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).

1.7 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	2005
	HK$'000	HK$'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	2005
	HK$'000	HK$'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.