized expenses from the Multimedia Production Business, which represented talent costs expensed to profits and losses before the resources are fully deployed to production during the year and the maintenance of full corporate functions after the disposal of Telecom Business. The increase in other operating expenses mainly includes bank charges, operating lease charges in respect of land and buildings, legal and professional fee and amortization of intangible assets.

Set forth below is a table summarizing the details of our other operating expenses in fiscal 2011 and 2012:

	For the year ended August 31,		
	2011 HK\$	2012 HK\$	2012 US\$
	(in thousands)		
Talent costs	6,837	55,971	7,216
Advertising and marketing expenses	—	214	28
Depreciation	1,585	4,636	598
Others	15,059	44,139	5,691
Other operating expenses	23,481	104,960	13,533

Other income, net. Other income, net increased to HK\$19.9 million in fiscal 2012 from HK\$3.5 million in fiscal 2011 mainly due to the increase in interest income from banks arising from term deposits placed with banks after receiving the final consideration from the sale of the Telecom Business.

Finance costs, net. Finance costs, net decreased to HK\$2.5 million in fiscal 2012 from HK\$7.3 million in fiscal 2011. The decrease is primarily due to the repayment of long-term bank loans in fiscal 2011. As a result of the repayment, items recorded in 2011, such as interest expenses, amortization of upfront costs on bank borrowings and write-off of upfront costs on bank borrowings, became nil in fiscal 2012.

Income tax expenses. We recorded income tax expenses of HK\$2.3 million, which included non-cash deferred tax expenses of HK\$1.3 million, in fiscal 2012, compared to income tax expenses of HK\$4.8 million in fiscal 2011, which represented non-cash deferred tax expenses.

Net loss. Net loss increased to HK\$73.8 million in fiscal 2012 from HK\$32.1 million in fiscal 2011, primarily because we incurred start-up costs while no material revenue was generated by the Multimedia Production Business and other operating expenses had increased as mentioned above.

Discontinued operations. The disposal of Telecom Business was completed on May 30, 2012. The operating results of the disposed Telecom Business up to the disposal date have been presented as discontinued operations on this Form 20-F. For a detailed discussion of discontinued operations, see Item 18: Financial Statements—Notes to Consolidated Financial Statements—Note 2.

Fiscal 2011 Compared to Fiscal 2010

Following the disposal of our Telecom Business in May 2012, the Telecom business was retrospectively reclassified as discontinued operations for fiscal 2011 and fiscal 2010. Since all revenue, cost of sales and valuation gains on investment properties for fiscal 2011 and fiscal 2010 were from the Telecom Business, the reclassification had rendered these items nil for our continuing operations in fiscal 2011 and fiscal 2010.

Other operating expenses. Other operating expenses increased by 7.1% to HK\$23.5 million in fiscal 2011 from HK\$21.9 million in fiscal 2010.

Set forth below is a table summarizing the details of our other operating expenses in fiscal 2010 and 2011:

	For the year ended August 31,	
	2010 HK\$	2011 HK\$
	(in thousands)	
Talent costs	(7,221)	(6,837)
Depreciation	(1,650)	(1,585)
Others	(13,061)	(15,059)
Other operating expenses	(21,932)	(23,481)

- **Talent costs.** Talent costs decreased by 5.3% to HK\$6.8 million in fiscal 2011 from HK\$7.2 million in fiscal 2010.
- **Depreciation.** Depreciation decreased by 3.9% to HK\$1.6 million in fiscal 2011 from HK\$1.7 million in fiscal 2010 because some of our fixed assets were fully depreciated prior to fiscal 2011.
- **Others.** Others increased 15.3% to HK\$15.1 million in fiscal 2011 from HK\$13.1 million in fiscal 2010. The increase in other expenses mainly included donation, legal and professional fee, overseas trip expenses and recruitment expenses.

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Other income/loss, net. We recorded other net income of HK\$3.5 million in fiscal 2011, compared to other net loss of HK\$7.7 million in fiscal 2010. The other net loss was mainly due to the loss on extinguishment of our 10-year senior notes of HK\$9.7 million in fiscal 2010.

Finance costs. Finance costs decreased by 65.7% to HK\$7.3 million in fiscal 2011 from HK\$21.3 million in fiscal 2010. The decrease was mainly due to full year impact of the finance cost savings through repurchase and redemption of our 10-year senior notes in fiscal 2010.

Income tax expense. We recorded an income tax expense of HK\$4.8 million in fiscal 2011, compared to HK\$5.6 million in fiscal 2010. Our income tax expense represented non-cash deferred tax expenses in both fiscal 2011 and 2010.

Net loss. For the foregoing reasons, net loss decreased to HK\$32.1 million in fiscal 2011 from HK\$56.5 million in fiscal 2010.

Recent accounting pronouncements

Recently issued but not yet effective accounting pronouncements under IFRSs have been included in note 31 to our consolidated financial statements.

B. Liquidity and capital resources

We continued to be in a strong financial position for the year under review, in particular after receiving the final consideration of HK\$4,873.6 million from the sale of Telecom Business during the year, which provided us with a net cash inflow of HK\$4,655.4 million after netting transaction costs of HK\$183.4 million and disposal of cash and cash equivalents of HK\$34.8 million. A special dividend of HK\$2,022.5 million (i.e. at HK\$2.5 per ordinary share) was distributed on June 29, 2012. The remaining cash will be used to fund the continuing development and expansion of our Multimedia Production Business. Pending such use of the funds, consistent with the overall treasury objectives and policy, the Group will undertake treasury management activities with respect to its surplus cash assets. As and when cash is expected to be required to fund the continuing development and expansion of the Multimedia Production Business, the investments will be realized as appropriate.

As of August 31, 2012, we had total cash at bank and in hand and term deposits amounting to HK\$2,627.1 million, compared to HK\$409.0 million as of August 31, 2011, and outstanding borrowings of HK\$3.3 million, compared to HK\$1.2 million as of August 31, 2011. This led to an increase of our net cash position to HK\$2,623.8 million as of August 31, 2012 from HK\$407.8 million as of August 31, 2011. As of August 31, 2012, we had utilized HK\$2.0 million banking facilities mainly to provide bank guarantees to utility vendors in lieu of utility deposits, compared to HK\$6.9 million as of August 31, 2011, leaving HK\$21.3 million available for future utilization.

We believe that our current cash and cash equivalents and term deposits on hand will be sufficient to meet our anticipated cash needs, including working capital requirements, capital expenditures, repayment of our indebtedness when fall due and various contractual obligations, for at least the next 12 months.

Cash flow

The following table summarizes our cash flows for each of fiscal 2010, 2011 and 2012:

	For the year ended August 31,			
	2010 HK\$	2011 HK\$	2012 HK\$	2012 US\$
	(in thousands)			
Net cash inflow from operating activities	485,340	585,899	181,924	23,456
Net cash inflow/(outflow) from investing activities	(306,254)	(414,189)	3,681,791	474,703
Net cash inflow/(outflow) from financing activities	178,307	(343,112)	(2,191,749)	(282,588)
Increase/(decrease) in cash and cash equivalents	357,393	(171,402)	1,671,966	215,571
Cash and cash equivalents, at the beginning of year	221,052	578,175	408,131	52,621
Effect of foreign exchange rate changes on cash	(270)	1,358	(44)	(6)
Cash and cash equivalents, at the end of the year	578,175	408,131	2,080,053	268,186
Analysis of the balances of cash and cash equivalents				
Cash at bank and in hand	588,665	408,976	2,083,079	268,576
Bank overdrafts - unsecured	(10,490)	(845)	(3,026)	(390)
	578,175	408,131	2,080,053	268,186

Operating activities

Prior to the disposal of the Telecom Business, our principal source of cash was cash generated from our FTNS and IDD business. Net cash inflow from operating activities increased 20.7% from HK\$485.3 million in fiscal 2010 to HK\$585.9 million in fiscal 2011, primarily reflecting the increase in our profit before taxation resulting from the expansion of our subscription base. Net cash inflow from operating activities decreased by 69.0% from HK\$585.9 million in fiscal 2011 to HK\$181.9 million in fiscal 2012, primarily reflecting the decrease in our profit before taxation as we only recorded nine months of operating results from the discontinued operations resulting from the disposal of Telecom Business and the start up costs for Multimedia Production Business.

Investing activities

Net cash inflow from investing activities in fiscal 2012 was HK\$3,681.8 million, mainly representing the proceeds from the disposal of the Telecom Business (net of cash disposed of), net of increase in term deposits of HK\$554.0 million and purchase of fixed assets of HK\$467.8 million.

Net cash outflow from investing activities in fiscal 2011 was HK\$414.2 million. The net cash outflow was mainly due to the purchase of fixed assets of HK\$397.9 million for the development of our Next Generation Network and the purchase of land premium of HK\$48.0 million for constructing a Television and Multimedia Production Centre.

Net cash outflow from investing activities in fiscal 2010 was HK\$306.3 million. The net cash outflow was mainly due to our purchase of fixed assets in the amount of HK\$349.1 million.

Financing activities

Net cash outflow from financing activities in fiscal 2012 was HK\$2,191.7 million. The net cash outflow was mainly attributable to the payment of cash dividends of HK\$2,257.8 million.

Net cash outflow from financing activities in fiscal 2011 was HK\$343.1 million. The net cash outflow was mainly due to our repayment of our bank loan of HK\$125 million and payment of cash dividends of HK\$219.3 million.

Net cash inflow from financing activities in fiscal 2010 was HK\$178.3 million. The net cash inflow was mainly due to the proceeds from the offering of new ordinary shares in the amount of HK\$396.4 million and the proceeds from new bank loans of HK\$163.4 million, which were partially offset by the repurchase and redemption of our 10-year senior notes of HK\$172.4 million and dividend paid of HK\$158.4 million.

Indebtedness

As of August 31, 2012, we had outstanding debt of HK\$3.3 million.

Banking facilities

As of August 31, 2012, we had available banking facilities and revolving loan facility of HK\$23.3 million, of which HK\$2.0 million was utilized.

Capital expenditures

In fiscal 2012, we spent HK\$462.4 million on capital expenditure versus HK\$449.2 million in fiscal 2011. Within the amount incurred in fiscal 2012, HK\$178.8 million was incurred for the Multimedia Production Business mainly for the construction of the Television and Multimedia Production Centre and for the set-up of production facilities for television drama series and infotainment and variety programmes. The remaining HK\$283.6 million was for the disposed Telecom Business.

For the construction of the Centre and the expansion into the Multimedia Production Business pending the grant of licence, our capital expenditure outlook for fiscal 2013 is expected to be about HK\$700.0 million, which is expected to be funded by internal resources retained from the consideration received from the disposal of the Telecom Business and banking facilities within the Group. Overall, the Group's financial position remains sound for continuous business expansion.

C. Research and development, patents and licences

We commit considerable resources to our research and development team in order to improve our services and to better position ourselves in the multimedia market. As of August 31, 2012, after the disposal of the Telecom Business, our research and development department in Hong Kong consisted of approximately 17 Talents experienced in systems design, engineering, mobile technology, and computer programming. Our research and development team is primarily responsible for assessing and adapting the technology that we expect to deploy in our domestic free television programme services and content distribution, such as through Internet. To identify and develop new market opportunities and product advancement, our research and development team evaluates new technology under development in the United States and elsewhere and works closely with our production department and marketing department for product development.

D. Trend information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from September 1, 2011 to August 31, 2012 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-balance sheet arrangements

We did not enter into any off-balance-sheet arrangements with any entities or individuals during fiscal 2012.

F. Tabular disclosure of contractual obligations

The following table sets forth information regarding our aggregate payment obligations in future years of the contractual obligations and commercial commitments that we had as of August 31, 2012.

	Total	Within	More than	More than
	HK\$	1 year	1 year	3 years
		HK\$	but within	but
			3 years	within
			HK\$	5 years
			HK\$	HK\$
Contractual obligations				
		(in thousands)		
Capital expenditure items	46,617	46,617	—	—
Operating leases	7,667	5,373	2,294	—
Obligation under finance leases	261	95	166	—
Other current liabilities ⁽¹⁾	42,709	42,709	—	—
Programme fee	203,282	96,613	103,229	3,440
Total	300,536	191,407	105,689	3,440

Note:

- (1) The other current liabilities of HK\$42.7 million was comprised of bank overdrafts—unsecured liabilities of HK\$3.0 million, accounts payable of HK\$5.4 million, other payables and accrued charges of HK\$31.1 million, deposits received of HK\$2.3 million and tax payable of HK\$0.9 million. A detailed explanation of the nature of accounts payable and other payables and accrued charges is contained in Note 19 to the Company's audited consolidated financial statements included in this Form 20-F.

G. Safe Harbor

See "Note regarding forward-looking statements."