

# Television Broadcasts Limited Interim Report 2006



電 視 廣 播 有 限 公 司  
二 〇 〇 六 年 度 中 期 報 告



## **CORPORATE INFORMATION**

### **DIRECTORS**

Sir Run Run Shaw, G.B.M. (Executive Chairman)  
Dr. Norman Leung Nai Pang, G.B.S., LL.D., J.P. (Executive Deputy Chairman)  
Mona Fong (Deputy Chairperson and appointed as Acting Managing Director on 31 May 2006)  
Edward Cheng Wai Sun, J.P. \* (appointed on 1 June 2006)  
Dr. Chow Yei Ching, G.B.S.  
Ho Ting Kwan  
Chien Lee \*  
Christina Lee Look Ngan Kwan  
Dr. Li Dak Sum, DSSc. (Hon.), J.P. \*  
Kevin Lo Chung Ping  
Robert Sze Tsai To \*  
Anthony Hsien Pin Lee (Alternate Director to Christina Lee Look Ngan Kwan)  
Louis Page (Managing Director, resigned on 31 May 2006)

### **EXECUTIVE COMMITTEE**

Sir Run Run Shaw (Chairman)  
Dr. Norman Leung Nai Pang  
Mona Fong  
Christina Lee Look Ngan Kwan (appointed on 31 May 2006)  
Kevin Lo Chung Ping  
Louis Page (resigned on 31 May 2006)

### **AUDIT COMMITTEE**

Robert Sze Tsai To \* (Chairman)  
Chien Lee \*  
Ho Ting Kwan

### **REMUNERATION COMMITTEE**

Chien Lee \* (Chairman)  
Robert Sze Tsai To \*  
Edward Cheng Wai Sun \* (appointed on 1 June 2006)  
Mona Fong (resigned on 31 May 2006)

### **EXECUTIVE OFFICERS**

George Chan Ching Cheong (Assistant Managing Director)  
Stephen Chan Chi Wan (General Manager - Broadcasting)  
Cheong Shin Keong (General Manager - Broadcasting)

### **COMPANY SECRETARY**

Adrian Mak Yau Kee

\* Independent Non-executive Directors

## **CORPORATE INFORMATION** (Continued)

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### **REGISTERED OFFICE**

TVB City  
77 Chun Choi Street  
Tseung Kwan O Industrial Estate  
Kowloon  
Hong Kong

### **AUDITORS**

PricewaterhouseCoopers  
33/F, Cheung Kong Centre  
2 Queen's Road Central  
Hong Kong

### **SHARE REGISTRARS**

Computershare Hong Kong Investor Services Limited  
46/F, Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong

The directors of Television Broadcasts Limited (“Directors”) are pleased to present the interim report and condensed consolidated financial information for the six months ended 30 June 2006 in respect of Television Broadcasts Limited (the “Company” or “TVB”) and its subsidiaries (the “Group”). The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June 2006, and the consolidated balance sheet of the Group as at 30 June 2006, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 13 to 35 of this report.

## **INTERIM DIVIDEND**

Directors are pleased to declare an interim dividend of HK\$0.25 (2005: HK\$0.25) per share for 438,000,000 issued shares.

The Register of Members of the Company will be closed from 11 September 2006 to 12 September 2006, both dates inclusive, during which period, no transfer of shares will be effected. In order to qualify for the above interim dividend, all transfers must be lodged with the Company’s Registrars, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Friday, 8 September 2006. Dividend warrants will be despatched to shareholders on 20 September 2006.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **REVIEW OF OPERATIONS**

#### **Operating Results for the Period**

For the six months ended 30 June 2006 (the “Period”), the Group achieved a turnover of HK\$1,887 million (2005: HK\$1,913 million), which represented a decrease of 1%. Cost of sales amounted to HK\$836 million (2005: HK\$853 million), which represented a decrease of 2%. Gross profit for the Period stood at HK\$1,051 million (2005: HK\$1,060 million).

Included in cost of sales were the cost of programmes, film rights, movies and stocks for the Period which amounted to HK\$527 million (2005: HK\$519 million), representing an increase of 2%.

Selling, distribution and transmission costs for the Period amounted to HK\$228 million (2005: HK\$226 million), which represented an increase of 1%. General and administrative expenses amounted to HK\$223 million (2005: HK\$219 million), which represented an increase of 2%.

Other operating income for the Period amounted to HK\$21 million (2005: other operating expenses of HK\$9 million) which was mainly foreign exchange gains. No finance costs were incurred for the Period (2005: HK\$1 million) as the Group did not have any bank loans during the Period.

Share of the losses of an associate, TVB Pay Vision Holdings Limited (formerly known as Galaxy Satellite TV Holdings Limited), decreased from HK\$99 million to HK\$87 million for the Period.

The Group’s taxation charge for the Period amounted to HK\$96 million (2005: HK\$115 million), which represented a decrease of 17%.

The profit attributable to equity holders amounted to HK\$470 million (2005: HK\$545 million, which included a gain arising from the change in fair value of financial assets of HK\$149 million (the “Change in Value”)), which represented a decrease of 14%. The earnings per share was HK\$1.07 (2005: HK\$1.25).

If the Change in Value were excluded, the profit attributable to equity holders would have increased from HK\$396 million in 2005 to HK\$470 million in 2006, and the earnings per share would have increased from HK\$0.90 to HK\$1.07, which represented an increase of 19%.

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## Business Review and Prospects

### Terrestrial Television Broadcasting

TVB's terrestrial free TV channels, *Jade* and *Pearl*, continued to attain high viewership. *Jade* achieved an average of 85% audience share<sup>1</sup> of the terrestrial Chinese channels during weekday prime time<sup>2</sup>; and *Pearl*, 73% of audience share of the terrestrial English channels during weekly prime time<sup>3</sup>.

The Period has been especially rewarding for TVB's *Jade* in terms of innovations in both drama and non-drama programmes which generated high ratings as well as critical acclaim. Coupled with scheduling moves on weekday evenings, we also have successfully expanded prime viewing hours into the early hours of the morning.

On non-drama programmes, we have created a new wave of game show hits. These include the hilarious "*Beautiful Cooking*" (average rating 30 TVRs<sup>4</sup> and 85% audience share on Sundays) and the game-quiz show "*15/16*" (average rating 29 TVRs and 90% audience share during weekdays late prime time). Also, we have produced a new docu-travelogue format "*On The Road*" in which the captivating elements of people, culture, destinations inter-played with the personal experiences of celebrity hosts. The series brought critical acclaim as well as good rating (averaged 26 TVRs and 86% audience share, weekdays late prime time).

On drama programmes, besides continuing with the proven forte in creating period epics, kung-fu dramas, action adventures and situation comedy, *Jade* has successfully crafted a variety of comedies which became instant hits and talk of the town. Among these contemporary comedies, "*La Femme Desperado*" became the top rated drama for the Period (average rating 33 TVRs and 88% audience share, and the final episode 37 TVRs and 91% audience share). Most TVB-produced dramas attained an average rating of over 30 TVRs and 80% audience share during prime time.

In the Period, we experienced a decline of 5% in Hong Kong advertising sales, with substantial drop in spending on TV advertising from the local property, the slimming centre and the skin care categories.

We devoted efforts in developing two areas of opportunities for revenue growth. The first area is in product sponsorships or product placements, and the second is in developing market share in fast growing categories with traditionally low advertising spending on television. Product sponsorships are featured prominently in our situation comedy "*Welcome To The House*", broadcast during prime time on *Jade*. As a result of our efforts in developing this form of commercial information, we saw substantial increase in product sponsorship revenue in the Period. Although product sponsorship revenue makes up a small percentage of the total advertising revenue, we see that this area offers room for growth, as we move further in developing product sponsorships in regular dramas and in game shows.

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<sup>1</sup> **Audience Share (%)** is the percentage of ratings of a particular channel over the total ratings of the base channels for a specific period of time. When calculating audience share for free-to-air terrestrial TV channels in Hong Kong, the base would be the combined TV ratings (TVRs) of terrestrial Chinese channels or the combined TVRs of terrestrial English channels.

<sup>2</sup> *Jade's* weekday prime time runs from 7-11 p.m.

<sup>3</sup> *Pearl's* weekly prime time runs from 7 p.m. to midnight.

<sup>4</sup> **TV Ratings (TVR)** represent the size of audience expressed as a percentage of the total TV population. For 2006, the TV population is 6,426,000, and therefore, 1 TVR represents 64,260 viewers (1 % of the TV population).

### ***Programme Licensing and Distribution***

We remained a key supplier of Chinese dramas and programmes to the overseas Chinese speaking markets in spite of competition from Korea and mainland China. Strategically, we are expanding our activities in licensing programmes to pay and terrestrial TV operators with some encouraging results. During the Period, overall revenue from programme licensing and distribution recorded a single-digit percentage growth. This was achieved in spite of the declining video rental and sell-through business, which is affected by piracy and illegal Internet downloading.

We have, from the last quarter of 2005, secured various distribution agreements with Internet portals and video-on-demand service providers. We are exploring and developing more licensing and distribution opportunities through the wireless media and Internet operators worldwide.

### ***Overseas Satellite Pay TV Platforms***

The pay TV market for overseas Chinese remains highly competitive. Whilst both TVB Satellite Platform (“TVBSP”) USA and TVB Australia (“TVBA”) sustained single-digit percentage subscriber growth in the Period, the Chinese Channel Europe’s subscriber base remained flat. TVBA recorded a double-digit percentage growth in advertising revenue. TVBA also recently added an acquired Korean drama channel to the existing 11-channel package, bringing an opportunity to increase the monthly subscription fees. Overall, the combined revenue for the overseas satellite pay TV platforms achieved similar level as last year, whilst the combined net profit after tax showed a 15% increase, after excluding a one-off income booked in 2005 which was related to the migration of the channels of TVBSP to DirecTV.

### ***Channel Operations***

#### **(a) Taiwanese Channels**

The overall advertising market in Taiwan declined during the Period as a result of the gloomy economic outlook and political controversies. Nevertheless, *TVBS-News*, our news channel, maintained the leadership position and gained in ratings. The consequent positive impact on advertising revenue, however, was somewhat neutralized by advertisers taking a cautious approach under such market condition. Despite the general market decline, our advertising income for the Period was successfully maintained at the same level as last year.

Our entertainment channel also benefited by the continuing success of our local production “*Lady First*”. This unique prime time variety show features lifestyle and beauty topics, captivating young female viewers. The Group has successfully published a quarterly magazine as a spin-off from the programme. Circulation of the latest issue of this magazine was in excess of 140,000 copies. More importantly, the cross-promotional effect helps attract more audience, as seen by the improved ratings.

In November 2005, the Government Information Office in Taiwan issued a regulatory demand alleging that TVBS’ shareholding was not in compliance with the law and imposed a fine of NT\$1,000,000. We are pleased to advise that our appeal against this administrative ruling was successful. The matter is now concluded with the refund of the fine of NT\$1,000,000 to the Group.

(b) TVB8 and Xing He

The subscription revenue of TVB8 and Xing He from Malaysia and mainland China was steady during the Period. Advertising revenue from Xing He improved during the Period as a result of its outstanding TV ratings on the Malaysian pay TV platform.

Advertising revenue of TVB8 also improved as more local events were developed for TVB8 in Malaysia. In May 2006, we successfully co-produced with ASTRO ALL ASIA NETWORKS plc (“ASTRO”) in Malaysia the talent-quest entertainment show “*Minutes to Fame*” which was originally produced and broadcast on *Jade* last year. This programme received enthusiastic response from the local Chinese audience, with the TV audience share rising from 14% to 46% amongst ASTRO’s Chinese TV channels.

(c) Supply of Channels to TVB Pay Vision Limited

The supply of the six channels by TVB to Galaxy Satellite Broadcasting Limited (now renamed as TVB Pay Vision Limited) on a non-exclusive basis under the amended and restated channel supply agreement dated 29 June 2005 was terminated on 31 May 2006. TVB offered eight channels to all the pay TV licensees in Hong Kong for bidding, as required under its domestic free television programme service license. Following the successful bidding by TVB Pay Vision Limited of these channels in April 2006, the basis of supply was changed from a non-exclusive basis to an exclusive basis.

The eight exclusive channels now comprise two 24-hour news channels *TVBN* and *TVBN2*; TVB’s classic drama channel *TVB Classic*; a channel reporting on the entertainment scene *TVB Entertainment News Channel*; acquired Asian drama channel *TVB Drama*; a channel dedicated to lifestyle in general *TVB Lifestyle* (which was renamed from *TVB Health*); the children’s channel *TVB Kids*; and the music channel *TVBM*.

With the exception of *TVB Drama*, the contents of the other supplied channels carry a strong local production element. In addition, two channels from TVBS in Taiwan, namely *TVBS-Asia* and *TVBS-News* are being supplied to TVB Pay Vision Limited on a non-exclusive basis.

**Other Businesses**

(a) Investment in Hong Kong Pay TV Platform

Galaxy Satellite TV Holdings Limited was renamed as TVB Pay Vision Holdings Limited in April 2006. The Group is interested in 49% of the capital of TVB Pay Vision Holdings Limited.

In addition to distributing through satellite master antenna television and broadband service provided by Hutchison Global Communication Limited, TVB Pay Vision Limited secured an additional distribution agreement with PCCW Limited’s NOW Broadband TV platform in February 2006. A bundle of TVB Pay Vision Limited’s channels is made available to subscribers of the NOW platform. The bundle includes *TVBS-Asia*, *TVBS-News* and the eight exclusive channels supplied by TVB, and various other channels making up a total number of 20 channels.

(b) Internet and Mobile Content Supply

We now license our contents to all of the four licensed 3G mobile operators in Hong Kong. We continue to be aggressive in the sales of our contents to handheld telephone devices, and have recently extended our content distribution to the Sony PlayStation Portable platform.

Income from the sale of programmes to 3G and Internet broadband operators, and advertising on our website ([www.tvb.com](http://www.tvb.com)) grew by a single-digit percentage. Our efforts in cost control, coupled with the growth element, helped the net profit to show a double-digit percentage growth.



(c) Publishing Operations

Various actions taken last year in restructuring our operations have borne fruit and helped advertising revenue to grow by a double-digit percentage.

Competition remains fierce for the weekly magazine market which has negatively impacted on our circulation. Our circulation revenue, however, was maintained, due to the increase in the unit selling price of the magazine which was brought in at the last quarter of last year. Printing cost under a new contract which commenced in September 2005 increased by more than 20% and this had a substantial adverse impact on the net profit.

However, it is expected that the impact of the increased printing cost on profits in the second half of 2006 will not be so strong.

***Digitisation***

The implementation of our digital terrestrial television (“DTT”) network plans is in progress. Town planning approval and land grant have been obtained respectively in May and June 2006, for the development of the Temple Hill main DTT transmission station. We are hopeful in meeting the DTT target launch date of the end of 2007 set by the Government.

Conversion to high definition television (“HDTV”) production will begin in late 2006/early 2007 under a plan to equip a drama studio with HDTV equipment. Updating of more studios will follow.

**FINANCIAL REVIEW**

**Capital Assets, Investment, Liquidity and Debts**

As at 30 June 2006, non-current assets of the Group stood at HK\$2,423 million, which represented a decrease of 4% from 31 December 2005 of HK\$2,522 million. The net decrease was mainly attributable to the decrease in the net book value of property, plant and equipment.

Cash and bank balances as at 30 June 2006 amounted to HK\$1,080 million, an increase of 10% over last year end (31 December 2005: HK\$980 million). About 23% of the cash balance was maintained in overseas subsidiaries for their daily operation. The Group’s financial position remains strong with no bank borrowings as at 30 June 2006. Cash and cash equivalents held by the Group were principally in Hong Kong Dollars, Renminbi, US Dollars and New Taiwan Dollars.

Trade and other receivables, prepayments and deposits decreased from HK\$1,354 million to HK\$1,176 million, which represented a 13% decrease from the position at the end of last year. Specific provision had been made, where appropriate, to cover any potential bad and doubtful debts.

Trade and other payables and accruals decreased from HK\$643 million to HK\$541 million which represented a 16% decrease from the position at the end of last year. This was principally attributable to the reduction in the amount payable for a financial asset (51% equity interest in TVB Pay Vision Holdings Limited) as the remaining unpaid share capital which amounted to HK\$56 million was paid up in March 2006.

As at 30 June 2006, capital commitments of the Group amounted to HK\$621 million (31 December 2005: HK\$183 million) which represented an increase of 239%, principally as a result of the expenses to be incurred for digitisation as stated above.

**Contingent Liabilities**

As at 30 June 2006, there were guarantees given to banks amounting to HK\$9 million (31 December 2005: HK\$9 million) for banking facilities granted to an investee company.

In March 2005 and February 2006, the Group received additional profits tax assessment notices from the Inland Revenue Department of Hong Kong (“IRD”) for the years of assessment 1998/99 and 1999/2000 on the profits generated by the Group’s programme licensing and distribution business carried out overseas. The total amounts of the additional assessments of profits tax for 1998/99 and 1999/2000 were HK\$98 million and HK\$99 million respectively. The Group has been granted a holdover of these additional assessments by the IRD.

The Group has filed objection to these additional assessments. The Group believes that the objection is well-founded, and is determined to defend the Group’s position vigorously. On this basis, the Group is of the view that no additional tax provision is necessary.

**Exposure to Fluctuations in Exchange Rates and Related Hedges**

The Group’s foreign currency exposure mainly arises from trade receipts from overseas customers. The Group will closely monitor its foreign exchange risk and enter into forward exchange contracts to hedge its foreign exchange exposure when necessary. No forward exchange contract was entered into by the Group during the Period under review.

**HUMAN RESOURCES**

As of 30 June 2006, the Group employed, excluding Directors and freelance workers but including contract artistes and staff in overseas subsidiaries, a total of 4,529 (31 December 2005: 4,519) full-time employees.

About 26% of our manpower was employed in overseas subsidiaries and was paid on a scale and system relevant to their localities and local legislations. For local employment, different pay schemes are operated for contract artistes, sales and non-sales employees. Contract artistes are paid either on a per-show basis or by a package of shows. Sales personnel are remunerated based on commission schemes. Non-sales personnel are remunerated on a monthly salary. Discretionary bonuses may be awarded as an incentive for better performance.

No employee share option scheme was adopted by the Group during the Period.

From time to time, the Group organises, either in-house or with vocational institutions, seminars, courses and workshops on subjects of technical interest, such as industrial safety, management skills and other related studies, apart from sponsorship of training programmes that employees may enrol on their own initiatives.

## DIRECTORS' INTERESTS IN SHARES

As at 30 June 2006, the beneficial interests of Directors and chief executive in the shares of the Company as recorded in the register maintained under Section 352 of the Securities and Futures Ordinance were as follows:

	No. of Ordinary Shares of HK\$0.05 Each			Total	Percentage of Issued Capital (%)
	Personal Interests	Family Interests	Corporate Interests		
Sir Run Run Shaw	-	1,146,000#	141,174,828* (a)	142,320,828	32.49%
Christina Lee Look Ngan Kwan	602,144	-	16,701,000 (b)	17,303,144	3.95%
Mona Fong	1,146,000#	-	-	1,146,000	0.26%
Chien Lee	400,000	-	-	400,000	0.09%
Dr. Li Dak Sum	-	-	300,000 (c)	300,000	0.07%
Dr. Chow Yei Ching	100,000	-	-	100,000	0.02%

Notes: Duplication of shareholdings occurred between parties # shown above and between parties \* shown above and below under "Substantial Shareholders".

(a) 113,888,628 shares were held by Shaw Brothers (Hong Kong) Limited and 27,286,200 shares were held by The Shaw Foundation Hong Kong Limited, in which companies Shaw Holdings Inc. holds 74.58% and 100% equity interests respectively. Sir Run Run Shaw exerts 100% control over Shaw Holdings Inc. through The Sir Run Run Shaw Charitable Trust.

(b) 10,377,000 shares were held by Trio Investment Corporation S.A., 1,581,000 shares were held by Crystal Investments Limited, 3,162,000 shares were held by Compass Inc. and 1,581,000 shares were held by Bonus Inc. and in respect of such shares only, directors of these companies are all accustomed to act in accordance with the directions of Mrs. Christina Lee Look Ngan Kwan.

(c) The shares were held by Roxy Property Investment Co. Ltd. in which Dr. Li Dak Sum holds a 100% equity interest.

All the interests stated above represent long positions. The Company or its subsidiaries did not grant to Directors or chief executive or their spouse or children under 18 years of age any rights to subscribe for shares or debentures of the Company or any other body corporate.

Apart from the above, no interests or short positions were held or deemed or taken (under the Securities and Futures Ordinance) to be held by any Directors or chief executive of the Company in the shares or underlying shares in, or debentures of, the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance) as at 30 June 2006.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, the register of substantial shareholders maintained under Section 336 of the Securities and Futures Ordinance shows that the Company had been notified of the following substantial shareholders' interests (all being beneficial interests), being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of Directors and chief executive.

	No. of Ordinary Shares of HK\$0.05 Each	Percentage of Issued Capital (%)
Shaw Brothers (Hong Kong) Limited	113,888,628*	26.00%
The Shaw Foundation Hong Kong Limited	27,286,200*	6.23%
Marathon Asset Management Limited	26,288,000 (a)	6.02%

*Notes: Duplication of shareholdings occurred between parties \* shown here and above under "Directors' Interests in Shares".*

*(a) Interests were held in the capacity of investment manager.*

All the interests stated above represent long positions. Save for the shares referred to above, no other person was recorded in the register kept pursuant to Section 336 of the Securities and Futures Ordinance as having an interest or short positions in the shares, underlying shares or debentures of, the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance) which represented 5% or more of the issued share capital of the Company as at 30 June 2006.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2006, the Company has not redeemed any of its ordinary shares. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's ordinary shares.

## CORPORATE GOVERNANCE

### BOARD COMPOSITION

Mr. Louis Page resigned as Director and Managing Director of the Company on 31 May 2006. Ms. Mona Fong was appointed by the Board as Acting Managing Director of the Company on the same day to ensure a smooth operation and a continued pursuit of the set objectives of the Company by the Management.

The Executive Committee nominated and the Board approved the appointment of Mr. Edward Cheng Wai Sun to be Independent Non-executive Director of the Company with effect from 1 June 2006, making a total of four Independent Non-executive Directors now serving on the Board of the Company.

## **COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES**

During the six months ended 30 June 2006, the Company has been in compliance with the Code Provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Exchange”) except that the Executive Chairman is not subject to retirement by rotation at least once every three years (code provision A.4.2).

Pursuant to Article 114(d) of the Company’s Articles of Association, the Chairman is exempted from retirement by rotation. The Board considers that the Chairman, being the founder of the Company, possesses a wealth of experience which is essential to the Board and contributes to the continued stability of the Company’s business.

Save for the above, none of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2006, in compliance with the Code.

## **COMPLIANCE WITH MODEL CODE**

Since 1 September 2004, the Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules.

Mr. Louis Page, who resigned as Director and Managing Director of the Company on 31 May 2006, and Mr. Edward Cheng Wai Sun, who was appointed as Independent Non-executive Director of the Company on 1 June 2006, confirmed that they had complied with the Model Code throughout the periods between 1 January 2006 and 30 May 2006 and between 1 June 2006 and 30 June 2006 respectively.

All other Directors and members of the Senior Management confirmed, following specific enquiry by the Company, that they had complied with the Model Code throughout the period between 1 January 2006 and 30 June 2006.

## **INTERNAL CONTROL**

The Board has the responsibility to ensure that the Group maintains sound and effective internal controls to safeguard the shareholders’ investment and the Group’s assets. The scope of internal control is very broad. The system is designed to provide reasonable, but not absolute, assurance against material mis-statement or loss; to manage rather than completely eliminate the risk of system failure; and to assist in the achievement of the Group’s objectives. In addition to safeguarding the Group’s assets, it also ensures the maintenance of proper accounting records and compliance with relevant laws and regulations.

The framework of internal control encompasses all controls incorporated into strategic governance and management processes, covering the Group’s entire range of activities and operations, and not just those directly related to financial operations and reporting. It covers not only compliance matters, but extends also to the performance aspect of a business.

A review, pursuant to the requirement set out under Appendix 14 of the Listing Rules of the Exchange, of the effectiveness of the material controls, including financial, operational and compliance controls and risk management function, is in progress. It is envisaged that a report on the review shall be completed in the last quarter of the year for presentation to the Board in early 2007.

## **AUDIT COMMITTEE**

The majority of the Audit Committee members are appointed from the Independent Non-executive Directors, with the Chairman having appropriate professional qualifications and experience in financial matters.

The Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated financial information for the six months ended 30 June 2006 before they were presented to the Board of Directors for approval.

The interim results for the six months ended 30 June 2006 have not been audited, but have been reviewed by the Company's external auditors whose report is set out on page 36 of this report.

## **INTERIM REPORT**

The interim report of the Company for the six months ended 30 June 2006 containing all the information required by paragraphs 46(1) to 46(9) of Appendix 16 of the Listing Rules is also published on the Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company's website ([www.tvb.com](http://www.tvb.com)).

On behalf of the Board

**Run Run Shaw**

Executive Chairman

Hong Kong, 24 August 2006

# CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2006

		30 June 2006	31 December 2005
	Note	Unaudited	Audited
		HK\$'000	HK\$'000
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	4	1,824,790	1,896,100
Leasehold land	4	186,132	188,416
Intangible assets	4	161,936	161,003
Interest in associates		220,897	245,516
Available-for-sale financial assets		3	3
Loan to investee company		6,991	6,676
Deferred income tax assets		22,341	24,358
		<b>2,423,090</b>	<b>2,522,072</b>
Current assets			
Programmes, film rights and movies		465,282	452,586
Stocks		10,608	11,430
Trade and other receivables, prepayments and deposits	5	1,175,668	1,353,966
Tax recoverable		957	2,015
Pledged bank deposits		238	236
Bank deposits maturing after three months		54,280	35,289
Cash and cash equivalents		1,025,777	944,670
		<b>2,732,810</b>	<b>2,800,192</b>
Total assets		<b>5,155,900</b>	<b>5,322,264</b>
<b>EQUITY</b>			
Capital and reserves attributable to equity holders of the Company			
Share capital	6	21,900	21,900
Other reserves	7	695,592	700,132
Retained earnings			
- Final dividend	14	-	569,400
- Others		3,550,216	3,090,315
		<b>4,267,708</b>	<b>4,381,747</b>
Minority interest		<b>22,861</b>	<b>23,320</b>
Total equity		<b>4,290,569</b>	<b>4,405,067</b>
<b>LIABILITIES</b>			
Non-current liabilities			
Deferred income tax liabilities		150,720	149,740
Retirement benefit obligations		17,522	18,503
		<b>168,242</b>	<b>168,243</b>

# CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AS AT 30 JUNE 2006

		<b>30 June 2006</b>	31 December 2005
	Note	<b>Unaudited</b>	Audited
		<b>HK\$'000</b>	HK\$'000
Current liabilities			
Trade and other payables and accruals	8	<b>541,225</b>	643,232
Current income tax liabilities		<b>155,864</b>	104,680
Short-term provisions	9	-	1,042
		<b>697,089</b>	748,954
Total liabilities		<b>865,331</b>	917,197
Total equity and liabilities		<b>5,155,900</b>	5,322,264
Net current assets		<b>2,035,721</b>	2,051,238
Total assets less current liabilities		<b>4,458,811</b>	4,573,310



## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

		Unaudited	
		Six months ended 30 June	
	Note	2006	2005
		HK\$'000	HK\$'000
Turnover	3	1,887,112	1,913,040
Cost of sales		(836,048)	(853,445)
Gross profit		1,051,064	1,059,595
Other revenues	10	31,056	15,303
Selling, distribution and transmission costs		(227,856)	(225,849)
General and administrative expenses		(222,912)	(218,704)
Other operating income/(expenses)		21,092	(8,569)
		652,444	621,776
Change in fair value of financial assets at fair value through profit or loss		-	148,778
Operating profit	11	652,444	770,554
Finance costs		-	(970)
Share of losses of			
Jointly controlled entities		-	(4,245)
Associates		(86,601)	(98,873)
Profit before income tax		565,843	666,466
Income tax expense	12	(96,365)	(115,266)
Profit for the period		469,478	551,200
Attributable to:			
Equity holders of the Company		469,964	545,357
Minority interest		(486)	5,843
		469,478	551,200
Earnings per share for profit attributable to equity holders of the Company during the period	13	HK\$1.07	HK\$1.25
Dividends	14	109,500	109,500

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Unaudited			
	Attributable to equity holders of the Company			
	Share capital	Other reserves	Retained earnings	Minority interest
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2006	21,900	700,132	3,659,715	23,320
Currency translation differences	-	(14,603)	-	27
Net expense recognised directly in equity	-	(14,603)	-	27
Profit for the period	-	-	469,964	(486)
Total recognised income and expense for the period	-	(14,603)	469,964	(459)
Transfer	-	10,063	(10,063)	-
Dividends relating to 2005	-	-	(569,400)	-
<b>Balance at 30 June 2006</b>	<b>21,900</b>	<b>695,592</b>	<b>3,550,216</b>	<b>22,861</b>
Balance at 1 January 2005	21,900	698,989	2,949,757	116,550
Currency translation differences	-	8,383	-	5,207
Net income recognised directly in equity	-	8,383	-	5,207
Profit for the period	-	-	545,357	5,843
Total recognised income for the period	-	8,383	545,357	11,050
Dividends relating to 2004	-	-	(350,400)	-
Acquisition of minority interest in a subsidiary (Note 4)	-	-	-	(105,665)
Balance at 30 June 2005	21,900	707,372	3,144,714	21,935

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash generated from operating activities	<b>731,995</b>	583,647
Net cash used in investing activities	<b>(82,941)</b>	(300,969)
Net cash used in financing activities	<b>(569,402)</b>	(413,907)
Net increase/(decrease) in cash and cash equivalents	<b>79,652</b>	(131,229)
Cash and cash equivalents at 1 January	<b>944,670</b>	526,299
Effect of foreign exchange rate changes	<b>1,455</b>	4,934
Cash and cash equivalents at 30 June	<b>1,025,777</b>	400,004
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<b>1,025,777</b>	401,464
Bank overdraft	<b>-</b>	(1,460)
Cash and cash equivalents	<b>1,025,777</b>	400,004

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 1 Basis of preparation

This unaudited condensed consolidated financial information for the six months ended 30 June 2006 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

## 2 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, except that the Group has adopted the new standards, amendments to standards and interpretations issued by the HKICPA which are effective for accounting periods commencing on or after 1 January 2006.

### (a) Effect of adopting new standards, amendments to standards and interpretations

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006. The Group adopted those which are relevant to its operations.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC) - Int 4	Determining whether an Arrangement contains a Lease

The new standards, amendments to standards and interpretations above do not have material impacts to the Group.

The following new standard, amendment to standard and interpretation have been issued but are not effective for 2006 and have not been early adopted:

HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives <sup>1</sup>
HKAS 1 (Amendment)	Capital Disclosures <sup>2</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2007

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION** (Continued)

### **2 Accounting policies** (Continued)

#### **(b) Comparatives**

Certain comparative figures have been restated to reflect the change in the classification of turnover as mentioned in 2005 annual report:

- revenue from the production of tailor-made sponsorship programmes was recorded under turnover instead of being set off against the programme costs; and
- income generated from commercial production, merchandising, talent management, facility rental and other services was reclassified from other revenues to turnover.

As a result, the Group's turnover increased by HK\$59,716,000, cost of sales increased by HK\$48,413,000 and other revenues decreased by HK\$11,303,000 for the period ended 30 June 2005, with no change to the Group's profit.

Where necessary, some other comparative figures have been reclassified to conform with changes in presentation in the current period.

### **3 Segment information**

#### **Primary reporting format - business segments**

The Group is organised on a worldwide basis into five main business segments:

Terrestrial television broadcasting - free-to-air broadcasting of television programmes and commercials and production of programmes

Programme licensing and distribution - provision of television programmes to homevideo markets and overseas broadcasters

Overseas satellite pay TV operations - provision of satellite pay television services to subscribers in USA, Europe and Australia

Channel operations - compilation and distribution of television channels in mainland China, Taiwan, Hong Kong and other countries

Other activities - provision of contents to mobile devices, website portal, magazine publication, licensing and distribution of movies and other related services

The Group's inter-segment transactions mainly consist of licensing of programmes and film rights and provision of services. Licensing of programmes and film rights were entered into at similar terms as that contracted with third parties. The services provided were charged on a cost plus basis or at similar terms as that contracted with third parties.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

### 3 Segment information (Continued)

#### Primary reporting format - business segments (Continued)

An analysis of the Group's turnover and results for the period by business segments is as follows:

	Six months ended 30 June 2006						Total
	Terrestrial	Programme	Overseas	Channel	Other	Elimination	
	television	licensing and	satellite	operations	activities		
	broadcasting	distribution	pay TV	operations			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover							
External sales	924,899	295,819	119,190	490,118	57,086	-	1,887,112
Inter-segment sales	4,582	49,610	209	6,614	2,614	(63,629)	-
	<b>929,481</b>	<b>345,429</b>	<b>119,399</b>	<b>496,732</b>	<b>59,700</b>	<b>(63,629)</b>	<b>1,887,112</b>
Segment results	332,795	206,103	13,525	91,733	8,290	(2)	652,444
Share of losses of							
Associates	-	-	-	(86,601)	-	-	(86,601)
Profit before income tax							565,843
Income tax expense							(96,365)
Profit for the period							<b>469,478</b>

Other segment terms included in the income statement are as follows:

Depreciation	96,093	3,588	5,085	24,566	639	129,971
Amortisation of leasehold land	2,284	-	-	-	-	2,284

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

### 3 Segment information (Continued)

#### Primary reporting format - business segments (Continued)

	Six months ended 30 June 2005						Total
	Terrestrial television broadcasting	Programme licensing and distribution	Overseas satellite pay TV operations	Channel operations	Other activities	Elimination	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover							
External sales	969,904	285,235	128,761	490,399	38,741	-	1,913,040
Inter-segment sales	303	48,480	-	7,115	3,797	(59,695)	-
	970,207	333,715	128,761	497,514	42,538	(59,695)	1,913,040
Segment results	302,528	187,517	18,672	108,198	4,308	553	621,776
Change in fair value of financial assets at fair value through profit or loss							148,778
Finance costs							(970)
Share of losses of							
Jointly controlled entities	-	-	-	(30)	(4,215)		(4,245)
Associates	-	-	-	(98,873)	-		(98,873)
Profit before income tax							666,466
Income tax expense							(115,266)
Profit for the period							551,200

Other segment terms included in the income statement are as follows:

Depreciation	95,628	3,471	6,450	26,973	1,226	133,748
Amortisation of leasehold land	2,284	-	-	-	-	2,284
Impairment of goodwill	-	-	-	5,894	-	5,894

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

### 3 Segment information (Continued)

#### Primary reporting format - business segments (Continued)

The segment assets and liabilities at 30 June 2006 and capital expenditure for the six months then ended are as follows:

	Terrestrial television broadcasting	Programme licensing and distribution	Overseas satellite pay TV operations	Channel operations	Other activities	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	3,232,042	401,492	126,221	985,859	111,546	4,857,160
Interest in associates	149,771	-	-	71,126	-	220,897
Available-for-sale financial assets	-	3	-	-	-	3
Loan to investee company	-	6,991	-	-	-	6,991
Unallocated assets						70,849
Total assets						<u>5,155,900</u>
Segment liabilities	232,750	104,440	63,800	134,561	23,196	558,747
Unallocated liabilities						306,584
Total liabilities						<u>865,331</u>
Capital expenditure	22,419	1,621	1,978	30,789	428	57,235

The segment assets and liabilities at 31 December 2005 and capital expenditure for the six months ended 30 June 2005 are as follows:

	Terrestrial television broadcasting	Programme licensing and distribution	Overseas satellite pay TV operations	Channel operations	Other activities	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	3,502,242	221,896	117,145	1,040,418	125,319	5,007,020
Interest in associates	144,069	-	-	101,447	-	245,516
Available-for-sale financial assets	-	3	-	-	-	3
Loan to investee company	-	6,676	-	-	-	6,676
Unallocated assets						63,049
Total assets						<u>5,322,264</u>
Segment liabilities	258,514	94,996	58,259	174,948	19,184	605,901
Payable for financial assets at fair value through profit or loss	-	-	-	56,876	-	56,876
Unallocated liabilities						254,420
Total liabilities						<u>917,197</u>
Capital expenditure	38,818	3,567	739	128,465	286	171,875



## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION** (Continued)

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### **3 Segment information** (Continued)

#### **Primary reporting format - business segments** (Continued)

Segment assets consist primarily of property, plant and equipment, leasehold land, intangible assets, stocks, receivables and operating cash, and mainly exclude tax recoverable, deferred income tax and investments.

Segment liabilities comprise operating liabilities and exclude items such as taxation.

Capital expenditure comprises additions to property, plant and equipment (Note 4) and intangible assets (Note 4).

#### **Secondary reporting format - geographical segments**

Although the Group's five business segments are managed on a worldwide basis, sales are generated in eight main geographical areas:

Hong Kong - terrestrial television broadcasting with programme production, distribution of television channels, provision of contents to mobile devices, website portal, magazine publication and licensing and distribution of movies

Taiwan - cable television channel services

USA and Canada - licensing and distribution of television programmes and satellite pay TV operations

Australia - licensing and distribution of television programmes and satellite pay TV operations

Europe - licensing and distribution of television programmes and satellite pay TV operations

Mainland China - licensing and distribution of television programmes and channels and satellite TV channel services

Malaysia and Singapore - licensing and distribution of television programmes

Other countries - principally licensing and distribution of television programmes

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

### 3 Segment information (Continued)

#### Secondary reporting format - geographical segments (Continued)

An analysis of the Group's turnover and segment results for the period by geographical segments is as follows:

	Turnover		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,088,656	1,113,955	367,324	357,210
Taiwan	363,736	371,271	74,708	69,672
USA and Canada	103,983	108,560	55,485	56,935
Australia	34,010	34,080	(3,044)	(2,831)
Europe	46,480	49,077	10,225	8,661
Mainland China	68,917	58,176	44,167	35,444
Malaysia and Singapore	165,973	153,702	94,526	84,500
Other countries	15,357	24,219	9,053	12,185
	<b>1,887,112</b>	<b>1,913,040</b>	<b>652,444</b>	<b>621,776</b>
Change in fair value of financial assets at fair value through profit or loss			-	148,778
			<b>652,444</b>	<b>770,554</b>

Sales are based on the location in which the customers are located. There are no sales between the geographical segments.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

### 3 Segment information (Continued)

#### Secondary reporting format - geographical segments (Continued)

	Total assets		Capital expenditure	
	30 June	31 December	Six months ended 30 June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	3,727,918	3,994,853	24,230	41,836
Taiwan	703,451	680,433	30,681	128,398
USA and Canada	119,581	101,990	662	950
Australia	16,732	11,614	324	159
Europe	86,287	72,966	1,110	522
Mainland China	49,489	26,836	30	-
Malaysia and Singapore	125,883	93,321	-	-
Other countries	27,819	25,007	198	10
	<b>4,857,160</b>	<b>5,007,020</b>	<b>57,235</b>	<b>171,875</b>
Interest in associates	220,897	245,516		
Available-for-sale financial assets	3	3		
Loan to investee company	6,991	6,676		
Unallocated assets	70,849	63,049		
	<b>5,155,900</b>	<b>5,322,264</b>		

Total assets and capital expenditure are allocated based on where the assets are located.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

### 4 Capital expenditure

	<b>Goodwill</b>	<b>Property, plant and equipment</b>	<b>Leasehold land</b>
	HK\$'000	HK\$'000	HK\$'000
Opening net book amount as at 1 January 2006	161,003	1,896,100	188,416
Additions	-	57,235	-
Disposals	-	(443)	-
Depreciation/amortisation charge (Note 11)	-	(129,971)	(2,284)
Exchange differences	933	1,869	-
<b>Closing net book amount as at 30 June 2006</b>	<b>161,936</b>	<b>1,824,790</b>	<b>186,132</b>
Opening net book amount as at 1 January 2005	55,342	2,049,844	192,984
Acquisition of minority interest in a subsidiary (note (a))	115,285	-	-
Additions	-	56,590	-
Disposals	-	(3,815)	-
Depreciation/amortisation charge (Note 11)	-	(133,748)	(2,284)
Impairment charge (note (b) and Note 11)	(5,894)	-	-
Exchange differences	-	10,332	-
Closing net book amount as at 30 June 2005	164,733	1,979,203	190,700
Acquisition of minority interest in a subsidiary (note (a))	663	-	-
Additions	-	56,502	-
Cost adjustment	-	(3,500)	-
Disposals	-	(925)	-
Depreciation/amortisation charge	-	(126,628)	(2,284)
Exchange differences	(4,393)	(8,552)	-
Closing net book amount as at 31 December 2005	161,003	1,896,100	188,416

Notes:

- (a) On 21 March 2005, the Group acquired the remaining 30% interest in Liann Yee Production Co. Ltd. ("LYP") from the minority shareholder at a cash consideration of NT\$900 million (HK\$220,950,000). The excess of the cost over the fair value of the 30% of the net identifiable assets of LYP, amounting to NT\$470 million (HK\$115,285,000), was recognised as goodwill for the period ended 30 June 2005.

Additionally, the direct cost relating to the acquisition of NT\$2.7 million (HK\$663,000) was also recognised as goodwill.

- (b) The impairment expense arose in respect of the Group's publishing business in Taiwan as it continues to be in a loss making position.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

### 5 Trade and other receivables, prepayments and deposits

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Receivables from:		
Associates	197,152	202,748
Related parties	59,499	39,949
Trade receivables (note)	765,602	892,172
	<b>1,022,253</b>	1,134,869
Less: provision for impairment of receivables	(69,652)	(68,031)
Other receivables, prepayments and deposits	175,516	263,139
Tax reserve certificates	47,551	23,989
	<b>1,175,668</b>	1,353,966

Note:

The Group operates a controlled credit policy and allows an average credit period of forty to sixty days to the majority of the Group's customers who satisfy the credit evaluation of the Group. Cash on delivery, advance payments or bank guarantees are required from other customers of the Group.

At 30 June 2006 and 31 December 2005, the aging analysis of the trade receivables including trading balances due from associates and related parties are as follows:

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Current	411,359	405,941
1 - 2 months	213,588	241,864
2 - 3 months	108,785	142,271
3 - 4 months	72,674	107,689
4 - 5 months	46,706	49,499
Over 5 months	166,857	185,343
	<b>1,019,969</b>	1,132,607
Trade receivables due from:		
Third parties	765,602	892,172
Associates and related parties	254,367	240,435
	<b>1,019,969</b>	1,132,607
Non-trading amounts due from associates and related parties	2,284	2,262
	<b>1,022,253</b>	1,134,869

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

### 6 Share capital

	Number of ordinary shares of HK\$0.05 each	Nominal value HK\$'000
Authorised:		
At 1 January 2005 and 2006 and 30 June 2006	<b>1,300,000,000</b>	<b>65,000</b>
Issued and fully paid:		
At 1 January 2005 and 2006 and 30 June 2006	<b>438,000,000</b>	<b>21,900</b>

### 7 Other reserves

	Share premium HK\$'000	General reserve HK\$'000	Capital reserve HK\$'000	Legal reserve HK\$'000	Capital redemption reserve HK\$'000	Translation HK\$'000	Total HK\$'000
Balance at 1 January 2005	602,026	70,000	864	9,246	40,118	(23,265)	698,989
Currency translation differences:							
- Group	-	-	-	-	-	909	909
- Jointly controlled entities	-	-	-	-	-	7,474	7,474
Balance at 30 June 2005	602,026	70,000	864	9,246	40,118	(14,882)	707,372
Currency translation differences:							
- Group	-	-	-	-	-	(18,001)	(18,001)
- Associates	-	-	-	-	-	545	545
- Jointly controlled entities	-	-	-	-	-	55	55
Transfer from retained earnings	-	-	-	10,161	-	-	10,161
Balance at 31 December 2005	602,026	70,000	864	19,407	40,118	(32,283)	700,132
Balance at 1 January 2006	602,026	70,000	864	19,407	40,118	(32,283)	700,132
Currency translation differences:							
- Group	-	-	-	-	-	(14,603)	(14,603)
Transfer from retained earnings	-	-	-	10,063	-	-	10,063
Balance at 30 June 2006	<b>602,026</b>	<b>70,000</b>	<b>864</b>	<b>29,470</b>	<b>40,118</b>	<b>(46,886)</b>	<b>695,592</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

### 8 Trade and other payables and accruals

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Trade payables to:		
Associates	8,502	7,692
Related parties	649	237
Third parties	89,744	91,188
	98,895	99,117
Other payables and accruals	442,330	487,239
Payable for financial assets at fair value through profit or loss	-	56,876
	541,225	643,232

At 30 June 2006 and at 31 December 2005, the aging analysis of the trade payables including trading balances due to associates and related parties are as follows:

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Current	62,137	61,487
1 - 2 months	28,661	22,211
2 - 3 months	2,792	8,391
3 - 4 months	1,198	1,884
4 - 5 months	388	229
Over 5 months	3,719	4,915
	98,895	99,117

### 9 Provisions

	Onerous contracts HK\$'000
At 1 January 2006	1,042
Less: utilised during the period	(1,042)
At 30 June 2006	-

Analysis of total provisions

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Current	-	1,042

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

### 10 Other revenues

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Interest income	24,834	9,155
Others	6,222	6,148
	<b>31,056</b>	<b>15,303</b>

### 11 Operating profit

The following items have been charged/(credited) to the operating profit during the period:

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Depreciation - owned property, plant and equipment	129,971	133,747
Depreciation - leased property, plant and equipment	-	1
Amortisation of leasehold land	2,284	2,284
Cost of programmes, film rights, movies and stocks	527,126	519,201
Impairment of goodwill	-	5,894
Net exchange (gain)/loss	(21,092)	2,457

### 12 Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of income tax charged to the condensed consolidated income statement represents:

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Current income tax:		
- Hong Kong profits tax	73,892	70,795
- Overseas taxation	19,084	15,847
- Under/(over) provisions in prior periods	333	(222)
Deferred income tax relating to the origination and reversal of temporary differences	3,056	28,846
	<b>96,365</b>	<b>115,266</b>

Please refer to Note 15(b) on contingent liabilities regarding the additional profits tax assessments raised by the Inland Revenue Department of Hong Kong ("IRD") in respect of the years of assessment 1998/99 and 1999/2000.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

### 13 Earnings per share

The earnings per share is calculated based on the Group's profit attributable to equity holders of HK\$469,964,000 (2005: HK\$545,357,000) and 438,000,000 shares in issue throughout the six months ended 30 June 2006 and 2005. No fully diluted earnings per share is presented as there were no potentially dilutive shares outstanding.

### 14 Dividends

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Interim dividend, proposed, of HK\$0.25 (2005: HK\$0.25) per ordinary share	109,500	109,500

At a meeting held on 22 March 2006, the Directors proposed a final dividend of HK\$1.30 per ordinary share for the year ended 31 December 2005 amounting to HK\$569,400,000, which was paid on 1 June 2006 and was reflected as an appropriation of retained earnings in these condensed consolidated financial information for the six months ended 30 June 2006.

### 15 Contingent liabilities

	30 June 2006	31 December 2005
	HK\$'000	HK\$'000
(a) Guarantees for banking facilities granted to an investee company	9,098	8,688

- (b) In March 2005 and February 2006, the Group received additional profits tax assessment notices from the IRD for the years of assessment 1998/99 and 1999/2000 on the profits generated by the Group's programme licensing and distribution business carried out overseas. The total amounts of the additional assessments of profits tax for 1998/99 and 1999/2000 were HK\$98,277,000 and HK\$98,576,000 respectively. The Group has been granted a holdover of these additional assessments by the IRD.

The Group has filed objection to these additional assessments. The Group believes that the objection is well-founded, and is determined to defend the Group's position vigorously. On this basis, the Group is of the view that no additional tax provision is necessary.

### 16 Capital Commitments

The amounts of commitments for property, plant and equipment are as follows:

	30 June 2006	31 December 2005
	HK\$'000	HK\$'000
Authorised but not contracted for	602,362	170,941
Contracted but not provided for	18,929	12,513
	621,291	183,454

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

### 17 Significant related party transactions

The following transactions were carried out with related parties:

	Note	Six months ended 30 June	
		2006	2005
		HK\$'000	HK\$'000
(a) Sales of services			
Sales of services to other related parties			
Programmes/channel licensing fee	(i)	70,033	63,516
Advertising agency fee	(i)	18,822	15,662
Management fee	(i)	15,560	15,130
Rental of satellite equipment and technical service fee	(ii)	-	783
Transponder leasing fee	(ii)	-	476
Programmes licensing fee	(iii)	-	3,428
Advertising income	(iv)	2,591	-
Sales of services to an associate			
Programmes/channel licensing fee	(v)	96,644	100,000
Channel package service fee	(v)	1,298	1,096
Downlink service fee	(v)	96	948
Advertising income	(v)	3,245	14,247
Rental income and related charges	(v)	3,181	3,738
Others	(v)	1,391	-
		<b>212,861</b>	<b>219,024</b>
(b) Purchases of services			
Purchases of services from other related parties			
Rental fee	(vi)	-	(8,866)
Optical fibre rental fee	(ii)	-	(200)
Satellite relay service fee	(ii)	-	(392)
Programmes/channel licensing fee	(vii)	(1,661)	(2,431)
Supply network and telephone system and maintenance service fee	(viii)	(185)	(935)
Agency fee	(ix)	(1,713)	-
Purchases of services from an associate			
Playback and uplink service fee	(v)	(18,043)	(18,477)
Others	(v)	(650)	-
		<b>(22,252)</b>	<b>(31,301)</b>

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION** (Continued)

### **17 Significant related party transactions** (Continued)

Notes:

- (i) The fees were received from MEASAT Broadcast Network Systems Sdn. Bhd., an associate of the minority shareholder of non wholly-owned subsidiaries of the Company.
- (ii) The fees were received from/(paid to) Era Communications Co. Ltd. (“Era”), a minority shareholder of a non wholly-owned subsidiary of the Company, LYP. Upon Era disposed all its shareholdings in LYP to a third party on 4 February 2005, Era ceased to be a related party of the Company after that date.
- (iii) The fees were received from ASTRO Entertainment Networks Ltd., an associate of the minority shareholder of non wholly-owned subsidiaries of the Company.
- (iv) The fees were received from Sharp-Roxy (Hong Kong) Limited (“Sharp Roxy”), an associate of a Director of the Company. Sharp Roxy has placed advertising airtime booking with the Company on the Company’s channels in Hong Kong for the period from 20 June 2006 to end tentatively on 30 September 2006 at a total value of approximately HK\$5,600,000 net after deduction of agency commission, volume rebate and discount. The advertising income accrued during the six months ended 30 June 2006 was HK\$2,591,000.
- (v) The fees were received from/(paid to) TVB Pay Vision Limited (formerly known as Galaxy Satellite Broadcasting Limited), an associate of the Company.
- (vi) The rental fees were paid to Shaw Brothers (Hong Kong) Limited, a substantial shareholder of the Company in respect of the lease of certain office and car parking spaces. The tenancies were expired on 30 June 2005.
- (vii) The fees were paid to Celestial Television Networks Ltd., an associate of the minority shareholder of non wholly-owned subsidiaries of the Company.
- (viii) The Company entered a Letter of Intent with Chevalier (Network Solutions) Limited (“CNSL”) on 30 March 2001 in relation to the supply, installation and maintenance of the private automatic branch exchange system (“PABX”) and structured cabling network. The total sum was settled by way of installments. The final installment was fully paid in 2005. A contract of 2 years maintenance services of PABX and peripheral products commencing from 1 January 2005 was concluded in 2005. The controlling shareholder of the holding company of CNSL, is also a Director of the Company.
- (ix) The fees were paid to Celestial Productions Limited, an associate of the minority shareholder of non wholly-owned subsidiaries of the Company.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

### 17 Significant related party transactions (Continued)

(c) Key management compensation

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	<b>11,146</b>	9,908

(d) Period/year-end balances

	30 June 2006	31 December 2005
	HK\$'000	HK\$'000
Receivables from other related parties (note (i))	<b>59,499</b>	39,949
Receivables from associates (note (ii))	<b>197,152</b>	202,748
	<b>256,651</b>	242,697
Payables to other related parties	<b>649</b>	237
Payables to associates	<b>8,502</b>	7,692
	<b>9,151</b>	7,929

Notes:

- (i) At 30 June 2006, a provision for impairment of receivable from other related parties of HK\$2,262,000 (31 December 2005: HK\$2,262,000) had been provided.
- (ii) At 30 June 2006, a provision for impairment of receivable from associates of HK\$1,800,000 (31 December 2005: HK\$1,887,000) had been provided.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

### 17 Significant related party transactions (Continued)

#### (e) Loans to related parties

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Loan to investee company		
Beginning of the period/year	6,712	52,210
Write off of loan	-	(37,947)
Loan repayments received	-	(7,393)
Interest charged	229	402
Interest received	(223)	(366)
Exchange differences	315	(194)
End of the period/year	<b>7,033</b>	6,712
Loan to an associate		
Beginning of the period/year	144,069	133,397
Interest charged	5,702	10,672
End of the period/year	<b>149,771</b>	144,069

The loan to investee company is unsecured, carries interest at 2% per annum above the Canadian Prime Rate and has no fixed terms of repayment.

The loan to an associate is unsecured and carries interest at 8% per annum compounded annually. The principal amount and the accrued interest shall be payable to the Company in two annual installments on 20 February 2007 and 20 February 2008 respectively, unless the associate is publicly floated before either date, whereupon the outstanding principal amount and accrued interest shall be prepaid.

# **INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF TELEVISION BROADCASTS LIMITED**

(Incorporated in Hong Kong with limited liability)

## **Introduction**

We have been instructed by Television Broadcasts Limited (the “Company”) to review the interim financial report set out on pages 13 to 35.

## **Respective responsibilities of Directors and auditors**

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of condensed consolidated financial information to be in compliance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Directors.

It is our responsibility to form an independent conclusion, based on our review, on this interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **Review work performed**

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

## **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

## **PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 24 August 2006



**Television Broadcasts Limited**

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