

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2005.

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 38 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 35.

Movements in the reserves of the Group and the Company during the year are set out in Note 19 to the consolidated financial statements on pages 72 to 73.

Distributable reserves of the Company at 31 December 2005, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$3,247,946,000 (2004: HK\$2,618,142,000).

DIVIDENDS

An interim dividend of HK\$0.25 per share, totalling HK\$109,500,000, was paid on 29 September 2005. The Directors now recommend the payment of a final dividend of HK\$1.30 per share for 438,000,000 issued shares in respect of the year ended 31 December 2005 to shareholders who are on the Register of Members on 24 May 2006.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$336,000.

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 Company are set out in Note 18 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 30.

DIRECTORS

The Directors during the year were:

Sir Run Run Shaw
Dr. Norman Leung Nai Pang
Ms. Mona Fong
Mr. Louis Page
Dr. Chow Yei Ching
Mr. Ho Ting Kwan

REPORT OF THE DIRECTORS (Continued)

Mr. Chien Lee*	} Appointed on 17 March 2005
Mrs. Christina Lee Look Ngan Kwan	
Mr. Lee Jung Sen*	} Retired on 25 May 2005
Dr. Li Dak Sum*	
Mr. Kevin Lo Chung Ping	
Mr. Robert Sze Tsai To*	

* *Independent Non-executive Directors*

The Alternate Directors during the year were:

Mr. Chien Lee (alternate to Mr. Lee Jung Sen)	} Resigned on 25 May 2005
Mr. Anthony Hsien Pin Lee (alternate to Mrs. Christina Lee Look Ngan Kwan)	

In accordance with Article 114(A) of the Company's Articles of Association, Ms. Mona Fong, Dr. Li Dak Sum and Mr. Kevin Lo Chung Ping retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting to be held on 24 May 2006 ("Annual General Meeting").

DIRECTORATE AND SENIOR MANAGEMENT

Brief biographical details of Directors and Senior Management as at the date of this report are set out below:

Directors

Sir Run Run Shaw, G.B.M. (Executive Chairman)

aged 98, is the President of the Shaw group of companies with substantial interests in the entertainment and movie industry. Through the Shaw group, he holds a major interest in the share capital of the Company. He is one of the founding Directors of the Company and became the Chairman in 1980. He is the husband of Ms. Mona Fong, the Deputy Chairperson of the Company.

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

aged 65, was appointed a Director of the Company in September 2003 when he also took up the position as Executive Deputy Chairman. He is the Deputy Chairman of Transport International Holdings Ltd. and a director of Wing Lung Bank Ltd. Mr. Leung has been active in public service for 30 years and he served as the 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)

aged 71, has been a Director of the Company since 1988 and appointed as Deputy Chairperson on 25 October 2000. 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.

Louis Page (Managing Director)

aged 56, was appointed a Director of the Company in 1987 and as Managing Director in September 1995. He is an executive director of the Shaw group of companies.

REPORT OF THE DIRECTORS (Continued)

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

aged 70, was appointed a 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 61, 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 a Director in June 2003.

Chien Lee (Independent Non-executive Director)

aged 52, is a private investor. He is also a director of Hysan Development Company Limited and Swire Pacific Limited. He has been appointed Independent Non-executive Director of the Company since March 2005. Mr. Lee is the nephew of Mrs. Lee.

Christina Lee Look Ngan Kwan

aged 82, is the widow of the Founder of the Company, Mr. Lee Hsiao-Wo. Mrs. Lee became a Director of the Company in 1981. She is actively involved in Caritas, Hong Kong, a local charitable organization. Mrs. Lee is the aunt of Mr. Chien Lee.

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

aged 85, 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 a Director of the Company in 1995.

Kevin Lo Chung Ping

aged 69, joined the Company in 1966 as Project Engineer and as General Manager from 1978 to 1980. He was appointed a Director in 1977. He is also a director of Gold Peak Industries (Holdings) Limited.

Robert Sze Tsai To (Independent Non-executive Director)

aged 65, was appointed a 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 Hsien Pin Lee (Alternate Director to Mrs. Christina Lee Look Ngan Kwan)

aged 48, 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 Mrs. Lee’s alternate in September 2002. He is the son of Mrs. Lee.

Senior Management

George Chan Ching Cheong

aged 53, 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 before he rejoined TVB in November 2004 as Assistant Managing Director.

REPORT OF THE DIRECTORS (Continued)

Stephen Chan Chi Wan

aged 47, joined TVB in 1994 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 as General Manager – Broadcasting in April 2004.

Cheong Shin Keong

aged 49, joined TVB 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.

DIRECTORS' INTERESTS

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.

The Company has entered into agreements with Shaw Brothers (Hong Kong) Limited for the lease of certain premises at Shaw House, Clear Water Bay Road, Kowloon, Hong Kong. Such agreements have expired on 30 June 2005. The Executive Chairman of the Company, Sir Run Run Shaw, is the Executive Chairman of Shaw Brothers (Hong Kong) Limited, in which he also has substantial attributed corporate interests. The Deputy Chairperson of the Company, Ms. Mona Fong, is the Deputy Chairperson and Managing Director of Shaw Brothers (Hong Kong) Limited.

Apart from the above, no contract 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 end of the year or at any time during the year.

As at 31 December 2005, 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				Percentage of Issued Capital (%)
	Personal Interests	Family Interests	Corporate Interests	Total	
Sir Run Run Shaw	-	1,146,000#	141,174,828*(a)	142,320,828	32.49%
Christina Lee Look Ngan Kwan	602,144	-	16,701,000 (b)	17,303,144	3.95%
Mona Fong	1,146,000#	-	-	1,146,000	0.26%
Chien Lee	600,000	-	-	600,000	0.14%
Dr. Li Dak Sum	-	-	300,000 (c)	300,000	0.07%
Louis Page	160,000	-	-	160,000	0.04%
Dr. Chow Yei Ching	100,000	-	-	100,000	0.02%

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

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

REPORT OF THE DIRECTORS (Continued)

(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 2005.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the register of substantial shareholders maintained under Section 336 of the Securities and Futures Ordinance shows that the Company had been notified of the following substantial shareholders' interests (all being beneficial interests), being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and chief executive.

	No. of Ordinary Shares of HK\$0.05 Each	Percentage of Issued Capital (%)
Shaw Brothers (Hong Kong) Limited	113,888,628*	26.00%
OppenheimerFunds, Inc.	25,154,600 (i)	5.74%
Marathon Asset Management Limited	26,288,000 (ii)	6.02%
The Shaw Foundation Hong Kong Limited	27,286,200*	6.23%

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

(i) Interests were held in the capacity as investment adviser to clients of OppenheimerFunds, Inc.

(ii) 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 2005.

CONNECTED TRANSACTIONS

1) The following transactions constitute continuing connected transactions of the Company made under the old Chapter 14 of the Listing Rules (before the amendments made on 31 March 2004) to which conditional waivers have been granted by The Stock Exchange of Hong Kong Ltd. (the "Stock Exchange"):

REPORT OF THE DIRECTORS (Continued)

- a) On 19 May 1997 and 15 December 1997, the Company and Shaw Brothers (Hong Kong) Limited (“Shaw”), a substantial shareholder of the Company entered into separate tenancy agreements, pursuant to which Shaw granted to the Company tenancies of certain office and car parking spaces situated at Shaw House, Lot 220 Clear Water Bay Road, Kowloon, Hong Kong. The term of the two tenancies commenced on 1 July 1997 and 1 November 1997 respectively and both expired on 30 June 2005. The amount of rental paid by the Company to Shaw during 2005 was HK\$8,866,000.
 - b) On 19 September 2003, TVBI Company Limited (“TVBI”), a wholly-owned subsidiary of the Company and ASTRO Entertainment Networks Ltd. (“AENL”), an associate of the substantial shareholder of three of the Company’s non wholly-owned subsidiaries, entered into a licensing agreement, pursuant to which TVBI would license to AENL certain programmes on an exclusive basis for broadcast on free terrestrial television in Indonesia for a period of 2 years commencing from the earlier of 1 January 2004 or when AENL was able to secure the broadcast of programmes on free terrestrial television in Indonesia prior to 1 January 2004. The income accrued by TVBI in 2005 was HK\$6,843,000 (US\$880,000).
- 2) The following transactions constitute continuing connected transactions of the Company which are subject to the requirements under the new Chapter 14A of the Listing Rules :-
- a) Since 28 October 2000, LYP, now a wholly-owned subsidiary of the Company has been providing Era Communications Co. Ltd. (“Era”) with satellite equipment and technical services while Era has been providing LYP with satellite relay programme services in Taiwan. On 1 March 2005, the parties entered into an agreement to renew the arrangement for one year commencing on 1 January 2005 on similar terms and conditions with the insertion of a new clause allowing either party to early terminate the agreement by giving one month notice. Under the renewal agreement, the monthly fees payable by Era to LYP was HK\$750,000 (NT\$3,000,000) and by LYP to Era was HK\$375,000 (NT\$1,500,000). All amounts payable under the renewal agreement included 5% sales tax. Upon Era disposed all its shareholdings in LYP to a third party on 4 February 2005, Era ceased to be a connected party of the Company after that date. The fees received by LYP from Era during the period from 1 January 2005 to 3 February 2005 was HK\$764,000 (NT\$3,163,000) and the fees paid by LYP to Era during the same period was HK\$382,000 (NT\$1,582,000).
 - b) On 16 April 1999, TVBI agreed to sub-lease part of the satellite transponder capacity to Era. The sub-lease agreement was superseded by a revised agreement dated 13 January 2000 varying the monthly fee and the contract period to commence on 1 January 2000 and expire on 31 March 2006. On 28 April 2001, TVBI and Era entered into a supplemental agreement to the revised agreement, pursuant to which the parties agreed that the transponder capacity leased from TVBI to Era would be reduced from 27 MHZ to 13.5 MHZ as from 1 March 2001. The fee received by TVBI from Era for the period from 1 January 2005 to 3 February 2005 was HK\$ 475,000 (US\$ 61,000).
 - c) On 30 September 2004, TVBI and MEASAT Broadcast Network Systems Sdn. Bhd. (“MBNS”) 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 addendum to the agreement were entered into between the parties for the clarification of the base month upon which the subscribers guarantee would be calculated and for the increase of revenue sharing receivable by TVBI for revenue generated from hotel and commercial establishments respectively. The income accrued by TVBI during 2005 was HK\$68,386,000 (MYR33,291,000).

REPORT OF THE DIRECTORS (Continued)

- d) On 30 September 2004, TVBI acting as an agent of LYP 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 addendum to the agreement were entered into between the parties for the clarification of the base month upon which the subscribers guarantee would be calculated and for the increase of revenue sharing receivable by LYP for revenue generated from hotel and commercial establishments respectively. The income accrued by LYP during 2005 was HK\$25,410,000 (MYR12,370,000).
- e) 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 were entered into between the parties for the increase of revenue sharing receivable by TVBSE for revenue generated from hotel and commercial establishments. The income accrued by TVBSE during 2005 was HK\$36,625,000 (MYR17,830,000).
- f) 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 2005 was HK\$33,688,000 (MYR16,400,000).
- g) On 30 September 2004, TVBO Facilities Limited (“TVBOF”) and TVB Satellite Broadcasting Limited (“TVBSB”), both are wholly-owned subsidiaries of the Company, entered into separate agreement 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 2005 was HK\$30,320,000 (MYR14,760,000).

All the Independent Non-executive Directors have reviewed the above transactions described in paragraphs 1(a) to (b) and 2(a) to (g) above and confirmed that these transactions have been entered into (i) in the ordinary and usual course of business, (ii) on normal commercial terms or on terms no less favourable than those available to or from 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; and that the aggregate amount of each transaction described in paragraphs 1 (a) to (b) for 2005 has not exceeded the relevant cap amount for each transaction as set out in the conditional waivers granted by the Stock Exchange.

The Company’s auditors have also reviewed the above transactions described in paragraphs 1(a) to (b) and 2(a) to (g) and confirmed in its letter to the Directors that:

- (i) the transactions have been approved by the Company’s Board of Directors;
- (ii) the transactions are in accordance with the Company’s pricing policies as laid down in the relevant agreements governing the transactions;
- (iii) the transactions have been entered into in accordance with the terms of the relevant agreements governing the transactions; and
- (iv) the transactions have not exceeded the cap amount for each transaction allowed by the Stock Exchange as disclosed in the previous announcements.

REPORT OF THE DIRECTORS (Continued)

- 3) On 11 March 2004, TVB (Australia) Pty. Ltd. (“TVBA”), a wholly-owned subsidiary of the Company, and Celestial Television Networks Ltd. (“CTNL”), an associate of the substantial shareholder of three of the Company’s non wholly-owned subsidiaries, entered into an agreement pursuant to which CTNL would license the Celestial Movies channel to TVBA. As a result of the subsequent addenda entered into between the parties, the term of the arrangement was for fifteen months from 15 March 2004 with an option to renew which term was extended for twelve months until 14 June 2006. Under the agreement, TVBA agrees to pay CTNL a fixed unit cost per subscriber (which includes both residential and commercial subscribers) to the Celestial Movies channel or the package of channels to which the Celestial Movies channel is included. The licence fee paid by TVBA to CTNL during 2005 was HK\$3,138,000 (A\$531,000).
- 4) On 23 December 2004, Art Limited (“Art”), a non wholly-owned subsidiary of the Company, and Celestial Productions Limited (“Celestial”), an associate of the substantial shareholder of three of the Company’s non wholly-owned subsidiaries, entered into the Sales and Purchase Agreement, pursuant to which Art agrees to sell to Celestial the right to distribute a Chinese language musical picture (the “Picture”) which is commissioned and financed by Art and produced by an independent third party via pay television channels transmitted by all means of technology throughout the world (except the Mainland China) in perpetuity with effect on 1 August 2005 or such other date as may be agreed by the parties provided that it is no later than the completion of the Picture. Income accrued by Art in 2005 was HK\$9,000,000.
- 5) On 4 February 2005, Countless Entertainment (Taiwan) Co. Ltd., a wholly-owned subsidiary of the Company acquired from Primasia Development Co. Ltd., a substantial shareholder of a non wholly-owned subsidiary of the Company, 30% of the issued share capital of LYP for a cash consideration of NT\$900,000,000 (approximately HK\$220,500,000). Upon completion of the transaction, LYP became a wholly-owned subsidiary of the Company.

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 22 March 2006, at least 25% of the Company’s total issued share capital is held by the public at all times. As at 22 March 2006, there were 292 shareholders on the Company’s register of shareholders.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the percentage of the Group’s purchases and sales attributable to its five largest suppliers and five largest customers are both less than 30%.

CORPORATE GOVERNANCE

The Company’s corporate governance practices during the year are set out in the Corporate Governance Report on pages 23 to 29 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 27 to 28 of this Annual Report.

REPORT OF THE DIRECTORS (Continued)

AUDITORS

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Run Run Shaw

Executive Chairman

Hong Kong, 22 March 2006