new syndicated time blocks. This viable business model, together with our professional advertising teams, enables our joint ventures to directly capture opportunities from the prosperous advertising market of mainland China.

Together with the coming launch of broadband content services, we are optimistic that the new media business will contribute value-added income to our Company in coming years.

(e) Galaxy Satellite TV Holdings

The operation of Galaxy Satellite TV Holdings Limited ("GSTV") was launched on 18 February 2004. GSTV was a joint venture company, with 51% share owned by Intelsat and 49% by TVB. The pay TV service is transmitted via satellite through existing SMATV and CABD networks into set-top boxes at individual homes. As at the end of 2004, Galaxy passed over 600,000 homes in Hong Kong. The service operates on a 24-hr schedule, providing our viewers with a choice of over 30 channels. These consist of high quality local programming plus branded content such as BBC World, CNBC Asia, Bloomberg, HBO, Cinemax, Cartoon Network, Eurosportnews, CCTV, MATV Movies and Celestial Movies. Additional world-class content will be added in 2005 to expand our programme offering.

TVB currently provides five exclusive channels for Galaxy. The 24-hour-news channel TVBN, drama and entertainment channel TVBE and the children's channel by day and family channel by night TVBQ are produced for the local pay TV market and broadcast in Cantonese; and the general entertainment channel TVB8 and the drama channel Xing He, which also serve the mainland and overseas markets, in Putonghua.

In September 2004, due to its corporate restructuring, Intelsat decided to terminate its 51% participation in GSTV and transferred all its shareholding of the joint venture to TVB on 28 December 2004, making TVB the only shareholder of GSTV. As restricted by the pay TV licence granted by the Government, TVB cannot hold 50% or more of the total voting control of GSTV. Hence, a waiver was applied for and granted by the Government which temporarily permits TVB to hold 100% of GSTV, for a period of one year, pending the search for a new shareholder.

Since its commercial launch to date of this report and with limited advertising activities, Galaxy had acquired a subscriber base of over 26,000.

In January 2005, Galaxy signed an agreement with Hutchison Global Communications Limited ("HGC") to deliver Galaxy's pay TV service through HGC's broadband network in Hong Kong. The new agreement will enhance both companies' competitive edges in bringing innovative infotainment services to customers. New services are expected to be launched in the second quarter of 2005. Together with HGC's distribution network, Galaxy aims to pass 2 millions homes by the end of 2005. The two companies will offer customers bundled service packages incorporating Galaxy's pay TV services and HGC's broadband services.

FINANCIAL REVIEW

(a) Investments in Subsidiary Companies and Associates

On 16 September 2004, the Company entered into the Deed ("Share Transfer") with Intelsat (Bermuda) Limited, Intelsat Hong Kong LLC ("Intelsat"), TVB Satellite TV Holdings Limited ("TVB Satellite"), Galaxy Satellite Broadcasting Limited ("Galaxy") and Galaxy Satellite TV Holdings Limited ("GSTV"), pursuant to which Intelsat had unconditionally agreed to transfer its holdings of 542,000,000 shares of HK$1.00 each in GSTV to TVB Satellite or its nominee free of any payment. Upon completion of the Share Transfer in December 2004, GSTV and Galaxy become wholly owned subsidiaries of the Company. In view of above, the Company had applied to the Government for a waiver of the provisions in the Licence held by Galaxy which restricts the Company from holding or beneficially owing 50% or more of the total voting control of GSTV for a period of 12 months from 28 December 2004. This is to give the Company time to find a new investor to take up the shares transferred.

On 4 February 2005, a wholly owned subsidiary of the Company entered into a conditional sale and purchase agreement with Primasia Development Co. Ltd. for the purchase of 30% of the issued share capital in Liann Yee Production Co. Ltd. ("LYP") for a cash consideration of NT$900 million (approximately HK$220.50 million), subject to the terms and conditions of the agreement which included, inter-alia, the approval of the transaction by the Company's shareholders at an extraordinary general meeting of shareholders held on 21 March 2005 ("EGM"). At the EGM, the transaction was duly approved by shareholders. As a result, the Group's interest in the shareholding of LYP increased from 70% to 100%.

Apart from those reported above, there was no other material acquisition or disposal of subsidiaries and associated companies during the year and up to the date of the report.

(b) Capital Assets, Liquidity and Debts

The new TVB City Project has been completed and all capital expenditures incurred are reflected in the accounts for the year. As at 31 December 2004, fixed assets of the Group stood at HK$2,243 million, a decrease over last year end of HK$122 million which was due to depreciation charge on fixed assets offset by a lower level of capital expenditure during the year.

Cash and bank balances as at 31 December 2004 stood at HK$536 million. About 34% of the cash balance was maintained in overseas subsidiaries for their daily operation. To finance current working capital requirements, various banking facilities have been arranged. Cash and cash equivalents held by the Group were principally in Hong Kong Dollars, US Dollars and New Taiwan Dollars.

Accounts receivable increased by 3% from the end of the last year, reflecting a higher level of billing for local advertising at the year end. Adequate provision has been made for bad and doubtful debts. Accounts payable increased over last year by 42%, due to the inclusion of an amount of HK$189 million relating to the subscription of unpaid shares in GSTV.

The Group recorded a gearing ratio of 2% as at 31 December 2004 (2003: 19%) which was measured by total debts of HK$61 million (2003: HK$618 million) against a shareholders' fund of HK$3,671 million (2003: HK$3,295 million). The decrease was due to the full repayment of all Hong Kong dollars denominated bank loans by 31 December 2004, leaving only bank loans taken out in foreign currencies.

- Debts consisted of short and long-term bank loans and bank overdrafts taken out for purchase of properties, equipment and studio facilities in Taiwan. Loans totalling HK$58 million (2003: HK$85 million) were secured by assets of subsidiary companies.

- All debts are subject to floating rates of interest at an agreed percentage above the prevailing lending rates of banks.

- The debt maturity profile as at 31 December 2004 was as follows: within one year HK$12 million (20%); in the second year HK$6 million (10%); in the third to fifth years HK$19 million (31%) and after the fifth year HK$24 million (39%).

- Debts were denominated mainly in New Taiwan Dollars (89%), British Pounds (4%) and US Dollars (7%).

- The Group had no committed borrowing facilities during the year.

Capital commitments of the Group, excluding the Group's share of commitments for jointly controlled entities, decreased by 18% to HK$199 million (2003: HK$243 million).

(c) Contingent Liabilities

There were guarantees to the extent of HK$8.8 million (2003: HK$1.1 million) provided to bankers for banking facilities.

(d) Exposure to Fluctuation in Exchange Rates and Related Hedges

As of 31 December 2004, exchange contracts, entered into with banks to sell forward certain foreign currencies in order to hedge against fluctuation for trade receipts from overseas customers, amounted to HK$5.8 million. There was an unrealised loss on these contracts of HK$0.5 million which has not been recognised in the accounts.

HUMAN RESOURCES

As of 31 December 2004, the Group employed, excluding directors and freelance workers but including contract artistes and staff in overseas subsidiary companies, a total of 4,843 (December 2003: 5,242) full-time employees. About 28% of our manpower was employed in overseas subsidiaries and was paid on a scale and system relevant to their localities and local legislations. In Hong Kong, different pay schemes are in operation 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 on-target-earning packages which comprised of salary and sales commissions. Non-sales personnel are remunerated on a monthly salary. Qualified non-sales personnel received a discretionary bonus equivalent to a twenty-fourth of their annual salary in 2004.

No employee share option scheme was adopted by the Group during the year. From time to time, the Group organizes, either in-house or with vocational institutions, seminars, courses and workshops on subjects of technical interest, such as industrial safety, management skills and other related studies, apart from sponsorship of training programmes that employees may enrol on their own initiative.