ANNUAL REPORT 2006
周年報告

Television Broadcasts Limited
電視廣播有限公司

Stock Code 股份代號：511

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CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE 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)

Louis Page (Managing Director, resigned on 31 May 2006)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Edward Cheng Wai Sun, J.P. (appointed on 1 June 2006)

Chien Lee

Dr. Li Dak Sum, DSSc. (Hon.), J.P.

Robert Sze Tsai To

NON-EXECUTIVE DIRECTORS

Dr. Chow Yei Ching, G.B.S.

Ho Ting Kwan

Christina Lee Look Ngan Kwan

Kevin Lo Chung Ping

ALTERNATE DIRECTOR

Anthony Lee Hsien Pin (Alternate Director to Christina Lee Look Ngan Kwan)

BOARD COMMITTEES

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)

Ho Ting Kwan (appointed on 22 February 2006)

Chien Lee

Dr. Li Dak Sum (resigned on 22 February 2006)

REMUNERATION COMMITTEE

Chien Lee (Chairman)

Edward Cheng Wai Sun (appointed on 1 June 2006)

Robert Sze Tsai To

Mona Fong (resigned on 31 May 2006)

EXECUTIVE OFFICERS

SENIOR MANAGEMENT

George Chan Ching Cheong (Assistant Managing Director)

Stephen Chan Chi Wan (General Manager – Broadcasting)

Cheong Shin Keong (General Manager – Broadcasting)

Mark Lee Po On (General Manager – Finance and Administration, appointed on 1 February 2007)

COMPANY SECRETARY

Adrian Mak Yau Kee

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

CHAIRMAN'S STATEMENT

I am pleased to report that in 2006 the Group's turnover increased from HK$4,177 million to HK$4,201 million, which represented an increase of 1%. The Group's net profit after tax also increased from HK$1,180 million to HK$1,189 million, an increase of 1%. If the gain on disposal of the 51% equity interest in TVB Pay Vision Holdings Limited was excluded from the net profit after tax for 2005, we recorded an increase of 15%. The Group's net assets at 31 December 2006 totaled HK$4,845 million, up 11% from HK$4,382 million at the end of 2005.

The Directors will recommend a final dividend of HK$1.45 per share at the Company's next Annual General Meeting. Together with the interim dividend of HK$0.25 per share, this makes a total dividend of HK$1.70 per share for the full year ended 31 December 2006, and represents an increase of 10% over the total of dividend of HK$1.55 per share for 2005. This level of dividend represents a 63% payout of our net profit for the year.

Even though the advertising revenue from our terrestrial TV business, which is the largest segment of our revenue stream, was marginally lower than that in 2005, we are optimistic about the economic growth prospects in Hong Kong and the domestic advertising market. Our overseas licensing business continued to perform well during the year, with satisfactory growth recorded in Mainland China. The Guangdong Landing Rights Agreement, signed in 2004, has allowed us to collect a licence fee, which was not possible in the past. We shall continue to work closely with key stations in Mainland China in co-production projects, such as the production of the sixty episode drama series "*Drive of Life*" with China Central Television ("CCTV") which is scheduled for completion and broadcast in 2007, and other programme production with provincial and national stations, with the view to building strong working partnerships in this market.

TVB remains the most popular TV broadcaster in Hong Kong by choice. However, we are not complacent. We acknowledge that this rapidly evolving world of media and entertainment provides both opportunities and threats to our business. We have adopted a forward thinking concept for our slogan – 走在最前, reflecting a new innovative station image, and the progressive and creative character of our channels. We shall live up to this claim by producing programmes that bring the highest entertainment value. We shall continue to identify and invest in new talent in order to grow our artiste base, which is pivotal to our underlying strength.

The acts of piracy and illegal internet downloading continue to hurt the industry in an unprecedented manner. In TVB, we enforce our intellectual property rights seriously and will continue to devote our resources to combat such illegal behaviour in the most vigorous manner.

Going into 2007, we are excited about our future for two important reasons:

We are well-underway to upgrade our transmission network from analogue to digital which will provide a much improved picture quality for our viewers. We are on course to deliver digital broadcasting from the end of 2007 and to commence delivery of programmes in high definition format which offers pristine image quality. We believe Hong Kong, as a society with a traditionally strong high-tech following, will soon embrace this technology for home entertainment. As a result of the increased channel carrying capacity under digital delivery, we are going to have a new high definition digital television channel and two standard definition digital television channels which will simulcast our existing *Jade* and *Pearl* channels, thus enriching our viewers' choices.

We look forward to the forthcoming Olympic Games which will be hosted in our nation's capital Beijing in the summer of 2008. TVB is committed to bringing Hong Kong viewers unrivalled coverage of the events in the capital and six other cities, including our home city. The excitement begins even within 2007 with our extensive lead-in programmes. We are confident that these events will draw even more viewers than any other previous Games.

On behalf of the Board, I wish to thank all our stakeholders for their on-going endorsement and support of the TVB Group.

Run Run Shaw
Executive Chairman

Hong Kong, 21 March 2007

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

OVERVIEW

For the year ended 31 December 2006, the Group achieved a turnover of HK$4,201 million (2005: HK$4,177 million), which represented an increase of 1% over 2005. Cost of sales amounted to HK$1,778 million (2005: HK$1,792 million), which represented a decrease of 1% over 2005. Gross profit for the year amounted to HK$2,423 million (2005: HK$2,385 million), which represented a gross profit percentage of 58% (2005: 57%).

Included in cost of sales was the cost of programmes, film rights, movies and stocks which amounted to HK$1,171 million (2005: HK$1,148 million). This represented an increase of 2% over 2005.

Selling, distribution and transmission costs amounted to HK$451 million, a similar level as for 2005 (2005: HK$452 million). General and administrative expenses amounted to HK$504 million (2005: HK$491 million), which represented an increase of 3% reflecting a slightly higher staff cost over 2005.

Operating profit included interest income of HK$58 million (2005: HK$25 million), and a net exchange gain arising from the translation of inter-company balances denominated in foreign currencies of HK$58 million (2005: net exchange loss of HK$1 million).

The Group's share of losses of an associate, TVB Pay Vision Holdings Limited ("TVBPVH", formerly known as Galaxy Satellite TV Holdings Limited), decreased from HK$187 million to HK$163 million for the year. The better performance of TVBPVH was due to the result of an increase in subscription revenue from its larger subscriber base.

The Group's taxation charge amounted to HK$247 million (2005: HK$232 million), which represented an increase of 6% over 2005.

The profit attributable to equity holders amounted to HK$1,189 million (2005: HK$1,180 million, which included a one-off gain of HK$149 million arising from the disposal of a 51% equity interest in TVBPVH to third parties (the "Gain on Disposal")), which represented an increase of 1% over 2005. The earnings per share was HK$2.71 (2005: HK$2.69).

If the Gain on Disposal was excluded, the profit attributable to equity holders would have increased from HK$1,031 million to HK$1,189 million, and the earnings per share would have increased from HK$2.35 to HK$2.71, which represented an increase of 15% over 2005.

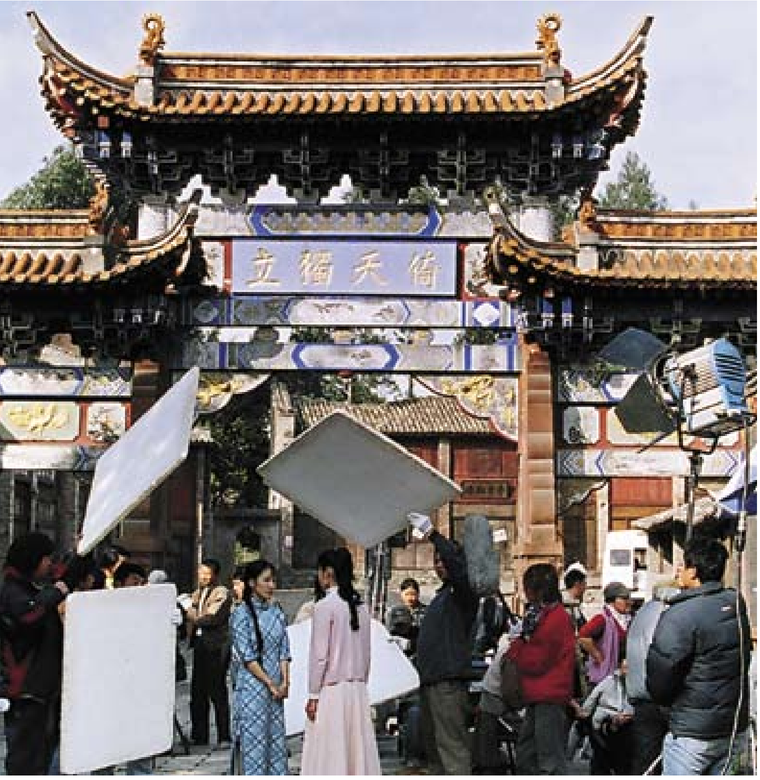
COMMENTS ON SEGMENT INFORMATION

Revenue from terrestrial television broadcasting which comprised predominantly local advertising revenue, decreased slightly from HK$2,236 million to HK$2,219 million. This represented a decrease of 1% over 2005.

The cost of programmes comprised the amortised cost of self-produced TV programmes and acquired film rights. The Group continued to provide high quality and customised programming, taking into account audience taste and market trends. Together with our effective cost control, the programme cost for this segment was lower than that in 2005. As a result, this segment contributed an operating profit of HK$918 million (2005: HK$859 million), an increase of 7% over 2005.

Revenue from programme licensing and distribution which comprised predominantly licensing income from distribution of our programmes through telecast, video (DVDs and VCDs), and the internet, increased from HK$693 million to HK$724 million. This represented an increase of 4% over 2005. The increase was mainly contributed by increase in the licensing revenue from Mainland China. As a result, programme licensing and distribution contributed an operating profit of HK$441 million (2005: HK$391 million), an increase of 13% over 2005.

MANAGEMENT DISCUSSION AND ANALYSIS



Revenue from overseas satellite pay TV operations which comprised revenue from TVB Satellite Platform ("TVBSP") USA, TVB Australia ("TVBA") and The Chinese Channel ("TCC") Europe, showed a decrease from HK$247 million to HK$245 million. This represented a reduction of 1% over 2005. The segment contributed an operating profit of HK$28 million (2005: HK$29 million), a decrease of 3% over 2005.

Revenue from channel operations which comprised revenue from the Taiwanese channels TVBS, the two satellite channels, TVB8 and Xing He, and the supply of the eight channels to TVB Pay Vision Limited ("TVBPV"), showed an increase from HK$998 million to HK$1,024 million. This represented an increase of 3% over 2005. The segment contributed an operating profit of HK$187 million (2005: HK$194 million), a decrease of 4% over 2005.

BUSINESS REVIEW AND PROSPECTS

Terrestrial Television Broadcasting

(a) Advertising Revenue

Advertisers' spending from key categories, such as property developers, slimming centres, cosmetics and skin care products, contributed less in the first half of 2006 when compared with the same period in 2005. These advertisers reduced their advertising spending substantially in all media in anticipation of a slowdown in sales and rising operating costs. As noted in our interim report, the drop in our Hong Kong advertising receipt for the first six months of 2006 came to 5% when compared with 2005.

However, we regained some of the above shortfall when the overall advertising market bounced back in the second half of 2006. As a result, advertising sales for the full year declined by a more moderate 1%.

We were able to achieve this result in the second half of 2006 partly through the resurgence of advertising activities from local property developers and partly through our increase in selling efforts targeted at product categories which showed substantial sales growth in recent years, for example: luxury brand watches, personal investment products, such as investment in shares and mutual funds. Moreover, our sales efforts in pushing product sponsorship (commonly known as product placement) to advertisers also contributed to our increased advertising sales in the second half of 2006. We achieved satisfactory revenue growth from product sponsorship in 2006. We are confident that the growth in product sponsorship revenue will continue in 2007 and beyond.

We are cautiously optimistic about our outlook on the 2007 advertising market. With the unemployment rate dropping to its lowest level since 2002 and the gradual rise in wages, we anticipate that the local economy and consumer spending will start to pick up in 2007, and consequently the advertising spending.

The advent of digital television broadcasting in Hong Kong in the last quarter of 2007 will herald a new era in television history. The excitement brought by this new technology is anticipated to boost advertisers' interest in using more television advertising for communicating their sales messages to consumers.

The 2008 Beijing Olympics also provides us with an unprecedented golden opportunity to increase advertising income both in 2007 and 2008. As Hong Kong is designated by the Organising Committee of the Beijing Olympics to host the equestrian games, we will produce a number of Olympics-related programmes with different programme genres to tap the vast potential of the lucrative Olympic advertising market.

(b) *Jade* Terrestrial Channels Performance

Jade continued to be the favourite TV channel in Hong Kong. *Jade* achieved an overall weekday prime time[1] average audience share[2] of 85% (2005: 83%) among terrestrial Chinese channels and *Pearl*, a weekly prime time[3] average of 75% (same in 2005) among terrestrial English channels during the year under review.

The *Jade* Channel

2006 was a particularly high achievement year for *Jade* in terms of innovation, as well as audience ratings in both drama and non-drama programmes.

The top programme and top special of the year in terms of ratings was *Jade*'s "*TV Awards Presentation 2006*", which garnered 36 TVRs[4] (2.3 million viewers) and 90% audience share. The success of the "*TV Awards Presentation 2006*", spun-off from a segment of the previous TVB anniversary specials, again demonstrated TVB's forte in creating events and producing star-studded variety specials. The runners-up for variety specials which gained close to 90% audience share were "*TVB 39th Anniversary Gala*", 35 TVRs (2.2 million viewers) and the "*J.S.G. (Jade Solid Gold) Best 10 Awards Presentation 2005*", 32 TVRs (2.0 million viewers).

In the non-drama programmes, *Jade* created another wave of successful game and quiz shows. The combination of celebrities, comedy and game show elements again succeeded in creating instant hits. The top non-drama series of the year, "*Beautiful Cooking*" achieved an average 33 TVRs and 88% audience share on Sunday nights with its finale attaining 93% share; and a new game show "*15/16*", achieved an average rating of 29 TVRs and 89% audience share. The acquired-format "*Deal or No Deal*", in which

1 *Jade's weekday prime time runs from 7-11 p.m.*

2 *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.*

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

4 *TV Rating (TVR) represents 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). Ratings data source: CSM Media Research.*

MANAGEMENT DISCUSSION AND ANALYSIS

audience participants (and also celebrities in charity and anniversary specials) made deals with an anonymous banker in the hope to win the top prize of HK$3 million, achieved an average rating of 25 TVRs and 87% audience share on Sunday nights.

Jade also developed a new docu-travelogue "*On The Road*" in which cultural exploration in far away places was interwoven with the personal experiences of celebrity hosts and reflections on the meaning of life. The series brought critical acclaim as well as good rating (on average 26 TVRs and 86% audience share during weekday late prime time). On a different road, veteran star Lydia Sham took the audience down the memory lane in "*Where Are They Now?*" and interviewed former Hong Kong TV and movie stars now residing abroad.

2006 was also a particularly fruitful year for *Jade* dramas. The channel had successfully engaged the audience on and offscreen. The top drama of the year "*La Femme Desperado*" ("*La Femme*"), weaving its story lines on controversial issues concerning city women, became an instant hit and talk of the town and achieved on average 33 TVRs and 88% audience share. Deemed as a follow-up of "*La Femme*" and based on the experiences of cosmopolitan men, "*Men In Pain*" also gained 88% in audience share with an average 32 TVRs. Venturing in new directions in terms of format and themes, *Jade* produced a cycle of four stories symbolising the life, love and perils of Chinese women through four generations in "*Maidens' Vow*" gaining on average 32 TVRs and 90% audience share. Another variation on the theme of women's plight and tenacity and set in the barren north-western highlands of Mainland China, "*The Dance Of Passion*" garnered 36 TVRs and 90% audience share for its debut episode, the highest first episode rating of dramas since 2002 (the series averaged 32 TVRs and 87% audience share). Among dramas with plots developed around crime and legal cases, "*Forensic Heroes*" became the second highest rated drama series with a top final episode rating reaching 41 TVRs, 95% share (overall series average, 33 TVRs, 87% share); and "*Bar Bender*" averaged 32 TVRs, 88% share. Family drama and comedy continued to yield strong audience support during the year with "*Under The Canopy of Love*" which achieved on average 31 TVRs and 88% audience share and set a new trend for romantic comedies.

TVB continued to produce dramas that carry educational and entertainment value. "*Love Guaranteed*" (averaged 32 TVRs and 88% share) built story lines on family and love, and was based on a background of an insurance business and in a contemporary setting. Set in a Chinese traditional guarded-courier business, the period drama "*Land Of Wealth*" told of a young man's struggle to re-establish his family's reputation against a background of the banking business in the late Qing Dynasty.

Jade's acquired programmes also excelled in ratings and acclaim. "*Queen Of The Classroom*" not only broke the record to become the highest rated Japanese drama in Hong Kong's TV history, with an average of 25 TVRs and 86% share, but also brought about a public discussion agenda on disciplinary measures in classrooms.

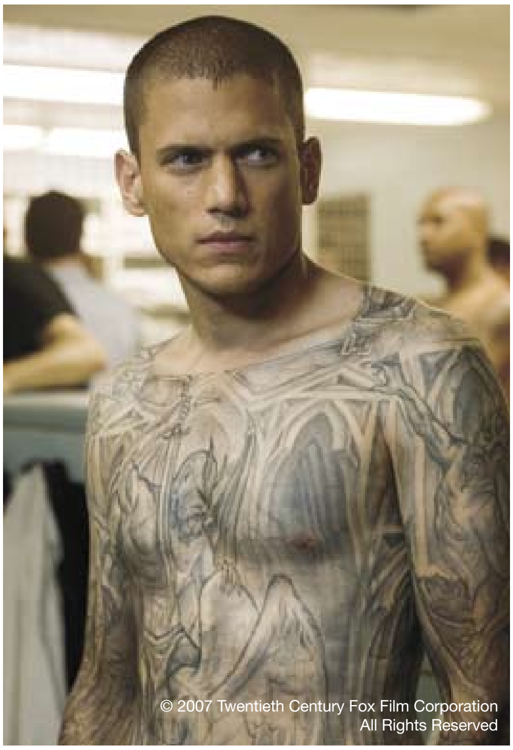
TVB continued to provide a balanced news coverage on local, Mainland China, Taiwan and international news. Apart from the regular public affairs flagship programmes "*News Magazine*" and "*Tuesday/Sunday Report*", TVB News produced a series of special reports on H-share companies in "*Financial Magazine*". With Hong Kong's growing importance as a financial centre of the region, TVB began telecasting five live reports daily from its studio at the Hong Kong Stock Exchange on trading days.

In sports programmes, *Jade* presented live telecast of two semi-finals and the final of "*2006 FIFA World Cup*". Of those home viewers who watched the three live matches, 80% were viewing on *Jade*.

America's Next Top Model

The *Pearl* Channel

Pearl attained remarkable achievement in 2006. The top 100 programmes on the English terrestrial channels were programmes on *Pearl*. The Pic of the Year "*The Day After Tomorrow*" attracted an average of 819,000 viewers (top programme of the year with an average rating close to 13 TVRs, 90% audience share). Other blockbusters included "*Harry Potter and the Chamber of Secrets*", the "*Terminator*" trilogy, "*X-Men*" and "*X2*" – attained over 9 TVRs and 90% audience share.



Prison Break

During the year, *Pearl* also further established its position as the premier provider of quality drama series available in the international market. The top drama of the year "*Prison Break*", which was shown on *Pearl* on Tuesday nights, became the highest rated acquired-drama on the English terrestrial TV channels since the launch of the PeopleMeter for audience measurement in 1991, with an average of close to 5 TVRs (300,000 viewers) per episode. The channel has cultivated a steady following for dramas on weekday nights, Monday-Thursday, with favourites such as "*Lost*", "*Nip/Tuck*", "*Supernatural*" and "*Without a Trace*". *Pearl* also showcased a number of Asian drama series on prime time, including Japanese hit series "*Nyokei Kazoku*", "*Crying Out Love in the Center of the World*", "*Proof of the Man*" and "*Engine*".

Reality programmes continued to excel on *Pearl* with the continuing series "*America's Next Top Model*" securing close to 90% share (average 3.5 TVRs) with one of its episodes ranking number 33 on the top 100 list, making it the top non-movie/drama programme of the year. Other popular reality series included "*The Apprentice*" and "*Queer Eye for the Straight Guy*".

Pearl has also revived its own station-produced weekly half-hour lifestyle show. "*Dolce Vita*" was launched in March 2006 and featured interviews with local and international celebrities, as well as showcasing luxury products and trends in elegant living.

Besides live telecast and coverage of major international sports events such as "*FIFA World Cup*" events, "*2006 Wimbledon Championships*", "*Watson's Water Champions Challenge 2006*" and the "*2006 FIVB World Grand Prix – Hong Kong*", *Pearl* also started to feature weekly equestrian programmes as a prelude to the 2008 Olympic Games.

(c) Commendations and Awards

At the Asian Television Awards 2006, "*Leo & Miriam Special 2005*" was the Winner of Best Music Programme. "*Hong Kong Disneyland Grand Opening Special*" which was co-produced with Walt Disney Television International (Asia Pacific), also won the Best Entertainment (One-Off/Annual) Special.

At the 2007 New York Festivals, "*News Magazine – Land Grab*" won the Bronze World Medal in Best Public Affairs Programme; "*On The Road #16*" was a finalist for The Arts category; "*Miss Chinese International Pageant 2006*" won the Silver World Medal for Best Art Direction (Variety/Music); "*Be My Valentine – Make Love Fresh*" was a finalist for Station/ Image Promotion; and "*Forensic Heroes*", also a finalist in Director: Promotion Spot.

TVB's on-air promotion also won a number of awards in other international festivals. At the 2006 PROMAX World Gold Awards, "*Be My Valentine – Make Love Fresh*" won the Gold Award in the category of Broadcast Television Station

MANAGEMENT DISCUSSION AND ANALYSIS

Consumer Promotion while "*Miss Chinese International Pageant 2006 Promotion*" also won the Gold Award in the category of Interstitial/Promotainment – General Programming. "*The 10th National Games*" won the Silver Award in the category of Sports Program Promotion.

At 2006 BDA World Gold Awards, "*Greed Mask*" won the Gold Award in the category of Total Package Design – Topical On-Air. "*The 10th National Games*" and "*J.S.G. Best 10 Awards Presentation 2004*" both won Silver Awards in the category of Art Direction & Design and in the category of Scenic – One Time Only Set respectively. "*Be My Valentine – Make Love Fresh*" won the Bronze Award in the category of General Entertainment In-House Art Direction & Design: Special Events Promos. "*Miss Chinese International Pageant 2006 Promotion*" also won the Bronze Award in the category of Total Package Design – Topical On-Air.

(d) Community and Public Service

Besides providing free TV entertainment and information to the public, TVB continued to contribute to the Hong Kong community through outreach community service and fund-raising programmes and activities.

A total of HK$139 million was raised during the year for local and international charity organisations in aid of a wide range of worthy causes. Among such were the annual fund raising programme "*Tung Wah Charity Show 2006*" which not only entertained 1.5 million viewers, but also raised HK$82 million for the Tung Wah Group of Hospitals. "*Caritas Star Studded Charity Show*" drew 1.1 million viewers and raised HK$6 million for Caritas Hospital. "*Yan Chai Charity Show*" also captured 1.2 million viewers and raised HK$24 million for Yan Chai Hospital. The anniversary special charity event, "*Community Chest Charity Show 2006*", drew 1.3 million viewers and raised HK$16 million for The Community Chest of Hong Kong.

(e) Digitisation

Development work on the infrastructure for our Digital Terrestrial Television ("DTT") networks has started after obtaining town planning approval and land grant, in May and June 2006 respectively, for the Temple Hill Main DTT Station. All major site works had been completed by end of 2006 and work on the superstructure started in early 2007. The Temple Hill Station is expected to be ready for trial transmission at the beginning of the third quarter of 2007 and service launch in the fourth quarter of 2007, to meet the 2007 year-end roll-out deadline.

Our proposal for the DTT transmission standard for Hong Kong had been submitted to the Government on 30 December 2006. Our proposed specifications on the various relevant technical standards necessary for the launch of DTT are expected to be approved by the Government progressively starting in March 2007.

On the programme service side, besides continuing to provide existing free TV service on *Jade* and *Pearl* via our analogue network and simulcasting the channels in digital format on our half of the new digital Multiple Frequency Network, TVB will be providing a new programme channel broadcast in high definition TV format via our own Single Frequency Network. In preparation for this channel, plans to convert and upgrade studio and field production facilities are in progress to meet the service launch schedule.

International Operations

(a) Programme Licensing and Distribution

As a major producer and international content provider of Chinese-language TV programmes, TVB continued to benefit from international programme licensing and distribution as a major revenue source, in addition to the domestic terrestrial TV broadcasting activities. Our strategic shift to diversify into providing content for new media, and increase in the supply of titles through telecast licensing, channel distribution and video sell-through have resulted in steady overall single-digit percentage growth, successfully offsetting the down trend impact of traditional video licensing due to piracy and changes in technology.

The advent of new multi-media technology has enabled new business opportunities as well as posted challenges such as illegal internet downloading. During the year in review, we have started to provide contents under licensing arrangements to new channel operators and video-on-demand programme service providers via digital cable or internet platforms in Mainland China and Taiwan, with substantial growth in Mainland China. Similar activities will be extended to other countries in the new year.

We shall continue to expand through content licensing and distribution to new media platforms enabled by new technology, including internet download, via mobile phone and portable media players.

Despite tough competition in the market, growth in revenue from telecast licensing in Mainland China continued. We are encouraged by the good rating performance when CCTV1, the general entertainment channel of the state-owned national broadcaster, telecasted four TVB drama series ("*Strike At Heart*", "*A Pillow Case of Mystery*", "*Justice Sung*" and "*Not Just A Pretty Face*") which marked the first time that CCTV1 showed imported dramas from Hong Kong in many years.

Further progress was made in the collection of the licence fees under the Guangdong Landing Rights Agreement. Though the total revenue from telecast licensing in Malaysia and Singapore recorded a single-digit percentage decline, income from our major clients ASTRO All Asia Networks plc in Malaysia and Starhub Cable TV in Singapore showed encouraging growth over 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

(b) Overseas Satellite Pay TV Operations

(i) TVB Satellite Platform ("TVBSP") USA

In the United States, the number of subscribers to our five-channel Jadeworld package offered via DirecTV platform, achieved single-digit percentage growth.

TVBSP launched a Vietnamese-language channel with dubbed TVB programmes in November 2006. The channel has been well-received. In 2007, TVBSP is planning to expand via additional channels, and to widen its distribution network by exploring possible cooperation with new Internet Protocol Television ("IPTV") platforms.

(ii) TVB Australia ("TVBA")

In Australia, while subscription to our 12-channel Jadeworld pay platform grew at a single-digit percentage rate, it has reached the critical mass in its subscriber base. TVBA has started to record a small operating profit since the last quarter of 2006, with increase in both subscription and advertising revenue.

To strengthen its service line-up, TVBA launched an acquired Korean drama channel in July 2006 together with a nominal increase in subscription fee. It is exploring into launching Mandarin and/or Asian channels in 2007 to attract more subscribers and advertisers.

(iii) The Chinese Channel ("TCC") Europe

In Europe, the number of subscribers to our single channel platform was relatively stable but advertising revenue achieved double-digit percentage growth, producing a single-digit percentage growth in operating profit when compared with 2005.

Capitalising on the growing digital market in Europe, TCC is considering launching new Cantonese and Mandarin channels through digital cable and IPTV platforms.

(c) Channel Operations

(i) TVBS – Taiwan

Despite the slow economy and a more competitive market with overall TV advertising spending down by more than 10% in Taiwan, TVBS managed to report a slightly improved total revenue figure in 2006 when compared with that of 2005 and maintained a relatively high Cost Per Rating Point ("CPRP"). The growth was made possible by successfully securing a bigger market share through higher ratings, favourable brand image, aggressive and innovative marketing and a more desirable audience profile.

With comprehensive reports on major stories such as the Taipei and Kaohsiung mayor elections and the high profile corruption cases, our news channel *TVBS-News'* full year average prime time (6 pm to midnight) rating grew to 0.63 TVRs from 0.53 TVRs in 2005. Total daily rating also increased to 33.90 from 28.61[5] (Source: AGB Nielsen, Taiwan). Similar improvement in rating performance was also experienced by the other TVBS channels.

The entertainment channel *TVBS-G's* average rating in 2006 also went up with the Asian Games, which was a significant contributor in the last quarter. The channel is planning to emphasise on promoting TVB's new generation of artistes to further improve its desirable audience profile in 2007.

While Taiwan's media market would continue to be affected by its weak domestic economy resulting from political controversies, the National Communications Commission's ("NCC", media industry's main governing body) efforts to promote full digitisation of all cable TV systems would offer more channel distribution and a la carte subscription opportunities. We would continue to cultivate new revenue sources and explore distribution and subscription potentials in the growing digital TV landscape in Taiwan.

[5] *The TV industry in Taiwan operates on a guaranteed rating point system in which daily accumulative Gross Rating Points (GRPs) are indicative of the individual channel's inventory and performance.*

(ii) TVB8 and Xing He Channels

Both advertising and licensing income for the TVB8 and Xing He channels grew substantially in 2006, with particularly high growth in the South East Asian markets.

Xing He, featuring mainly TVB dramas produced a few seasons ago, was launched on ASTRO's (ASTRO All Asia Networks plc) Pay TV platform in Indonesia which contributed additional revenue to the operation. High rating performance of TVB dramas on Xing He and weekend specials on TVB8 helped to achieve more advertising sales for both channels. The variety shows "*Minutes To Fame*" (adapted from the programme format produced and broadcast on TVB *Jade* in 2005) and "*Parkson Charity Show*" (a musical event) organised by TVB8 in Malaysia, received enthusiastic responses. The localisation efforts by TVB8 in Malaysia through audience and contestant participation in variety shows, have proven successful. The channels will continue to explore these opportunities.

In Mainland China, TVB8 was actively involved in the co-production events organised by different domestic TV stations. (e.g. "*Travel Around China – A Night Show in Ningbo 2006*"). It has not only helped in promoting the TVB8 brand but also provided business opportunities for further development of our operation.

(iii) Supply of Channels to TVB Pay Vision Limited ("TVBPV")

Under a revamped format, TVB continues to supply eight channels to TVBPV on an exclusive basis since the second quarter of 2006.

The eight channels are *TVBN, TVB Classic, TVB Drama, TVB Kids, TVB Entertainment News, TVBM, TVBN2* and *TVB Lifestyle*.

TVB Drama established itself as a source for the best and latest available acquired popular dramas with the launch of many hit titles from Japan, Korea and Taiwan. *TVB Lifestyle* has successfully built up a following for its flagship programme "*Be My Guest*". The series'

interviews with The Honourable Donald Tsang, the Chief Executive of Hong Kong, and media veteran Lai Chi Ying became talk of the town furthering the programme's acclaim. *TVB Kids* organised talent shows and activities, besides providing programmes that inform, educate and entertain its young viewers. During the year, *TVB Entertainment News* provided a platform for artistes and social groups to voice out concerns on the Gillian Chung incident and the local media's responsibility on privacy issues of individuals including artistes and public figures. *TVBM*, a music channel, launched and received positive response on "*Your Music Choice Festival*" which provided opportunities for aspiring musicians to show their talents. *TVB Classic* offered anthologies from the coveted vault of TVB classic dramas organised around particular well-known stars: The Andy Lau and Chiu Ngar Chi anthologies were especially well-received. *TVBN* continues to provide 24-hour news service, with up-to-date local and around the world news and financial, sports and weather information; while *TVBN2*, also a 24-hour news service, provides full length coverage of selected local and international news events.

Other Businesses

(a) Investment in TVB Pay Vision Holdings Limited ("TVBPVH")

TVB has 49% interest in the share capital of TVBPVH which operates one of the pay TV platforms in Hong Kong. Pay channels are distributed through satellite master antenna television and broadband service provided by Hutchison Global Communication Limited and PCCW Limited's NOW TV. Apart from being an investor in the platform, TVB also supplies a total of eight channels to TVBPVH on an exclusive basis, as noted above.

Subsequent to securing the distribution agreement with NOW TV in February 2006, the TVBPVH's channels were heavily promoted in the second quarter of 2006 in anticipation of the launch of this service on the NOW TV platform. The uptake of new subscribers was significant, due mainly to the offering of channels that complements the NOW TV channels, and the ready-availability of the channels through the existing set-top boxes which require minimal installation effort. TVBPVH is in the process of scaling up its sales effort, with a view to increasing subscriber uptake.

Whilst we are optimistic of the long term future of the pay TV business, the market remains extremely competitive. During the year, TVB shared losses of HK$163 million of TVBPVH, which when compared with the losses shared of HK$187 million for 2005, represented an improvement of 13%.

(b) Internet Operations

We continued to provide our programme contents to all of the four licensed 3G operators in Hong Kong. This resulted in a significant percentage growth in revenue. In addition, sale of contents to broadband operators remains an important source of revenue.

In 2007, we will seek to improve the quality and quantity of the contents in our portal – www.tvb.com. These improvements are aimed to increase site traffic and attract more advertising income. Having extended our content distribution to the Sony's Playstation Portable platform in 2006, we will also continue to be aggressive in the sale of our programme contents to handheld devices.

(c) Magazine Publishing

TVB Weekly is the Group's official magazine in Hong Kong which promotes our station and artistes. The year of 2006 was a difficult year for TVB Weekly as it was adversely affected by intense competition in the magazine publishing market. However, the positive image of our magazine has earned us a unique position that has won the support of TV viewers and advertisers. Our special content and market promotion strategies have served to mitigate the decrease in circulation. Advertising revenue had increased by a low single-digit percentage. However, increase in publishing costs and decrease in magazine sales had resulted in a reduction in profits.

The editorial team will embark on a series of proactive measures to enrich the content and enhance the magazine's design. It has also planned to focus on women and family readers, in order to secure advertising revenue from related advertisers.

We shall capitalise on the magazine's 10th anniversary in 2007, and are planning to hold a series of promotional activities to help raise circulation and advertising revenue.

(d) Movie Investment

Despite having a satisfactory box office in Hong Kong in 2005 and receiving many awards in major Greater China Film Competitions, the movie "*Perhaps Love*" recorded a relatively weak performance in France and Japan. As the movie had been unable to win any Oscar nominations, distributors in Europe and North America did not have sufficient confidence in the marketability of the movie. Therefore, distribution sales in these two markets were below expectation. An overall small loss is anticipated.

(e) Music

During the year, TVB Music Limited, a wholly-owned subsidiary, co-invested in or participated as the production house for various concerts in public arenas in Hong Kong with satisfactory results.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

IMPORTANT EVENT

On 24 August 2006, TVB Airtime Sales (Guangzhou) Limited, a wholly-owned subsidiary incorporated in Mainland China under CEPA II arrangement was set up to undertake advertising sales business in Mainland China for the Group's channels.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The balance sheet remains strong and well-capitalized. Non-current assets amounted to HK$2,259 million, as compared to HK$2,522 million at 31 December 2005. The net decrease was mainly attributable to the decrease in the net book value of property, plant and equipment by HK$165 million, and decrease in interest in associate by HK$95 million.

Trade and other receivables, prepayments and deposits increased from HK$1,354 million to HK$1,372 million which represented a 1% increase from the end of 2005. This mainly related to a higher level of billing to customers. 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$594 million which represented an 8% decrease from the position at the end of 2005. This was principally attributable to the reduction in the amount payable for a financial asset (51% equity interest in TVBPVH) as the remaining unpaid share capital which amounted to HK$57 million was paid up in March 2006.

The Group continues to have a strong financial position attributable to the steady and growing cashflow from the business operations. As at 31 December 2006, the Group had bank and cash balances of HK$1,597 million, an increase of 63% over 2005 (2005: HK$980 million). About 10% of the cash balance was maintained in overseas subsidiaries for their daily operation. Cash and cash equivalents held by the Group were denominated in Hong Kong dollars, Renminbi, US dollars and New Taiwan dollars.

The Group generally finances its operations and business development with internally generated resources. As at 31 December 2006, the Group's net current assets amounted to HK$2,752 million (2005: HK$2,051 million). The current ratio, expressed as a percentage of current assets to current liabilities, improved from 3.74 as at 31 December 2005 to 5.07 as at 31 December 2006. The total equity was HK$4,868 million (2005: HK$4,405 million).

As at 31 December 2006, the capital structure of the Company is constituted exclusively of 438,000,000 ordinary shares of HK$0.05 each. There is no outstanding bank loan and other borrowings, and accordingly, the gearing ratio was zero as at 31 December 2006 (2005: zero).

The capital commitments of the Group as at 31 December 2006 were HK$821 million (2005: HK$183 million). There was a significant growth of 349% over 2005 reflecting an extensive capital expenditure programme for the development of Digital Terrestrial Television network and High Definition Television production plan.

CONTINGENT LIABILITIES

As at 31 December 2006, there were guarantees given to banks amounting to HK$8.7 million (2005: HK$8.7 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 was granted a holdover of these additional assessments by the IRD. Further additional profits tax assessment notices for the year of assessment 2000/2001 are expected to be issued before 31 March 2007.

The Group had filed an 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 exchange exposures comprise trading and non-trading foreign currency translation exposures. Foreign exchange trading exposures mainly arises from trade receipts from overseas customers.

The Group is also exposed to currency fluctuation on translation of the accounts of overseas subsidiaries and also on the repatriation of earnings and loans. During the year, the appreciation of some foreign currencies such as the Australian dollars, UK pounds etc. had a positive impact on the Group. In order to mitigate the potential impact of currency movement, the Group will closely monitor foreign exchange exposure and will consider hedging significant foreign currency exposure when necessary. No forward exchange contract was entered into by the Group during the year under review.

HUMAN RESOURCES

As of 31 December 2006, the Group employed, excluding Directors and freelance workers but including contract artistes and staff in overseas subsidiaries, a total of 4,557 (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.

For local employees, discretionary bonuses may be awarded as an incentive for better performance. Depending on individual's performance, qualified personnel received discretionary bonuses between 0.75 and 1.25 of their monthly basic salaries for 2006.

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

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 sponsoring of training programmes that employees may enrol on their own initiatives.

DRAMA HIGHLIGHTS

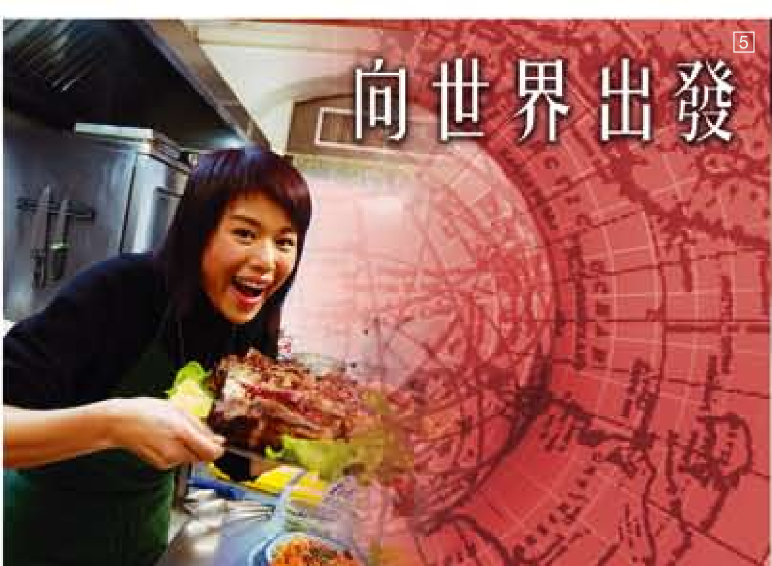
1. "*La Femme Desperado*" became an instant hit and the top drama of the year and achieved an average of 33 TVRs and 88% audience share on the *Jade* Channel.
2. "*Forensic Heroes*" became the second highest rated drama series and achieved an average of 33 TVRs and 87% share on the *Jade* Channel.
3. "*Love Guaranteed*" averaged 32 TVRs and 88% share on the *Jade* Channel.
4. "*The Dance Of Passion*" garnered 36 TVRs and 90% audience share for its debut episode, the highest first episode rating of dramas since 2002 (the drama series averaged 32 TVRs and 87% audience share).
5. "*To Grow With Love*" achieved an average of 32 TVRs and 91% audience share on the *Jade* Channel.

NON-DRAMA HIGHLIGHTS

1

2

1. "*Beautiful Cooking*", which combined celebrities, comedy and game show, achieved an average rating of 33 TVRs and 88% audience share on Sundays evening, the *Jade* Channel.
2. "*15/16*" , a new quiz show, achieved an average rating of 29 TVRs and 89% audience share on weekdays evening, the *Jade* Channel.
3. "*TVB 39th Anniversary Gala*" achieved an average of 35 TVRs and 90% audience share on 19 November 2006, the *Jade* Channel.
4. "*TV Awards Presentation 2006*" achieved an average of 36 TVRs and 90% audience share on 10 November 2006, the *Jade* Channel.
5. "*On The Road*", a new docu-travelogue, achieved an average of 26 TVRs and 86% audience share on the *Jade* Channel.
6. "*Be My Guest*", a flagship programme on *TVB Lifestyle* Channel.



CORPORATE GOVERNANCE

DIRECTORS

Sir Run Run Shaw
G.B.M.
Executive Chairman

aged 99, is one of the founding directors of the Company and was appointed Executive Chairman in 1980. He is Executive Chairman of Shaw Brothers (Hong Kong) Limited and President of the Shaw group of companies. Through the Shaw group, he holds a major interest in the share capital of the Company. Sir Run Run Shaw established the Shaw Foundation Hong Kong Limited in 1973 and is the Appointor of the Sir Run Run Shaw Charitable Trust. He is a Permanent Honorary Chairman of the Board of Trustees of United College of the Chinese University of Hong Kong and a Life Member of the Council of the Chinese University of Hong Kong. He is the husband of Ms. Mona Fong, the Deputy Chairperson and Acting Managing Director of the Company.

Dr. Norman Leung Nai Pang
G.B.S., LL.D., J.P.
Executive Deputy Chairman

aged 66, was appointed Director of the Company in September 2003 when he also took up the position of Executive Deputy Chairman. He is the Deputy Chairman of Transport International Holdings Limited and a director of Wing Lung Bank Limited. Mr. Leung has been active in public service for 30 years and he served as Chairman of the Broadcasting Authority from 1997 to 2002. He is currently serving as Commissioner of Civil Aid Service and Pro-Chancellor of City University of Hong Kong.

Mona Fong
Deputy Chairperson and Acting Managing Director

aged 72, has been Director of the Company since 1988. She was appointed as Deputy Chairperson and Acting Managing Director on 25 October 2000 and 31 May 2006 respectively. Ms. Fong is the Deputy Chairperson and Managing Director of Shaw Brothers (Hong Kong) Limited, and Chairperson and Managing Director of the Shaw group of companies. She is also the Chairperson of The Shaw Foundation Hong Kong Limited, The Shaw Prize Foundation Limited and The Sir Run Run Shaw Charitable Trust and member of the Board of Trustees of the Shaw College of the Chinese University of Hong Kong. Ms. Fong is the wife of Sir Run Run Shaw, the Executive Chairman of the Company.

DIRECTORS

Edward Cheng Wai Sun

J.P.
Independent Non-executive Director

aged 51, was appointed Independent Non-executive Director of the Company in June 2006. He is Chief Executive of USI Holdings Ltd and Non-executive Director of Winsor Properties Holdings Limited. He is also Chairman of the Urban Renewal Authority, a member of the Hong Kong SAR Government's Commission on Strategic Development, Steering Committee on Innovation & Technology, the Advisory Committee on Corruption of the Independent Commission Against Corruption, the Council of Hong Kong Polytechnic University and the Council of City University of Hong Kong.

Dr. Chow Yei Ching

G.B.S.

aged 71, was appointed Director of the Company in 2000. He is the Founder and Chairman of Chevalier Group, which consists of two listed companies on the Hong Kong Stock Exchange – Chevalier International Holdings Limited and Chevalier iTech Holdings Limited. He is also a non-executive director of Shaw Brothers (Hong Kong) Limited and Van Shung Chong Holdings Limited. He was appointed The Honorary Consul of The Kingdom of Bahrain in Hong Kong and a Standing Committee Member of the Chinese People's Political Consultative Conference, Shanghai.

Ho Ting Kwan

aged 62, joined the Company in 1968 as Assistant Accountant. He was appointed General Manager – Television Broadcasting in November 1995. He was the Group General Manager of the Company from 2002 to 2005 and was appointed Director in June 2003.

Chien Lee
Independent Non-executive Director

aged 53, is a private investor. He was appointed Independent Non-executive Director of the Company in 2005. He is also Non-executive Director of Hysan Development Company Limited and Swire Pacific Limited. He is also a Council Member of The Chinese University of Hong Kong and The Hong Kong Institute of Education. He received a Bachelor of Science Degree in Mathematical Sciences, a Master of Science Degree in Operations Research (1975) and an MBA Degree (1979) from Stanford University, California, U.S.A. Mr. Lee is the nephew of Mrs. Lee Look Ngan Kwan.

Christina Lee Look Ngan Kwan

aged 83, is the widow of the Founder of the Company, Mr. Lee Hsiao-Wo. Mrs. Lee became Director of the Company in 1981. She is a non-executive director of Sa Sa International Holdings Limited. Mrs. Lee is actively involved in Caritas, Hong Kong, a local charitable organisation. Mrs. Lee is the aunt of Mr. Chien Lee and mother of Mr. Anthony Lee Hsien Pin.

Dr. Li Dak Sum
DSSc. (Hon.), J.P.
Independent Non-executive Director

aged 86, is the Chairman of Sharp-Roxy (Hong Kong) Limited which markets “Sharp” products in Hong Kong and Mainland China. Dr. Li is also the Chairman of various hotel operations in Singapore, Australia and New Zealand. He was appointed Director of the Company in 1995.

DIRECTORS

Kevin Lo Chung Ping

aged 70, joined the Company in 1966 as Project Engineer and as General Manager from 1978 to 1980. He was appointed Director in 1977. He is also a director of Gold Peak Industries (Holdings) Limited.

Robert Sze Tsai To
Independent Non-executive Director

aged 66, was appointed Director of the Company in June 2003. He is a Fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants, and was a partner in an international firm of accountants with which he practised for over 20 years. He is a non-executive director of a number of Hong Kong listed companies. He is also a member of the Shanghai Committee of the Chinese People's Political Consultative Conference.

Anthony Lee Hsien Pin
Alternate Director to
Mrs. Christina Lee Look Ngan Kwan

aged 49, is a director of Hysan Development Company Limited and Lee Hysan Estate Company Limited, and also a director and substantial shareholder of Australian-listed Beyond International Limited. He was appointed as Alternate Director to Mrs. Lee Look Ngan Kwan in September 2002. He is the son of Mrs. Lee.

SENIOR MANAGEMENT

George Chan Ching Cheong

aged 54, first joined TVB's Sales Department in 1975. He held the position of Controller (Marketing & Sales) from 1982 to 1989. He has had a successful career as an entrepreneur and as director of several prominent companies engaged in media, telecommunication and technology in Hong Kong and overseas. Amongst other successful start-ups, he co-founded STAR-TV, Pacific Century Group and PCCW Limited in 1990, 1994 and 1999 respectively. He rejoined TVB in November 2004 as Assistant Managing Director.

Stephen Chan Chi Wan

aged 48, first joined TVB as Controller (Programme) and took on the added responsibilities of Controller (External Affairs) in 1996. He was promoted to Assistant General Manager – Television Broadcasting in April 2002 and General Manager – Broadcasting in April 2004.
Mr. Chan has extensive experience in the administration, broadcasting and corporate communication field. Before joining TVB, Mr. Chan had worked in various departments of the Hong Kong Government for 10 years prior to joining Hong Kong Commercial Broadcasting Limited.

Cheong Shin Keong

aged 50, joined TVB as Controller (Marketing & Sales) in 1989. He has extensive experience in the advertising/marketing industry and contributes actively to the professional development of marketing in Hong Kong through leading marketing industry bodies. He assumed the duties of General Manager – Broadcasting in April 2004. He is responsible for marketing, business development and corporate development matters including digital and mobile TV. He is a Fellow and Council Member of the Hong Kong Management Association and a Fellow of the Chartered Institute of Marketing.

Mark Lee Po On

aged 51, joined TVB in February 2007 as General Manager – Finance and Administration. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales and also a member of the Hong Kong Institute of Certified Public Accountants. He has about 30 years of financial and commercial experience including working with KPMG and Asia Television Limited before joining TVB.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company are terrestrial television broadcasting, together with programme production and other broadcasting-related activities. The principal activities of the subsidiaries are detailed in Note 35 to the consolidated financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 4 to the consolidated financial statements.

RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group for the year are set out in the consolidated income statement on page 52.

Movements in the reserves of the Group and the Company during the year are set out in Note 17 to the consolidated financial statements on pages 82 to 83.

Distributable reserves of the Company at 31 December 2006, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK$3,506,504,000 (2005: HK$3,247,946,000).

DIVIDENDS

An interim dividend of HK$0.25 per share, totaling HK$109,500,000, was paid on 20 September 2006. The Directors now recommend the payment of a final dividend of HK$1.45 per share for the 438,000,000 issued shares in respect of the year ended 31 December 2006 to shareholders who are on the Register of Members on 30 May 2007.

The Register of Members of the Company will be closed from 9 May 2007 to 30 May 2007, both dates inclusive, during which period, no transfer of shares will be effected. In order to qualify for the above final 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 4:30 p.m. on Tuesday, 8 May 2007. Dividend warrants will be despatched to shareholders on or around 6 June 2007.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$126,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 5 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Group are set out in Note 16 to the consolidated financial statements.

FIVE-YEAR FINANCIAL REVIEW

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 46.

DIRECTORS

The Directors during the year were:

Run Run Shaw		
Norman Leung Nai Pang		
Mona Fong		
Edward Cheng Wai Sun*	}	Appointed on 1 June 2006
Chow Yei Ching		
Ho Ting Kwan		
Chien Lee*		
Christina Lee Look Ngan Kwan		
Li Dak Sum*		
Kevin Lo Chung Ping		
Robert Sze Tsai To*		
Louis Page	}	Resigned on 31 May 2006

** Independent Non-executive Directors*

The Alternate Director during the year was:
Anthony Lee Hsien Pin (alternate to Mrs. Christina Lee Look Ngan Kwan)

Mr. Edward Cheng Wai Sun was appointed as Independent Non-executive Director of the Company on 1 June 2006. Under Article 109 of the Articles of Association, Mr. Cheng holds office until the next annual general meeting to be held on 30 May 2007 ("Annual General Meeting"), and being eligible, offers himself for election.

In accordance with Article 114(A) of the Company's Articles of Association, Dr. Norman Leung Nai Pang, Mr. Ho Ting Kwan, Mrs. Christina Lee Look Ngan Kwan and Mr. Robert Sze Tsai To retire by rotation and being eligible, offer themselves for re-election at the Annual General Meeting.

Details of the proposed candidates standing for election or re-election are set out in the Notice of Annual General Meeting sent together with this Annual Report.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and Senior Management are set out on pages 25 to 29 of this Annual Report.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2006, the beneficial interests of the 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				
	Personal Interests	**Family Interests**	**Corporate Interests**	**Total**	**Percentage of Issued Capital (%)**
Run Run Shaw	–	1,146,000#	141,174,828*(a)	142,320,828	32.49%
Christina Lee	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%
Li Dak Sum	–	–	300,000 (c)	300,000	0.07%
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 the 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 31 December 2006.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the register of substantial shareholders maintained under Section 336 of the Securities and Futures Ordinance showed 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.

	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 △	6.02%

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

△ *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 31 December 2006.

DIRECTORS'/SUBSTANTIAL SHAREHOLDERS' INTERESTS IN CONTRACTS

CONNECTED TRANSACTIONS

1) The following transactions constitute continuing connected transactions of the Company which are subject to the requirements under Chapter 14A of the Listing Rules:

   a) On 30 September 2004, TVBI Company Limited ("TVBI"), a wholly-owned subsidiary of the Company and MEASAT Broadcast Network Systems Sdn. Bhd. ("MBNS"), an associate of the substantial shareholder of three of the Company's non wholly-owned subsidiaries, entered into an agreement, pursuant to which TVBI would supply television programmes to MBNS for broadcast in Malaysia and Brunei on a channel owned and operated by MBNS for a period of 5 years from 1 October 2004 to 30 September 2009 on an exclusive basis. On 14 October 2004 and 14 February 2005, separate addenda to the agreement were entered into between the parties for clarification of the base month upon which the subscribers guarantee would be calculated and for an increase of revenue sharing receivable by TVBI for revenue generated from hotel and commercial establishments respectively. The income accrued by TVBI during 2006 amounted to HK$71,803,000 (MYR33,812,000).

   b) On 30 September 2004, TVBI acting as an agent of Liann Yee Production Co. Ltd. ("LYP"), a wholly-owned subsidiary of the Company and MBNS entered into an agreement, pursuant to which TVBI would supply a Mandarin language channel to MBNS for broadcast in Malaysia and Brunei on the pay television services operated by MBNS and its affiliated company for a period of 5 years from 1 October 2004 to 30 September 2009 on an exclusive basis. On 14 October 2004 and 14 February 2005, separate addenda to the agreement were entered into between the parties for clarification of the base month upon which the subscribers guarantee would be calculated and for an increase of revenue sharing receivable by LYP for revenue generated from hotel and commercial establishments respectively. The income accrued by LYP during 2006 amounted to HK$26,684,000 (MYR12,566,000).

   c) On 30 September 2004, TVB Satellite TV Entertainment Limited ("TVBSE"), a wholly-owned subsidiary of the Company and MBNS entered into an agreement, pursuant to which TVBSE would supply two Mandarin language channels to MBNS for broadcast in Malaysia and Brunei on the pay television services operated by MBNS and its affiliated company for a period of 5 years from 1 October 2004 to 30 September 2009 on an exclusive basis. On 14 February 2005, an addendum to the agreement was entered into between the parties for an increase of revenue sharing receivable by TVBSE for revenue generated from hotel and commercial establishments. The income accrued by TVBSE during 2006 amounted to HK$44,033,000 (MYR20,735,000).

d) On 30 September 2004, MBNS and TVBSE entered into an agreement, pursuant to which MBNS appointed TVBSE as its advertising agent responsible for the recruitment of advertisements and sponsorship for certain channels broadcast by MBNS in Malaysia and Brunei for a period of 5 years from 1 October 2004 to 30 September 2009. The income accrued by TVBSE during 2006 amounted to HK$40,305,000 (MYR18,979,000).

e) On 30 September 2004, TVBO Facilities Limited ("TVBOF") and TVB Satellite Broadcasting Limited ("TVBSB"), both wholly-owned subsidiaries of the Company, entered into separate agreements with MBNS, pursuant to which MBNS appointed TVBOF and TVBSB to provide management services to MBNS for the period from 1 October 2004 to 30 September 2009 at a fixed amount for every period of 12 months. The aggregate management fee accrued by TVBOF and TVBSB during 2006 amounted to HK$31,345,000 (MYR14,760,000).

All the Independent Non-executive Directors have reviewed the above transactions described in paragraphs 1(a) to (e) above, and confirmed that these transactions have been entered into (i) in the ordinary and usual course of business of the Company, (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties, (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole.

The Company's auditors have also reviewed the above transactions described in paragraphs 1(a) to (e) and confirmed in their letter to the Directors that those transactions:

(i) have been approved by the Board of Directors of the Company;

(ii) are in accordance with the Company's pricing policies as laid down in the relevant agreement governing the transactions;

(iii) have been entered into in accordance with the relevant agreements governing the transactions; and

(iv) have not exceeded the cap amount for each transaction as disclosed in the previous announcements.

2) Sharp-Roxy (Hong Kong) Limited ("Sharp Roxy"), an associate of a Director of the Company, has through its advertising agent placed advertising airtime booking with the Company on the Company's channels in Hong Kong for the period from 20 June 2006 to 23 September 2006 at a total value of HK$5,569,000 net after deduction of agency commission, volume rebate and discount.

Save for the above, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the year-end or at any time during the year.

None of the Directors of the Company has a service contract with the Company which is not determinable within one year, without payment of compensation, other than statutory compensation. No share options of the Company have been granted to the Directors during the year.

DIRECTORS' EMOLUMENTS

Details of the remuneration of Directors for the year are set out in Note 23 to the consolidated financial statements on pages 90 to 91 of this Annual Report.

CORPORATE GOVERNANCE

The Company's corporate governance practices during the year are set out in the Corporate Governance Report on pages 36 to 45 of this Annual Report.

AUDIT COMMITTEE

The responsibilities of the Audit Committee and the work done during the year are set out in the Corporate Governance Report on pages 42 to 43 of this Annual Report.

REMUNERATION COMMITTEE

The responsibilities of the Remuneration Committee and the work done during the year are set out in the Corporate Governance Report on pages 40 to 41 of this Annual Report.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its ordinary shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's ordinary shares during the year.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors as at the date of this report, at least 25% of the Company's total issued share capital is held by the public at all times. As at 21 March 2007, there were 277 shareholders on the Company's register of shareholders.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the percentages of the Group's purchases and sales attributable to its five largest suppliers and five largest customers were both less than 30%.

AUDITORS

The consolidated financial statements for the year ended 31 December 2006 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the Annual General Meeting.

On behalf of the Board

Run Run Shaw

Executive Chairman

Hong Kong, 21 March 2007

CORPORATE GOVERNANCE REPORT

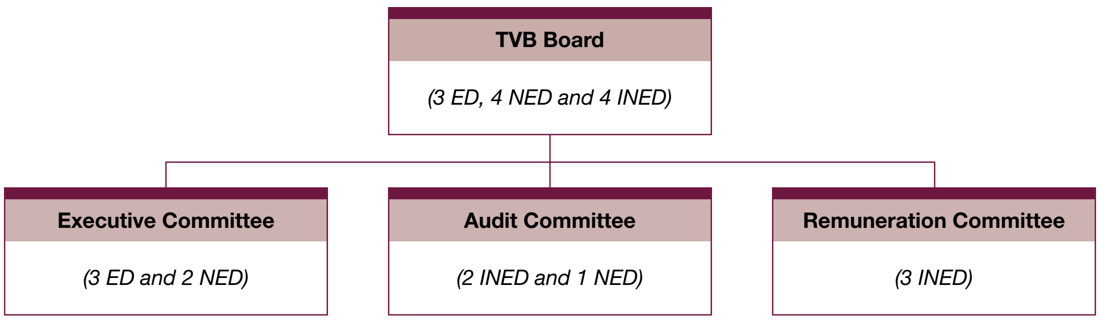
Maintaining high standards of business ethics and corporate governance practices has always been one of the Company's core objectives. The Company believes that conducting business in an open and responsible manner serves its long-term interests and those of the shareholders.

The Company adopted its own Code on Corporate Governance which essentially complied with all the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), save that the Chairman is not subject to retirement by rotation at least once every three years (code provision A.4.2). Detailed explanation for such deviation is provided later in the Corporate Governance Report.

The Board reviews the corporate governance practices adopted by the Company from time to time to comply with the increasingly stringent regulatory requirements and to meet the rising expectations of stakeholders. Key elements of the Company's corporate governance framework are described below:

GOVERNANCE STRUCTURE

The overall governance structure of the Company is set out below:



Notes:
1) *ED – Executive Director(s)*
2) *NED – Non-executive Director(s)*
3) *INED – Independent Non-executive Director(s)*

BOARD OF DIRECTORS

The Board is charged with the duty of promoting the success of the Company by directing and supervising its affairs in a responsible manner. The Board is the highest governing body of the Company.

COMPOSITION

The Board has 11 Directors and one Alternate Director. The list of Directors as at 31 December 2006 was as follows:

Directors	Designations/Categories
Run Run Shaw	Executive Chairman
Norman Leung Nai Pang	Executive Deputy Chairman
Mona Fong	Deputy Chairperson and Acting Managing Director
Edward Cheng Wai Sun	Independent Non-executive Director
Chow Yei Ching	Non-executive Director
Ho Ting Kwan	Non-executive Director
Chien Lee	Independent Non-executive Director
Christina Lee Look Ngan Kwan	Non-executive Director
Li Dak Sum	Independent Non-executive Director
Kevin Lo Chung Ping	Non-executive Director
Robert Sze Tsai To	Independent Non-executive Director
Anthony Lee Hsien Pin	Alternate Director to Christina Lee Look Ngan Kwan

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.

The Company has four Independent Non-executive Directors, at least one of whom has appropriate financial management expertise, in compliance with the Listing Rules. Each Independent Non-executive Director gives the Company an annual confirmation of his independence, and the Company considers these Directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Directors have no relationship (including financial, business, family or other relationship) among themselves, save for the following:

- the husband-wife relationship between Sir Run Run Shaw and Ms. Mona Fong;
- the directorship of Dr. Chow Yei Ching in Shaw Brothers (Hong Kong) Limited;
- the aunt-nephew relationship between Mrs. Christina Lee and Mr. Chien Lee; and
- the mother-son relationship between Mrs. Christina Lee and Mr. Anthony Lee.

Biographical details of Directors are set out on pages 25 to 28 of this Annual Report.

DUTIES AND RESPONSIBILITIES

Each Director is kept abreast of his responsibilities as Director of the Company and of the conduct, business activities and development of the Company. Orientation programmes are organised for providing induction to new Directors to help them familiarise with the Company's management, business and governance practices.

Management provides appropriate and sufficient information to Directors in a timely manner to keep them apprised of the latest development of the Group. Directors also have independent access to Management in respect of operational issues.

Each Director has a duty to act in good faith and in the best interests of the Company. The Directors are aware of their collective and individual responsibilities to all shareholders for the manner in which the affairs of the Company are managed, controlled and operated.

All Directors give sufficient time and attention to the Company's affairs. Duties of the Board include:

- planning the strategic direction of the Company;
- monitoring the performance of Management; and
- ensuring that a risk management framework is in place to enable risks be assessed and managed.

The Board's responsibility to present financial information of the Group in a clear, balanced and timely manner in the form of financial statements that give a true and fair view of the Group's state of affairs is discussed further under "Financial Reporting and Audit" in the Corporate Governance Report.

The Board's responsibility to ensure that a sound and effective internal control system is maintained is discussed further under "Internal Controls" in the Corporate Governance Report.

The Board is vested with the responsibility to disseminate to shareholders and the public any price-sensitive information in the form of announcements and circulars in accordance with the Listing Rules. Details are further discussed under "Corporate Communications" in the Corporate Governance Report.

BOARD COMMITTEES

The Board is supported by three Board Committees, namely the Executive Committee, the Audit Committee and the Remuneration Committee. Each of them has defined terms of reference covering its duties, powers and functions. The Terms of Reference of each of these committees are available on the Company's website at www.tvb.com.

CORPORATE GOVERNANCE REPORT

COMPOSITION AND FUNCTION

Major functions, composition and operating mode of Board Committees are set out below:

	Major roles and functions	Composition in 2006	Operating mode
Executive Committee	• nominate suitably qualified candidates to become Directors • establish and consider changes to company-wide policies • consider corporate plans and budgets • consider actual or potential, major exception or occurrence which has, or may have, major impact on business and operation of the Company	**ED** Run Run Shaw *(Chairman)* Norman Leung Mona Fong Louis Page[R] **NED** Kevin Lo Christina Lee[A]	Meet normally 6 times a year
Audit Committee	• review appointment of external auditors and ensure continuing auditors' independence • assist the Board in fulfilling its responsibilities by providing independent review and supervision on financial reporting and effectiveness of the Group's internal control system • review objectivity and effectiveness of audit process in accordance with applicable standards	**INED** Robert Sze *(Chairman)* Chien Lee D S Li[R] **NED** T K Ho[A]	Meet at least twice a year
Remuneration Committee	• formulate remuneration policy and make recommendations on annual remuneration review • determine remuneration of Executive Directors and members of Senior Management	**INED** Chien Lee *(Chairman)* Edward Cheng[A] Robert Sze **NED** Mona Fong[R]	Meet at least once a year

Notes:

A – appointed during 2006

R – resigned during 2006

BOARD/BOARD COMMITTEES' MEETINGS

Six regular Board Meetings and one special Board Meeting were held in 2006. At the regular Board Meetings, the Directors discussed and formulated overall strategies for the Company, monitored financial performance and discussed the annual and interim results, as well as other significant matters.

The attendance of Directors at the Board Meetings and the Board Committees' (Executive Committee, Audit Committee and Remuneration Committee) Meetings is set out in the table below:

	Meetings Attended/Held in 2006				
Directors	**Board**	**Board (Special)** [1]	**Executive Committee**	**Audit Committee**	**Remuneration Committee**
Executive Directors					
Run Run Shaw	6/6	0/1	7/7		
Norman Leung	6/6	1/1	7/7		
Mona Fong[2]	6/6	0/1	7/7		1/1
Louis Page[3]	3/3	0/1	3/3		
Non-executive Directors					
Edward Cheng[4]	3/3				1/1
Chow Yei Ching	4/6	0/1			
Ho Ting Kwan	6/6	1/1		2/2	
Chien Lee	6/6	1/1		2/2	2/2
Christina Lee[5] * 2 Board Meetings and 1 Executive Committee Meeting were attended by the Alternate Director	6/6	0/1	4/4		
Li Dak Sum	6/6	1/1			
Kevin Lo	4/6	1/1	5/7		
Robert Sze	6/6	1/1		2/2	2/2

Notes:

1) *One special Board Meeting was held on 26 April 2006 to review the recommendations of the Independent Assessment Board in relation to the supply to pay TV operator(s) of eight pay TV channels in Hong Kong. Sir Run Run Shaw, Ms. Mona Fong and Mr. Louis Page, being the then directors of TVBPV, sent apologies to such meeting to comply with the licence condition(s) of the Company's Domestic Free Television Programme Service Licence.*

2) *Ms. Mona Fong was appointed as Acting Managing Director and ceased to be a member of the Remuneration Committee on 31 May 2006. One Remuneration Committee Meeting was held between 1 January 2006 and 30 May 2006.*

3) *Mr. Louis Page resigned as Director and Managing Director of the Company on 31 May 2006. Three regular Board Meetings, one special Board Meeting and three Executive Committee Meetings were held between 1 January 2006 and 30 May 2006.*

4) *Mr. Edward Cheng Wai Sun was appointed as Independent Non-executive Director and a member of the Remuneration Committee on 1 June 2006. Three Board Meetings and one Remuneration Committee Meeting were held between 1 June 2006 and 31 December 2006.*

5) *Mrs. Christina Lee Look Ngan Kwan was appointed a member of the Executive Committee on 31 May 2006. Four Executive Committee Meetings were held between 31 May 2006 and 31 December 2006.*

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The main elements of the Company's remuneration policies are set out below:

- no individual should determine his or her own remuneration;
- remuneration should be set which is commensurate with pay levels in the market; and
- remuneration should be able to attract and retain individuals with appropriate background, skills, knowledge and experience, relevant to the business and industry that the Group operates in.

Non-executive Directors are remunerated by a fixed Directors' Fee. In line with our policy that no individual should determine his or her own remuneration, the Directors' Fee was recommended by the Board and approved by shareholders at annual general meetings. Non-executive Directors are also entitled to an additional fee for serving on the Board Committees.

The Executive Chairman is remunerated by way of a fixed fee. Other Executive Directors and Senior Management are remunerated by way of salaries and other incentives such as discretionary or performance bonus and provident fund.

In determining the remuneration of Executive Directors and Senior Management, the remuneration of comparable positions in the market, including local and regional companies of comparable size, complexity and business scope, are referenced. This is consistent with the Group's policy to pay remuneration which is commensurate with pay levels in the market.

None of the Directors of the Company has a service contract with the Company which is not determinable within one year, without payment of compensation, other than statutory compensation.

No share options of the Company have been granted to Directors or Senior Management in 2006.

During the year, Mr. Louis Page resigned as Director and Managing Director of the Company on 31 May 2006. In recognition of Mr. Page's valuable contributions to the Company and the Group over the past twenty years, the Board, in consultation with the Remuneration Committee, approved that a gratuity of HK$3 million be paid to Mr. Page.

Ms. Mona Fong was appointed by the Board as Acting Managing Director on 31 May 2006. Accordingly, Ms. Fong is entitled to a salary for taking up such an executive role. Ms. Fong had offered to waive any discretionary bonus which might be granted to her for her office as Acting Managing Director between 31 May 2006 and 31 December 2006.

Details of the Directors' and Senior Management's emoluments are set out on pages 90 to 92 of the Notes to the Consolidated Financial Statements.

REMUNERATION COMMITTEE

The Remuneration Committee was established in 2005. All members are Independent Non-executive Directors. The Committee is chaired by Mr. Chien Lee and the members are Mr. Edward Cheng Wai Sun and Mr. Robert Sze Tsai To.

The Remuneration Committee had two meetings in 2006. The Remuneration Committee passed by way of circulars for matters other than those resolved at the meetings. Set out below is a summary of the work performed by the Remuneration Committee during 2006:

1) The Committee reviewed and recommended a new set of Directors' Fee and additional fees payable to Directors serving on the Board Committees by reference to the then prevailing market levels.
2) The Committee reviewed the remuneration policy and structure of Non-executive Directors.

3) The Committee reviewed the remuneration policy and structure of Senior Management.

4) The Committee reviewed and approved the salary increases of Senior Management in 2006.

5) The Committee recommended to the Board the amount of the discretionary bonuses to be paid to the Executive Directors and Senior Management for 2006.

During the year, the Board approved all the recommendations of the Remuneration Committee.

NOMINATION OF DIRECTORS

The appointment of a new Director is a matter for consideration and decision by the full Board. As delegated by the Board, the Executive Committee is responsible for nominating suitably qualified candidates to be Directors.

Sir Run Run Shaw is the Chairman, Dr. Norman Leung Nai Pang, Ms. Mona Fong, Mrs. Christina Lee Look Ngan Kwan and Mr. Kevin Lo Chung Ping are members of the Executive Committee.

The Board appointed Mr. Edward Cheng Wai Sun to be an Independent Non-executive Director of the Company on 1 June 2006 to enhance the representation of Non-executive Directors on the Board, of which over one-third of the members are Independent Non-executive Directors.

In the selection process, the Executive Committee made reference to criteria including, inter alia, reputation for integrity, education background, accomplishment and experience in the commercial industry, and time commitment and relevant interest.

DIRECTORS' TERM OF APPOINTMENT AND RE-ELECTION

Non-executive Directors are appointed for a specific term of three years. All Directors retire from office by rotation and are subject to re-election at an Annual General Meeting at least once every three years. Pursuant to Article 114(D) of the Company's Articles of Association, the Chairman is exempted from retirement by rotation.

The Company's Articles of Association provide that Directors appointed to fill a casual vacancy shall hold office only until the first annual general meeting after their appointment, and shall be subject to re-election by the shareholders.

REPORT ON CORPORATE GOVERNANCE PRACTICES

The Board monitored the Company's progress on corporate governance practices throughout the year under review. Apart from regular meetings, circulars were issued to Directors and Senior Management to ensure awareness of the best corporate governance practices.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company adopted its own Code on Corporate Governance in 2005 which complied with all the code provisions of the Code on Corporate Governance Practices ("CG Code") set out in Appendix 14 of the Listing Rules, save that the 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 this deviation is well-founded as the Chairman, being a founder of the Company, has a wealth of experience which is essential to the Board and contributes to the continued stability of the Company's business.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH MODEL CODE

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules ("Model Code") as the code for Directors and Senior Management in their dealings in the Company's securities.

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, following specific enquiries by the Company, 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 31 December 2006 respectively.

All other Directors and members of the Senior Management confirmed, following specific enquiries by the Company, that they had complied with the Model Code throughout the year ended 31 December 2006.

SEGREGATION OF DUTIES

The roles of the Chairman and Managing Director are segregated and clearly defined as set out in the Company's Code on Corporate Governance. As at the date of the report, Sir Run Run Shaw is the Executive Chairman and Ms. Mona Fong is the Acting Managing Director of the Company respectively.

The Board has formalised the functions delegated by the Board to the Management and reviews such arrangements on a periodic basis. The Management is charged with the following responsibilities:

- implementing and reporting to the Board on the Company's strategies;
- overseeing the realisation by the Company of the objectives set by the Board;
- providing all such information to the Board as is necessary to enable the Board to monitor the performance of the Management; and
- discharging duties and authority as may be delegated by the Board.

FINANCIAL REPORTING AND AUDIT

The Board is responsible for presenting financial information of the Group in a clear, balanced and timely manner in the form of financial statements that give a true and fair view of the Group's state of affairs. The Board also carries out the responsibility to select the most appropriate accounting policies for the Group. In this regard, the Board has adopted the Hong Kong Financial Reporting Standards as promulgated by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements of the Group have been prepared on a going concern basis, assuming the continued operation of the business.

The Board is also vested with the responsibility to disseminate to shareholders and the public any price-sensitive information in the form of announcements and circulars, in accordance with the Listing Rules.

AUDIT COMMITTEE

The Audit Committee was established in 1999. It comprises two Independent Non-executive Directors and one Non-executive Director. The Audit Committee is chaired by Mr. Robert Sze Tsai To who possesses the appropriate professional qualifications and accounting or related financial management expertise required under Rule 3.10(2) of the Listing Rules. Mr. Ho Ting Kwan and Mr. Chien Lee are members of the Audit Committee.

The Audit Committee held two meetings during the year ended 31 December 2006. Set out below is a summary of the work performed by the Audit Committee:

1) The Committee reviewed in conjunction with Management the accounting principles and practices adopted by the Group.
2) The Committee reviewed in conjunction with the external auditors the developments of accounting standards and assessed their potential impacts on the Group's financial statements.

3) The Committee reviewed the draft interim and annual financial statements and the draft results announcements of the Company, focusing on main areas of judgement, consistency of and changes in accounting policies and adequacy of information disclosure prior to recommending them to the Board for approval.

4) Prior to the actual commencement of the audit, the Audit Committee discussed the proposed scope of work and approach of the audit with the external auditors. Upon completion of the audit, the Audit Committee reviewed the results of the external audit, and discussed with the auditors any significant findings and audit issues.

5) The Committee recommended to the Board regarding the appointment and remuneration of the external auditors.

6) The Committee reviewed the adequacy and effectiveness of the Group's system of internal controls and made a report to the Board as set out in the section headed "Internal Controls".

7) The Committee reviewed and adopted a policy for the provision of non-audit services by the external auditors.

All non-audit services being undertaken by the external auditors have been approved by the Audit Committee based on the set criteria.

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

The reporting responsibilities of PricewaterhouseCoopers, the principal external auditors, are set out in the Report of the Auditors on page 48 of this Annual Report.

AUDITORS' REMUNERATION

Management performs a review of the remuneration to the external auditors on an annual basis. The fees for audit services have been approved by the Audit Committee, whilst the fees for non-audit services are estimates made by Management. A summary of fees for audit and non-audit services is as follows:

	Fees for audit services		Fees for non-audit services	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Company	**1,086**	1,067	**279**	259
Subsidiaries	**2,595**	2,603	**1,376**	2,482
Total	**3,681**	3,670	**1,655**	2,741
Fees payable to PricewaterhouseCoopers, the principal external auditors	**3,244**	3,249	**1,313**	2,474

Non-audit services rendered to the Group included principally professional fees in relation to tax services.

INTERNAL CONTROLS

The Board has the overall responsibility for maintaining a sound and effective system of internal controls to safeguard the Company's assets and shareholders' interests.

The system of internal controls has been designed to safeguard assets from unauthorised use or disposition, ensure maintenance of proper accounting records, and ensure effective operation of the Company's business and compliance with regulations. Management is directly responsible for implementing the strategies and policies adopted by the Board, and for managing all of the Company activities, including the operation of the internal control system. The system of internal controls is, however, designed to provide reasonable, but not absolute, assurance against material mis-statement or loss, and manage, rather than eliminate, risks of failure in operational systems.

The Company has an extensive risk management framework, covering engineering (including broadcasting), programme production, production resources, marketing and sales, information technology, financial and compliance functions.

The key procedures that the Board has established to provide effective internal controls are as follows:

1) The Board assesses the effectiveness of internal controls by considering reviews performed by the Audit Committee, the Management and the external auditors.

2) The Board has established a clear organisation structure, including the delegation of appropriate responsibilities from the Board to the board committees, members of the Senior Management, and to the heads of operating subsidiaries/divisions, where appropriate.

3) A comprehensive management accounting system is in place to provide financial and operational performance data for management accounting purposes. Review of the accounting information takes place on a regular basis at board committee level and remedial action is taken promptly, where necessary.

4) A Code of Ethics has been adopted and regularly updated to govern the staff's conduct, which sets the standards of integrity and professionalism for the Company's operation.

5) Internal control procedures are documented under each of the operating divisions.

During the year ended 31 December 2006, the Management reviewed the internal controls of the Group, covering the financial, operational and compliance issues (the "Review").

The Review took the form of a control self assessment process. This required the head of each business unit to perform an assessment of the effectiveness of the material controls over reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The outcome of the control self assessment process was documented and presented to the Audit Committee.

The Management also reviewed the macro and corporate level risks that confront the Group's businesses, and made an assessment on the adequacy of the existing internal controls that are in place to mitigate those risks.

On behalf of the Board, the Audit Committee examined the Report prepared by the Management and was satisfied that:

1) The Review had covered all material controls, including financial, operational and compliance controls, and the risk management function.

2) The Group's internal controls are adequate for the current operation and in safeguarding the assets of the Group.

3) Management has put in place appropriate financial controls at the headquarters by way of segregation of duties of accounting staff, regular reconciliation with external records and cash payment controls.

4) Management has put in place appropriate operational and compliance controls at operational division levels.

5) Nothing has to be brought to the attention of the Audit Committee that the internal controls on the operation of the Group are not functioning in a sound and effective manner to safeguard the shareholders' investment and the Group's assets.

CORPORATE COMMUNICATIONS

The Company adopts a policy of disclosing relevant information to shareholders and the public in a timely manner.

1) The Company discloses information in the form of paid announcements in an English and a Chinese newspaper pursuant to the requirements of the Listing Rules.

2) The Company makes available the corporate information, including published announcements, circulars and financial reports on its corporate website to allow the investor community to have timely access to updated information about the Group.

3) Printed copies of the Annual and Interim Reports and Circulars are sent to all shareholders.

4) The Company's Annual General Meeting ("AGM") allows Directors to meet and communicate with shareholders.

5) Details of the voting procedures and the rights of shareholders to demand a poll are included in the circular to the shareholders dispatched together with the Annual Report.

6) The poll results are published in newspapers and on the Company's corporate website.

GENERAL MEETINGS

AGM proceedings are reviewed periodically to ensure that the Company follows best corporate governance practices. A Notice of AGM is sent to all shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures and other relevant information. The procedures for demanding and conducting a poll are explained during the meeting. Voting or poll results are released to the public in accordance with the then prevailing Listing Rules and are posted on the Company's and the Exchange's websites on the business day following the AGM.

Separate resolutions are proposed for each substantially separate issue by the Chairman and are voted on by poll at the AGM.

On behalf of the Board

Run Run Shaw
Executive Chairman

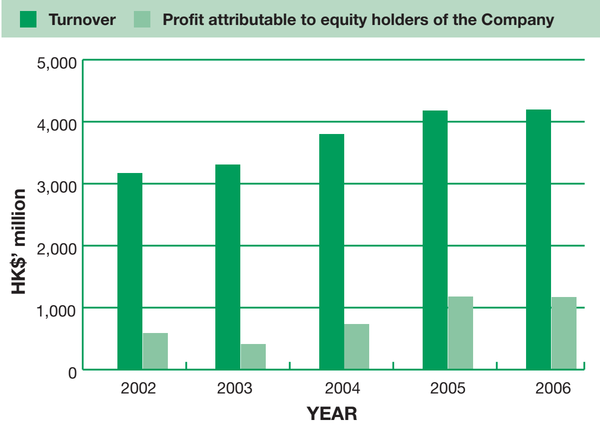
Hong Kong, 21 March 2007

FIVE-YEAR FINANCIAL REVIEW

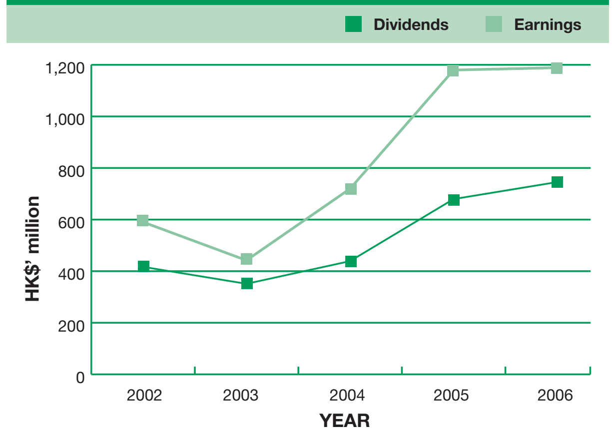
	2006	2005	2004	2003	2002
	HK$'mil	HK$'mil	HK$'mil	HK$'mil	HK$'mil
Turnover	**4,201**	4,177	3,817	3,311	3,162
Profit before income tax	**1,436**	1,420	902	485	684
Income tax expense	**247**	232	152	25	90
Profit attributable to equity holders of the Company	**1,189**	1,180	719	441	590
Earnings per share	**HK$2.71**	HK$2.69	HK$1.64	HK$1.01	HK$1.35
Property, plant and equipment	**1,731**	1,896	2,050	2,167	1,998
Leasehold land	**184**	188	193	198	168
Intangible assets	**162**	161	55	63	–
Interest in associates	**150**	246	280	238	26
Other non-current assets	**32**	31	56	64	97
Current assets	**3,428**	2,800	2,200	1,988	2,009
Current liabilities	**(676)**	(749)	(855)	(1,112)	(905)
	5,011	4,573	3,979	3,606	3,393
Share capital	**22**	22	22	22	22
Reserves	**4,823**	4,360	3,649	3,274	3,252
Shareholders' funds	**4,845**	4,382	3,671	3,296	3,274
Minority interest	**23**	23	117	84	–
Non-current liabilities	**143**	168	191	226	119
	5,011	4,573	3,979	3,606	3,393

Figures for 2002 to 2005 have been restated following the adoption of revised HKAS17 and also to align with current year presentation.

Turnover & Profit Attributable to Equity Holders of the Company

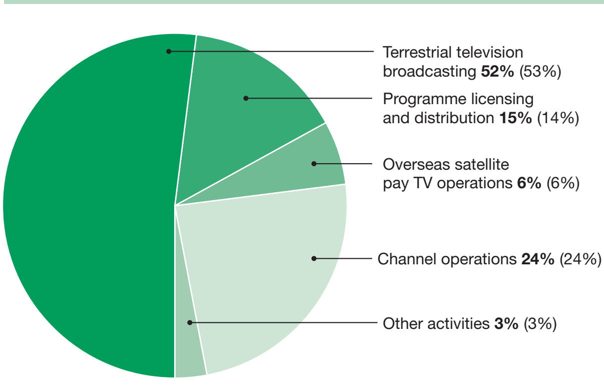


Dividends & Earnings



Turnover by Business Segment

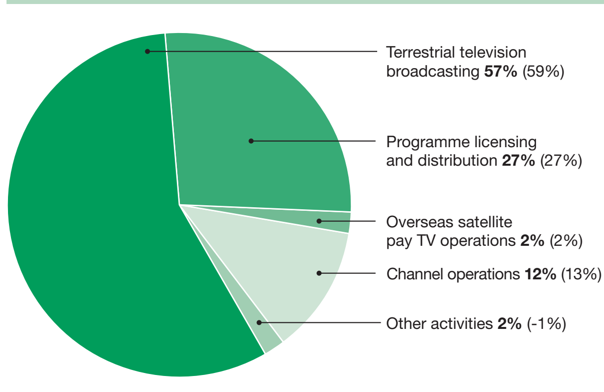
2006



% relating to 2005 are shown in brackets

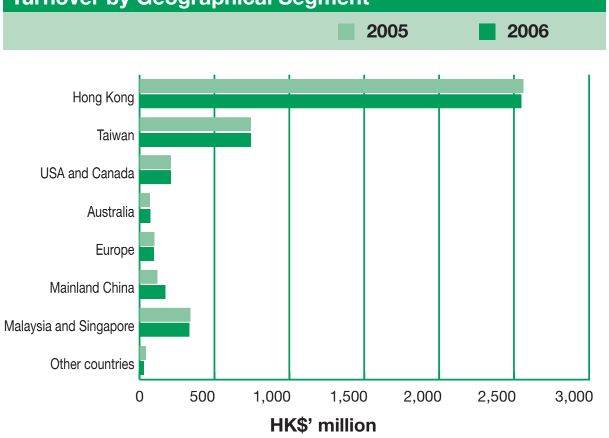
Segment Results by Business Segment

2006

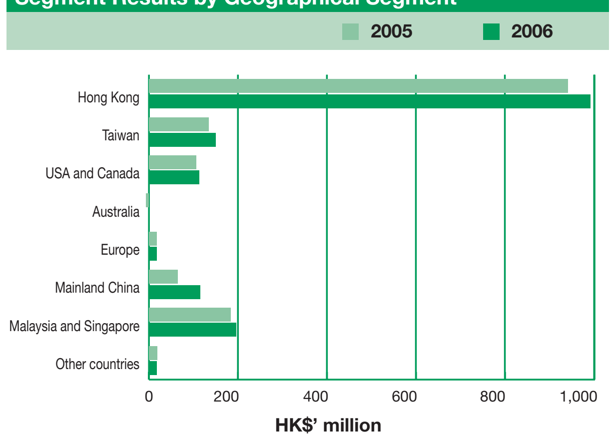


% relating to 2005 are shown in brackets

Turnover by Geographical Segment



Segment Results by Geographical Segment



REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF TELEVISION BROADCASTS LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Television Broadcasts Limited (the "Company") set out on pages 49 to 103, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director's responsibility for the financial statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion 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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 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 the Group as at 31 December 2006 and of the Group's profit 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2007

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**1,731,207**	1,896,100
Leasehold land	6	**183,848**	188,416
Intangible assets	7	**162,184**	161,003
Interest in associates	9	**150,213**	245,516
Interest in jointly controlled entity	10	**–**	–
Available-for-sale financial assets	11	**3**	3
Loan to investee company	12	**6,666**	6,676
Deferred income tax assets	19	**25,121**	24,358
		2,259,242	2,522,072
Current assets			
Programmes, film rights and movies		**442,319**	452,586
Stocks	13	**14,439**	11,430
Trade and other receivables, prepayments and deposits	14	**1,372,347**	1,353,966
Tax recoverable		**1,450**	2,015
Pledged bank deposits	15	**239**	236
Bank deposits maturing after three months		**38,026**	35,289
Cash and cash equivalents		**1,559,079**	944,670
		3,427,899	2,800,192
Total assets		**5,687,141**	5,322,264
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	16	**21,900**	21,900
Other reserves	17	**669,823**	700,132
Retained earnings			
– Proposed final dividend	28	**635,100**	569,400
– Others		**3,518,325**	3,090,315
		4,845,148	4,381,747
Minority interest		**23,199**	23,320
Total equity		**4,868,347**	4,405,067
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	19	**126,443**	149,740
Retirement benefit obligations	20	**16,515**	18,503
		142,958	168,243

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	2006 HK$'000	2005 HK$'000
Current liabilities			
Trade and other payables and accruals	18	**593,994**	643,232
Current income tax liabilities		**81,842**	104,680
Short-term provisions	21	**–**	1,042
		675,836	748,954
Total liabilities		**818,794**	917,197
Total equity and liabilities		**5,687,141**	5,322,264
Net current assets		**2,752,063**	2,051,238
Total assets less current liabilities		**5,011,305**	4,573,310

Run Run Shaw
Director

Mona Fong
Director

BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**1,483,838**	1,633,100
Leasehold land	6	**183,848**	188,416
Investment in subsidiaries	8	**493,702**	510,460
Interest in associates	9	**155,595**	144,069
		2,316,983	2,476,045
Current assets			
Programmes and film rights		**365,760**	324,354
Stocks	13	**1,870**	1,702
Trade and other receivables, prepayments and deposits	14	**917,261**	903,442
Cash and cash equivalents		**994,354**	676,705
		2,279,245	1,906,203
Total assets		**4,596,228**	4,382,248
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	16	**21,900**	21,900
Other reserves	17	**712,144**	712,144
Retained earnings			
– Proposed final dividend	28	**635,100**	569,400
– Others		**2,801,404**	2,608,546
Total equity		**4,170,548**	3,911,990
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	19	**105,756**	118,562
		105,756	118,562
Current liabilities			
Trade and other payables and accruals	18	**270,466**	258,514
Current income tax liabilities		**49,458**	93,182
		319,924	351,696
Total liabilities		**425,680**	470,258
Total equity and liabilities		**4,596,228**	4,382,248
Net current assets		**1,959,321**	1,554,507
Total assets less current liabilities		**4,276,304**	4,030,552

Run Run Shaw
Director

Mona Fong
Director

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 HK$'000	2005 HK$'000
Turnover	4	**4,201,186**	4,176,590
Cost of sales		**(1,778,433)**	(1,791,612)
Gross profit		**2,422,753**	2,384,978
Other revenues	4	**73,896**	38,962
Selling, distribution and transmission costs		**(451,064)**	(451,923)
General and administrative expenses		**(504,427)**	(490,969)
Other operating income/(expenses)		**57,670**	(22,042)
Gain on disposal of financial assets at fair value through profit or loss		**–**	148,778
Operating profit	22	**1,598,828**	1,607,784
Finance costs	24	**(98)**	(956)
Share of losses of			
Jointly controlled entities		**–**	(30)
Associates		**(163,109)**	(187,197)
Profit before income tax		**1,435,621**	1,419,601
Income tax expense	25	**(247,181)**	(232,354)
Profit for the year		**1,188,440**	1,187,247
Attributable to:			
Equity holders of the Company	26	**1,188,597**	1,180,019
Minority interest		**(157)**	7,228
		1,188,440	1,187,247
Earnings per share for profit attributable to the equity holders of the Company during the year	27	**HK$2.71**	HK$2.69
Dividends	28	**744,600**	678,900

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	Attributable to equity holders of the Company				
	Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Minority interest HK$'000	Total HK$'000
Balance at 1 January 2005	21,900	698,989	2,949,757	116,550	3,787,196
Currency translation differences	–	(9,018)	–	5,207	(3,811)
Net (expense)/income recognised directly in equity	–	(9,018)	–	5,207	(3,811)
Profit for the year	–	–	1,180,019	7,228	1,187,247
Total recognised income and expense for 2005	–	(9,018)	1,180,019	12,435	1,183,436
Transfer	–	10,161	(10,161)	–	–
2004 final dividend paid	–	–	(350,400)	–	(350,400)
2005 interim dividend paid	–	–	(109,500)	–	(109,500)
Acquisition of minority interest in a subsidiary (Note 7)	–	–	–	(105,665)	(105,665)
Balance at 31 December 2005	21,900	700,132	3,659,715	23,320	4,405,067
Balance at 1 January 2006	21,900	700,132	3,659,715	23,320	4,405,067
Currency translation differences	–	(46,296)	–	36	(46,260)
Net (expense)/income recognised directly in equity	–	(46,296)	–	36	(46,260)
Profit for the year	–	–	1,188,597	(157)	1,188,440
Total recognised income and expense for 2006	–	(46,296)	1,188,597	(121)	1,142,180
Transfer	–	15,987	(15,987)	–	–
2005 final dividend paid	–	–	(569,400)	–	(569,400)
2006 interim dividend paid	–	–	(109,500)	–	(109,500)
Balance at 31 December 2006	**21,900**	**669,823**	**4,153,425**	**23,199**	**4,868,347**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	**2006** **HK$'000**	2005 HK$'000
Cash flows from operating activities			
Cash generated from operations	29	**1,662,725**	1,501,951
Interest paid		**(98)**	(1,115)
Hong Kong tax paid		**(257,480)**	(144,572)
Overseas taxation paid		**(35,943)**	(63,426)
Net cash generated from operating activities		**1,369,204**	1,292,838
Cash flows from investing activities			
Purchase of property, plant and equipment		**(95,439)**	(113,092)
Increase in bank deposits maturing after three months		**(2,737)**	(25,739)
Loan repayments received from an investee company		**–**	7,393
Acquisition of minority interest in a subsidiary		**–**	(221,613)
Proceeds from sale of a jointly controlled entity		**–**	4,541
Proceeds from sale of an available-for-sale financial asset		**–**	2,771
Proceeds from sale of a financial asset at fair value through profit or loss		**86,275**	263,726
Investment in an associate	9(a)	**(56,280)**	(142,495)
Investment in a financial asset at fair value through profit or loss	18	**(56,876)**	(144,347)
Proceeds from sale of property, plant and equipment		**974**	813
Interest received		**45,610**	13,500
Net cash used in investing activities		**(78,473)**	(354,542)
Cash flows from financing activities			
Repayments of long-term bank loans, other loans and obligations under finance leases		**–**	(58,385)
Repayments of short-term bank loans		**–**	(2,338)
Increase in pledged bank deposits		**(3)**	(2)
Dividends paid		**(678,900)**	(459,900)
Net cash used in financing activities		**(678,903)**	(520,625)
Net increase in cash and cash equivalents		**611,828**	417,671
Cash and cash equivalents at 1 January		**944,670**	526,299
Effect of foreign exchange rate changes		**2,581**	700
Cash and cash equivalents at 31 December		**1,559,079**	944,670

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, except that the financial assets are stated at their fair values as explained in Note 1.8.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

(a) Amendments to published standards and interpretation effective in 2006

The following amendments to published standards and interpretation are mandatory for financial year ended 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 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The amendments to published standards and interpretation above do not have material impacts to the Group.

(b) Standard, amendment and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standard, amendment and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 but that the Group has not early adopted:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006)
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)

The adoption of such standard, amendment and interpretations to existing standards will not result in substantial changes to the Group's accounting policies.

1.2 CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.2 CONSOLIDATION (Continued)

(a) Subsidiaries (Continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 1.6). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All significant inter-company transactions and balances within the Group are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investment in subsidiaries are stated at cost less provision for impairment losses (Note 1.7). The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(b) Transactions and minority interest

The Group applies a policy of treating transactions with minority interest as transactions with parties external to the Group. Disposals to minority interest result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates and jointly controlled entities

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A jointly controlled entity is under a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over its economic activity.

Interests in associates and jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' and jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate and jointly controlled entity equals or exceeds its interest in the associate and jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate and jointly controlled entity.

Unrealised gains on transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interests in the associates and jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the interest in associates and jointly controlled entities is stated at cost less provision for impairment losses (Note 1.7). The results of the associates and jointly controlled entities are accounted for by the Company on the basis of dividend received and receivables.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.3 SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

1.4 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholder's equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.4 FOREIGN CURRENCY TRANSLATION (Continued)

(c) Group companies (Continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after 1 January 2005 are treated as assets and liabilities of the foreign entity and translated at the closing rate. Goodwill and fair value adjustments arising on acquisitions prior to 1 January 2005 are expressed in the acquiring company's functional currency and reported using the exchange rate at the date of these acquisitions.

1.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, comprising buildings, leasehold improvements, studio, broadcasting and transmitting equipment, furniture and fixtures and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Other property, plant and equipment are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2.5% – 5%
Leasehold improvements	Over the unexpired term of the lease
Studio, broadcasting and transmitting equipment	7% – 20%
Furniture, fixtures and equipment	5% – 33.3%
Motor vehicles	10% – 25%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

1.6 INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and jointly controlled entities is included in investments in associates and jointly controlled entities. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Company allocates goodwill to each business segment in each country in which it operates (Note 1.7).

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.7 IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINTLY CONTROLLED ENTITY AND NON-FINANCIAL ASSETS

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

1.8 FINANCIAL ASSETS

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 1.11).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value whereas available-for-sale financial assets are carried at cost less accumulated impairment. Loans and receivables are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are carried at cost less accumulated impairment.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.8 FINANCIAL ASSETS (Continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade and other receivables is described in Note 1.11.

1.9 PROGRAMMES, FILM RIGHTS AND MOVIES

Programmes are stated at cost less amounts expensed and any provision considered necessary by the management. Cost comprises direct expenditure and an appropriate proportion of production overheads. The cost of programmes is apportioned between domestic terrestrial market and overseas licensing and distribution market. In the case of the former, the cost is expensed on first transmission, and in the latter, the cost is expensed on first distribution to licensees. The cost of programmes for satellite channels is expensed in accordance with a formula computed to write off the cost over a maximum of three transmissions.

Film rights are stated at cost less amounts expensed and any provision considered necessary by the management. Film rights are expensed in accordance with a formula computed to write off the cost over the contracted number of transmissions.

Movies invested by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation of released movies is calculated at rates sufficient to write off the total cost of production in relation to expected revenues over a maximum period of three years. Unreleased movies are valued at cost less provision for impairment losses.

1.10 STOCKS

Stocks, comprising decoders, tapes, video compact discs, digital video discs and consumable supplies, are stated at the lower of cost and net realisable value. The cost of video compact discs and digital video discs is calculated on a weighted average basis whereas the cost of other stocks is calculated on a first in first out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

1.11 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

1.12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment, and bank overdrafts and short-term loans repayable within three months.

1.13 SHARE CAPITAL

Ordinary shares are classified as equity.

1.14 TRADE AND OTHER PAYABLES

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.15 DEFERRED INCOME TAX

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on interest in subsidiaries, associates and jointly controlled entities except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

1.16 EMPLOYEE BENEFITS

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group operates a number of defined benefit and defined contribution plans throughout the world, the assets of which are generally held in separate trustee – administered funds.

All permanent staff, temporary staff and full time artistes signed in individual names (excluding singers and serial artistes), whose employment period reaches 60 days or more (collectively referred to as “eligible members”) and located in Hong Kong are entitled to participate in the Mandatory Provident Fund Scheme (“MPF Scheme”). The contributions to the MPF Scheme made by the Group for permanent staff joined prior to 1 June 2003 comprise mandatory contributions and voluntary contributions. The mandatory contribution is calculated at 5% of individual’s “relevant income” with a maximum amount of HK$1,000 per month and the voluntary contribution is calculated at 10% of individual’s basic salary less the mandatory contribution. The Group’s contribution for permanent staff joined after 1 June 2003, full time artistes and temporary staff is 5% of individual’s “relevant income” with a maximum amount of HK$1,000 per month. “Relevant income” includes salaries, wages, paid leave, fees, commissions, bonuses, gratuities, and allowances (excluding housing allowance/benefits, any redeemed payment and long service payment). Employer’s voluntary contributions shall be refunded to the Group according to the vesting scale when the eligible members leave employment prior to vesting fully in the MPF Scheme.

The retirement schemes which cover employees located in overseas locations, except for Taiwan, are defined contribution schemes at various funding rates that are in accordance with the local practice and regulations. The employees located in Taiwan are members of a defined benefit retirement scheme prior to 1 July 2005. Following the promulgation of a new pension ordinance on 1 July 2005, the employees located in Taiwan are entitled to elect to remain as the sole members of the defined benefit retirement scheme or to become members of both the defined benefit retirement scheme and a defined contribution retirement scheme. By electing for the latter, the service lives of employees under the defined benefit retirement scheme are being frozen at 30 June 2005. All employees joining on or after 1 July 2005 have to join as members of the defined contribution retirement scheme.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.16 EMPLOYEE BENEFITS (Continued)

(b) Pension obligations (Continued)

The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the present value of the defined benefit obligation are recognised in the income statement over the employees' expected average remaining working lives.

Past-service costs are recognised immediately as income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

1.17 PROVISIONS FOR ONEROUS CONTRACTS

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

1.18 CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

1.19 REVENUE RECOGNITION

Advertising income net of agency deductions is recognised when the advertisements are telecast.

Income from licensing of programme rights is recognised evenly over the contract period or upon delivery of the programmes concerned in accordance with the terms of the contracts. Income from box office receipts are recognised when movies are exhibited and the right to receive payment is established. Distribution income from movies are recognised upon delivery of the movies.

Subscription income from operation of satellite and subscription television networks is recognised on a straight-line basis over the contract period which generally coincides with the timing when the services are rendered. Unearned subscription fees received from subscribers are recorded as subscriptions received in advance under trade and other payables and accruals in the balance sheet.

Income from video tape and disc renting, provision of content to mobile device and website portal and sale of magazines are recognised on delivery of products. Income from other services, which includes programmes/commercial production income, management fee income, facility rental income and other service fee income, is recognised when the services are rendered.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis using the effective interest method.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.20 LEASES

(a) Operating leases (as lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

(b) Operating leases (as lessor)

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs, if any, incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(c) Finance leases

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

1.21 RELATED PARTIES

A party is considered to be related to the Group if

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) to (d) above;

(f) the party is an entity that is controlled, jointly controlled or significant influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) and (e) above.

1.22 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk) and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations, are in a currency that is not the subsidiaries' functional currency.

The Group has certain investments in foreign operations, the net assets of which are exposed to foreign currency risk.

The Group manages this risk by initially seeking contracts effectively denominated in Hong Kong dollars where possible and economically favorable to do so. The Group will continue to monitor its foreign currency risk exposure and market conditions to determine if any hedging is required. The Group does not conduct any foreign currency speculative activities.

(ii) Interest rate risk

The Group's principal interest bearing assets are cash balances and short-term cash deposits at banks which attract fixed rates of interest prevailing at the time of the making of deposits. The tenor of the short-term cash deposits is usually less than one year. The Group actively manages cash balances and short-term deposits by comparing quotations from banks, with a view to select terms which are most favourable to the Group.

(iii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. It's credit risk is mitigated by its combination of cash and credit sales. For credit sales, the Group has no significant concentration of credit risk due to its diverse customer base. Credit risk is managed by formulating a credit policy for credit checks, credit reviews and monitoring procedures that include a formal collection process.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Estimated impairment of goodwill

The Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in Note 1.6. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Trade receivables

The aged debt profile of trade receivables is reviewed on a regular basis to ensure that the trade receivables are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade receivables are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivables and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect the results of operations.

(c) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid. Such reviews take into account the technological changes, prospective economic utilisation and physical condition of the assets concerned.

(d) Impairment of non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred.

Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus the asset's residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

The impairment assessment is performed based on the discounted cash flow analysis. This analysis relies on factors such as forecasts of future performance and long-term growth rates and the selection of discount rates. If these forecasts and assumptions prove to be incorrect or circumstances change, write down of the carrying value of the non-current assets may be required.

Based on the most recent assessments of recoverable amount, management is of the opinion that as at 31 December 2006, the non-current assets are recoverable at the amounts at which they are stated in the consolidated financial statements.

(e) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded or anticipated, such differences will impact the current income tax and deferred income tax provisions in the period in which such determination is made.

4 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in terrestrial television broadcasting with programme production, programme licensing and distribution, overseas satellite pay TV operations, channel operations and other related activities.

Turnover comprises advertising income net of agency deductions, licensing income, subscription income, as well as income from video tape and disc rentals, provision of contents to mobile devices, website portal, sale of magazines, programmes/commercial production income, management fee income, facility rental income and other service fee income.

Other revenues comprise mainly interest income and other rental income.

The amount of each significant category of revenue recognised during the year is as follows:

	2006 HK$'000	2005 HK$'000
Turnover		
Advertising income, net of agency deductions	**2,681,120**	2,681,524
Licensing income	**815,500**	790,725
Subscription income	**422,625**	413,947
Others	**328,441**	336,990
	4,247,686	4,223,186
Less: Withholding tax	**(46,500)**	(46,596)
	4,201,186	4,176,590
Other revenues		
Interest income	**58,080**	25,151
Others	**15,816**	13,811
	73,896	38,962
	4,275,082	4,215,552

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 video 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, Malaysia, 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

4 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – business-segments (Continued)

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.

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

	2006						
	Terrestrial television broadcasting HK$'000	Programme licensing and distribution HK$'000	Overseas satellite pay TV operations HK$'000	Channel operations HK$'000	Other activities HK$'000	Elimination HK$'000	Total HK$'000
Turnover							
External sales	2,209,351	622,065	245,113	1,010,749	113,908	–	4,201,186
Inter-segment sales	9,247	101,597	432	13,005	5,420	(129,701)	–
	2,218,598	723,662	245,545	1,023,754	119,328	(129,701)	4,201,186
Segment results	917,680	441,017	28,187	187,280	24,653	11	1,598,828
Finance costs							(98)
Share of losses of associates	–	–	–	(163,109)	–	–	(163,109)
Profit before income tax							1,435,621
Income tax expense							(247,181)
Profit for the year							1,188,440
Other segment terms included in the income statement are as follows:							
Depreciation	198,114	7,178	9,687	44,948	1,278		261,205
Amortisation of leasehold land	4,568	–	–	–	–		4,568

4 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	2005						
	Terrestrial television broadcasting HK$'000	Programme licensing and distribution HK$'000	Overseas satellite pay TV operations HK$'000	Channel operations HK$'000	Other activities HK$'000	Elimination HK$'000	Total HK$'000
Turnover							
External sales	2,230,312	594,065	247,177	984,023	121,013	–	4,176,590
Inter-segment sales	5,877	99,056	–	14,291	6,712	(125,936)	–
	2,236,189	693,121	247,177	998,314	127,725	(125,936)	4,176,590
Segment results	859,160	391,028	28,789	194,429	(15,501)	1,101	1,459,006
Gain on disposal of financial assets at fair value through profit or loss							148,778
Finance costs							(956)
Share of losses of							
Jointly controlled entities	–	–	–	(30)	–		(30)
Associates	–	–	–	(187,197)	–		(187,197)
Profit before income tax							1,419,601
Income tax expense							(232,354)
Profit for the year							1,187,247
Other segment terms included in the income statement are as follows:							
Depreciation	186,203	6,994	12,318	52,950	1,911		260,376
Amortisation of leasehold land	4,568	–	–	–	–		4,568
Impairment of goodwill	–	–	–	5,894	–		5,894

4 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year ended 31 December 2006 are as follows:

	Terrestrial television broadcasting HK$'000	Programme licensing and distribution HK$'000	Overseas satellite pay TV operations HK$'000	Channel operations HK$'000	Other activities HK$'000	Total HK$'000
Segment assets	**3,690,330**	**274,533**	**123,307**	**928,840**	**116,676**	**5,133,686**
Interest in associates	**155,595**	**–**	**–**	**(5,382)**	**–**	**150,213**
Available-for-sale financial assets	**–**	**3**	**–**	**–**	**–**	**3**
Loan to investee company	**–**	**6,666**	**–**	**–**	**–**	**6,666**
Unallocated assets						**396,573**
Total assets						**5,687,141**
Segment liabilities	**270,272**	**81,992**	**71,607**	**162,016**	**24,622**	**610,509**
Unallocated liabilities						**208,285**
Total liabilities						**818,794**
Capital expenditure	**49,956**	**2,538**	**2,851**	**39,402**	**692**	**95,439**

The segment assets and liabilities at 31 December 2005 and capital expenditure for the year ended 31 December 2005 are as follows:

	Terrestrial television broadcasting HK$'000	Programme licensing and distribution HK$'000	Overseas satellite pay TV operations HK$'000	Channel operations HK$'000	Other activities HK$'000	Total HK$'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						5,322,264
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						917,197
Capital expenditure	65,734	4,123	2,520	155,976	687	229,040

4 TURNOVER, REVENUE AND 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 income tax.

Capital expenditure comprises additions to property, plant and equipment (Note 5) and intangible assets (Note 7).

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/commercial production, distribution of television channels, provision of contents to mobile devices, website portal, magazine publication, licensing and distribution of movies and sales of video compact discs
Taiwan	–	cable television channel services, licensing and distribution of television programmes
USA and Canada	–	licensing and distribution of television programmes and channels 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 and channels
Other countries	–	principally licensing and distribution of television programmes and channels

4 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Secondary reporting format – geographical segments (Continued)

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

	Turnover		Segment results	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**2,548,729**	2,560,672	**990,603**	940,891
Taiwan	**743,010**	743,834	**150,066**	133,586
USA and Canada	**209,013**	209,149	**113,355**	106,197
Australia	**71,313**	67,784	**(27)**	(6,023)
Europe	**95,589**	97,080	**16,784**	17,275
Mainland China	**171,869**	117,225	**115,459**	65,311
Malaysia and Singapore	**331,513**	337,726	**195,891**	182,978
Other countries	**30,150**	43,120	**16,697**	18,791
	4,201,186	4,176,590	**1,598,828**	1,459,006
Gain on disposal of financial assets at fair value through profit or loss			**–**	148,778
			1,598,828	1,607,784

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

	Total assets		Capital expenditure	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**4,141,898**	3,994,853	**52,899**	69,453
Taiwan	**614,605**	680,433	**39,176**	155,901
USA and Canada	**102,757**	101,990	**957**	2,610
Australia	**15,447**	11,614	**350**	325
Europe	**79,520**	72,966	**1,829**	735
Mainland China	**34,406**	26,836	**30**	–
Malaysia and Singapore	**124,053**	93,321	**–**	–
Other countries	**21,000**	25,007	**198**	16
	5,133,686	5,007,020	**95,439**	229,040
Interest in associates	**150,213**	245,516		
Available-for-sale financial assets	**3**	3		
Loan to investee company	**6,666**	6,676		
Unallocated assets	**396,573**	63,049		
	5,687,141	5,322,264		

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

5 PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Freehold land and buildings HK$'000	Leasehold improvements HK$'000	Studio, broadcasting and transmitting equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 January 2005	1,048,765	95,132	1,581,840	617,110	40,324	3,383,171
Exchange differences	823	1,004	(562)	(1,104)	79	240
Additions	1,046	1,660	77,503	25,741	7,142	113,092
Cost adjustment (note (i))	(3,500)	–	–	–	–	(3,500)
Transfers	16,629	(16,629)	631	(631)	–	–
Disposals	–	(10,196)	(54,742)	(14,289)	(2,720)	(81,947)
At 31 December 2005	1,063,763	70,971	1,604,670	626,827	44,825	3,411,056
At 1 January 2006	1,063,763	70,971	1,604,670	626,827	44,825	3,411,056
Exchange differences	1,382	740	7,597	2,504	202	12,425
Additions	637	1,215	79,237	13,884	466	95,439
Transfers	(158)	–	11,397	(11,239)	–	–
Disposals	–	(303)	(11,682)	(26,488)	(1,358)	(39,831)
At 31 December 2006	**1,065,624**	**72,623**	**1,691,219**	**605,488**	**44,135**	**3,479,089**
Accumulated depreciation and impairment						
At 1 January 2005	74,736	75,598	957,123	193,762	32,108	1,333,327
Exchange differences	(289)	608	(1,180)	(775)	96	(1,540)
Charge for the year	37,896	12,509	153,317	52,023	4,631	260,376
Transfers	15,211	(15,211)	202	(202)	–	–
Written back on disposals	–	(10,196)	(52,285)	(12,018)	(2,708)	(77,207)
At 31 December 2005	127,554	63,308	1,057,177	232,790	34,127	1,514,956
At 1 January 2006	127,554	63,308	1,057,177	232,790	34,127	1,514,956
Exchange differences	255	697	6,612	1,994	148	9,706
Charge for the year	38,953	3,861	158,230	56,024	4,137	261,205
Transfers	(1)	–	5,892	(5,891)	–	–
Written back on disposals	–	(303)	(11,060)	(25,990)	(632)	(37,985)
At 31 December 2006	**166,761**	**67,563**	**1,216,851**	**258,927**	**37,780**	**1,747,882**
Net book value						
At 31 December 2006	**898,863**	**5,060**	**474,368**	**346,561**	**6,355**	**1,731,207**
At 31 December 2005	936,209	7,663	547,493	394,037	10,698	1,896,100

5 PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Group (Continued)

Notes:

(i) In 2005, a settlement agreement was entered into between the Company and the contractor under which it was agreed that a sum of HK$3,500,000 be deducted from the total contract sum to release the contractor from the obligation to rectify the outstanding defects in respect of the construction of buildings located in TVB City.

(ii) Property, plant and equipment comprise freehold land outside Hong Kong at cost of HK$75,754,000 (2005: HK$74,992,000).

(b) Company

	Buildings HK$'000	Leasehold improvements HK$'000	Studio, broadcasting and transmitting equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 January 2005	922,844	14,186	1,127,275	503,883	28,069	2,596,257
Additions	888	–	45,538	13,766	5,542	65,734
Cost adjustment (note)	(3,500)	–	–	–	–	(3,500)
Transferred from/(to) subsidiaries	–	–	(210)	630	–	420
Disposals	–	(10,196)	(38,490)	(6,262)	(50)	(54,998)
At 31 December 2005	920,232	3,990	1,134,113	512,017	33,561	2,603,913
At 1 January 2006	920,232	3,990	1,134,113	512,017	33,561	2,603,913
Additions	53	–	45,319	4,549	35	49,956
Transferred from/(to) subsidiaries	–	–	(216)	2	–	(214)
Disposals	–	(243)	(3,370)	(4,332)	(1,138)	(9,083)
At 31 December 2006	**920,285**	**3,747**	**1,175,846**	**512,236**	**32,458**	**2,644,572**
Accumulated depreciation						
At 1 January 2005	64,600	14,186	623,604	114,087	21,401	837,878
Charge for the year	36,626	–	107,794	38,009	3,774	186,203
Transferred from/(to) subsidiaries	–	–	(210)	430	–	220
Written back on disposals	–	(10,196)	(37,062)	(6,180)	(50)	(53,488)
At 31 December 2005	101,226	3,990	694,126	146,346	25,125	970,813
At 1 January 2006	101,226	3,990	694,126	146,346	25,125	970,813
Charge for the year	36,817	–	113,061	44,678	3,558	198,114
Transferred from/(to) subsidiaries	–	–	(216)	2	–	(214)
Written back on disposals	–	(243)	(3,250)	(4,059)	(427)	(7,979)
At 31 December 2006	**138,043**	**3,747**	**803,721**	**186,967**	**28,256**	**1,160,734**
Net book value						
At 31 December 2006	**782,242**	**–**	**372,125**	**325,269**	**4,202**	**1,483,838**
At 31 December 2005	819,006	–	439,987	365,671	8,436	1,633,100

5 PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Company (Continued)

Note:

In 2005, a settlement agreement was entered into between the Company and the contractor under which it was agreed that a sum of HK$3,500,000 be deducted from the total contract sum to release the contractor from the obligation to rectify the outstanding defects in respect of the construction of buildings located in TVB City.

6 LEASEHOLD LAND

The Group's interests in leasehold land represent prepaid operating lease payments and their net book value is analysed as follows:

	Group and Company	
	2006	2005
	HK$'000	HK$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	**183,848**	188,416
Opening net book value	**188,416**	192,984
Amortisation (Note 22)	**(4,568)**	(4,568)
Closing net book value	**183,848**	188,416
Cost	**200,977**	200,977
Accumulated amortisation	**(17,129)**	(12,561)
Closing net book value	**183,848**	188,416

7 INTANGIBLE ASSETS

	Group Goodwill HK$'000
At 1 January 2005	
Cost	64,866
Accumulated amortisation	(9,524)
Net book amount	55,342
Year ended 31 December 2005	
Opening net book amount	55,342
Acquisition of minority interest in a subsidiary (note (a))	115,948
Impairment expense (note (b) and Note 22)	(5,894)
Exchange differences	(4,393)
Closing net book amount	161,003
At 31 December 2005	
Cost	166,897
Accumulated impairment	(5,894)
Net book amount	161,003
Year ended 31 December 2006	
Opening net book amount	161,003
Exchange differences	1,181
Closing net book amount	**162,184**
At 31 December 2006	
Cost	168,078
Accumulated impairment	(5,894)
Net book amount	**162,184**

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, plus direct cost relating to the acquisition of NT$2.7 million (totaling NT$902.7 million or HK$221,613,000). The excess of the cost over the fair value of the 30% of the net identifiable assets of LYP, amounting to NT$472 million (HK$115,948,000), was 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.

7 INTANGIBLE ASSETS (Continued)

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and business segment.

A segment-level summary of the goodwill allocation is presented below:

	2006		
	Overseas satellite pay TV operations HK$'000	**Channel operations HK$'000**	**Total HK$'000**
Europe	**49,448**	**–**	**49,448**
Taiwan	**–**	**112,736**	**112,736**
	49,448	**112,736**	**162,184**

	2005		
	Overseas satellite pay TV operations HK$'000	Channel Operations HK$'000	Total HK$'000
Europe	49,448	–	49,448
Taiwan	–	111,555	111,555
	49,448	111,555	161,003

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The growth rate does not exceed the long-term average growth rate in which the CGU operates.

Key assumptions used for value-in-use calculations are as follows:

	Overseas satellite pay TV operations	**Channel Operations**
	Europe	**Taiwan**
Gross margin	**50%**	**36%**
Growth rate	**–7%**	**2%**
Discount rate	**10%**	**10%**

These assumptions have been used for the analysis of each CGU within the business segment.

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

8 INVESTMENT IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**1,100**	600
Amounts due from subsidiaries (note)	**492,602**	509,860
	493,702	510,460

Note:

The amounts due from subsidiaries are unsecured and interest free, and have no fixed terms of repayment.

Details of the subsidiaries are listed in Note 35.

9 INTEREST IN ASSOCIATES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Share of net (liabilities)/assets	**(5,382)**	157,727	**–**	–
Unpaid capital contributions (note (a))	**–**	(56,280)	**–**	–
	(5,382)	101,447	**–**	–
Loan to an associate (note (b))	**115,564**	115,564	**115,564**	115,564
Interest receivables from an associate (note (b))	**40,031**	28,505	**40,031**	28,505
	150,213	245,516	**155,595**	144,069
Unlisted shares, at cost	**533,300**	533,300	**–**	–

Notes:

(a) The amount represented the unpaid capital contributions to an associate, TVB Pay Vision Holdings Limited (formerly known as Galaxy Satellite TV Holdings Limited) which is unsecured and interest free. The unpaid capital contributions were paid in March 2006 in accordance with the time schedule stipulated under sale and purchase agreement of shares of TVB Pay Vision Holdings Limited dated 21 April 2005.

(b) The loan to an associate is unsecured and carries interest at 8% per annum compounded annually. Details of the terms of repayment are disclosed in Note 33(d).

The carrying amount of the loan to an associate approximates its fair value.

9 INTEREST IN ASSOCIATES (Continued)

Details of the associates are listed below:

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	Percentage of interest in ownership
TVB3 Network Company Limited	Thailand	Television production and programming service	Ordinary shares of Baht10 each	40%
TVB Pay Vision Holdings Limited	Hong Kong	Investment holding	Ordinary shares of HK$1 each	49%
TVB Pay Vision Limited (formerly known as Galaxy Satellite Broadcasting Limited)	Hong Kong	Domestic pay television programme service	Ordinary shares of HK$1 each	# 49%

an associate held indirectly by the Group

Summary of the Group's share of financial information on associates is as follows:

	Assets HK$'000	Liabilities HK$'000	Equity HK$'000	Revenues HK$'000	Loss for the year HK$'000
2006	**207,918**	**213,300**	**(5,382)**	**87,428**	**(163,109)**
2005	361,022	203,295	157,727	71,007	(187,197)

10 INTEREST IN JOINTLY CONTROLLED ENTITY

	Group	
	2006 HK$'000	2005 HK$'000
Share of net assets	**–**	–
Loan to a jointly controlled entity (note (a))	**20,653**	20,653
Provision for impairment (note (b))	**(20,653)**	(20,653)
	–	–
Unlisted shares, at cost	**14,165**	14,165

Notes:

(a) The loan to a jointly controlled entity is unsecured and interest free, and has no fixed terms of repayment.

(b) Investment cost and loan to a jointly controlled entity were fully provided as at 31 December 2005.

10 INTEREST IN JOINTLY CONTROLLED ENTITY (Continued)

Details of the jointly controlled entity are listed below:

Name	Place of incorporation and operation	Principal activities	Percentage of interest in ownership
上海新视线互动多媒体有限公司	The People's Republic of China	Internet web portal	50%

Summary of the Group's share of financial information on jointly controlled entities was as follows:

	Assets HK$'000	Liabilities HK$'000	Equity HK$'000	Revenues HK$'000	Loss for the year HK$'000
2006					
上海新视线互动多媒体有限公司	**–**	**–**	**–**	**–**	**–**
2005					
Hsin Chi Broadcast Co. Ltd.	–	–	–	–	(30)
上海新视线互动多媒体有限公司	–	–	–	–	–
	–	–	–	–	(30)

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2006 HK$'000	2005 HK$'000
Beginning of the year	**3**	21,478
Exchange differences	**–**	75
Write off of investments	**–**	(17,773)
Disposals	**–**	(1,538)
Provision for impairment (note)	**–**	(2,239)
End of the year	**3**	3
Available-for-sale financial assets include the following:		
Unlisted equity securities – Canada	**3**	3

Note: The impairment expense arose in respect of the Group's investment in companies which have been in a continued loss making position or in the process of liquidation.

12 LOAN TO INVESTEE COMPANY

	Group	
	2006	2005
	HK$'000	HK$'000
Loan to investee company	**6,666**	6,676

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

The carrying amount of loan to investee company approximates its fair value.

13 STOCKS

At 31 December 2006 and 2005, all stocks are stated at costs, which approximate their fair values.

14 TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Receivables from:				
Associates	**231,069**	202,748	**228,450**	200,480
Related parties	**63,865**	39,949	**–**	–
Trade receivables (note (a))	**952,998**	892,172	**626,571**	615,642
	1,247,932	1,134,869	**855,021**	816,122
Less: provision for impairment of receivables	**(74,001)**	(68,031)	**(33,554)**	(41,531)
Other receivables, prepayments and deposits (note (b))	**150,865**	263,139	**95,794**	128,851
Tax reserve certificates	**47,551**	23,989	**–**	–
	1,372,347	1,353,966	**917,261**	903,442

Notes:

(a) 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.

(b) Other receivables as at 31 December 2005 included an amount of HK$86,275,000 receivable from See Corporation Limited being the balance of the proceeds from the sale of the 51% interest in TVB Pay Vision Holdings Limited. The amount was received in full on 28 February 2006.

14 TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (Continued)

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current	**443,681**	405,941	**233,360**	221,636
1-2 months	**258,383**	241,864	**209,957**	195,282
2-3 months	**173,324**	142,271	**138,996**	116,742
3-4 months	**95,638**	107,689	**68,358**	86,728
4-5 months	**57,153**	49,499	**39,789**	41,613
Over 5 months	**217,491**	185,343	**164,561**	154,121
	1,245,670	1,132,607	**855,021**	816,122
Trade receivables due from:				
Third parties	**952,998**	892,172	**626,571**	615,642
Associates and related parties	**292,672**	240,435	**228,450**	200,480
	1,245,670	1,132,607	**855,021**	816,122
Non-trading amounts due from associates and related parties	**2,262**	2,262	**–**	–
	1,247,932	1,134,869	**855,021**	816,122

Except for the amounts due from associates, there is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

The carrying amounts of trade and other receivables, prepayments and deposits approximate their fair values.

The Group has recognised a loss of HK$6,132,000 (2005: HK$6,720,000) for the impairment of its trade receivables during the year ended 31 December 2006.

15 BANK DEPOSITS

At 31 December 2006, the Group had pledged bank deposits of HK$239,000 (2005: HK$236,000) to secure certain credit facilities granted to a subsidiary of the Group. The carrying amounts of bank deposits approximate their fair values.

16 SHARE CAPITAL

	Number of ordinary shares of HK$0.05 each	Nominal value HK$'000
Authorised:		
At 1 January 2005 and 2006 and 31 December 2006	**1,300,000,000**	**65,000**
Issued and fully paid:		
At 1 January 2005 and 2006 and 31 December 2006	**438,000,000**	**21,900**

17 OTHER RESERVES

(a) Group

	Share premium HK$'000	General reserve HK$'000	Capital reserve HK$'000	Legal reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'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	–	–	–	–	–	(17,092)	(17,092)
– Associates	–	–	–	–	–	545	545
– Jointly controlled entities	–	–	–	–	–	7,529	7,529
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	–	–	–	–	–	(46,296)	(46,296)
Transfer from retained earnings	–	–	–	15,987	–	–	15,987
Balance at 31 December 2006	**602,026**	**70,000**	**864**	**35,394**	**40,118**	**(78,579)**	**669,823**

(b) Company

	Share premium HK$'000	General reserve HK$'000	Capital redemption reserve HK$'000	Total HK$'000
Balance at 1 January 2005 and 2006 and 31 December 2006	**602,026**	**70,000**	**40,118**	**712,144**

In accordance with the local laws and regulations of a subsidiary, the subsidiary is required to transfer the gain on deemed disposal of its associate to the capital reserve. The capital reserve in connection with the gain on deemed disposal of its associate can only be used to cover operating losses.

17 OTHER RESERVES (Continued)

(b) Company (Continued)

In accordance with the local laws of subsidiaries in Taiwan, these subsidiaries are required to set aside 10% of annual net income less any accumulated deficit as legal reserve to the extent that the legal reserve amounts to total contributed share capital. The application of the legal reserve is restricted to covering operating losses and conversion into share capital.

The capital redemption reserve and share premium account of the Group were set up in accordance with the requirements of the Hong Kong Companies Ordinance.

The translation 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 1.4.

Distributable reserves, include retained earnings and general reserve, of the Company at 31 December 2006, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK$3,506,504,000 (2005: HK$3,247,946,000).

18 TRADE AND OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables to:				
Associates	**5,157**	7,692	**–**	–
Related parties	**109**	237	**–**	–
Third parties	**80,104**	91,188	**39,649**	44,663
	85,370	99,117	**39,649**	44,663
Other payables and accruals	**508,624**	487,239	**230,817**	213,851
Payable for financial assets at fair value through profit or loss (note)	**–**	56,876	**–**	–
	593,994	643,232	**270,466**	258,514

Note:

The balance as at 31 December 2005 represented the unpaid capital contributions by the Group to TVB Pay Vision Holdings Limited which was fully settled in March 2006.

18 TRADE AND OTHER PAYABLES AND ACCRUALS (Continued)

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current	**48,181**	61,487	**26,783**	35,057
1-2 months	**22,253**	22,211	**9,441**	7,539
2-3 months	**8,433**	8,391	**2,518**	1,649
3-4 months	**3,437**	1,884	**221**	40
4-5 months	**866**	229	**283**	16
Over 5 months	**2,200**	4,915	**403**	362
	85,370	99,117	**39,649**	44,663

The carrying amounts of trade and other payables and accruals approximate their fair values.

19 DEFERRED INCOME TAX

The movement in the deferred income tax liabilities/(assets) account is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**125,382**	106,778	**118,562**	123,530
Exchange differences	**(91)**	82	**–**	–
Recognised in the income statement (Note 25)	**(23,969)**	18,522	**(12,806)**	(4,968)
At 31 December	**101,322**	125,382	**105,756**	118,562

Deferred income tax liabilities of HK$697,000 (2005: HK$329,000) have not been established for the withholding and other taxation that would be payable on the unremitted earnings of an investee company.

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. At 31 December 2006, the Group has unrecognised tax losses of HK$474,587,000 (2005: HK$478,107,000) to carry forward against future taxable income. These tax losses will expire as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
In the first year	**–**	–
In the second to fifth year	**–**	920
After the fifth year	**36,652**	68,173
No expiry date	**437,935**	409,014
	474,587	478,107

19 DEFERRED INCOME TAX (Continued)

The movement in deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

(a) Group

Deferred income tax liabilities

	Accelerated tax depreciation		Others		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**128,902**	135,885	**31,590**	2,931	**160,492**	138,816
Recognised in the income statement	**(16,012)**	(6,971)	**(10,564)**	28,664	**(26,576)**	21,693
Exchange differences	**4**	(12)	**24**	(5)	**28**	(17)
At 31 December	**112,894**	128,902	**21,050**	31,590	**133,944**	160,492

Deferred income tax assets

	Provisions		Tax losses		Others		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**182**	2,783	**19,832**	12,665	**15,096**	16,590	**35,110**	32,038
Recognised in the income statement	**(182)**	(2,601)	**(2,540)**	7,227	**115**	(1,455)	**(2,607)**	3,171
Exchange differences	**–**	–	**58**	(60)	**61**	(39)	**119**	(99)
At 31 December	**–**	182	**17,350**	19,832	**15,272**	15,096	**32,622**	35,110

(b) Company

Deferred income tax liabilities

	Accelerated tax depreciation		Others		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**123,307**	129,794	**1,030**	1,380	**124,337**	131,174
Recognised in the income statement	**(13,550)**	(6,487)	**(656)**	(350)	**(14,206)**	(6,837)
At 31 December	**109,757**	123,307	**374**	1,030	**110,131**	124,337

19 DEFERRED INCOME TAX (Continued)

(b) Company (Continued)

Deferred income tax assets

	Provisions		Others		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**–**	1,869	**5,775**	5,775	**5,775**	7,644
Recognised in the income statement	**–**	(1,869)	**(1,400)**	–	**(1,400)**	(1,869)
At 31 December	**–**	–	**4,375**	5,775	**4,375**	5,775

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Net deferred income tax assets recognised on the balance sheet	**(25,121)**	(24,358)	**–**	–
Net deferred income tax liabilities recognised on the balance sheet	**126,443**	149,740	**105,756**	118,562
	101,322	125,382	**105,756**	118,562

20 RETIREMENT BENEFIT OBLIGATIONS

	Group	
	2006	2005
	HK$'000	HK$'000
Obligations on:		
pensions – defined contribution plans (note (a))	**7,830**	7,151
pensions – defined benefits plans (note (b))	**16,515**	18,503
	24,345	25,654

Notes:

(a) Pensions – defined contribution plans

Forfeited contributions totaling HK$3,401,000 (2005: HK$7,668,000) were utilised during the year.

Contributions totaling HK$7,830,000 (2005: HK$7,151,000) were payable to the fund at the year end and are included in other payables and accruals.

20 RETIREMENT BENEFIT OBLIGATIONS (Continued)

Notes:

(b) Pensions – defined benefits plans

The Group operates a defined benefit retirement scheme providing benefits to eligible employees located in Taiwan under the local regulations.

The pension plan is a final salary defined benefit plan. The assets of the funded plan are held independently of those of the Group, being invested through a central trust fund. The plan is valued by a qualified actuary annually using the projected unit credit method. The latest valuation was carried out as of 31 December 2006 by Client View Management Consulting Co., Ltd..

The amounts recognised in the consolidated balance sheet are determined as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Present value of funded obligations	**52,534**	47,120
Fair value of plan assets	**(27,528)**	(21,428)
	25,006	25,692
Unrecognised actuarial losses	**(8,491)**	(7,189)
Liability in the balance sheet	**16,515**	18,503

Expected contributions to defined benefit plans for the year ending 31 December 2007 are HK$6,965,000.

Plan assets are comprised as follows:

	Group			
	2006		2005	
	HK$'000	**%**	HK$'000	%
Bank deposits	**12,313**	**45**	10,663	50
Equity	**4,586**	**16**	3,636	17
Debt	**9,332**	**34**	6,906	32
Others	**1,297**	**5**	223	1
	27,528	**100**	21,428	100

The movement in the present value of the liability recognised in the consolidated balance sheet is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
At 1 January	**47,120**	44,903
Current service cost	**1,385**	4,434
Interest cost	**1,666**	1,610
Actuarial losses/(gains)	**1,863**	(3,988)
Exchange differences	**500**	480
Curtailments	**–**	(319)
At 31 December	**52,534**	47,120

20 RETIREMENT BENEFIT OBLIGATIONS (Continued)

Notes:

(b) Pensions – defined benefits plans (Continued)

The movement in the fair value of plan assets of the year is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
At 1 January	**21,428**	17,231
Expected return on plan assets	**614**	491
Actuarial gains	**(29)**	(211)
Employer contributions	**5,287**	3,810
Exchange differences	**228**	107
At 31 December	**27,528**	21,428

The amounts recognised in the consolidated income statement are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Current service cost	**1,385**	4,434
Interest cost	**1,666**	1,610
Expected return on plan assets	**(614)**	(491)
Net actuarial losses recognised	**666**	406
Total, included in employee benefit expense (Note 23 (b))	**3,103**	5,959

The actual return on plan assets was HK$585,000 (2005: HK$280,000).

The principal actuarial assumptions used were as follows:

	Group	
	2006	2005
	%	%
Discount rate	**3.50**	3.50
Expected rate of return on plan assets	**2.50**	2.50
Expected rate of future salary increases	**3.00**	3.00

20 RETIREMENT BENEFIT OBLIGATIONS (Continued)

Notes:

(b) Pensions – defined benefits plans (Continued)

Historical information:

	Group 2006 HK$'000
Present value of defined benefit obligation	**52,534**
Fair value of plan assets	**(27,528)**
Deficit	**25,006**
Experience adjustments on plan liabilities	**1,627**
Experience adjustments on plan assets	**30**

21 PROVISIONS

	Group Onerous Contracts		Company Onerous Contracts	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
At 1 January	**1,042**	15,906	**–**	10,682
Less: utilised during the year	**(1,042)**	(14,864)	**–**	(10,682)
At 31 December	**–**	1,042	**–**	–
Analysis of total provisions				
Current	**–**	1,042	**–**	–

The carrying amounts of provisions approximated their fair values.

22 OPERATING PROFIT

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

	2006 HK$'000	2005 HK$'000
Loss on disposal of property, plant and equipment	**872**	3,927
Net exchange (gain)/loss	**(57,670)**	1,127
Auditors' remuneration	**3,623**	3,660
Non-audit service fees (mainly tax services)	**1,655**	2,741
Cost of programmes, film rights, movies and stocks	**1,170,761**	1,148,348
Depreciation – owned property, plant and equipment	**261,205**	260,375
Depreciation – leased property, plant and equipment	**–**	1
Amortisation of leasehold land (Note 6)	**4,568**	4,568
Impairment of goodwill (Note 7)	**–**	5,894
Impairment on loan to a jointly controlled entity	**–**	14,638
Operating leases		
– equipment and transponders	**48,286**	66,281
– land and buildings	**27,080**	35,465
Employee benefit expense (excluding directors' emoluments) (Note 23 (b))	**1,169,257**	1,124,284

23 DIRECTORS' EMOLUMENTS AND EMPLOYEE BENEFIT EXPENSE

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2006 is set out below:

Name of Director	Fees HK$'000	Salary and allowance HK$'000	Gratuity HK$'000	Pension contributions HK$'000	Total HK$'000
Executive Directors					
Sir Run Run Shaw, G.B.M.	900	–	–	–	900
Dr. Norman Leung Nai Pang, G.B.S., LL.D., J.P.	53	4,247	–	12	4,312
Mona Fong (note (i))	244	703	–	–	947
Louis Page (note (ii))	43	994	3,000	99	4,136
Non-executive Directors					
Edward Cheng Wai Sun, J.P. (note (iii))	56	–	–	–	56
Dr. Chow Yei Ching, G.B.S.	53	–	–	–	53
Ho Ting Kwan	85	–	–	–	85
Chien Lee	115	–	–	–	115
Christina Lee Look Ngan Kwan	96	–	–	–	96
Dr. Li Dak Sum, DSSc. (Hon.), J.P.	56	–	–	–	56
Kevin Lo Chung Ping	128	–	–	–	128
Robert Sze Tsai To	213	–	–	–	213
	2,042	5,944	3,000	111	11,097

23 DIRECTORS' EMOLUMENTS AND EMPLOYEE BENEFIT EXPENSE (Continued)

(a) Directors' emoluments (Continued)

The remuneration of every Director for the year ended 31 December 2005 was set out below:

Name of Director	Fees HK$'000	Salary and allowance HK$'000	Discretionary bonuses HK$'000	Pension contributions HK$'000	Total HK$'000
Executive Directors					
Sir Run Run Shaw, G.B.M.	900	–	–	–	900
Dr. Norman Leung Nai Pang, G.B.S., LL.D., J.P.	30	4,180	–	12	4,222
Louis Page	105	2,400	1,700	240	4,445
Non-executive Directors					
Mona Fong	259	–	–	–	259
Dr. Chow Yei Ching, G.B.S.	30	–	–	–	30
Ho Ting Kwan	30	1,580	–	145	1,755
Chien Lee	45	–	–	–	45
Christina Lee Look Ngan Kwan	30	–	–	–	30
Lee Jung Sen, O.B.E.	50	–	–	–	50
Dr. Li Dak Sum, DSSc. (Hon.), J.P.	50	–	–	–	50
Kevin Lo Chung Ping	105	–	–	–	105
Robert Sze Tsai To	174	–	–	–	174
	1,808	8,160	1,700	397	12,065

Notes:

(i) The Director was appointed as Acting Managing Director on 31 May 2006.

(ii) The Director resigned on 31 May 2006 and a gratuity of HK$3,000,000 was paid to him for his past service.

(iii) The Director was appointed on 1 June 2006.

(b) Employee benefit expense

	2006 HK$'000	2005 HK$'000
Wages and salaries	**1,094,072**	1,054,296
Pension costs – defined contribution plans	**72,082**	64,029
Pension costs – defined benefits plans	**3,103**	5,959
	1,169,257	1,124,284

23 DIRECTORS' EMOLUMENTS AND EMPLOYEE BENEFIT EXPENSE (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2005: two) Directors whose emoluments are reflected in the analysis presented in note (a) above. The emoluments payable to the remaining three (2005: three) individuals during the year are as follows:

	2006 HK$'000	2005 HK$'000
Salaries and allowances	9,199	8,940
Bonuses	5,512	10,938
Pension contributions	620	594
	15,331	20,472

The aggregate emoluments paid to the individuals are further analysed into the following bands:

Emolument bands	Number of individuals in each band 2006	2005
HK$3,000,001 – HK$3,500,000	–	1
HK$3,500,001 – HK$4,000,000	1	–
HK$4,000,001 – HK$4,500,000	1	1
HK$7,500,001 – HK$8,000,000	1	–
HK$13,000,001 – HK$13,500,000	–	1
	3	3

24 FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on overdrafts, bank loans and other loans		
– wholly repayable within five years	98	618
– not wholly repayable within five years	–	338
Total finance costs incurred	98	956

25 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 year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

25 INCOME TAX EXPENSE (Continued)

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

	2006 HK$'000	2005 HK$'000
Current income tax:		
– Hong Kong	**213,192**	179,907
– Overseas	**57,803**	34,629
– Under/(over) provisions in prior years	**155**	(704)
Deferred income tax relating to the origination and reversal of temporary differences (Note 19)	**(23,969)**	18,522
	247,181	232,354

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the place where the company operates as follows:

	2006 HK$'000	2005 HK$'000
Profit before income tax	**1,435,621**	1,419,601
Calculated at a taxation rate of 17.5% (2005: 17.5%)	**251,234**	248,430
Effect of different taxation rates in other countries	**(19,653)**	(30,082)
Tax effect of share of results of associates and jointly controlled entities	**28,544**	32,760
Income not subject to taxation	**(8,467)**	(28,386)
Expenses not deductible for taxation purposes	**1,582**	8,151
Tax losses not recognised	**2,437**	3,929
Utilisation of previously unrecognised tax losses	**(11,839)**	(20,848)
Tax credit allowance	**(2,746)**	(4,198)
Tax on undistributed profits	**7,158**	28,728
Allowance for previous non-deductible expenses	**(985)**	(12,580)
Withholding tax	**–**	9,243
Others	**(239)**	(2,089)
Under/(over) provisions in prior years	**155**	(704)
	247,181	232,354

26 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$937,458,000 (2005: HK$1,089,704,000).

27 EARNINGS PER SHARE

The earnings per share is calculated based on the Group's profit attributable to equity holders of HK$1,188,597,000 (2005: HK$1,180,019,000) and 438,000,000 shares in issue throughout the years ended 31 December 2006 and 2005. No fully diluted earnings per share is presented as there were no potentially dilutive shares outstanding.

28 DIVIDENDS

	2006 HK$'000	2005 HK$'000
Interim dividend paid of HK$0.25 (2005: HK$0.25) per ordinary share	**109,500**	109,500
Proposed final dividend of HK$1.45 (2005: HK$1.30) per ordinary share	**635,100**	569,400
	744,600	678,900

At a meeting held on 21 March 2007, the Directors declared a final dividend of HK$1.45 per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit to cash generated from operations

	2006 HK$'000	2005 HK$'000
Operating profit	**1,598,828**	1,607,784
Gain on disposal of a jointly controlled entity	**–**	(623)
Gain on disposal of financial assets at fair value through profit or loss	**–**	(148,778)
Gain on disposal of available-for-sale financial assets	**–**	(1,233)
Depreciation and amortisation of leasehold land	**265,773**	264,944
Impairment of goodwill	**–**	5,894
Loss on disposal of property, plant and equipment	**872**	3,927
Utilisation of onerous contracts	**(1,042)**	(14,864)
Impairment on available-for-sale financial assets	**–**	2,239
Impairment on loan to a jointly controlled entity	**–**	14,638
Interest income	**(58,080)**	(25,151)
Exchange differences	**(52,822)**	(1,561)
Operating profit before working capital changes	**1,753,529**	1,707,216
Decrease in programmes, film rights, movies and stocks	**7,258**	224
Increase in trade and other receivables, prepayments and deposits	**(103,712)**	(259,589)
Increase in trade and other payables and accruals	**7,638**	51,812
Increase in retirement benefit obligations – defined benefits plans	**(1,988)**	2,288
Cash generated from operations	**1,662,725**	1,501,951

30 CONTINGENT LIABILITIES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
(a) Guarantees for banking facilities granted to an investee company	**8,675**	8,688	**–**	–

It is anticipated that no material liabilities will arise from the above bank and other guarantees which arose in the ordinary course of business.

(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 was granted a holdover of these additional assessments by the IRD. Further additional profits tax assessment notices for the year of assessment 2000/2001 are expected to be issued before 31 March 2007.

The Group had filed an 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.

31 COMMITMENTS

(a) Capital commitments

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Authorised but not contracted for	**792,171**	170,941	**720,031**	112,373
Contracted but not provided for	**28,461**	12,513	**25,236**	10,456
	820,632	183,454	**745,267**	122,829

The Group did not share any capital commitments of the jointly controlled entity for the years ended 31 December 2006 and 2005.

31 COMMITMENTS (Continued)

(b) Operating lease commitments as lessee

At 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases which fall due as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Land and buildings				
– not later than one year	**23,598**	25,369	**1,520**	3,959
– later than one year and not later than five years	**40,167**	43,737	**524**	2,046
– later than five years	**–**	1,620	**–**	–
	63,765	70,726	**2,044**	6,005
Equipment and transponders				
– not later than one year	**35,503**	30,819	**331**	1,032
– later than one year and not later than five years	**68,490**	39,360	**141**	471
– later than five years	**1,096**	–	**–**	–
	105,089	70,179	**472**	1,503
	168,854	140,905	**2,516**	7,508

The Group leases various premises and buildings for the use as offices and studios under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The Group also leases various plant and machinery under non-cancellable operating lease agreements.

The lease expenditure expensed in the income statement during the year is disclosed in Note 22.

(c) Operating lease commitments as lessor

At 31 December 2006, the Group had contracted with tenants for future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Land and buildings				
– not later than one year	**6,238**	6,238	**6,238**	6,238
– later than one year and not later than five years	**4,419**	10,673	**4,419**	10,673
	10,657	16,911	**10,657**	16,911

Operating lease payments represent rental receivable by the Group from its associate. Leases are negotiated and rentals are fixed for 5 years.

32 TELEVISION BROADCASTING LICENCE

The Company operates under the terms of a licence granted by the Government of the HKSAR which runs for a period of twelve years to 30 November 2015. The licence will be subject to a mid-term review in 2009.

33 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

The following is a summary of significant related party transactions during the year carried out by the Group in the normal course of its business:

	Note	**2006 HK$'000**	2005 HK$'000
Sales of services:			
Associate			
Programmes/channel licensing fee	(i)	**197,781**	194,623
Channel package service fee	(i)	**2,131**	3,691
Downlink service fee	(i)	**96**	1,110
Advertising income	(i)	**6,615**	20,715
Rental income and related charges	(i)	**6,377**	6,812
Others	(i)	**3,259**	3,431
Other related parties			
Programmes/channel licensing fee	(ii)	**143,928**	131,030
Advertising agency fee	(ii)	**40,305**	33,688
Management fee	(ii)	**31,345**	30,320
Rental of satellite equipment and technical service fee	(iii)	**–**	764
Transponder leasing fee	(iii)	**–**	475
Programmes licensing fee	(iv)	**–**	6,843
Channel licensing fee	(v)	**971**	–
Advertising income	(vi)	**5,569**	–
Movie licensing fee	(x)	–	9,000
		438,377	442,502
Purchases of services:			
Associate			
Playback and uplink service fee	(i)	**(36,207)**	(37,541)
Others	(i)	**(3,245)**	(1,045)
Other related parties			
Rental fee	(vii)	**–**	(8,866)
Optical fibre rental fee	(iii)	**–**	(195)
Satellite relay service fee	(iii)	**–**	(382)
Programmes/channel licensing fee	(viii)	**(2,588)**	(4,011)
Supply network and telephone system and maintenance service fee	(ix)	**(373)**	(1,350)
Agency fee	(x)	**(1,836)**	(506)
		(44,249)	(53,896)

33 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

Notes:

(i) The fees were received from/(paid to) TVB Pay Vision Limited, an associate of the Company.

(ii) 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.

(iii) 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.

(iv) The fees were received from ASTRO Entertainment Networks Ltd., an associate of the minority shareholder of non wholly-owned subsidiaries of the Company.

(v) The fees were received from All Asia Multimedia Networks FZ-LLC, an associate of the minority shareholder of non wholly-owned subsidiaries of the Company.

(vi) The fees were received from Sharp-Roxy (Hong Kong) Limited (“Sharp Roxy”), an associate of a Director of the Company. Sharp Roxy has through its advertising agent placed advertising airtime booking with the Company on the Company’s channels in Hong Kong for the period from 20 June 2006 to 23 September 2006 at a total value of HK$5,569,000 net after deduction of agency commission, volume rebate and discount.

(vii) 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.

(viii) The fees were paid to Celestial Television Networks Ltd., an associate of the minority shareholder of non wholly-owned subsidiaries of the Company.

(ix) 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 shareholders of the holding company of CNSL, is also a Director of the Company.

(x) The fees were paid to Celestial Productions Limited, an associate of the minority shareholder of non wholly-owned subsidiaries of the Company.

(b) Key management compensation

	2006 **HK$’000**	2005 HK$’000
Salaries and other short-term employee benefits	**24,385**	30,730

33 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties

	2006 HK$'000	2005 HK$'000
Receivables from associates (note (i))	**231,069**	202,748
Receivables from other related parties (note (ii))	**63,865**	39,949
	294,934	242,697
Payables to associates	**5,157**	7,692
Payables to other related parties	**109**	237
	5,266	7,929

Notes:

(i) At 31 December 2006, a provision for impairment of receivable from associates of HK$1,803,000 (2005: HK$1,887,000) had been provided.

(ii) At 31 December 2006, a provision for impairment of receivable from other related parties of HK$2,262,000 (2005: HK$2,262,000) had been provided.

(d) Loans to related parties

	2006 HK$'000	2005 HK$'000
Investee company		
Beginning of the year	**6,712**	52,210
Write off of loan	**–**	(37,947)
Loan repayments received	**–**	(7,393)
Interest charged	**480**	402
Interest received	**(516)**	(366)
Exchange differences	**(10)**	(194)
End of the year	**6,666**	6,712
Associate		
Beginning of the year	**144,069**	133,397
Interest charged	**11,526**	10,672
End of the year	**155,595**	144,069

The loan to the 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, TVBPV, is unsecured and carries interest at 8% per annum compounded annually. The principal amount and the accrued interest ("Debt") shall be payable to the Company in two annual installments on 20 February 2007 and 20 February 2008 respectively. On 6 March 2007, the Company and TVBPV mutually agreed to revise the repayment schedule to extend the Debt with all accrued interest to be paid on or before 18 August 2008. It was also agreed that TVBPV undertakes to pay an interest at the rate of 3-month HIBOR plus 1% per annum compounded annually and the Debt is secured on the teleport assets, comprising uplink and playback equipment with acquisition cost and net book value as at 31 December 2006 amounting to HK$194,000,000 and HK$47,000,000 respectively.

34 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 21 March 2007.

35 SUBSIDIARIES

Name	Place of incorporation and kind of legal entity	Issued and fully paid ordinary share capital	Issued and fully paid preference share capital	Percentage of equity capital held by the Group	Percentage of equity capital held by the Company	Principal activities
# iTVB Holdings Limited	British Virgin Islands, limited liability company	HK$10,000	–	100	100	Investment holding
# Jade Animation International Limited	Bermuda, limited liability company	US$12,000	–	100	100	Inactive
Long Wisdom Limited	Hong Kong, limited liability company	HK$2	–	100	100	Dormant
# OHE Facilities Limited	Bermuda, limited liability company	US$20,000	–	100	100	Inactive
# Television Broadcasts Airtime Sales (Guangzhou) Limited	The People's Republic of China, limited liability company	HK$500,000	–	100	100	Dormant
# TVB Club Limited	Hong Kong, limited liability company	HK$1	–	100	100	Dormant
TVB Investment Limited	Bermuda, limited liability company	US$20,000	–	100	100	Investment holding
TVB Music Limited	Hong Kong, limited liability company	HK$1	–	100	100	Production, publishing and licensing of musical works
# TVB Satellite TV Holdings Limited	Bermuda, limited liability company	US$12,000	–	100	100	Investment holding
TVBI Company Limited	Hong Kong, limited liability company	HK$2,000,000	–	100	100	Investment holding and programme licensing
TVBO Production Limited	Bermuda, limited liability company	US$12,000	–	100	100	Owner of film rights and programme licensing
Art Limited	Hong Kong, limited liability company	HK$10,000	–	73.68	–	Investment in entertainment and media business
Capital Empire Limited	British Virgin Islands, limited liability company	US$1,000	–	100	–	Owner of film rights and programme licensing
CC Decoders Ltd.	United Kingdom, limited liability company	GBP2	–	100	–	Provider of decoder units
Condor Entertainment B.V.	The Netherlands, limited liability company	EUR18,400	–	100	–	Investment holding

35 SUBSIDIARIES (Continued)

Name	Place of incorporation and kind of legal entity	Issued and fully paid ordinary share capital	Issued and fully paid preference share capital	Percentage of equity capital held by the Group	Percentage of equity capital held by the Company	Principal activities
Countless Entertainment (Taiwan) Co. Ltd.	Taiwan, limited liability company	NT$1,000,000	–	100	–	Investment holding
# Extra Profit Holdings Limited	British Virgin Islands, limited liability company	HK$1	–	100	–	Investment holding
# Fairwork Group Limited	British Virgin Islands, limited liability company	US$1,000	–	100	–	Investment holding
# Golden Star Video Library Sdn. Bhd.	Malaysia, limited liability company	MYR10,000	–	51	–	Inactive
Interface Co. Ltd.	Taiwan, limited liability company	NT$199,800,000	–	92.51	–	Magazine publication
# iTVB Limited	British Virgin Islands, limited liability company	HK$10,000	–	100	–	Investment holding
Jade Animation Company Limited	Hong Kong, limited liability company	HK$2	–	100	–	Inactive
Jade Animation Productions Limited	Hong Kong, limited liability company	HK$500,000	–	100	–	Inactive
Jade Multimedia International Limited	Bermuda, limited liability company	US$12,000	–	100	–	Animation investment, licensing and distribution
Liann Yee Production Co. Ltd.	Taiwan, limited liability company	NT$880,000,000	–	100	–	Production of television programmes, leasing of film studios and advertising
* Oriental Home Entertainment Inc.	Canada, limited liability company	CAD100	–	100	–	Programme licensing and distribution
Peony Holding N.V.	Netherlands Antilles, limited liability company	US$100	US$6,000	100	–	Investment holding and provision of services for programme productions
# Request Investments Limited	British Virgin Islands, limited liability company	HK$1	–	100	–	Dormant

35 SUBSIDIARIES (Continued)

Name	Place of incorporation and kind of legal entity	Issued and fully paid ordinary share capital	Issued and fully paid preference share capital	Percentage of equity capital held by the Group	Percentage of equity capital held by the Company	Principal activities
# The Chinese Channel Limited	Hong Kong, limited liability company	HK$4	–	100	–	Inactive
The Chinese Channel Limited	United Kingdom, limited liability company	GBP1,111	–	100	–	Provision of services for programme productions
The Chinese Channel (France) SAS	France, limited liability company	EUR37,000	–	100	–	Provision of satellite and subscription television programmes
# The Chinese Channel (Holdings) Limited	Cayman Islands, limited liability company	GBP89,640	–	100	–	Investment holding
# Toysters Animation International Ltd.	British Virgin Islands, limited liability company	US$1,000	–	55	–	Inactive
TVB (Australia) Pty. Ltd.	Australia, limited liability company	A$5,500,000	–	100	–	Provision of satellite and subscription television programmes
TVB Facilities Limited	Hong Kong, limited liability company	HK$10,000	–	100	–	Provision of services for programme productions
* TVB Holdings (USA) Inc.	USA, limited liability company	US$6,010,000	–	100	–	Investment holding and programme licensing and distribution
# TVB International Limited	Hong Kong, limited liability company	HK$10,000	–	100	–	Inactive
TVB Macau Company Limited	Macau, limited liability company	MOP25,000	–	100	–	Provision of services for programmes productions
# TVB (Overseas) Limited	Bermuda, limited liability company	US$12,000	–	100	–	Inactive
TVB Publications Limited	Hong Kong, limited liability company	HK$20,000,000	–	73.68	–	Magazine publications

35 SUBSIDIARIES (Continued)

Name	Place of incorporation and kind of legal entity	Issued and fully paid ordinary share capital	Issued and fully paid preference share capital	Percentage of equity capital held by the Group	Percentage of equity capital held by the Company	Principal activities
§ TVB Publishing Holding Limited	Hong Kong, limited liability company	HK$8,550,000	–	73.68	–	Investment holding
TVB Satellite Broadcasting Limited	Hong Kong, limited liability company	HK$2	–	100	–	Provision of programming and channel services
* TVB Satellite Platform, Inc.	USA, limited liability company	US$3,000,000	–	100	–	Provision of satellite and subscription television programmes
TVB Satellite TV Entertainment Limited	Bermuda, limited liability company	US$12,000	–	100	–	Provision of satellite and subscription television programmes
TVB Satellite TV (HK) Limited	Hong Kong, limited liability company	HK$2	–	100	–	Provision of pay television programmes
# TVB (Shanghai Holdings) Limited	British Virgin Islands, limited liability company	US$1	–	100	–	Dormant
TVB (UK) Limited	United Kingdom, limited liability company	GBP2	–	100	–	Investment holding
* TVB (USA) Inc.	USA, limited liability company	US$10,000	–	100	–	Provision of satellite and subscription television programmes
TVB Video (UK) Limited	United Kingdom, limited liability company	GBP1,000	–	100	–	Programme licensing
TVB.COM Limited	Hong Kong, limited liability company	HK$2	–	100	–	Internet web portal
TVBO Facilities Limited	Bermuda, limited liability company	US$12,000	–	100	–	Provision of services for programme productions
# Zennora Group Limited	British Virgin Islands, limited liability company	US$1,000	–	100	–	Investment holding

None of the subsidiaries have issued any loan capital. Except for TVBO Facilities Limited and TVBO Production Limited which operate worldwide, all subsidiaries operate principally in their place of incorporation.

* The accounts of these subsidiaries have been audited by firms other than PricewaterhouseCoopers, which do not materially affect the results of the Group.

\# The accounts of these subsidiaries are not audited.

§ On 30 November 2001, TVB Publishing Holding Limited issued a total of 9,000,000 ordinary shares (with a par value of HK$0.10 per share) at HK$8.60 per share to its minority shareholders as unpaid shares. These shares will not be entitled to voting and dividends rights until they are fully paid. 4,500,000 ordinary shares were fully paid up in 2003 and the remaining 4,500,000 ordinary shares were still unpaid as at 31 December 2006.

Television Broadcasts Limited
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