

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

INTERIM DIVIDEND

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Operating Results for the Period

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

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

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

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

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

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

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

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

Business Review and Prospects

Terrestrial Television Broadcasting

TVB's terrestrial free TV channels, *Jade* and *Pearl*, continued to attain high viewership. *Jade* achieved an average of 85% audience share¹ of the terrestrial Chinese channels during weekday prime time²; and *Pearl*, 73% of audience share of the terrestrial English channels during weekly prime time³.

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

On non-drama programmes, we have created a new wave of game show hits. These include the hilarious "*Beautiful Cooking*" (average rating 30 TVRs⁴ and 85% audience share on Sundays) and the game-quiz show "*15/16*" (average rating 29 TVRs and 90% audience share during weekdays late prime time). Also, we have produced a new docu-travelogue format "*On The Road*" in which the captivating elements of people, culture, destinations inter-played with the personal experiences of celebrity hosts. The series brought critical acclaim as well as good rating (averaged 26 TVRs and 86% audience share, weekdays late prime time).

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

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

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

¹ **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.

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

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

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

Programme Licensing and Distribution

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

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

Overseas Satellite Pay TV Platforms

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

Channel Operations

(a) Taiwanese Channels

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

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

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

(b) TVB8 and Xing He

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

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

(c) Supply of Channels to TVB Pay Vision Limited

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

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

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

Other Businesses

(a) Investment in Hong Kong Pay TV Platform

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

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

(b) Internet and Mobile Content Supply

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

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

(c) Publishing Operations

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

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

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

Digitisation

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

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

FINANCIAL REVIEW

Capital Assets, Investment, Liquidity and Debts

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

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

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

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

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

Contingent Liabilities

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

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

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

HUMAN RESOURCES

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

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

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

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