

# 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				Percentage of Issued Capital (%)
	Personal Interests	Family Interests	Corporate Interests	Total	
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 <sup>△</sup>	6.02%

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

<sup>△</sup> 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).

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- 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