

# TVB 2012 Annual Report



Television Broadcasts Limited

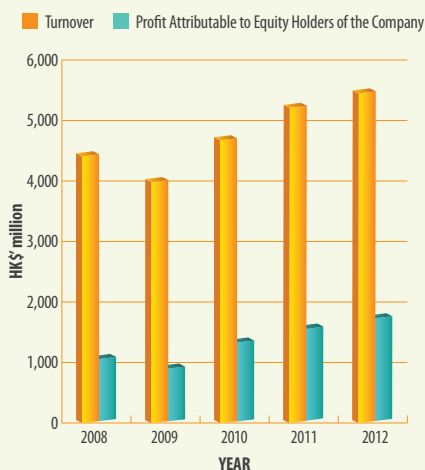
電視廣播有限公司

Stock Code : 00511

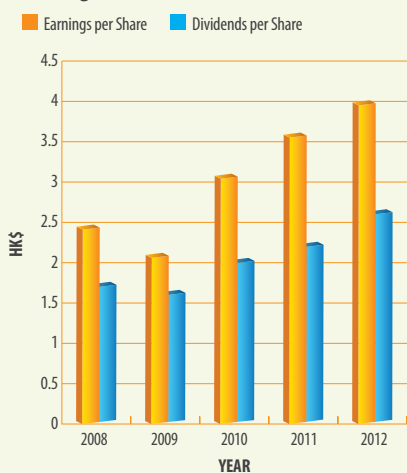


# FINANCIAL HIGHLIGHTS

## Turnover & Profit Attributable to Equity Holders of the Company



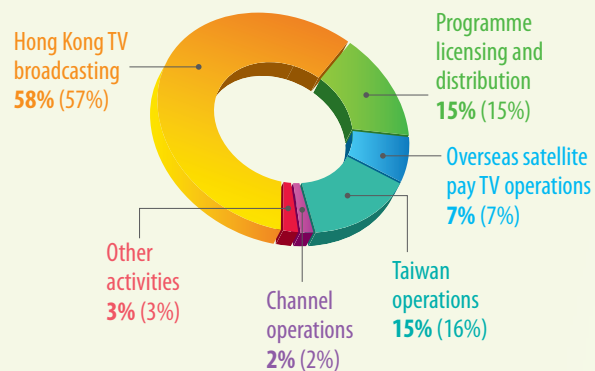
## Earnings & Dividends Per Share



	2012	2011	Change
<b>Performance</b>			
Earnings per share	<b>HK\$3.95</b>	HK\$3.55	11%
Dividends per share			
- Interim	<b>HK\$0.60</b>	HK\$0.45	33%
- Final	<b>HK\$2.00</b>	HK\$1.75	14%
	<b>HK\$2.60</b>	HK\$2.20	18%
	<b>HK\$'mil</b>	HK\$'mil	
Turnover			
- Hong Kong TV broadcasting	<b>3,167</b>	2,987	6%
- Programme licensing and distribution	<b>940</b>	903	4%
- Overseas satellite pay TV operations	<b>389</b>	389	-
- Taiwan operations	<b>834</b>	834	-
- Channel operations	<b>116</b>	122	-5%
- Others activities	<b>190</b>	157	21%
- Inter-segment elimination	<b>(188)</b>	(183)	3%
	<b>5,448</b>	5,209	5%
Total expenses	<b>(3,281)</b>	(2,968)	11%
Share of results of associates	-	(58)	n/a
Profit attributable to equity holders	<b>1,730</b>	1,556	11%
	<b>31 December 2012</b>	31 December 2011	
	<b>HK\$'mil</b>	HK\$'mil	
Total assets	<b>9,721</b>	8,834	10%
Total liabilities	<b>1,834</b>	1,741	5%
Total equity	<b>7,887</b>	7,093	11%
Number of issued shares	<b>438,000,000</b>	438,000,000	-
<b>Ratios</b>			
Current ratio	<b>4.0</b>	4.2	
Gearing	<b>2.6%</b>	3.1%	

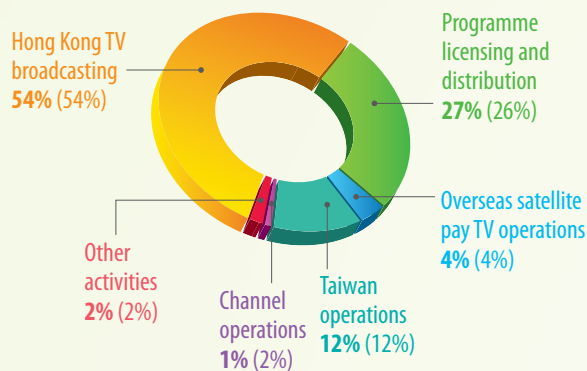
## 2012 Turnover by Operating Segment

% relating to 2011 are shown in brackets



## 2012 Reportable Segment Profit\* by Operating Segment

% relating to 2011 are shown in brackets



\* excluding impairment loss on loan to and trade receivables from an associate

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# CORPORATE INFORMATION

## CHAIRMAN EMERITUS

Sir Run Run SHAW GBM

## EXECUTIVE CHAIRMAN

Dr. Norman LEUNG Nai Pang GBS, LLD, JP

## BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS

Dr. Norman LEUNG Nai Pang Executive Chairman

Mark LEE Po On Group General Manager

### NON-EXECUTIVE DIRECTORS

Mona FONG (re-designated as a Non-executive Director on 1 April 2012)

Kevin LO Chung Ping

Dr. Charles CHAN Kwok Keung

Cher WANG Hsiueh Hong

Jonathan Milton NELSON

Anthony LEE Hsien Pin (appointed on 3 February 2012)

CHEN Wen Chi (appointed on 3 February 2012)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. CHOW Yei Ching GBS

Edward CHENG Wai Sun SBS, JP

Chien LEE

Gordon SIU Kwing Chue GBS, JP

Raymond OR Ching Fai SBS, JP (appointed on 6 December 2012)

### ALTERNATE DIRECTORS

Dr. Allan YAP Alternate Director to Dr. Charles Chan Kwok Keung

Harvey CHANG Hsiao Wei Alternate Director to  
Cher Wang Hsiueh Hong (appointed on 3 February 2012)

SUN Tao Alternate Director to Jonathan Milton Nelson  
(appointed on 18 June 2012)

## BOARD COMMITTEES

### EXECUTIVE COMMITTEE

Dr. Norman LEUNG Nai Pang Chairman

Mark LEE Po On

Mona FONG

Kevin LO Chung Ping

Dr. Charles CHAN Kwok Keung (appointed on 21 March 2012)

CHEN Wen Chi (appointed on 21 March 2012)

### AUDIT COMMITTEE

Gordon SIU Kwing Chue Chairman

Chien LEE

Kevin LO Chung Ping

### REMUNERATION COMMITTEE

Chien LEE Chairman

Edward CHENG Wai Sun

Gordon SIU Kwing Chue

### NOMINATION COMMITTEE (established on 21 March 2012)

Dr. CHOW Yei Ching Chairman

Anthony LEE Hsien Pin

Edward CHENG Wai Sun

## SENIOR MANAGEMENT

Mark LEE Po On Group General Manager

CHEONG Shin Keong General Manager

Peter AU Wai Lam Assistant General Manager

Desmond CHAN Shu Hung Assistant General Manager

Adrian MAK Yau Kee Chief Financial Officer and Company Secretary

## REGISTERED OFFICE

TVB City, 77 Chun Choi Street

Tseung Kwan O Industrial Estate

Kowloon, Hong Kong

## AUDITOR

PricewaterhouseCoopers

22/F, Prince's Building

Central, Hong Kong

## PRINCIPAL BANKERS

Shanghai and Commercial Bank Limited

The Bank of East Asia, Limited

The Hongkong and Shanghai Banking Corporation Limited

## SHARE REGISTRARS AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Rooms 1712-1716, 17<sup>th</sup> Floor

Hopewell Centre

183 Queen's Road East

Wan Chai, Hong Kong

## AMERICAN DEPOSITARY RECEIPTS

BNY Mellon Depositary Receipts

P.O. Box 43006

Providence, RI 02940-3006

USA

## STOCK CODES

Ordinary Shares

The Stock Exchange of Hong Kong:

00511

Reuters:

0511.HK

Bloomberg:

511 HK

ADR Level 1 Programme

TVBCY

## INVESTOR RELATIONS

email: [ir@tvb.com.hk](mailto:ir@tvb.com.hk)

Fax: +852 23581337

Website: [www.corporate.tvb.com](http://www.corporate.tvb.com)

# CHAIRMAN EMERITUS

SIR RUN RUN SHAW  
GBM



# CHAIRMAN'S STATEMENT

**DR. NORMAN LEUNG NAI PANG**

GBS, LLD, JP

Executive Chairman



The Board of Directors of Television Broadcasts Limited ("Board") is pleased to present the annual report and financial statements of the Group for the year ended 31 December 2012.

## RESULTS AND DIVIDENDS

Despite multiple challenges affecting our operating environment during 2012, I am very pleased to report that the Group once again achieved a higher profit attributable to equity holders for the year.

For the year ended 31 December 2012, the Group's turnover increased by 5% from HK\$5,209 million to HK\$5,448 million, and the profit before income tax increased by 2% from HK\$2,097 million to HK\$2,139 million. The Group's profit attributable to equity holders increased by 11% from HK\$1,556 million to HK\$1,730 million. This gives an earnings per share of HK\$3.95 (2011: HK\$3.55).

Our financial position continues to be strong. At the year end, our total equity stood at HK\$7,887 million (2011: HK\$7,093 million). Our unpledged cash balance totalled HK\$3,604 million (2011: HK\$3,693 million) and the bank borrowing decreased to HK\$205 million (2011: HK\$221 million).

As a result, Directors will recommend a final dividend of HK\$2.00 per share at the forthcoming annual general meeting. Together with the interim dividend of HK\$0.60 per share paid, this would make a total dividend of HK\$2.60 per share for the full year ended 31 December 2012, and represents an increase of 18% over 2011, and a 66% payout to our current year's profit.

## 45<sup>TH</sup> ANNIVERSARY

On 19 November 2012, we celebrated our 45<sup>th</sup> anniversary in the broadcasting business. During these years, TVB has nurtured numerous celebrity performers and home-grown production talents, who continuously contribute to the success of today's entertainment industry. I have to pay tribute to Mr. Hsiao-Wo Lee, a founder of the Company and Chairman of the Board from August 1965 to June 1980 and Sir Run Run Shaw, a founder of the Company and Executive Chairman/Chairman of the Board from July 1980 to December 2011 for their immense contributions to the Company. Their vision for the TV industry and their outstanding leadership over the past years had laid a solid foundation for our business today.

TVB has evolved from a small team of several hundred staff at the beginning to an organisation with a total staff number in excess of 4,600. Today, we own our broadcasting network and transmit five digital free-to-air channels around Hong Kong. From a small base in Hong Kong, we are reaching out to hundreds of millions of Chinese households around the world, entertaining and keeping our viewers in touch with Hong Kong every day.

Our road has, however, been full of challenges. We had to invest huge amounts in capital equipment for production and transmission. In Hong Kong, we persisted to produce programmes using our own talents, which again required substantial up-front investment, to meet the demand of the local audience. We also had to weather the impacts from the peaks and troughs of the economic cycles, resulting in painful down-sizing at critical times.

Yet, if we look back into our history, we remain proud of our evolution and achievements.

## CHINA JOINT VENTURE

Mainland China, with a total population of over 1.3 billion, remains a key market for TVB, despite her tight regulatory controls over imports and production of programmes. Throughout the years, we have succeeded in exporting programmes, principally drama serials, into Mainland China, leveraging on our programme successes in Hong Kong and the popularity of our artistes. On 8 August 2012, we witnessed an important milestone in our business as a joint venture under the name of 上海翡翠東方傳播有限公司 ("TVBC") between TVB, China Media Capital and Shanghai Media Group ("SMG") was officially formed in Shanghai, with a shareholding of 55% by TVB and the balance by our mainland partners. Being the second largest media group in Mainland China with a comprehensive portfolio of media assets, SMG shares many common goals with us. Mr. Li Ruigang, former president of SMG, takes the reign as the executive chairman of this joint venture. We are very delighted to have forged this important relationship, in furtherance of our programme production, and licensing and distribution business in Mainland China. Through TVBC, we have a strong platform for our future businesses.

## BUSINESS REVIEW

### CHANNELS AND DIGITAL MEDIA BUSINESS

Riding on the high viewership of our programmes at primetime on Jade and the strong support from our customers, revenue from our Hong Kong TV broadcasting business achieved a 6% increase over last year from HK\$2,987 million to HK\$3,167 million. Jade produced one of the most successful years in history of high TV ratings in 2012. Eleven drama serials broadcast during primetime last year achieved an average of over 30 TVRs (representing a reach of over 1,922,100 viewers), out of which four drama serials garnered over an average of 31 TVRs (representing a reach of over 1,986,170 viewers) over the broadcast of the entire drama serials. In addition, online ratings of between 1.2 and 2.1 TVRs were attained for the four prominent drama serials which averaged 31 TVRs. During the year, we successfully broadcast with market acclaim a drama serial *Tiger Cubs* during weekend primetime in the summer which averaged 28 TVRs on TV and 1.9 TVRs online. Special thanks must go to our creative and production teams which remain dedicated to TVB during a time when our business was going through severe competitive threats from potential operators.

During the last quarter of 2012 and the first quarter of 2013, we progressively upgraded our digital channels, namely, iNews, Pearl, J2 and Jade to high definition quality. We acted quickly to bring into the market a number of mobile applications (namely, TVB News, TVB Finance and TVB Zone), targeting the needs of our audience while on-the-move. With these new apps, we have increased our app offerings to eight, complementing our portal business under tvb.com which attracts an increasing number of loyal followers. Adopting a similar business model, we have much to look forward to rolling out the services in overseas territories.

## BUSINESS DEVELOPMENTS IN TAIWAN AND HONG KONG

To further our business objectives and particularly to enhance our production capabilities, we have identified a number of development plans. In Taiwan, we purchased a piece of land in Linkou, New Taipei City, in October 2012 for development into production headquarters and studios with an estimated cost of HK\$1.2 billion. The proposed production studios will enable us to commence a production pipeline of mandarin TV dramas for the Taiwan, mainland and overseas markets. Further, this project will offer unparalleled opportunities for artistes from Mainland China and Hong Kong to take part in drama production in Taiwan. For enhancement of our core operating capability in Hong Kong, the Company is planning the construction of new production studios and related facilities, including the construction of new offices and a grand production studio, at an estimated cost of HK\$1.8 billion. These capital investments in Taiwan and in Hong Kong underscore our long-term confidence in the business of the Group, and our commitment to remain the preferred TV channels to our audience in Hong Kong, Taiwan, Mainland China and other parts of the world.

## GOVERNANCE

I would like to extend a warm welcome to Mr. Raymond Or Ching Fai who was appointed to the Board on 6 December 2012 as an independent non-executive director. Mr. Or, a distinguished banker who needs no introduction, brings with him a wealth of experience in banking and other businesses to the Board. With the addition of Mr. Or, the Company fulfills the requirement of the Code on Corporate Governance of the Stock Exchange of Hong Kong that at least one-third in the numbers of board members must be independent non-executive directors.

## OUTLOOK

2013 will be another challenging year for us. Whilst we are pleased to note the gradual improvement in the macro-economic situation which supports a healthy market growth in Hong Kong, our local advertising business could be susceptible to the Government's final decision on issuance of new free TV licences. We believe in fair and open competition on a level playing field and, in relation thereto, we do respectfully urge the Government, in the interest of the public, to foster a transparent and long-term policy for an orderly, healthy and sustainable development of the free TV market if we were to promote Hong Kong as a regional broadcasting hub.

Further, operating our business and maintaining talents and manpower for our production pipeline in the current inflationary environment will inevitably contribute to further rise in costs. To offset the likelihood of negative impact, we are looking into our overseas markets for growth, focusing initially on our business in Mainland China and later in Taiwan, as well as our digital media business.

I am profoundly grateful to my fellow Directors for their unfailing support and wise counsel to the Board which together with our capable management has made 2012 another year of success. Equally, my statement cannot end without expressing my heartfelt thanks to all of our stakeholders – audience, clients and partners, shareholders, employees, artistes and suppliers – for their dedication and sterling support to TVB during a challenging period in our industry, and we look forward to their continued support for the betterment of our business in the years to come.

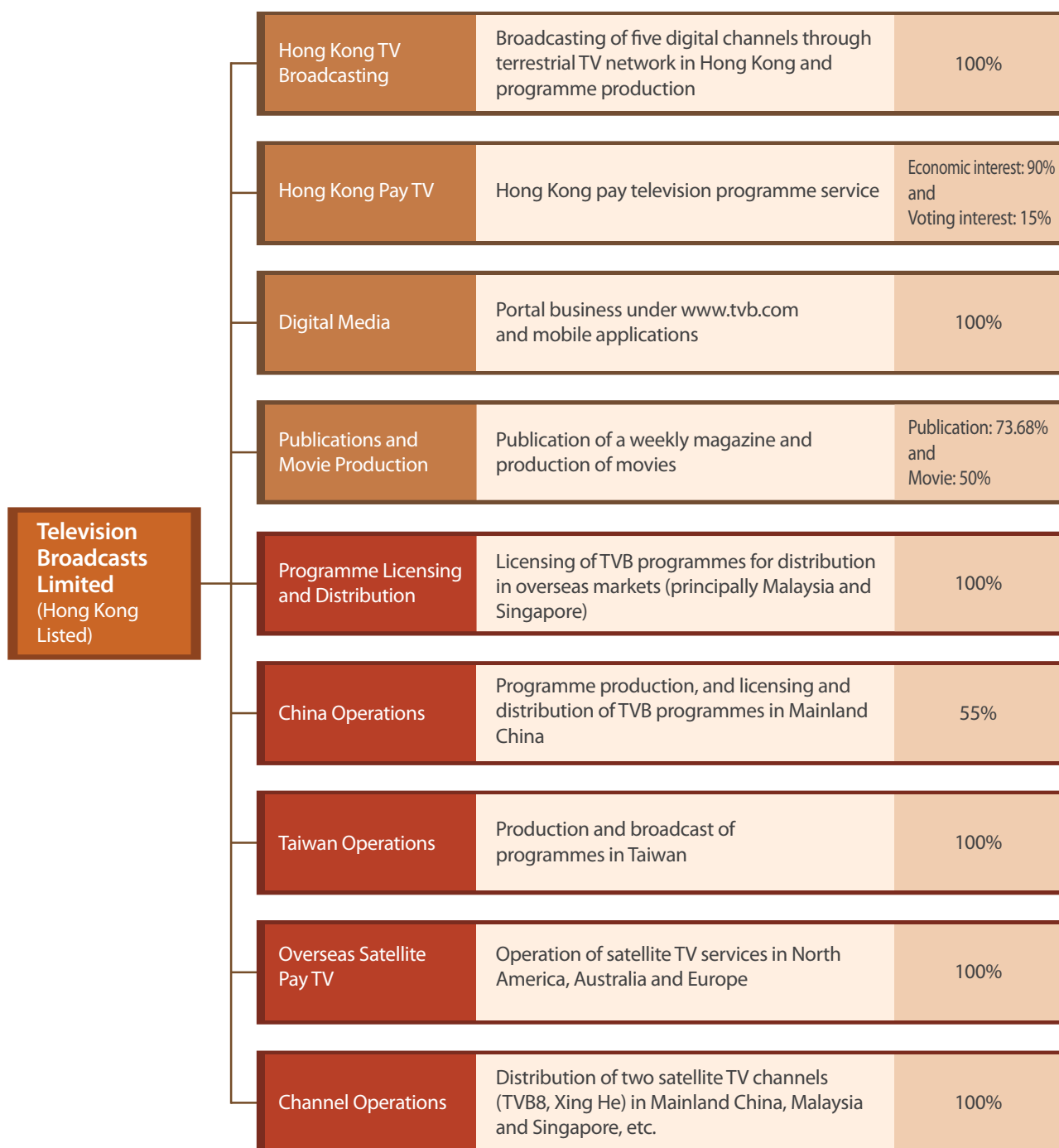
**Norman Leung Nai Pang**

Executive Chairman

Hong Kong, 27 March 2013



# THE GROUP'S BUSINESS



Television Broadcasts Limited (00511): Founded in 1967 and being the first wireless commercial television station in Hong Kong, TVB is now one of two free-to-air TV broadcasters in Hong Kong and one of the largest commercial Chinese programme producers in the world. It owns five free-to-air channels – Jade, J2, HD Jade, iNews (Cantonese) and Pearl (English), and more than 12 pay TV channels. TVB generates over half of its total revenue in Hong Kong, with the balance from the rest of the world through licensing and subscription businesses. TVB was listed on The Stock Exchange of Hong Kong Limited in 1984.

# REVIEW OF OPERATIONS

## HONG KONG TV BROADCASTING

### TV ADVERTISING

Buyers of airtime on Jade continued to be dominated by the fast moving consumer group. Skin care/cosmetic products and milk powder continued to be the biggest growth engines, as retail sales from those two categories remained strong, benefitting largely from visitors from Mainland China.

Mobile networks, together with digital/electronic equipment (cameras, mobile phones, tablet computers) showed very strong growth in promoting their new and enhanced models and services. Getting out from the shadow of the financial crisis and realising the need of brand building, the banking and finance sector spending has recorded a solid rebound.

As property remains a favourable investment option, local and overseas properties spending has made significant contribution to the growth in revenue.

After rounds of negotiations with a local pay TV station, TVB and Asia Television Limited<sup>1</sup> ("ATV") were jointly granted in late July 2012 the right to broadcast the London 2012 Olympic Games on free-to-air channels in Hong Kong, complementing the more comprehensive coverage by the local pay TV service. Shortly after confirming the broadcasting right, TVB rallied all of its manpower to produce the programmes, and jointly

telecast an Olympics Live Block over a daily total of 12 hours across Pearl and ATV World during the 17-day event. Highlights and ancillary programmes were telecast on Jade and ATV Home, while iNews maintained a 24-hour news coverage on the results. Local sports fans were given a feast for their eyes on the live coverage of the Games.

As the broadcast of the London 2012 Olympic Games was not in the original plan, our programming efforts were concentrated on producing the much enriched programmes for late primetime on Jade. Our summer sales campaign Amazing Summer was centred on programmes which were originally planned for countering the Games. Although with a very short sales period, the selling of the Games and Amazing Summer airtime packages turned out to be a great success in terms of both ratings delivery and sell-through rate.

We continued to make strong effort on selling integrated packages (consisting of all our TV platforms, online and magazine offerings) which were well-received by advertisers, attracting small and medium-size advertisers new to TV advertising.

### TERRESTRIAL TV CHANNELS PERFORMANCE

In 2012, TVB remained the most-watched free-to-air terrestrial TV broadcaster in Hong Kong by a wide margin. We managed to attract even more viewers than the previous year with our acclaimed drama serials and new variety programmes.



# AMAZING SUMMER

## 45<sup>TH</sup> ANNIVERSARY

To celebrate the grand occasion of TVB's 45<sup>th</sup> anniversary of broadcasting in Hong Kong on 19 November 2012, the station hand-picked a line-up of high quality, in-house produced programmes to strengthen our offerings across all terrestrial channels in a major campaign – Amazing Summer.

During primetime on Jade<sup>2</sup>, drama *Witness Insecurity*, headlined by Bosco Wong as a police detective assigned to protect Linda Chung, who played the daughter of a tycoon, became the top-rated TV serial of the year, with an average TV rating<sup>3</sup> of 31 and a 97% audience share<sup>4</sup>. Another well-received TV serial scheduled for the campaign was *Three Kingdoms RPG*, a time-travel period drama starring top artistes Raymond Lam, Tavia Yeung and Kenneth Ma; it attained an average TVR of 30 and again a 97% audience share. Two other programmes aired in the summer were *Ghetto Justice II*, a sequel to the 2011 hit legal drama, and *King Maker*, a historical-fiction TV serial set in the Song dynasty.

To strengthen weekend primetime programming, we strategically broadcast a one-and-a-half-hour police drama, *Tiger Cubs*, for eight consecutive weekend nights. The series received favourable reviews, with its debut episode achieving an average rating of 29 TVRs – 59% higher than the ratings recorded in the corresponding time slots prior to its airing.

Non-drama programmes tailor-made for the campaign included *Map Of Happiness*, a travelogue to five of the “happiest” places on earth; *All Star World Exam*, a glamorous variety weekend show hosted by Cantopop band Grasshopper; *Battle Of The Singing Stars 2012*, which featured heavyweight stars such as Eric Tsang, Carol Cheng, Raymond Lam, Joey Yung and Charlene Choi; and *TV Funny*, a half-hour variety show on weekday nights featuring more than 100 of our artistes.

Interactive game, *Amazing Summer Fun Draw*, further engaged our audience on Jade. This game attracted more than 17 million lucky draw entries and the station gave away HK\$3 million worth of prize money.

<sup>1</sup> Asia Television Limited is one of the two licencees holding free-to-air broadcasting licences in Hong Kong.

<sup>2</sup> During weekday primetime, Jade is defined as an aggregate of Jade and HD Jade (“Total Jade”).

<sup>3</sup> TV rating (“TVR”) represents the size of the audience expressed as a percentage of the total TV population. For 2012, the total TV population comprises 6,407,000 viewers, and therefore, 1 TVR represents 64,070 viewers (1% of the total TV population). Ratings data source: CSM Media Research.

<sup>4</sup> Audience share (%) is the percentage of ratings of particular channel(s) over the total ratings of the base channels for a specific period. The base Chinese channels are Total Jade and Asia Television Limited's Home. The base English channels are Pearl and Asia Television Limited's World. Ratings data source: CSM Media Research.





The Confidant

## REVIEW OF OPERATIONS

Popular overseas programmes aired as part of the campaign included mainland historical drama *Palace*, Japanese crime drama *Boss 2* and Korean forensic-crime drama *SIGN* on HD Jade; Korean drama *City Hunter* and Taiwanese idol dramas *Ti Amo Chocolate* and *Once Upon a Love* on J2; and Japanese documentary *Life Force* and acclaimed French photographer Yann Arthus-Bertrand's film, *Home The Story of a Journey*, on HD Jade.

We also boosted Pearl's movie line-up with a selection of blockbusters such as *Transformers Revenge of the Fallen*, *Harry Potter and the Half-Blood Prince™*, *Harry Potter and the Sorcerer's Stone™*, animation *Kung Fu Panda*, and the Batman flick *The Dark Knight*.

An innovative strategy adopted in 2012 was making greater use of TVB Fun, our application for smart phones, to engage our viewers. We successfully boosted the ratings of two programmes broadcast on Jade over the Chinese New Year period of 2012 by running an interactive game named *CNY Lucky* on TVB Fun, which attracted more than 9 million entries from viewers.

Later in the year, we launched our first-ever public voting via TVB Fun and [tvb.com](http://tvb.com) on the *TV Awards Presentation 2012*. More than 1.5 million votes were cast for TVB's Best Leading Actor and Best Leading Actress awards as well as Best Drama of the year.



Silver Spoon, Sterling Shackles



## JADE CHANNEL

Jade achieved an average 25 TVRs during weekday primetime<sup>5</sup> for 2012, representing a 94% audience share and an improvement of seven percentage points over 2011. Eleven of Jade's 20 weekday primetime dramas achieved TVRs of 30 or more, the best performance over the past five years.

### Drama

More resources have been devoted into producing TVB dramas, and two key TV serials to celebrate the station's 45<sup>th</sup> anniversary were filmed in Mainland China. *The Confidant*, a Qing-dynasty palace story starring veteran actors Wayne Lai as eunuch Li Lianying and Michelle Yim as Empress Dowager Cixi, was filmed in Hengdian; it received critical acclaim and became the second-most popular drama of the year (with TVRs of 31 and a

97% audience share), after only *Witness Insecurity*. Lai's portrayal won him the Best Leading Actor award for the third time.

Another anniversary drama – *Silver Spoon, Sterling Shackles* – was filmed in Shanghai and dazzled the audience with its elaborate sets and costumes. Damian Lau played the patriarch of an affluent family in colonial Hong Kong with four wives, played by Idy Chan, Mary Hon, Elena Kong and Tavia Yeung. For her role as Lau's fourth wife, Yeung was named Best Leading Actress of the year.

Many TVB supporting actors rose to prominence in 2012 with their standout performances. Jerry Ku won the audience over with his character "So Gay" in comedy *Divas In Distress* and received the Best Supporting Actor award. Two breakout artistes were Oscar Leung and Mandy Wong from *L'Escargot*, which explored the housing problems

<sup>5</sup> Jade's weekday primetime runs from 7 p.m. to 11 p.m., Mondays to Fridays.

## REVIEW OF OPERATIONS

faced by the younger generation who could not afford to buy their own apartments; the pair won the Most Improved Actor and Actress awards respectively. Other promising newcomers included Eliza Sam in *Divas In Distress* and Christine Kuo in *Tiger Cubs* and *Ghetto Justice II*, a sequel to the 2011 legal drama.

A new weekday situation comedy *Come Home Love*, which portrays the stories revolving around different members of the Ma family, was so popular with our viewers that its total number of episodes has been extended from 180 to 300.

### Non-drama

We successfully enriched the contents of our variety shows by adopting a reality-show format for a travelogue visiting war zones as well as introducing new programme formats; these measures helped attract more viewers during the late weekday primetime and weekend primetime slots.

One innovative show introduced in 2012 and still running was *Minute To Win It*. Adapted from a popular NBC game show in the U.S., the programme, hosted by popular singer Hacken Lee, was the top-rated game show in 2012, achieving on average TVRs of 27 and a 96% audience share. Contestants were asked to complete each of the ten designated tasks within a minute and earn rewards up to HK\$1 million. Another new variety programme format introduced was *Crazy For History*, which aimed to explain the true stories and facts behind commonly misunderstood historical events; a rich cast of TVB artistes starred in the programme.



Gloves Come Off

The long-running Miss Hong Kong Pageant underwent a revamp to implement a new preliminary selection method in the pageant's 40-year history – contestants had to go through rounds of competitions in Hong Kong and in two overseas locations, London and Thailand; the London portion of the pageant led to the production of a reality show titled *Miss Hong Kong in London*. On the night of the final competition, the stage design became a centrepiece of the pageant and received positive feedback from the audience. Valuable lesson was learnt from the online polling exercise for the final contestants carried out on the night of the final of Miss Hong Kong Pageant, as the level of responses from the voters was so overwhelming that the entire system broke down. For future online polling exercises, systems design will ensure that there is sufficient capacity for such processing.

One of the non-drama programmes that created a huge buzz in 2012 was the reality show *Bride Wannabes*, which tracked six single women in pursuit of their "Mr. Right" over a period of six months; it was the top-rated weekday 10:30 p.m. non-drama programme on Jade and generated much discussion among viewers and wide coverage in the media.

Another popular programme was *Telling Maria*, where hostess Luisa Maria Leitão interviewed past winners of Asian best actor awards, including heartthrobs Nicholas Tse, Andy Lau and Tony Leung, as well as character actors Anthony Wong, Francis Ng, Eric Tsang and Nick Cheung. The talk show helped Leitão secure her title as Best TV Host of 2012.

For *Pilgrimage of Hope*, a large-scale documentary hosted by new talent Tony Hung, we sent a seven-member production crew on a 40-day journey through 25 cities in the war zones of the world including Iran, Iraq, Lebanon, Turkey and Georgia. The show received positive feedback from the audience and was named Best Documentary Programme of 2012.

A new star-studded travelogue, *Map Of Happiness*, featured singers and artistes visiting the five happiest places on earth: Alan Tam went to Denmark, Ekin Cheng visited Vanuatu, Cantopop band Grasshopper travelled to Australia, Wayne Lai stopped by Korea, and Wong Chok-lam went travelling in Thailand. The show won Best Variety Programme of 2012.



Miss Hong Kong Pageant 2012



Telling Maria

## REVIEW OF OPERATIONS



### HD JADE CHANNEL

Continuing its upward trend, HD Jade attracted a weekly average of 2.8 million viewers in its non-simulcast timeslot in 2012, representing a 23% increase over 2011. Big-budget dramas acquired from Mainland China, Korea and Japan, and HD premium documentaries contributed to the channel's success. Its ratings contribution to Jade's weekday primetime was 32%, up three percentage points from 2011.

*Stratagems of Beauty*, a mainland Chinese period drama centred on a Han empress played by Taiwanese actress Ruby Lin, was the most-watched weekday HD drama of the year. Other popular HD dramas included *Palace*, a story about a modern Chinese girl's time travels back to the Qing dynasty; epic mainland TV production *Three Kingdoms*; and Korean period drama *The Great Queen Seondeok*.



© MBC

The Great Queen Seondeok

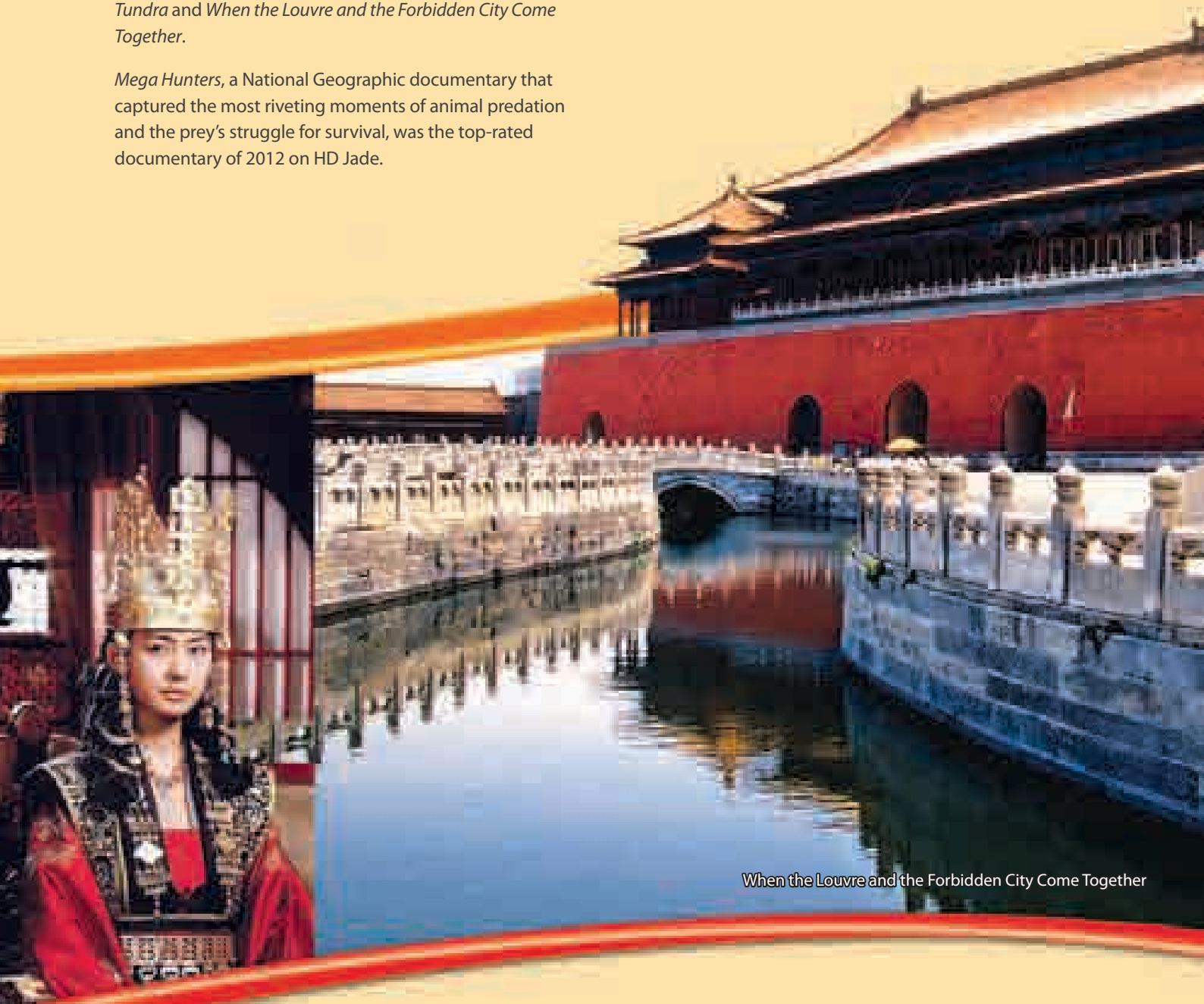
When the Louvre and the Forbidden City Come Together



A series of food programmes aired between 7:30 p.m. and 8:30 p.m. on Saturdays successfully pushed up the channel's average TV ratings by 24% for this timeslot in 2012 compared to 2011. In addition to telecasting a variety of high-quality documentaries from Europe and the U.S., HD Jade expanded its 2012 selections to include Japanese and mainland Chinese documentaries such as *Life Force*, *Wild Japan*, *Math and the Rise of Civilization*, *Last Tundra* and *When the Louvre and the Forbidden City Come Together*.

*Mega Hunters*, a National Geographic documentary that captured the most riveting moments of animal predation and the prey's struggle for survival, was the top-rated documentary of 2012 on HD Jade.

*Money Smart*, a popular financial programme first launched in 2008, was revamped with the addition of new segments and more professional commentaries. We expect its viewership to further increase with the launch of TVB Finance app, which allows its users to watch the programme live on their smart phones.



*When the Louvre and the Forbidden City Come Together*

## REVIEW OF OPERATIONS



### J2

J2 consolidated its position as a channel targeting a younger audience and gained greater viewership during the year. Its ratings improved by 35% during its primetime (7 p.m. to midnight, Mondays to Sundays) in 2012, making it the second-highest-rated channel (after Total Jade) during weekday primetime (7 p.m. to midnight, Mondays to Fridays) since May.

We continued to invest in producing high-quality in-house programmes. Having telecast more than 600 episodes, J2's signature programme, *Big Boys Club*, was still going strong. *All Things Girl* catered to female viewers by exploring a range of popular topics such as beauty, fashion and romance. *Own Sweet Home* explored ways to decorate the ideal homes for younger generation. *Cool Guide*, a new half-hour lifestyle programme hosted by Ricky Fan and Luk Ho, aimed to introduce the latest trends and gadgets, while a new travelogue *When in Taiwan* was well-received.



Ti Amo Chocolate

When in Taiwan

A steady stream of highly rated foreign TV series helped garner the support of the younger audience. J2 aired the Cantonese-dubbed version of *Skip Beat*, a Taiwanese TV series based on a Japanese manga of the same name, just two weeks after its premiere in Taiwan. Two more Taiwanese dramas, *Sweet Sweet Bodyguard* and *Ti Amo Chocolate*, Japanese food and romance drama *Hungry!* and Korean romantic comedy *Mary Is Out At Night* were other programmes that drew more viewers to the channel.

As a strategy to promote its younger image, J2 served as the official sponsor and broadcaster of the 14<sup>th</sup> Animation-Comic-Game Hong Kong 2012 and launched an animation campaign during July to celebrate the festival. Candy Chang and Nathan Ngai were chosen as the official image icons for the campaign.

The channel also boosted its music programme offerings with several international events. J2 served as the official broadcaster of the *Hong Kong Asian-Pop Music Festival 2012*, which aimed to identify and promote new singers with regional appeal. It also brought the *2012 Mnet Asian*

*Music Awards* and *KBS Music Bank In Hong Kong K-Pop Festival* to Hong Kong for the first time.

J2's programme line-up has been rescheduled since May, and has established a well-received food programme timeslot between 9:30 p.m. and 10 p.m. during Mondays to Thursdays. *Midnight Food Hunt* and *May Food Keep Us Together* were the top two food programmes of the year during this timeslot.

We also improved our sports programmes to further diversify the line-up. Six matches of the AFC Cup, an international soccer competition run by the Asian Football Confederation, were telecast during weekday primetime. In addition to telecasting the *Standard Chartered Hong Kong Marathon 2012* live on J2 and myTV app, TVB also produced a five-week mini-programme, *The Faith of Marathon*, to promote the event.



14<sup>th</sup> Animation-Comic-Game Hong Kong 2012

© Tadatashi Fujimaki / SHUEISHA, Team Kuroko  
Licensed by Top-Insight (HK)

Kuroko's Basketball

## REVIEW OF OPERATIONS



### PEARL CHANNEL

A wide variety of high-quality programmes helped Pearl achieve an average of 81% audience share during its weekly primetime<sup>6</sup> among the city's terrestrial English TV channels.

For the eighth consecutive year, the top 100 rated English programmes aired on local terrestrial English TV channels were all from Pearl. The addition of a new segment

*Pearl Tonight* in *Jade's Scoop* on weekdays to provide information about Pearl's primetime programmes has helped garner higher TV ratings for Pearl.

Blockbuster movies continued to deliver great performances. *The Day the Earth Stood Still* was the top-rated English movie of the year, achieving an average rating of 10 TVRs and a 97% audience share. Fantasy film *The Chronicles of Narnia Prince Caspian*, Tim Burton's *Charlie and the Chocolate Factory*, action thriller *G.I. Joe The Rise of Cobra* and adventure film *Journey to the Center of the Earth* were other big hits that secured the top five movie list of 2012.

Pearl continued to bring critically acclaimed drama series from different parts of the world to local viewers. Drama series such as *Downton Abbey*, *Homeland* and *Sherlock* won numerous awards from prestigious international TV festivals.



Dolce Vita

Signature documentary timeslot between 9:30 p.m. and 10:30 p.m. during Mondays to Wednesdays continued to attract viewers with eye-opening programmes. With exclusive rights to premiere in Hong Kong, Pearl proudly presented BBC's breathtaking nature documentary series *Earthflight*. The series took our viewers on an aerial adventure to experience the greatest wildlife phenomena and natural wonders across six continents through the eyes of birds.

Overseas variety and reality programmes were well-received by our audience. The new seasons of *Junior MasterChef Australia* and *America's Got Talent* continued to receive good ratings and reviews.

*Dolce Vita*, an in-house production showcasing upmarket lifestyle and fashion trends, has become an iconic programme of the channel.

Avid news viewers were delighted with the return of *60 Minutes*, the longest-running U.S. news programme since 1968, while *Entertainment Tonight* and *Entertainment This Week*, both CBS syndicated programmes, gave

Hollywood fans their much-needed dose of showbiz gossips.

As always, Pearl brought *The 84<sup>th</sup> Academy Awards*<sup>®</sup> live to the Hong Kong audience. To enhance viewers' experience, English subtitles were added as closed caption for the first time in a re-run of the programme in the evening. Viewers were also able to watch the ceremony via myTV on the Internet and on their mobile devices within a week of the live event.

To cater to our sports fans, Pearl continued to carry the *Hong Kong Sevens 2012*, a three-day event that was part of the annual series of international rugby sevens tournaments run by the International Rugby Board. In February, the station also brought a new world-class sports event, *Snow Polo World Cup 2012*, held in Tianjin, to Hong Kong for the first time. Pearl's extensive coverage of the event, which included live matches and the closing ceremony, successfully promoted awareness among viewers in Hong Kong.

<sup>6</sup> Pearl's weekly primetime runs from 8 p.m. to 1 a.m., Mondays to Sundays.



© Disney Enterprises, Inc. and Walden Media, LLC. All rights reserved.  
The Chronicles of Narnia Prince Caspian



© 2008 Twentieth Century Fox Film Corporation. All rights reserved.  
The Day the Earth Stood Still



24 iNews Channel Studio

## REVIEW OF OPERATIONS



### iNEWS CHANNEL AND NEWS PROGRAMMES

iNews, which underwent a revamp on 30 June to enhance its visual quality to HD, remained the most-watched and the only free-to-air 24-hour news channel in Hong Kong. Another enhancement was introduced to provide choices of three simultaneous news coverage on the same screen, where viewers can choose their desired news story by switching between different audio tracks. Several topical news programmes, including *A Closer Look*, *On the Record*, which featured in-depth interviews of senior government officials, and *Weekend Chatroom* were introduced as part of the new regular line-up to provide greater variety.

To boost its coverage of the chief executive elections, TVB appointed the Chinese University of Hong Kong

to conduct four opinion polls on the chief executive candidates from December 2011 to the week prior to the election; we also produced mini-programmes to provide our audience with more information about the polls. These measures helped shore up the ratings of the 2012 *Chief Executive Candidates Forum*, which averaged 31 TVRs on Jade, 31% higher than the same programme telecast in 2007, the year of the last election, and the *Chief Executive Election Debate 2012*, which averaged 29 TVRs.

Other major news events that received extensive coverage included the 2012 Legislative Council Elections; celebrations of the 15<sup>th</sup> anniversary of Hong Kong's handover; the inauguration of the fourth term of the Hong Kong Special Administrative Region Government and Chinese President Hu Jintao's visit to the city; the first Chinese female astronaut's mission to China's space station; and the ferry collision off Lamma Island, which claimed 39 lives and was the deadliest boat accident in Hong Kong in 40 years.

The station also launched a new mobile application, TVB News, and a dedicated TVB News webpage on our official portal, tvb.com, to provide viewers with more choices.



## DIGITISATION OF TRANSMISSION NETWORK

During the year, we received the approval for changing the source coding of the Multi-Frequency Network which simulcasts our Jade and Pearl from MPEG-2 to MPEG-4. This allows us to upgrade our digital channels from standard digital quality to full HD. The first upgraded digital channel was iNews in June 2012 which was followed by Pearl in October 2012. J2 and Jade were upgraded post the year-end in January and March 2013, respectively. This brings all of our terrestrial TV channels to the highest viewing quality in Hong Kong.

Penetration of digital terrestrial TV reached 71.3% of all households by December 2012 (including set top boxes, integrated digital TVs and receivers connected to PCs). We would commend on this high level of digital penetration for Hong Kong which was reached within five years from introduction. We envisage that the ratio will increase to approximately 80% within 2013.

Since the construction of the first principal station for digital terrestrial TV broadcasting network in Hong Kong at Temple Hill in 2007, six additional principal stations have been added to the network together with 23 fill-

in stations. With this network, TVB covers 98% of the population in Hong Kong. With increased Effective Radiation Power of six fill-in stations, it is envisaged that a 99% population coverage can be achieved by the end of 2013, which brings it on par with the population coverage of the analogue TV network.

On the production studios, we had in the past progressively upgraded our studios to HD production standard. All of our five drama studios are now operating in HD standard, whilst the variety studios have been upgraded progressively throughout the past few years. After the year-end, the two remaining variety studios will be upgraded to HD, thereby completing the migration for all eight variety studios.

For the post-production stage, we have installed HD capability in our editing systems for drama, news and variety programmes. All post-production facilities will be completely upgraded by the end of 2013.

By making use of RTHK digital channel 62, TVB has carried out test on 3DTV transmission through UHF channel in November 2012, and the result is promising.

# REVIEW OF OPERATIONS



## CHANNELS FOR PAY TV PLATFORM

Targeting the local audience and tailor-made for TVB Pay Vision Limited ("TVBPV", renamed as TVB Network Vision Limited on 5 March 2013), TVB's medley of 12 channels has reinforced TVBPV's offerings in Hong Kong's pay TV market.

As an up-and-coming channel, TVB Movies has built its reputation as a premiere Asian movie channel in Hong Kong. In 2012, the channel presented exclusive first-run titles including the multiple award-winning film, *A Simple Life*, Taiwanese epics *Seediq Bale (I) & (II)* and the Shaw Studios' blockbuster, *Turning Point 2*.

Food fanatics in Hong Kong tuned in on TVB Food for tips on hearty home-cooking and dining hotspots around town. In addition to introducing internationally acclaimed food programmes such as *A Bite Of China*, TVB Food also boasted its own productions with local flavours, including *My Private Kitchen*, *Sweet Corner* and *My Secret Recipes Showdown*.

TVB Entertainment News brought the latest showbiz stories from all over the world to the audience. The



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Scarlet Heart



Seediq Bale



channel's 2012 highlights included *The Voice of China*, arguably the most popular reality talent show ever in China, and live coverage of international red-carpet events and award ceremonies.

With TVB Drama and TVB Select, TVB PV boasted more premier programming hours and titles (excluding those from Mainland China) than any other network in Hong Kong. Long established as the channel featuring the greatest number of the latest idol dramas from around the region, TVB Drama had another prolific year, headlined by *Antarctica*, starring Kimura Takuya and Ayase Haruka, *Gentleman's Dignity*, featuring Jang Dong Gun, and *In Time With You*, the acclaimed award-winning drama from Taiwan.

TVB Select was a star performer and attracted the largest audience share out of TVB's 12 channels on TVB PV. Top billing dramas of 2012 included *Scarlet Heart* and *The Glamorous Imperial Concubine* from Mainland China, and *Moon Embracing Sun* and *My Husband Got A Family* from Korea.

TVB Classic benefitted from the depth of TVB's library and produced tributes and themed packages such as the well-received *Stardust Memories* and *TVB Star Power*.

Subscribers to TVB PV services even wrote in to request re-broadcasts of their favourite TVB dramas.

Viewers could watch specifically produced and acquired programmes in the genres of modern living, leisure and travel on TVB Lifestyle. The channel offered everyday household tips, wove feng shui into talk-shows, and transported viewers to far-flung places such as India, Dubai and Mauritius.

In addition to presenting animations for children of all ages, TVB Kids also showcased educational programmes *Keep Up*, *Level Up* and *Speedy Putonghua Learning* to cover the primary school subjects of Chinese, English, Mathematics, and Putonghua. The programmes have garnered positive feedback from parents and children alike.

Riding on the strength of the TVB Jade dramas, TVB Encore has quickly built a loyal fan base among the subscribing households. The unique TV catch-up service allows viewers to watch re-broadcasts of TVB primetime dramas on the same night and over the weekend.



The Voice of China



Moon Embracing Sun

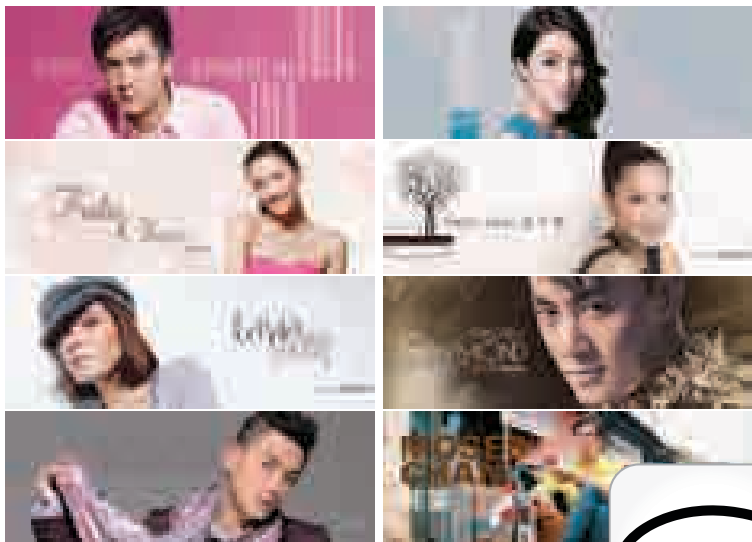
# REVIEW OF OPERATIONS

## DIGITAL MEDIA BUSINESS

TV viewing behavior is expanding from traditional linear channels into new media platforms, particularly for the young generation. The Company has now enabled the access of both 24 hours live streaming free TV channels (HD Jade, J2, iNews) and the catch-up of our popular TV

programmes on various Internet-connected devices – PCs, smart phones and tablet computers anywhere and anytime.

Our Internet portal tvb.com hosts TVB contents and major annual events including Miss Hong Kong Pageant, TVB Anniversary Gala and TV Awards Presentation. It ranks number one in terms of total time spent among all properties (excluding Facebook, Yahoo, Google and Microsoft) based on the data from the industry accepted comScore service in November 2012. The portal is indeed very popular and well-supported by many new and recurring advertisers. The sell-through rate of our in-stream video inventory averaged 74% and achieved 100% during the high seasons.



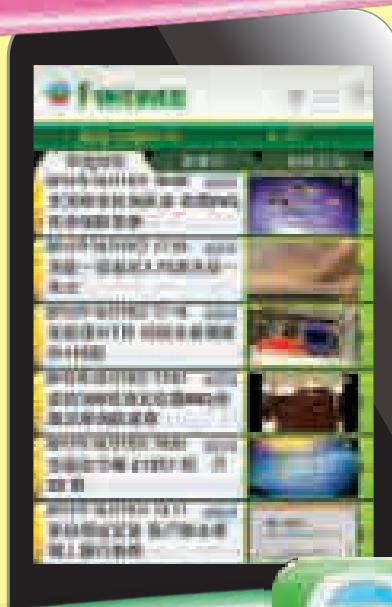
Riding on the great success of the myTV mobile app, which was launched in November 2011, and which has achieved cumulative new installation of more than three million, two more mobile applications were launched – TVB News in September 2012 and TVB Finance in December 2012.

TVB News is available on both web and mobile platforms. Users are connected to the world with the latest local, international, financial and sports news in form of text and video clips. Live-casting of iNews channel and special events of public interest are also offered. Breaking news is brought to mobile users in a timely manner. TVB News app has recorded cumulated installation of more than 500,000 by the end of 2012.

TVB Finance mobile application offers the latest financial news and in-depth analyses by professional analysts. Self-customised front page setting is enabled to fit individual preferences. Live-casting of HD Jade day time programme *Money Smart* is also provided.

Mobile usage of our services, including myTV, TVB News and TVB Finance apps have grown very fast. Mobile stream views are now equal to web stream views. Action will be taken to monetise mobile traffic even more effectively in 2013.

In 2012, the development and operation focus was on mobile capability and online monetisation. As a result, online advertising enjoyed an annual growth of 44%. The planned paid video-on-demand (“VOD”) service based on TVB’s huge 40-year archive has been scheduled for launch later this year. Our services will continue to improve with more live event channels, higher video quality, ever-expanding video repository and the growth of our mobile apps family. tvb.com services are initially built for Hong Kong users but will gradually be extended to selected international markets.





I Love Hong Kong 2012

## REVIEW OF OPERATIONS

### OTHER HONG KONG OPERATIONS

#### INVESTMENT IN HONG KONG PAY TV PLATFORM

The Group's economic interest in TVB Pay Vision Holdings Limited ("TVBPVH") increased from 62% to 90%, with the completion of the acquisition of non-voting shares in TVBPVH during the year for a total cash consideration of HK\$194 million. The Group's voting interest in TVBPVH remains at 15%. As the Group does not exercise control over TVBPVH, the income statement and the statement of financial position of TVBPVH are continued to be equity accounted for as an associate in the accounts of the Group.

During the year, the channel supply arrangement between TVB and the operating subsidiary of TVBPVH, TVB Pay Vision Limited ("TVBPV", renamed as TVB Network

Vision Limited on 5 March 2013) has been restructured. Under the revised terms effective from 1 January 2012, TVB supplies a series of channels<sup>7</sup> to TVBPV in exchange for an additional 25% share of the advertising revenue from the said channels, taking TVB's share of advertising revenue to 100%.

For the year ended 31 December 2012, TVB's share of TVBPVH's net profit was HK\$0.1 million (2011: a net loss of HK\$58 million). The improvement was due to the decrease in the programme costs, as a result of the restructured channel supply arrangement mentioned above.

The total interest in TVBPVH at 31 December 2012 before any impairment loss was HK\$1,159 million, which represented costs of investment, a long-term loan and trade receivable balances, less accumulated share of losses. Based on a revised business plan prepared by TVBPV covering a ten-year period to 2022, management had undertaken a critical review of the recoverability of the total interest in TVBPVH, and concluded that an additional impairment loss of HK\$100 million was required at 31 December 2012. Together with the provision brought forward of HK\$410 million, the provision for

<sup>7</sup> The series of channels comprise TVB Drama, TVB Select, TVB Classic, TVB Food, TVB Lifestyle, TVB Kids, TVB Entertainment News, TVBM, TVB Encore, TVBN, and TVBN2.



impairment loss carried forward at 31 December 2012 amounted to HK\$510 million. On this basis, the Group's total interest in TVBPHV amounted to HK\$649 million at 31 December 2012 (2011: HK\$529 million), and is considered to be recoverable.

During the year, the domestic pay TV programme service licence of TVBPHV, which expired on 22 February 2013, has been renewed for 12 years to 22 February 2025. In 2013, the major mode of transmission of channels will be shifted from satellite to optical fibre so as to acquire additional capacity at reduced cost. With the new infrastructure, more channels can be accommodated in the pay TV services and, in addition, HD broadcast and VOD services will also become feasible. This will help improve both subscriber growth and ARPU build-up.

Given the deployment of the new infrastructure, the Group has confidence in the business prospects of TVBPHV.

### MAGAZINE BUSINESS

TVB Weekly is our official TV guide themed with health-related contents and promotion of TVB artistes' image.

The revamp of TVB Weekly in July 2012 which included improvement to the layout and enhancement to its contents, together with the lowering of the book price to HK\$10 per copy, has led to an increase of average circulation per issue in the second half year by 9.5%, compared with the first half year. Despite a tough operating environment during the year, there was a modest single digit growth in advertising income.

TVB Zone, a free mobile application version of TVB Weekly, was launched in the first quarter of 2013. It is projected that readership will increase after the release. The publicity of our programmes and artistes will be enhanced through the increased readership.

### MOVIE PRODUCTION

TVB continues to produce movies under a joint venture with Shaw Productions Limited. Following the successes in 2011, *I Love Hong Kong 2012*, starring Eric Tsang, Teresa Mo, Bosco Wong, together with many TVB artistes, was released in Hong Kong during the Chinese New Year holiday period in 2012 with a total box office takings of approximately HK\$20 million. More productions are in the pipeline for 2013.

# REVIEW OF OPERATIONS

## INTERNATIONAL OPERATIONS



### ASIA

BRUNEI  
CAMBODIA  
CHINA  
INDONESIA  
JAPAN  
MACAU

MALAYSIA  
SINGAPORE  
SOUTH KOREA  
TAIWAN  
THAILAND  
VIETNAM

### OCEANIA

AUSTRALIA  
NEW ZEALAND



**Jade Channel**  
USA



**TVB - V**  
Australia, USA



**TVBS - E**  
Europe



**TVB8**  
Australia, China, HK, Macau,  
Malaysia, Singapore,  
New Zealand, USA



**Xing He**  
Australia, China, Macau,  
Malaysia, New Zealand,  
Singapore, Thailand, USA



## EUROPE

AUSTRIA	ITALY
BELGIUM	LUXEMBURG
CZECH REPUBLIC	NORWAY
DENMARK	POLAND
FINLAND	PORTUGAL
FRANCE	REPUBLIC OF IRELAND
GERMANY	SPAIN
GREECE	SWEDEN
HOLLAND	SWITZERLAND
HUNGARY	U.K.



## NORTH AMERICA

CANADA  
USA



**TVBS**  
Taiwan, USA



**TVBS - News**  
Taiwan, Australia,  
Macau



**TVBS - G**  
Taiwan



**TVBJ**  
Singapore



18<sup>th</sup> Shanghai Television Festival

## REVIEW OF OPERATIONS

### PROGRAMME LICENSING AND DISTRIBUTION

Revenue from programme licensing and distribution, which comprised income from distribution of programmes through telecast, video and new media licensing outside of Hong Kong, increased from HK\$903 million to HK\$940 million, representing an increase of 4%. The growth was mainly attributable to increase in revenue for licensing of our programmes in traditional markets such as Malaysia and Singapore which continue to contribute steady revenue to the Group.

In Malaysia, we continue to supply our programmes to ASTRO All Asia Networks plc (“Astro”) under a three-year contract which expired in January 2013 but was renewed for a further three-year period ending 31 January 2016. These programmes are being used in Astro’s Wah Lai Toi, a local pay TV channel carrying mostly TVB programmes. During the year, Astro and TVB jointly embarked on substantial marketing of its service package named Dynasty Package, as well as Astro’s VOD services.

In Singapore, we supply our programmes to StarHub Cable Vision Limited (“StarHub”) under again a three-year contract which will expire in May 2013. We are in discussion with StarHub for renewal of the supply contract. In 2012, additional resources were given to recoup young audiences through regular marketing events along with StarHub roadshows. This resulted in an increase of 10% in subscription orders in 2012. Through increase in press

coverage generated from promotions participated by our artistes, the number of online votes collected this year for the StarHub TVB Award saw a substantial increase from 58,000 in 2011 to 350,000 in 2012. These results show that greater marketing activities had helped create awareness and capture our target audience.

During the year, we devoted increased efforts in distributing our contents in non-traditional markets. With a suitable business model in place after several years of investment, Vietnam has become one of the fastest growing markets in our business portfolio. Growth momentum remained strong during the year. In Indonesia, we propose to supply contents to our potential business partner for a TVB channel targeting the mainstream audience, and we envisage securing a licensing contract in Indonesia in the short term.

### CHINA OPERATIONS

On 8 August 2012, a joint venture named 上海翡翠東方傳播有限公司 (“TVBC”) between TVB, China Media Capital (“CMC”) and Shanghai Media Group (“SMG”) was formed in Shanghai which signifies a significant step forward for our business in the mainland. The shareholdings in TVBC are TVB, holding 55%, and CMC and SMG, holding in aggregate the remaining 45%. The business scope of TVBC comprises the licensing of TVB programmes to TV stations and Internet portals in the mainland; management of and distribution of two TVB Hong Kong channels (Jade and Pearl) in Guangdong Province; commissions of advertising sales for TVB Jade and Pearl and channels owned by other TV stations in the mainland; procurement of performance opportunities for TVB artistes in the mainland; and investment in and distribution of TVB produced Putonghua drama titles.



# 翡翠东方 荣耀启航

## 上海翡翠东方传播有限公司成立

### 媒体发布会



Launch Ceremony of TVBC

Upon expiry of the current master licence in March 2013 for online distribution of TVB programmes in the mainland, TVBC will take over this business from the existing licensee for sub-licensing of online rights. TVBC has entered into a new supply agreement with a group company of Youku Tudou Inc. ("Youku Tudou") starting in April 2013 for a period of two years for online distribution of a substantial library of TVB programmes within Mainland China. With Youku Tudou's prominent position, the wide availability of TVB programmes on its portal will help raise the profile of our brand, as well as the popularity of TVB's artistes.

Some of the popular classic drama serials produced by TVB continue to inspire our mainland audience, and are widely remembered by practitioners in the TV industry. TVBC is actively looking for opportunities to co-produce drama serials with leading mainland production companies. These productions will qualify for primetime release in the mainland, and at the same time, target for worldwide distribution.

## TAIWAN OPERATIONS

### TVBS – TAIWAN

Taiwan's consumer market began to contract at the start of the third quarter in 2012, resulting in a GDP growth of an anaemic 1% for the full year. Despite the grim economic picture, TVBS managed to deliver an overall result which was slightly behind last year, whilst its revenue stayed flat. The station's ability to hold its revenue was largely the result of a modest improvement in ratings for both TVBS-N (the news channel) and TVBS-G (the general entertainment channel) from the previous year. But such gains were offset by a continued slide in viewership for TVBS channel. Turning around the channel's performance in 2013 will be imperative and a top priority.

2013 is looking not to be a bullish year for the TV industry in Taiwan, especially for most of the first half. Without the momentum of sustainable improvement in ratings, TVBS will not be an exception. Political talk shows, which were introduced by TVBS to the TV arena nearly twenty years ago and which had once attracted significant followings, became less popular due to change in attitude of the public towards local political topics. To maintain the leading role in the industry, TVBS is undergoing a programme re-engineering process to infuse global elements into our news productions. We are planning to launch new programmes focusing on global business and finance in the second quarter of 2013.

All three channels in the TVBS family will complete their upgrade to full HD in 2013 as planned, which will make us the first to achieve this milestone in Taiwan and three years ahead of the government imposed deadline for all broadcasters to go HD. We believe this will give us an edge and a jump start to take advantage of new business opportunities over our competitors.

At the same time, we have made an application to the National Communication Commission for the licences of two more new channels, T-News and T-Variety. If approved, this will increase the total number of channels in the TVBS family to six, adding to the recent approval of TVB8. The doubling of channels will give us a much larger footprint and presence in Taiwan's intensely competitive media market and allow us to move aggressively into new platforms, such as mobile and IPTV.

The initiative to produce our own entertainment programmes is proceeding according to plan. The production of *In and Out of Dragon Inn*, our first teen idol drama series, began right after the Chinese New Year. The new series brings a fresh approach to the well-clichéd genre by infusing martial arts and corporate intrigue into urban romances.

# REVIEW OF OPERATIONS

In preparation of turning TVBS into a prolific producer of quality entertainment programme for the entire Chinese speaking market, its board has approved the purchase of a 14,000 square meter parcel of land in Linkou, New Taipei City. Construction will begin in the fourth quarter of 2013 to build the most advanced, state-of-the-art facility in Taiwan that will serve as the headquarters and base of our entertainment productions. The new production centre which is scheduled for completion in 2016 is capable for production of 400 hours of programmes per year in full capacity. Programmes from this pipeline will serve not only TVBS' platform, but will be distributed worldwide.

## OVERSEAS SATELLITE PAY TV OPERATIONS

Overall, the annual revenue was maintained at last year's level, despite the comparatively weaker economies in North America, Europe and Australia. Launch of new Vietnamese pay TV service in Australia and aggressive marketing campaigns in Europe resulted in higher operating costs in the financial year. Piracy using IP-based device is the major threat to our business in all markets. Looking ahead, we plan to launch new media services in the coming two years which are being developed and tested, so as to strengthen our channel offering and to expand new revenue sources.

## NORTH AMERICA (USA)

TVB offers seven channels in the USA. Our ten-year contract with DIRECTV for carrying our channels expired in November 2012, and all of the channels have been migrated to DISH Network ("Dish") which offers us better terms and a bigger mandarin subscriber base. The migration to Dish was successful and will in the long run produce better revenue growth for our pay TV business in the USA. During 2013, we will be expanding our business into Latin America. With the negotiations with several major platform operators well-underway, we are confident to launch our pay TV service in a number of territories through local telephone companies in the first half of 2013.

## AUSTRALIA

In March 2012, a brand new Vietnamese TV package with two channels was launched, adding to the original fourteen channels. With positive subscription responses, a further new Vietnamese channel was added in January 2013 to strengthen the channel line-up and help push for subscription growth. Meanwhile, we are marketing our brand as "The TV Station of Australian Chinese" and have started to increase local production featuring infotainment programmes. This strategic move is widely supported by both subscribers and advertisers.

## EUROPE

Piracy using IP-based device is particularly rampant in Europe. We implemented counter-measures to protect our business at the market level. Aggressive marketing campaigns were undertaken and retention offerings were made to subscribers. In addition, we placed efforts in pushing IPTV service which is more advanced in terms of technology and viewing functionality. In France, one of the largest local Chinese supermarket chains joined as retailer in selling our IPTV package. On advertising business, there was a high single digit growth for the year which compensated certain loss of subscribers.



Model of TVBS' New Taipei City Production Headquarters

## CHANNEL OPERATIONS

### TVB8 AND XING HE CHANNELS

TVB8 and Xing He channels are distributed through satellite to Mainland China, and as part of the channel offerings to StarHub (Singapore), Astro (Malaysia) and Telecom Malaysia (Malaysia). Revenue comprises licence fees, subscription revenue and advertising revenue. During the year, our business was adversely affected by the lower advertising revenue in Malaysia. As a result, total revenue recorded a drop of 5% to HK\$116 million.

During the year, we co-operated with SMG in its local production Top Host 2 with success. Another production project was held with Sichuan Radio and Television for the 2012 *International Chinese New Talent Singing Championship – China Audition*. This was the first project with a TV station in the mainland to select contestants for the *International Chinese New Talent Singing Championship*.

In 2013, we will continue to organise more promotional events overseas, including the International Chinese New Era Kung Fu Championship in Singapore, which will be attended by contestants from all of our overseas TV platforms in this final contest.

### COMBATING PIRACY

The Company takes the proliferation of piracy of TVB programmes through illegal websites or set-top-boxes seriously, and has been combating the problem with different means, including legal and technical.

Legally, we constantly issue cease and desist letters to infringing websites, their ISPs and major video-sharing and/or file hosting websites such as YouTube and Dailymotion to demand for the removal of our pirated contents. In 2012, we received positive responses from the major video-

sharing and/or file host websites and some of the ISPs. The reported infringing links were mostly eliminated. Besides, our offshore representatives have been conducting regular investigation and monitoring of infringing activities in their regions.

TVB also commenced legal proceedings outside of Hong Kong against parties involved in online infringement or sale and distribution of black-boxes. Some of these legal proceedings have been settled in our favour.

Apart from legal actions, our technical and IT specialists are dedicated to tracking down the upload sources of infringing copies with a view to tackling the problem at source. They are also committed to protecting our copyrighted works with state-of-the-art technology. External experts were engaged to provide assistance in these respects.

We are not alone in the battle against piracy. We have teamed up with Cable & Satellite Broadcasting Association of Asia and other industry players to share experience, access expert knowledge and update measures for tackling copyright infringement.

Government's involvement is important to the fight against piracy. We have maintained close relations with the Hong Kong Customs and Excise Department. Regular meetings were held with them to explore possible anti-piracy measures. Regular infringing-website reports were also provided to them for their monitoring and enforcement actions.

Laws affecting intellectual property are of significant importance to us. We continue to pay efforts on lobbying the Government to provide a more effective legislative protection for copyright owners.



# CORPORATE SOCIAL RESPONSIBILITY

In addition to its mission to entertain, inform and educate, TVB is committed to serving the Hong Kong community by outreaching through community service and artiste participated activities. TVB uses the Company's resources and its celebrities to attract the attention of the public to the needs of the less fortunate, and to encourage public support for the worthy charitable causes that address those needs.

With a view to making further contributions to the community, TVB announced in November 2012 the establishment of "TVB, Staff & Artistes Fund for Charities" ("Fund"). The Fund will focus on providing aid and relief to victims of calamities, relief of poverty and caring for the

elderly. The Fund will start its operation in 2013, with seed donations of not less than HK\$30 million in total.

While on the issue of enhancing its services to the community, TVB has formed a public consultative organisation, the Public Viewing Panel in 1991 with about 1,000 members from all walks of life. Over the years, the number has doubled to around 2,000. It is the longest standing consultative organisation in Hong Kong aiming at gauging opinions from viewers in programme productions. The gatherings held in different forms have proven to be an effective means for the Company to reach out to viewers and thoroughly understand their viewing needs and taste.

Off the air, TVB continued to make good use of its valuable resources of talented and renowned artistes by arranging them to take part in various community activities to deliver caring and positive messages. Their very presence has added fun and warmth to each and every event. Noteworthy ones included:

Charity Sale of Cookies – The event was initiated by TVB in 1992 in celebration of the Company's Jubilee. TVB co-organised the event with Yan Chai Hospital and Tai Pan Bread & Cakes Company Limited in aid of the Yan Chai Emergency Assistance Relief Fund, which provided emergency assistance to people who were devastated



The Community Chest 2011/2012 Hong Kong and Kowloon Walk for Millions

by accidents or in desperate need for help. Each box of cookies was sold at HK\$60. With effective appeals for support by Miss Hong Kong titleholders and artistes at different events and television programmes, more than HK\$875,000 was raised. The Company felt justifiably proud that the cumulative funds raised by this project so far has exceeded HK\$13,330,000.

The Community Chest 2011/2012 Hong Kong and Kowloon Walk for Millions – Over 60 artistes and Miss Hong Kong titleholders, led by TVB's management, took part in the annual event to show the Company's full support to a worthy cause. It was hoped that celebrity influence and endorsement would help publicise the event and bring in more donations.

The Company organised visits to the elderly/child patient during festive seasons:

- Tuen Ng Festival Gathering — Artistes visited the elderly at the Wan Chai Methodist Centre for the Seniors.
- Mid-Autumn Festival Gathering — Artistes visited the elderly at the Tai Po Multi-service Centre for Senior Citizens.

- Christmas parties — Children programme hosts were idols of children. The Company arranged these artistes to take part in the Christmas parties for patients at the Queen Mary Hospital and the Children Cancer Fund with an aim to bring joy to children who needed support and encouragement.

Participation at the Hong Kong Flower Show Photographic Competition organised by the Leisure and Cultural Services Department — Photographing Miss Hong Kong titleholders and renowned artistes who posed as models was definitely a good occasion to promote horticulture and greening in Hong Kong. It was also a unique and pleasant experience for the photography fanatics.

TVB Caring Foundation, founded in 2007 by TVB employees with the mission of "Caring our Staff and Caring our Society", has continued to demonstrate a strong social commitment by conducting various activities during the year. These activities included a TVB city tour for the ethnic minority children, a visit to homes for the elderly, donation of used televisions to the needy families via the Salvation Army and a charity sale for the Society for the Relief of Disabled Children.



Charity Sale of Cookies

# FINANCIAL REVIEW

## OVERVIEW

For the year ended 31 December 2012, the Group continued to maintain steady revenue growth and reported a turnover of HK\$5,448 million (2011: HK\$5,209 million), an increase of 5%. Cost of sales increased from HK\$1,807 million to HK\$2,023 million, an increase of 12% over 2011. As a result, gross profit increased from HK\$3,402 million to HK\$3,424 million, an increase of 1%, and gross profit percentage was 63% (2011: 65%).

Included in the cost of sales were the cost of programmes, film rights and stocks which amounted to HK\$1,370 million (2011: HK\$1,188 million), an increase of 15% over 2011.

Selling, distribution and transmission costs amounted to HK\$555 million (2011: HK\$531 million), an increase of 5% over 2011. General and administrative expenses amounted to HK\$703 million (2011: HK\$630 million), an increase of 12% over 2011.

During the year, the Group's economic interest in an associate TVBPVH increased from 62% to 90%, while its voting interest remained at 15%. Previously, TVB agreed to supply the channels to TVBPV at a licence fee of HK\$100 million per annum. Under a restructured agreement which became effective on 1 January 2012, TVB will provide the channels to TVBPV in exchange for an additional 25% share, which TVBPV was previously entitled to, of the advertising revenue generated from the pay TV channels. As a result of lower programming costs, TVBPV reported improvement in its performance. The Group's share of the results of TVBPVH, hence, reported a turnaround from a loss of HK\$58 million for the year ended 31 December 2011 to a profit of HK\$0.1 million.

Further to a review of the recoverability of the loan and trade receivables from TVBPV at 31 December 2012, an additional impairment loss of HK\$100 million was recognised in the financial statements for the year.

Profit before income tax for the year amounted to HK\$2,139 million (2011: HK\$2,097 million), an increase of 2% over 2011.

The Group's taxation charge amounted to HK\$403 million (2011: HK\$537 million), a decrease of 25% over 2011 as a provision of HK\$118 million relating to the tax challenge from the Inland Revenue Department ("IRD") on profits generated in prior years by the Group's programme licensing and distribution business carried out overseas was included in 2011, and no such provision against profits generated in prior years was made in 2012.

Overall, the Group's profit attributable to equity holders for the year amounted to HK\$1,730 million (2011: HK\$1,556 million), an increase of 11% over 2011. The earnings per share was HK\$3.95 (2011: HK\$3.55).

## SEGMENT RESULTS

Revenue under Hong Kong TV broadcasting, which comprised advertising revenue from the Group's free TV channels and the pay TV channels continued to grow. The revenue of this segment grew from HK\$2,987 million to HK\$3,167 million, representing an increase of 6%. The increase in advertising revenue was partly offset by the increases in operating costs which included, principally, cost of programmes and staff costs. The increase in programme costs was due mainly to a higher unit cost for self-produced dramas and an increase in broadcast hours of dramas, as a new line of weekend drama was rolled out as part of the Amazing Summer campaign. Cost of non-drama programmes also increased as more programmes were produced. Broadcast of the London 2012 Olympic Games in the summer gave rise to an unbudgeted increase in production costs. Staff costs increase was due to the increase in headcounts, and the salary increments given to counter inflation and market competition. As a result, this segment recorded a profit (before the impairment loss on TVBPVH) of HK\$1,205 million (2011: HK\$1,248 million), representing a decrease of 3%.

Revenue from programme licensing and distribution which comprised licensing income from distribution of our programmes through telecast, video and new media

licensing, increased from HK\$903 million to HK\$940 million, representing an increase of 4%. The growth in revenue, which was mainly attributable to higher income from distribution of our programmes to new licensees, and increased licence fees from Malaysia and Mainland China, was offset by the increase in operating costs, principally staff costs and promotion expenses. As a result, this segment recorded a profit of HK\$612 million (2011: HK\$598 million), representing an increase of 2%.

Revenue from overseas satellite pay TV operations which comprised revenue from our pay TV platforms in North America (USA), Australia and Europe, remained at HK\$389 million, a level achieved in 2011. However, the segmental profit recorded a decline of HK\$17 million to HK\$83 million (2011: HK\$100 million), representing a decrease of 17%, due mainly to the adverse impact on subscription revenue caused by pirated TV channels overseas, increase in staff costs and promotion expenses during the year.

Revenue from Taiwan operations which comprised both subscription and advertising revenue from distribution of the three TVBS channels remained at HK\$834 million, a level achieved in 2011. The revenue growth in the first half of the year caused by the activities running up to the presidential election in January was dragged down by the slower revenue in the second half, as there were no significant events. Increase in programme production costs and staff costs contributed to an overall increase in operating costs. For the year, the segmental profit slightly decreased from HK\$278 million to HK\$274 million, representing a decrease of 2%.

Revenue from channel operations which comprised revenue from TVB8 and Xing He, the Group's satellite TV channel operations, decreased from HK\$122 million to HK\$116 million, representing a decrease of 5%. The segmental profit decreased from HK\$42 million to HK\$30 million, representing a decrease of 27%, which was mainly caused by the drop in revenue and the increase in operating costs.

Revenue from other businesses which comprised revenue from Internet operations, magazine publishing and production of musical works, recorded an increase from HK\$157 million to HK\$190 million, representing an increase of 21%. Benefitting from the satisfactory contribution from the Internet operations, the segmental profit increased from HK\$30 million to HK\$36 million, representing an increase of 20%.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continued to maintain a strong financial position as at 31 December 2012. Total equity stood at HK\$7,887 million (2011: HK\$7,093 million), representing an increase of 11%. At 31 December 2012, the capital structure of the Company comprised 438,000,000 ordinary shares of HK\$0.05 each, and there has been no change in the share capital of the Company during the year.

At 31 December 2012, the Group had unpledged bank and cash balances of HK\$3,604 million (2011: HK\$3,693 million), representing a decrease of 2%. Out of the total bank and cash balances, 52% were in US dollars, 29% in Hong Kong dollars, 10% in Renminbi and 9% in other currencies. About 14% of the bank and cash balances (approximately HK\$500 million) were maintained in overseas subsidiaries for their daily operations. The Group maintains cash not immediately required for operations in time deposits with banks in Hong Kong for tenors between one and three months.

## FINANCIAL REVIEW

At 31 December 2012, the Group's net current assets amounted to HK\$4,469 million (2011: HK\$4,297 million), representing an increase of 4%. The current ratio, expressed as the ratio of current assets to current liabilities decreased to 4.0 at 31 December 2012 (2011: 4.2).

During the year, the Group's total borrowing decreased by 7% to HK\$205 million (2011: HK\$221 million), which relates to the financing for the headquarters in Taiwan and is a secured bank loan, denominated in New Taiwan dollars and floating interest bearing. At 31 December 2012, the maturity profile of the Group's borrowing was as follows: within one year, HK\$25 million (12%); in the second year, HK\$25 million (12%); in the third to fifth years, HK\$76 million (37%); over five years, HK\$79 million (39%). At 31 December 2012, the gearing ratio, expressed as a ratio of total borrowing to total equity, was 2.6% (2011: 3.1%).

At 31 December 2012, certain assets of a subsidiary of the Group with net asset value of HK\$815 million were pledged to secure loans and banking facilities granted to that subsidiary. In addition, bank deposits and saving accounts of HK\$7 million were pledged to secure banking and credit facilities granted to certain subsidiaries of the Group.

The capital commitments of the Group at 31 December 2012 were HK\$1,571 million (2011: HK\$496 million). The increase in capital commitments was due to the estimated spending for the construction of a new production headquarters and studios in Linkou, New Taipei City, and of a grand production studio and related facilities in TVB City, Tseung Kwan O, Hong Kong.

## TAX AUDIT

In 2004, the IRD initiated a tax audit on the Group. Since then, the Group has received protective profits tax assessment notices from the IRD for the eight consecutive years of assessment from 1998/99 to 2005/06 relating to the profits generated by the Group's programme licensing and distribution business carried out overseas, to which the Group has objected. Of the total additional tax demanded in these assessments, the Group had been granted conditional holdovers by the purchase of tax reserve certificates in the amounts of HK\$24 million, HK\$24 million, HK\$20 million, HK\$35 million, HK\$49 million, HK\$54 million, HK\$56 million and HK\$57 million for the eight consecutive years of assessment from 1998/99 to 2005/06 respectively. The total amount of tax reserve certificates purchased by the Group is HK\$319 million. Similar additional assessments may be issued for subsequent years of assessment.

The Group has been in discussion with the IRD with a view to resolving the dispute for the entire period from 1998/99 up to the current year. As of 31 December 2012, the Group has provided a total provision of HK\$336 million against the potential tax exposures for the years of assessment from 1998/99 to 2011/12. The tax provision is considered to be adequate and not excessive.

The Group will continue to monitor the progress of the tax audit and vigorously defend the Group's position. Due to the uncertainty inherent in the tax audit, the outcome of the tax dispute could be different from the amounts provided; such difference would impact the income tax provisions in the year in which any determination is made.



## CONTINGENT LIABILITIES

At 31 December 2012, there were guarantees given to banks amounting to HK\$10 million (2011: HK\$10 million) for banking facilities granted to an investee company.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group's foreign exchange exposures comprise trading and non-trading foreign currency translation exposures. Foreign exchange trading exposures mainly arises from trade receipts from overseas customers.

The Group is also exposed to currency fluctuation on translation of the accounts of overseas subsidiaries and also on the repatriation of earnings and loans. In order to mitigate the potential impact of currency movements, the Group closely monitors its foreign exchange exposures and uses suitable hedging arrangements against significant foreign currency exposures where necessary. No forward exchange or hedging contract was entered into by the Group during the year.

## HUMAN RESOURCES

The Group employed, excluding Directors and freelance workers but including contract artistes and staff in overseas subsidiary companies, a total of 4,681 (2011: 4,251) full-time employees at 31 December 2012.

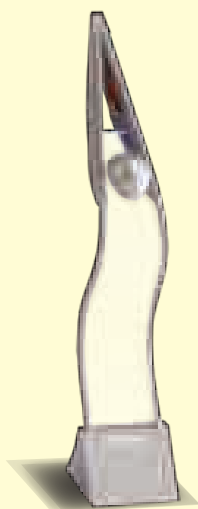
For employment in Hong Kong, different pay schemes apply to contract artistes, sales and non-sales personnel. Contract artistes are paid either on a per-show or by a package of shows basis. Sales personnel are remunerated on commission based schemes. Non-sales personnel are remunerated on a monthly salaries basis. About 26% of the Group's manpower was employed in overseas subsidiaries, and was paid on a scale and system relevant to the respective localities and legislations.

For Hong Kong employees, discretionary bonuses may be awarded as an incentive for better performance. All qualified personnel received discretionary bonuses between 1.25 and 2.25 of their monthly basic salaries for the year 2012.

The Group does not operate any employee share option scheme.

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

## COMMENDATIONS AND AWARDS



### 17<sup>th</sup> Asian Television Awards 2012

Nancy Wu  
in *Gloves Come Off*  
Best Actress  
in a Supporting Role



### 17<sup>th</sup> Asian Television Awards 2012

Moses Chan  
in *When Heaven Burns*  
Best Actor  
in a Leading Role



### 2012 PromaxBDA Asia Awards

311 Composite Promo  
Best News/Current  
Affairs Promo, Gold Award



### 71<sup>st</sup> Annual Peabody Awards

*News Magazine:*  
*People's Republic of Cheating* and  
*News Magazine:*  
*Misjudged Cases*  
Peabody Award



### RTDNA Edward R. Murrow Awards

*Sunday Report:*  
*Evil Roots*  
2012 Regional  
Video News  
Documentary



### 2012 New York Festivals International Television & Film Awards

*Own Sweet Home*  
Finalist in Information/  
Magazine Program  
Promotion Category



### 2012 New York Festivals International Television & Film Awards

*Miss Chinese International  
Pageant 2010*  
Finalist in Contest/  
Special Promotion Category



### 2012 New York Festivals International Television & Film Awards

*To Live and Love in Hong Kong*  
Finalist in Biography/Profiles  
Category



**2012 PromaxBDA  
Design Global  
Excellence Awards**

*Curse Of The Royal Harem*  
Poster, Gold Award



**2012 PromaxBDA  
Design Global  
Excellence Awards**

*Miss Hong Kong Pageant  
2011*  
One Time Only Set Design,  
Silver Award



**2012 PromaxBDA  
Design Global  
Excellence Awards**

*Miss Hong Kong Pageant  
2011*  
Total Package Design -  
Print, Silver Award



**2012 PromaxBDA  
Design Global  
Excellence Awards**

*The Other Truth*  
Poster, Silver Award



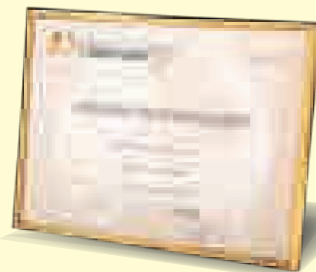
**2012 PromaxBDA  
Design Global  
Excellence Awards**

*When Heaven Burns*  
Poster, Bronze Award



**2012 PromaxBDA  
Design Global  
Excellence Awards**

*TVB 44<sup>th</sup> Anniversary Gala*  
One Time Only Set Design,  
Bronze Award



**52<sup>nd</sup> Festival de  
Télévision  
de Monte-Carlo**

*News Magazine:  
Misjudged Cases*  
Best TV News Item,  
Diplôme de Nomination



**52<sup>nd</sup> Festival de  
Télévision  
de Monte-Carlo**

*News at 6:30: Pig Swill Grease*  
Best News Documentary,  
Diplôme de Nomination

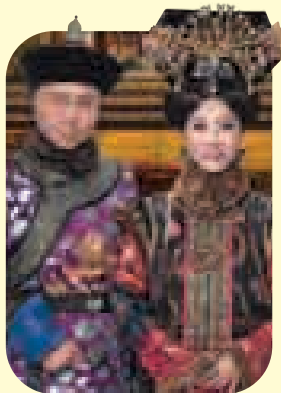
# RATINGS HIGHLIGHTS

## Top 5 TVB Dramas Audience Size



**Witness Insecurity**

2,013,000  
31 TVRs 97% Share



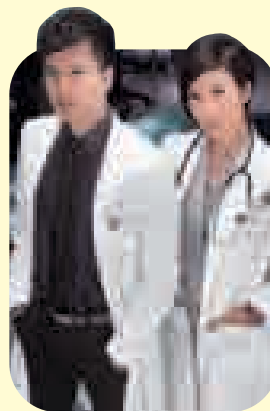
**The Confidant**

1,974,000  
31 TVRs 97% Share



**Divas in Distress**

1,959,000  
31 TVRs 96% Share



**The Hippocratic Crush**

1,958,000  
31 TVRs 94% Share



**Daddy Good Deeds**

1,919,000  
30 TVRs 95% Share



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**The Day the Earth Stood Still**

610,000  
9.5 TVRs 97% Share



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**The Chronicles of Narnia Prince Caspian**

504,000  
7.9 TVRs 95% Share



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**Charlie and the Chocolate Factory**

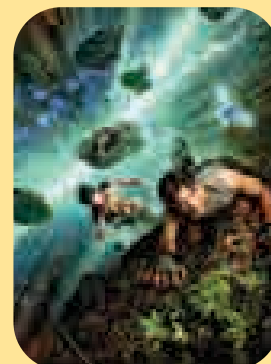
503,000  
7.9 TVRs 95% Share



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**G.I. Joe The Rise of Cobra**

503,000  
7.9 TVRs 94% Share



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**Journey to the Center of the Earth**

501,000  
7.8 TVRs 97% Share

1 Audience share (%) is the percentage of ratings of particular channel(s) over the total ratings of the base channels for a specific period. The base Chinese channels are Total Jade and Asia Television Limited's Home. The base English channels are Pearl and Asia Television Limited's World. Ratings data source: CSM Media Research.

## Top 5 TVB Non-Dramas Audience Size



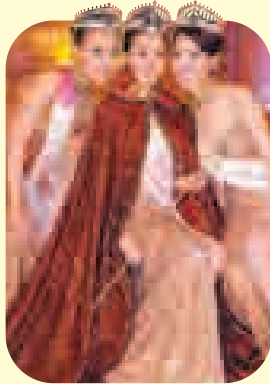
TV Awards Presentation 2012

2,334,000  
36 TVRs 98% Share



TVB 45th Anniversary Gala

2,155,000  
34 TVRs 97% Share



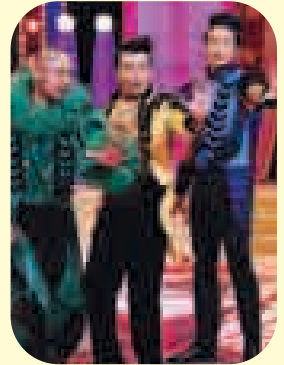
Miss Hong Kong Pageant 2012

1,752,000  
27 TVRs 96% Share



Minute to Win It

1,738,000  
27 TVRs 96% Share



Battle of the Senses

1,713,000  
27 TVRs 93% Share



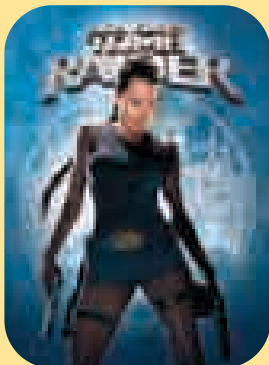
## Top 10 English Programmes Audience Size



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The Chronicles of Narnia The Lion, the Witch and the Wardrobe

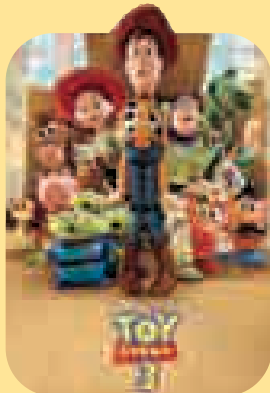
499,000  
7.8 TVRs 92% Share



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Lara Croft Tomb Raider

498,000  
7.8 TVRs 93% Share



© Disney/ Pixar

Toy Story 3

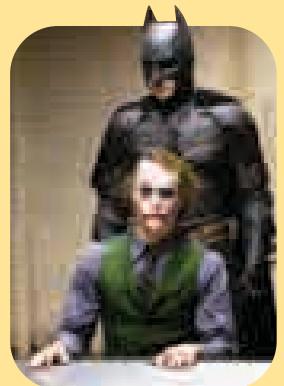
483,000  
7.5 TVRs 99% Share



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Harry Potter and the Half-Blood Prince™

483,000  
7.5 TVRs 94% Share



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The Dark Knight

479,000  
7.5 TVRs 98% Share

2 TV rating ("TVR") represents the size of the audience expressed as a percentage of the total TV population. For 2012, the total TV population comprises 6,407,000 viewers, and therefore, 1 TVR represents 64,070 viewers (1% of the total TV population). Ratings data source: CSM Media Research.







# CORPORATE GOVERNANCE

## DIRECTORS



### **Dr. Norman LEUNG Nai Pang** GBS, LLD, JP

Executive Chairman  
Chairman of Executive Committee

Aged 72, was appointed as a Director of the Company in September 2003 when he also took up the position as Executive Deputy Chairman. Dr. Leung was appointed as the Executive Chairman of the Board on 1 January 2012. He holds directorships in a number of the subsidiaries of the Company. Dr. Leung is the chairman of Transport International Holdings Limited, and an independent non-executive director of Sun Hung Kai Properties Limited, both of which are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Dr. Leung has been active in public service for over 30 years and he served as Commissioner of the Civil Aid Service from 1993 to 2007, chairman of the Broadcasting Authority from 1997 to 2002, and council chairman of The City University of Hong Kong from 1997 to 2003. He is now the Pro-Chancellor of City University of Hong Kong and a member of the Advisory Committee on Post-office Employment for former Chief Executives and Politically Appointed Officials.

### **Mark LEE Po On**

Executive Director  
Member of Executive Committee  
Group General Manager

Aged 57, joined the Company in early 2007. Mr. Lee was appointed as Group General Manager in September 2009 and as an Executive Director of the Company in March 2010. He holds directorships in a number of the subsidiaries of the Company. Mr. Lee is a non-executive director of Hanwell Holdings Limited, a company listed on the Singapore Exchange Limited. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales and also a member of the Hong Kong Institute of Certified Public Accountants. During the period from 1977 to 1987, Mr. Lee worked with KPMG, an international accounting firm, in various offices including Hong Kong, Los Angeles and Shanghai. From 1988 to early 2007, Mr. Lee worked as an executive director of a listed consortium engaged in real estate, hotel, media, entertainment and retail business in Hong Kong and overseas. During 1992 to 1996, Mr. Lee also took up the position of director and CEO of Asia Television Limited which was a former affiliate of the consortium.



### **Mona FONG**

Non-executive Director  
Member of Executive Committee



Aged 78, also known as Lee Mong Lan, has been a Director of the Company since October 1988. She was appointed as Deputy Chairperson on 25 October 2000, as Acting Managing Director and Managing Director on 31 May 2006 and 1 January 2009 respectively; and acted as Alternate Director to Sir Run Run Shaw between 22 October 2009 and 31 December 2011, the date of retirement of Sir Run Run Shaw from the Board. Ms. Fong retired as Deputy Chairperson and Managing Director of the Company on 31 March 2012 and was re-designated as a Non-executive Director of the Company with effect from 1 April 2012. Ms. Fong is the chairperson and managing director of the Shaw group of companies. She is also the chairperson of The Shaw Foundation Hong Kong Limited, The Shaw Prize Foundation Limited and The Sir Run Run Shaw Charitable Trust and a member of the Board of Trustees of Shaw College of The Chinese University of Hong Kong.





### **Kevin LO Chung Ping**

Non-executive Director  
Member of Executive Committee  
Member of Audit Committee

Aged 76, joined the Company in 1966 as Project Engineer and served as General Manager from 1978 to 1980. He was appointed as a Director of the Company in November 1977.

### **Dr. Charles CHAN Kwok Keung**

Non-executive Director  
Member of Executive Committee

Aged 58, was appointed as a Non-executive Director of the Company on 1 April 2011. Dr. Chan holds an Honorary degree of Doctor of Laws and Bachelor's degree in Civil Engineering, and has over 30 years' international corporate management experience in the construction and property sectors, as well as in strategic investments. He is the chairman and executive director of ITC Corporation Limited, and a non-executive director of PYI Corporation Limited, both of which are listed on the Stock Exchange. Dr. Chan is a director of both Young Lion Holdings Limited and Shaw Brothers Limited, which are shareholders of the Company.



### **Cher WANG Hsiueh Hong**

Non-executive Director

Aged 54, was appointed as a Non-executive Director of the Company on 1 April 2011. Ms. Wang has established a number of successful IT-related businesses, and is currently chairman of three Taiwan-listed companies, and on the board of directors of or advisor to numerous other companies. She founded VIA Technologies, Inc., a semiconductor design house, in 1987; she is also co-founder and chairman of HTC Corp., which was established in 1997, and is a multi-billion dollar global company that develops the most innovative smart phones on the market. Ms. Wang is also chairman of Chander Electronics Corp.. All of the above three companies are listed in Taiwan. Ms. Wang is an Industry Partner in the World Economic Forum and is an APEC Business Advisory Council member. Ms. Wang is the wife of Mr. Chen Wen Chi, a Non-executive Director of the Company.



### **Jonathan Milton NELSON**

Non-executive Director

Aged 56, was appointed as a Non-executive Director of the Company on 1 April 2011. Mr. Nelson is the chief executive officer and the founder of Providence Equity Partners L.L.C. (together with its affiliated investment funds, "Providence"), a private equity firm that manages US\$27 billion of committed capital. Mr. Nelson has been investing in private equity transactions for 30 years, focusing on media, telecom, and entertainment sectors. Mr. Nelson serves on the board of directors of The Chernin Group, Soccer United Marketing, LLC, Univision Communications, Inc. and Yankees Entertainment and Sports Network, LLC. Mr. Nelson has also served as a director of the following listed companies: AT&T Canada, Brooks Fiber Properties, Inc. (now Verizon Communication Inc.), Eircom Group plc, Voicestream Wireless Corporation (now Deutsche Telekom), Warner Music Group, Wellman Inc. and Western Wireless Corporation (now Alltel Corp.) as well as numerous privately-held companies affiliated with Providence Equity Partners Inc. and Narragansett Capital, Inc. Previously, Mr. Nelson was a managing director of Narragansett Capital, Inc. which he joined in 1983. Mr. Nelson received a Master of Business Administration from the Harvard Business School in 1983, and a Bachelor of Arts from Brown University in 1977. He is a trustee of Brown University.



# DIRECTORS



## **Anthony LEE Hsien Pin**

Non-Executive Director  
Member of Nomination Committee

Aged 55, was appointed as a Non-executive Director of the Company with effect from 3 February 2012. Mr. Lee was an Alternate Director to Mrs. Christina Lee Look Ngan Kwan, his mother, between 3 September 2002 and 3 February 2012, the date on which Mrs. Lee retired as a Non-executive Director of the Company. Mr. Lee is a director of Hysan Development Company Limited, a company listed on the Stock Exchange, and a director of Lee Hysan Estate Company Limited. He is also a director and a substantial shareholder of Australian-listed Beyond International Limited. Mr. Lee is a cousin of Mr. Chien Lee, an Independent Non-executive Director of the Company.

## **CHEN Wen Chi**

Non-executive Director  
Member of Executive Committee

Aged 57, was appointed as a Non-executive Director of the Company with effect from 3 February 2012. Mr. Chen was an Alternate Director to his wife, Ms. Cher Wang Hsiueh Hong, a Non-executive Director of the Company, between 13 May 2011 and 3 February 2012, the date on which he ceased to act. He is a director of a subsidiary of the Company in Taiwan. Mr. Chen is a director of both VIA Technologies, Inc. and HTC Corp., as well as the chairman of Xander International Corporation. Shares of all of the above three companies are listed in Taiwan. Mr. Chen has been the president and the CEO of VIA Technologies Inc. since 1992. Mr. Chen also holds seats on several industry advisory bodies, and has been a member of the World Economic Forum for over ten years. He holds an MSEE degree from National Taiwan University and an MSCS degree from the California Institute of Technology. Mr. Chen is a director of both Young Lion Holdings Limited and Shaw Brothers Limited, which are shareholders of the Company.



## **Dr. CHOW Yei Ching GBS**

Independent Non-executive Director  
Chairman of Nomination Committee

Aged 77, was appointed as a Non-executive Director of the Company in 2000 and was re-designated as an Independent Non-executive Director of the Company on 10 June 2011. He is the founder of Chevalier group and is the chairman of Chevalier International Holdings Limited, a public company listed on the Stock Exchange. He was appointed the Honorary Consul of The Kingdom of Bahrain in Hong Kong in 2001.



## **Edward CHENG Wai Sun SBS, JP**

Independent Non-executive Director  
Member of Remuneration Committee  
Member of Nomination Committee

Aged 57, was appointed as an Independent Non-executive Director of the Company in June 2006. He is an executive director, the chief executive and deputy chairman of Wing Tai Properties Limited and an independent non-executive director of Orient Overseas (International) Limited, both of which are listed on the Stock Exchange. Mr. Cheng has many years of public service experience in urban renewal, finance, housing, corruption prevention, technology and education. Mr. Cheng is currently the chairman of the University Grants Committee, a board member of The Airport Authority Hong Kong and a member of Commission on Strategic Development of The Government of the Hong Kong Special Administrative Region. Mr. Cheng resigned as a non-executive director of Winsor Properties Holdings Limited (company name changed to Vanke Property (Overseas) Limited), a listed company on the Stock Exchange, on 1 September 2012.



## Chien LEE

Independent Non-executive Director  
Chairman of Remuneration Committee  
Member of Audit Committee

Aged 59, was appointed as an Independent Non-executive Director of the Company in March 2005. He is also non-executive director of Hysan Development Company Limited and Swire Pacific Limited, both of which are listed on the Stock Exchange. Mr. Lee is a Council Member of The Chinese University of Hong Kong and St. Paul's Co-educational College and also a Trustee Emeritus of Stanford University and director of Stanford Hospital and Clinics. Mr. Lee is a cousin of Mr. Anthony Lee Hsien Pin, a Non-executive Director of the Company.



## Gordon SIU Kwing Chue GBS, JP

Independent Non-executive Director  
Chairman of Audit Committee  
Member of Remuneration Committee

Aged 67, was appointed as an Independent Non-executive Director of the Company in July 2007. Mr. Siu is an independent non-executive director of Transport International Holdings Limited and China Resources Enterprise, Limited, both of which are listed on the Stock Exchange. Mr. Siu joined the Civil Service in 1966, rose to the rank of Secretary, Government Secretariat in 1993, and retired from the Service in 2002 with a service of over 36 years.



## Raymond OR Ching Fai SBS, JP

Independent Non-Executive Director

Aged 63, was appointed as an Independent Non-executive Director of the Company on 6 December 2012. Mr. Or is the chairman, an executive director and the chief executive officer of China Strategic Holdings Limited, a vice-chairman and an independent non-executive director of G-Resources Group Limited, the chairman and an independent non-executive director of Esprit Holdings Limited, and an independent non-executive director of Chow Tai Fook Jewellery Group Limited and Industrial and Commercial Bank of China Limited, all of which are listed on the Stock Exchange. Mr. Or is the deputy council chairman of the Council of City University of Hong Kong, and a vice patron of the board of the Community Chest of Hong Kong. He has rich experiences in the insurance, banking and financial services industries. He was the general manager and a director of The Hongkong and Shanghai Banking Corporation Limited, the chairman of HSBC Insurance Limited, the chief executive and vice chairman of Hang Seng Bank Limited, and the chairman of Hang Seng Insurance Company Limited and Hang Seng Bank (China) Limited. He was also the chairman of the Hong Kong Association of Banks. He was a director of Cathay Pacific Airways Limited and a director of Hutchison Whampoa Limited. Mr. Or graduated from the University of Hong Kong with a Bachelor's degree in Economics and Psychology. He was awarded a Silver Bauhinia Star from the Hong Kong Special Administrative Region and Honorary University Fellow from the University of Hong Kong in 2009, and is a Justice of the Peace.



# DIRECTORS



## Dr. Allan YAP

Alternate Director to Dr. Charles Chan Kwok Keung

Aged 57, was appointed as an Alternate Director to Dr. Charles Chan Kwok Keung, a Non-executive Director of the Company, on 10 June 2011. Dr. Yap holds an honorary degree of Doctor of Laws and has over 30 years' experience in finance, investment and banking. Dr. Yap is the chairman and executive director of Hanny Holdings Limited, the securities of which are listed on the main board of the Stock Exchange. Dr. Yap is also the chairman and chief executive officer of China Enterprises Limited, the securities of which are traded on the OTC Securities Market in the USA, as well as Burcon NutraScience Corporation, the securities of which are listed on the NASDAQ Stock Market in the USA, the Toronto Stock Exchange in Canada and the Frankfurt Stock Exchange in Germany. Dr. Yap is the executive chairman of Hanwell Holdings Limited (formerly known as PSC Corporation Ltd) and Tat Seng Packaging Group Ltd., the securities of which are listed on the Singapore Exchange Limited. On 5 December 2012, Dr. Yap resigned and ceased to be the executive chairman of Intraco Limited, the securities of which are listed on the Singapore Exchange Limited.

## Harvey CHANG Hsiao Wei

Alternate Director to Cher Wang Hsiueh Hong

Aged 61, was appointed as an Alternate Director to Ms. Cher Wang Hsiueh Hong, a Non-executive Director of the Company, on 3 February 2012. Mr. Chang is a director of two subsidiaries of the Company in Taiwan. Mr. Chang is a director of CX Technology Corp. and Lite-On Technology Corp., both are listed companies in Taiwan, and Phu Hung Securities Corp., a company listed in Vietnam. He was president and CEO of Taiwan Mobile Co., Ltd., a listed company in Taiwan, from 2003 till December 2010, vice chairman of Taiwan Fixed Network Co., Ltd., which is a subsidiary of Taiwan Mobile Co., Ltd.. He was the chairman of Taiwan Fund, Inc., a listed company on New York Stock Exchange, from 2005 to January 2012. Mr. Chang received his MBA from the Wharton School, University of Pennsylvania in 1977; and B.S. degree from the National Taiwan University in 1973. He was elected to be an Eisenhower Fellow in 2002.



## SUN Tao

Alternate Director to Jonathan Milton Nelson

Aged 37, was appointed as Alternate Director to Mr. Jonathan Milton Nelson, a Non-executive Director of the Company, on 18 June 2012. Mr. Sun is Managing Director of Providence Equity Asia Limited ("Providence Asia") and leads the firm's China private equity investment activities. Prior to joining Providence Asia in 2011, Mr. Sun was a Partner at Actis Capital LLP ("Actis"), where he led the firm's education investments. Prior to Actis, he was a Vice President in Merrill Lynch (Asia Pacific) Limited, where he was responsible for Chinese private equity deal execution and portfolio management. Mr. Sun received a Master of Business Administration from INSEAD, a Master of Science and a Bachelor of Science from Beijing University. Mr. Sun is a director of both Young Lion Holdings Limited and Shaw Brothers Limited, which are shareholders of the Company.



# SENIOR MANAGEMENT

## **CHEONG Shin Keong**

General Manager

Aged 56, joined TVB as Controller, Marketing & Sales in 1989. Mr. Cheong assumed the duties of General Manager – Broadcasting in April 2004 and is responsible for marketing and sales of TVB, as well as the digital media business. He has extensive experience in the advertising and marketing industry and contributes actively to the professional development of marketing in Hong Kong through leading marketing industry bodies. He is a Fellow and Council Member of the Hong Kong Management Association and a Fellow of the Chartered Institute of Marketing. Mr. Cheong holds directorships in a number of the subsidiaries of the Company.



## **Peter AU Wai Lam**

Assistant General Manager

Aged 64, rejoined TVB as Operation Audit Manager – Internal Audit Department in May 2008. He was appointed as Controller – Costs Management in January 2009 and promoted to Assistant General Manager in September 2009. Mr. Au is in charge of programming, production and external affairs in TVB, and has many years of experience in programme production and broadcasting. Between 2000 and 2005, Mr. Au was chief executive officer of Toronto Chinese Canadian Broadcasting Corporation, Canada. Prior to 2000, he took up a number of positions at TV stations in Hong Kong, including TVB and Radio Television Hong Kong, and Canadian Television Network in Canada. Mr. Au holds directorships in a number of the subsidiaries of the Company.



## **Desmond CHAN Shu Hung**

Assistant General Manager

Aged 45, joined TVB as General Counsel in May 2010. He was appointed as Assistant General Manager in December 2012 and is responsible for international operations and legal and regulatory matters of the Company. Mr. Chan has extensive experience in television and telecommunications industries. He worked at Asia Television Limited from 1994 to 1999, and i-CABLE Communications Limited from 1999 to 2010. Mr. Chan received Master of Laws degrees from City University of Hong Kong, Renmin University of China and University of Strathclyde of United Kingdom respectively. He is a solicitor of Hong Kong Special Administrative Region (not currently in private practice).



## **Adrian MAK Yau Kee**

Chief Financial Officer and Company Secretary

Aged 52, joined TVB as Chief Financial Officer and Company Secretary in November 2004. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Institute of Chartered Accountants in England and Wales. Prior to his current position, Mr. Mak was the chief financial officer of Global Digital Creations Holdings Limited. Between 1992 and 2000, Mr. Mak was an associate director of the Corporate Finance Division at the Securities and Futures Commission. During 1983 to 1992, Mr. Mak worked at various offices of KPMG. He holds directorships in a number of the subsidiaries of the Company.



# REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2012.

## PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activities of the Company are terrestrial TV broadcasting, together with programme production and distribution, and other TV-related activities. The principal activities of the major subsidiaries are detailed in Note 37 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segments is set out in Note 5 to the consolidated financial statements.

## RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group for the year are set out in the consolidated income statement on page 86. Movements in the reserves of the Group and of the Company during the year are set out in Note 19 to the consolidated financial statements on pages 124 to 125.

Distributable reserves of the Company at 31 December 2012, calculated under Section 79B of the Companies Ordinance of Hong Kong, amounted to HK\$5,842,657,000 (2011: HK\$4,980,889,000).

## DIVIDENDS

The Directors recommended the payment of a final dividend of HK\$2.00 per share for the 438,000,000 ordinary shares in issue of HK\$0.05 each in respect of the year ended 31 December 2012. Subject to shareholders' approval at the forthcoming annual general meeting of the Company to be held on Wednesday, 22 May 2013 ("2013 AGM"), the final dividend will be paid to shareholders whose names are recorded on the Register of Members of the Company on 29 May 2013. Dividend warrants will be despatched to shareholders on or around 6 June 2013.

Together with an interim dividend of HK\$0.60 per share paid on 5 October 2012, the total dividend for the year will amount to HK\$2.60 per share (2011: HK\$2.20 per share).

## CLOSURE OF REGISTER OF MEMBERS

### FIRST BOOK CLOSE

The Register of Members of the Company will be closed from Tuesday, 30 April 2013 to Wednesday, 22 May 2013, both dates inclusive, ("First Book Close Period") for the purpose of determining shareholders' attendance and voting entitlement at the 2013 AGM.

During the First Book Close Period, no transfer of shares will be registered. In order to qualify for shareholders' attendance and voting entitlement, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 29 April 2013.

### SECOND BOOK CLOSE

The Register of Members of the Company will be re-opened on Thursday, 23 May 2013 and then will be closed again from Tuesday, 28 May 2013 to Wednesday, 29 May 2013, both dates inclusive, ("Second Book Close Period") for the purpose of determining shareholders' entitlement to the final dividend.

During the Second Book Close Period, no transfer of shares will be registered. In order to qualify for entitlement to the final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 27 May 2013.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$559,000.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company are set out in Note 6 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 18 to the consolidated financial statements.

## FIVE-YEAR FINANCIAL REVIEW

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 80.

## DIRECTORS

The Directors during the year were, and at the date of this Annual Report are, as follows:

### EXECUTIVE DIRECTORS

Norman Leung Nai Pang  
Mark Lee Po On

### NON-EXECUTIVE DIRECTORS

Mona Fong (re-designated as a Non-executive Director on 1 April 2012)  
Kevin Lo Chung Ping  
Charles Chan Kwok Keung  
Cher Wang Hsiueh Hong  
Jonathan Milton Nelson  
Anthony Lee Hsien Pin (appointed on 3 February 2012)  
Chen Wen Chi (appointed on 3 February 2012)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Chow Yei Ching  
Edward Cheng Wai Sun  
Chien Lee  
Gordon Siu Kwing Chue  
Raymond Or Ching Fai (appointed on 6 December 2012)

### ALTERNATE DIRECTORS

Allan Yap Alternate Director to Charles Chan Kwok Keung  
Harvey Chang Hsiao Wei Alternate Director to Cher Wang Hsiueh Hong (appointed on 3 February 2012)  
Sun Tao Alternate Director to Jonathan Milton Nelson (appointed on 18 June 2012)

### RETIRED AND RESIGNED DIRECTORS

Christina Lee Look Ngan Kwan (retired on 3 February 2012)  
Vivien Chen Wai Wai (resigned on 3 February 2012)  
Chen Xian (ceased as an Alternate Director to Jonathan Milton Nelson on 18 June 2012)

On 1 January 2012, Dr. Norman Leung Nai Pang, who was the Executive Deputy Chairman between September 2003 and December 2011, was appointed as the Executive Chairman of the Board.

On 3 February 2012, Mrs. Christina Lee Look Ngan Kwan retired as a Non-executive Director and as a member of the Executive Committee of the Board. Mr. Anthony Lee Hsien Pin, her son, ceased to act as her Alternate Director on the same day. On 3 February 2012, Mr. Anthony Lee Hsien Pin was appointed as a Non-executive Director of the Company. Pursuant to the Company's Articles of Association ("Articles"), he held office as a Director until the Company's annual general meeting held on 16 May 2012 ("2012 AGM"). Mr. Lee was successfully elected at the 2012 AGM.

On 3 February 2012, Ms. Vivien Chen Wai Wai resigned as an Independent Non-executive Director and as a member of the Remuneration Committee of the Board.

On 3 February 2012, Mr. Chen Wen Chi, who was an Alternate Director to Ms. Cher Wang Hsiueh Hong between 13 May 2011 and 3 February 2012, was appointed as a Non-executive Director of the Company. Pursuant to the Articles, he held office as a Director until the 2012 AGM. Mr. Chen was successfully elected at the 2012 AGM.

On 3 February 2012, Mr. Harvey Chang Hsiao Wei was appointed as an Alternate Director to Ms. Cher Wang Hsiueh Hong.

On 21 March 2012, Dr. Charles Chan Kwok Keung and Mr. Chen Wen Chi were appointed as members of the Executive Committee of the Board.

On 21 March 2012, the Nomination Committee of the Board was established. Dr. Chow Yei Ching was appointed as the Chairman, and Mr. Edward Cheng Wai Sun and Mr. Anthony Lee Hsien Pin were appointed as members of the Nomination Committee of the Board.

On 31 March 2012, Ms. Mona Fong retired as Deputy Chairperson and Managing Director of the Company and was re-designated as a Non-executive Director of the Company on 1 April 2012.

On 18 June 2012, Mr. Sun Tao was appointed as an Alternate Director to Mr. Jonathan Milton Nelson in place of Mr. Chen Xian who ceased to act as an Alternate Director to Mr. Nelson on the same day.

On 6 December 2012, Mr. Raymond Or Ching Fai was appointed as an Independent Non-executive Director of the Company.

In early 2013, the Company issued letters of appointment for all Directors setting out the key terms and conditions of their appointments.

# REPORT OF THE DIRECTORS

In accordance with Article 109 of the Articles, Mr. Raymond Or Ching Fai, who was appointed by the Board as an Independent Non-executive Director on 6 December 2012, will hold office as a Director until the 2013 AGM and, being eligible, offers himself for election at the 2013 AGM.

In accordance with Article 114(A) of the Articles, Dr. Norman Leung Nai Pang, Mr. Mark Lee Po On and Mr. Edward Cheng Wai Sun will retire at the 2013 AGM and, being eligible, offer themselves for re-election at the 2013 AGM.

## BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

The biographical information of Directors and Senior Management are set out on pages 46 to 51 of this Annual Report.

Details of the Directors, who are subject to retirement for election or re-election at the 2013 AGM, are set out in the notice of the 2013 AGM which will be sent together with this Annual Report to the shareholders of the Company.

## DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

At 31 December 2012, the interests and short positions of the Directors in the shares of the Company, as recorded in the register required to be kept pursuant to Section 352 of Part XV of the Securities and Futures Ordinance, Chapter 571 ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), are set out below:

### LONG POSITION IN THE SHARES OF THE COMPANY

Name of Director	Number of ordinary shares of HK\$0.05 each held					Total interests	Percentage of issued share capital (%) <sup>(a)</sup>
	Personal interests	Family interests	Corporate interests	Other interests	Total interests		
Charles Chan Kwok Keung	–	–	113,888,628	–	113,888,628	<sup>#(b)</sup>	26.00
Cher Wang Hsiueh Hong	–	–	113,888,628	–	113,888,628	<sup>#(c)</sup>	26.00
Jonathan Milton Nelson	–	–	–	113,888,628	113,888,628	<sup>#(d)</sup>	26.00
Chen Wen Chi	–	113,888,628	–	–	113,888,628	<sup>#(e)</sup>	26.00
Mona Fong	1,146,000	15,950,200 <sup>(f)</sup>	–	–	17,096,200		3.90
Lee Po On	–	438,000	–	–	438,000		0.10
Chien Lee	350,000	–	–	–	350,000		0.08
Chow Yei Ching	100,000	–	–	–	100,000		0.02

Notes:

Duplication of shareholdings occurred between parties <sup>#</sup> shown in the table here and below under the sub-heading of "Other Persons' Interests in the Shares of the Company".

At 31 December 2012:

(a) Shareholding percentage in the issued share capital was based on the 438,000,000 ordinary shares of the Company in issue.

(b) Dr. Charles Chan Kwok Keung was deemed to be interested in these 113,888,628 shares of the Company held through Shaw Brothers Limited ("Shaw Brothers"). Shaw Brothers is an indirect wholly-owned subsidiary of Young Lion Holdings Limited ("YLH"), which is controlled by Dr. Chan through Innovative View Holdings Limited ("IVH") (see below note (c) under the sub-heading of "Other Persons' Interests in the Shares of the Company").



- (c) Ms. Cher Wang Hsiueh Hong was deemed to be interested in these 113,888,628 shares of the Company which Profit Global Investment Limited ("Profit Global") was interested in. Profit Global, in which Ms. Wang indirectly holds an interest, is a party of the investor group which indirectly held the said shares through Shaw Brothers, an indirect wholly-owned subsidiary of YLH.
- (d) Mr. Jonathan Milton Nelson was deemed to be interested in these 113,888,628 shares of the Company which P6 YL Holdings Limited ("P6YL") was interested in. P6YL, in which Mr. Nelson indirectly holds an interest, is a party of the investor group which indirectly held the said shares through Shaw Brothers, an indirect wholly-owned subsidiary of YLH.
- (e) Mr. Chen Wen Chi was deemed to be interested in these 113,888,628 shares of the Company. Such share interest is indirectly held by his spouse, Ms. Cher Wang Hsiueh Hong through Profit Global, in which Ms. Wang indirectly holds an interest. Profit Global is a party of the investor group which indirectly held the said shares through Shaw Brothers, an indirect wholly-owned subsidiary of YLH.
- (f) These 15,950,200 shares were held by The Shaw Foundation Hong Kong Limited ("Shaw Foundation"). Shaw Holdings Inc. holds 100% equity interest in Shaw Foundation. Sir Run Run Shaw, Ms. Fong's husband, exerts 100% control over Shaw Holdings Inc. through The Sir Run Run Shaw Charitable Trust.

Save for the information disclosed above, at 31 December 2012, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO), as recorded in the register required to be kept pursuant to Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

The Company and any of its subsidiaries did not operate any employee share option scheme, and therefore, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or their respective spouse or children under 18 years of age to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

## OTHER PERSONS' INTERESTS IN THE SHARES OF THE COMPANY

At 31 December 2012, the interests or short positions of the persons (other than the Directors of the Company) in the shares of the Company as recorded in the register required to be kept pursuant to Section 336 of Part XV of the SFO, or as otherwise notified to the Company, are set out below:

### LONG POSITION IN THE SHARES OF THE COMPANY

Name	Number of ordinary shares of HK\$0.05 each held	Percentage of issued share capital (%) <sup>(a)</sup>
Shaw Brothers Limited <sup>(b)</sup>	113,888,628 <sup> #(c)</sup>	26.00
Young Lion Holdings Limited	113,888,628 <sup> #(c)&amp;(f)</sup>	26.00
Kun Chang Investment Co. Ltd.	113,888,628 <sup> #(d)</sup>	26.00
Profit Global Investment Limited	113,888,628 <sup> #(d)&amp;(f)</sup>	26.00
Providence Holdco (International) GP Ltd.	113,888,628 <sup> #(e)</sup>	26.00
Providence Fund Holdco (International) L.P.	113,888,628 <sup> #(e)</sup>	26.00
PEP VI International Ltd.	113,888,628 <sup> #(e)</sup>	26.00
Providence Equity GP VI International L.P.	113,888,628 <sup> #(e)</sup>	26.00
Providence Equity Partners VI International L.P.	113,888,628 <sup> #(e)</sup>	26.00
P6 YL Holdings Limited	113,888,628 <sup> #(e)&amp;(f)</sup>	26.00
Dodge & Cox	37,043,100 <sup> (g)</sup>	8.46
Schroders Plc	30,843,000 <sup> (g)&amp;(h)</sup>	7.04
Matthews International Capital Management, LLC	30,766,833 <sup> (g)</sup>	7.02

# REPORT OF THE DIRECTORS

## Notes:

Duplication of shareholdings occurred between parties # shown in the table here and above under the sub-heading of "Directors' Interests in the Shares of the Company".

At 31 December 2012:

- (a) Shareholding percentage in the issued share capital was based on the 438,000,000 ordinary shares of the Company in issue.
- (b) Shaw Brothers was the registered shareholder of the 113,888,628 shares of the Company. It is an indirect wholly-owned subsidiary of YLH.
- (c) YLH was deemed to be interested in the 113,888,628 shares of the Company. Such interests were held indirectly through Shaw Brothers which is an indirect wholly-owned subsidiary of YLH which is controlled by Dr. Charles Chan Kwok Keung, a Non-executive Director of the Company, through IVH. On 23 November 2011, the Company was informed that IVH had been added in the shareholding structure as an intermediate company controlled by Dr. Charles Chan Kwok Keung to hold the controlling interest in YLH.
- (d) Profit Global was deemed to be interested in the 113,888,628 shares of the Company. Profit Global is controlled by Kun Chang Investment Co. Ltd. ("Kun Chang"). Directors and substantial shareholders of Kun Chang are all accustomed to act in accordance with the directions of Ms. Cher Wang Hsiueh Hong, a Non-executive Director of the Company.
- (e) P6YL was deemed to be interested in the 113,888,628 shares of the Company. P6YL is controlled by Providence Holdco (International) GP Ltd. through its direct and indirect wholly-owned subsidiaries. P6YL is a wholly-owned subsidiary of Providence Equity Partners VI International L.P., which is in turn a wholly-owned subsidiary of Providence Equity GP VI International L.P. Providence Equity GP VI International L.P. is a wholly-owned subsidiary of PEP VI International Ltd., which is in turn a wholly-owned subsidiary of Providence Fund Holdco (International) L.P. Mr. Jonathan Milton Nelson, a Non-executive Director of the Company, holds controlling interests in P6YL through Providence Holdco (International) GP Ltd. and its subsidiaries as abovementioned.
- (f) Dr. Charles Chan Kwok Keung, Profit Global, P6YL, YLH, Young Lion Acquisition Co. Limited, IVH, Clear Water Bay Land Company Limited and Shaw Brothers are parties of an agreement to acquire the interest in the 113,888,628 shares in the Company. This agreement is an agreement to which Section 317(1)(a) of the SFO applies.
- (g) Interests were held in the capacity of investment managers.
- (h) The Company received in February 2013, a number of disclosure of interest notices dated 8 February 2013, informing us that Schroders Plc had become a substantial shareholder of the Company since November 2011 and it had further acquired and disposed shares in the Company during the subsequent period. According to the information as disclosed in the said notices, Schroders Plc was interested in a total of 30,843,000 shares in the Company, representing approximately 7.04% of the share capital of the Company.

## DIRECTORS'/SUBSTANTIAL SHAREHOLDERS' INTERESTS IN CONTRACTS

The following transactions constituted continuing connected transactions of the Company which are subject to the requirements under Chapter 14A of the Listing Rules:

### CONTINUING CONNECTED TRANSACTIONS

1. Continuing connected transactions with Hong Kong Movie City Company Limited ("HKMC", now known as Shaw Movie City Hong Kong Limited)

As announced on 2 February 2010, the Company and TVB.COM Limited ("TVB.COM"), an indirect wholly-owned subsidiary of the Company, entered into several agreements on 1 February 2010 (including the tenancy agreements, colocation services agreement, IP telephone licence, and parking licences, collectively, "HKMC Agreements") with HKMC for the lease of certain properties and car parking spaces at Shaw Studios (now known as Shaw Moviecity), a property located at 201 Wan Po Road, Tseung Kwan O, Kowloon, Hong Kong, which is wholly-owned by HKMC, and for various facilities services, on such terms and conditions as stipulated in the HKMC Agreements. At the date of entering into the HKMC Agreements, HKMC was an associated company of Shaw Brothers (Hong Kong) Limited <sup>(Note 1)</sup>, a substantial shareholder of the Company and an associate of Sir Run Run Shaw <sup>(Note 2)</sup> and Ms. Mona Fong, both Directors of the Company. Therefore, the entering into the HKMC Agreements constituted continuing connected transactions for the Company which are subject to the annual review, and reporting and announcement requirements under the Listing Rules. Details of the HKMC Agreements are as follows:

- (a) On 1 February 2010, the Company and HKMC entered into a tenancy agreement, pursuant to which the Company agreed to hire an office at Shaw Studios, with a total gross floor area of approximately 14,150 square feet for a three year fixed term commencing from 1 February 2010 to 31 January 2013. The rent and related expenses incurred by the Company during 2012 were HK\$2,555,000.
- (b) On 1 February 2010, TVB.COM and HKMC entered into a tenancy agreement, pursuant to which TVB.COM agreed to hire an office at Shaw Studios, with a total gross floor area of approximately 18,000 square feet for a three year fixed term commencing from 1 February 2010 to 31 January 2013. The rent and related expenses incurred by TVB.COM during 2012 were HK\$3,024,000.
- (c) On 1 February 2010, TVB.COM and HKMC entered into another tenancy agreement, pursuant to which TVB.COM agreed to hire an office at Shaw Studios, with a total gross floor area of approximately 10,200 square feet for a three year fixed term commencing from 1 February 2010 to 31 January 2013. The rent and related expenses incurred by TVB.COM during 2012 were HK\$1,714,000.
- (d) On 1 February 2010, TVB.COM and HKMC entered into a colocation services agreement, pursuant to which TVB.COM agreed to engage colocation services from HKMC for storage of server equipment at Shaw Studios for a three year fixed term commencing from 1 February 2010 to 31 January 2013. The service fees incurred by TVB.COM during 2012 were HK\$4,032,000.
- (e) On 1 February 2010, TVB.COM and HKMC entered into an Internet protocol telephone licence, pursuant to which TVB.COM agreed to obtain the licences for an Internet protocol telephony communication system services installed by the HKMC at the offices at Shaw Studios which are occupied by TVB.COM as abovementioned. The licence fee incurred by TVB.COM during 2012 was HK\$234,000.

#### Notes:

- <sup>1</sup> Shaw Brothers (Hong Kong) Limited ceased to be an associate on 31 March 2011 and its shareholding interest in HKMC had been transferred to a subsidiary of Shaw Holdings Inc., which is an associate of Sir Run Run Shaw and Ms. Mona Fong.
- <sup>2</sup> Sir Run Run Shaw retired as a Director of the Company on 31 December 2011.

# REPORT OF THE DIRECTORS

(f) On 1 February 2010, the Company and HKMC entered into a parking licence, pursuant to which the Company agreed to obtain licence for designated car parking space(s) at Shaw Studios for a six month licence period from 1 February 2010 and renewable for every six months. The licence fee incurred by the Company during 2012 was HK\$15,000.

(g) On 1 February 2010, TVB.COM and HKMC entered into a parking licence, pursuant to which TVB.COM agreed to obtain licence for several designated car parking spaces at Shaw Studios for a six month licence period from 1 February 2010 and renewable for every six months. The licence fee incurred by TVB.COM during 2012 was HK\$150,000.

## 2. Continuing connected transactions with MEASAT Broadcast Network Systems Sdn. Bhd. ("MBNS")

As announced on 22 March 2010, TVBI Company Limited ("TVBI"), a wholly-owned subsidiary of the Company, entered into binding principal terms with MBNS on 10 March 2010 in the form of a confirmation letter ("Short Form Agreement") relating to the granting of the rights by TVBI to MBNS to distribute certain programmes and the licensed channels in Malaysia and Brunei, and that TVB Satellite TV Entertainment Limited ("TVBSE"), a wholly-owned subsidiary of the Company, had been engaged by MBNS as an advertising agency for managing and selling of airtime on certain channels.

At the date of entering into the said agreement, MBNS is an associate of the substantial shareholder of three of the Company's non wholly-owned subsidiaries of the Company, the transactions contemplated under the Short Form Agreement, together constituted non-exempt continuing connected transactions for the Company which are subject to approval of the independent shareholders of the Company under the Listing Rules. The transactions were approved at the extraordinary general meeting of the Company held on 26 May 2010 and the relevant parties had signed the formal agreements ("MBNS Agreements") on 13 December 2010. Details of the MBNS Agreements are as follows:

(a) On 13 December 2010, TVBI and MBNS entered into an agreement, pursuant to which TVBI agreed to grant to MBNS the exclusive right to broadcast, transmit and exhibit certain programmes and the licensed channels on the Astro Services (the pay television service which is provided and operated by MBNS in Malaysia and Brunei using the trade mark name "ASTRO") within Malaysia and Brunei for a three year fixed term commencing from 1 February 2010 to 31 January 2013. The income accrued by TVBI during 2012 was HK\$218,509,000 (RM86,816,000).

(b) On 13 December 2010, TVBI and MBNS entered into an agreement, pursuant to which TVBI agreed to grant to MBNS the exclusive right to transmit and exhibit certain licensed programmes on the Near Video On Demand (NVOD)/Video On Demand (VOD) Services on any platform owned or operated by MBNS or its affiliates within Malaysia and Brunei for a five year fixed term commencing from 1 January 2010 to 31 December 2014. For the five year contract term, an independent financial adviser appointed for the transactions was of the view that it was in the benefit of the Company to lock-in a longer contract term of five years, which was in line with normal business practice, to ensure its continuous exposure in Malaysia and Brunei via a trusted partner in the absence of its own platform. The income accrued by TVBI during 2012 was HK\$62,643,000 (RM24,889,000).

(c) On 13 December 2010, TVBSE and MBNS entered into an agreement, pursuant to which MBNS appointed TVBSE as an exclusive consultant to advise on the management and selling of airtime, including management of a Chinese sales team, for certain 24-hour turnaround channels and a Chinese language entertainment channel – Wah Lai Toi (which is owned and operated by MBNS) on MBNS's platform for a three year fixed term commencing from 1 February 2010 to 31 January 2013. The income accrued by TVBSE during 2012 was HK\$40,461,000 (RM16,076,000).

3. Continuing connected transactions with Concept Legend Limited ("JV Company") and its subsidiary (collectively, "JV Group")

As announced on 21 March 2012, the Company entered into separate framework service agreements and separate framework licence agreements ("Framework Agreements") with each of the companies in the JV Group in connection with the provision of various supporting facilities and services for motion pictures production to the JV Group; and the acquisition of the television broadcasting and transmission rights of motion pictures being or to be produced by the JV Group, respectively.

The JV Company is a joint venture company formed between the Company and Shaw Productions Limited ("Shaw Productions"). Shaw Productions is controlled by Ms. Mona Fong, a Director of the Company, and Sir Run Run Shaw <sup>(Note 2 on page 57)</sup>, a former Director of the Company. The JV Company and its subsidiary are, therefore, associates of a Director and a former Director, and hence are connected persons of the Company. The entering into the Framework Agreements constituted continuing connected transactions for the Company which are subject to the annual review, and reporting and announcement requirements under the Listing Rules. Details of the Framework Agreements are as follows:

- (a) On 21 March 2012, the Company entered into separate framework service agreements with each of the companies in the JV Group, for the provision of various supporting facilities and services to the JV Group for their production of motion pictures, each for a period of 24 months commencing from 1 January 2012 to 31 December 2013. The aggregate income from provision of services to the JV Group for 2012 was HK\$2,588,000.
- (b) On 21 March 2012, the Company further entered into separate framework licence agreements with each of the companies in the JV Group, in connection with the acquisition of television broadcasting and transmission rights of motion pictures being or to be produced by the JV Group, each for a period of 24 months commencing from 1 January 2012 to 31 December 2013. The aggregate cost for acquiring licence rights from JV Group for 2012 was HK\$8,500,000.

All of the Independent Non-executive Directors have reviewed the above transactions described in paragraphs 1 to 3 above, and confirmed that these transactions have been entered into (i) in the ordinary and usual course of business of the Company; (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 57 to 59 of the Annual Report in accordance with paragraph 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Save for the above, no other contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which a Director or a substantial shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the year-end or at any time during the year.

None of the Directors of the Company has a service contract with the Company which is not determinable within one year, without payment of compensation, other than statutory compensation. The Company and any of its subsidiaries did not operate any employee share option scheme, and therefore, no share options have been granted to the Directors during the year.

# REPORT OF THE DIRECTORS

## DIRECTORS' EMOLUMENTS

Details of the remuneration of Directors for the year are set out in Note 25 to the consolidated financial statements on page 133 of this Annual Report.

## CORPORATE GOVERNANCE

The Corporate Governance Report for the year are set out on pages 61 to 79 of this Annual Report.

## BOARD COMMITTEES

The responsibilities of the Executive Committee, the Audit Committee and the Remuneration Committee of the Board and their work done during the year are set out in the Corporate Governance Report on pages 68 to 74.

In order to comply with the Listing Rules which became effective on 1 April 2012, the Nomination Committee of the Board was established on 21 March 2012 with its terms of reference approved by the Board.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company had not redeemed, and neither had the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors as at the date of this report, at least 25% of the Company's total issued share capital is held by the public at all times. At 27 March 2013, there were 256 shareholders on the Company's register of members.

## AMENDMENTS TO ARTICLES OF ASSOCIATION

On 16 May 2012, the Company had, by passing a special resolution at the 2012 AGM, amended certain provisions in the Articles following the amendments to the Listing Rules relating to the Corporate Governance Code and associated Listing Rules which took effect on 1 January 2012 and 1 April 2012, in order to bring them in line with the Listing Rules.

## CHANGE IN BOARD LOT SIZE

On 18 January 2013, the Company announced a reduction in the board lot size for trading of its shares of HK\$0.05 each in the capital of the Company ("Shares") on the Stock Exchange. The board lot size of the Shares was reduced from 1,000 Shares to 100 Shares with effect from 8 February 2013. The change in board lot size reduced the board lot value. The Board was of the view that the reduction in board lot size of the Shares may enable more investors who are interested in the Company to buy the Shares on the Stock Exchange, which may improve the liquidity of the Shares and broaden the Company's shareholder base. The change in board lot size did not affect any of the relative rights of the shareholders of the Company. The Board considered that the change in board lot size is in the interest of the Company and its shareholders as a whole.

## MAJOR SUPPLIERS AND CUSTOMERS

During the year, the percentages of the Group's purchases and sales attributable to its five largest suppliers and five largest customers were both less than 30%.

## AUDITOR

The consolidated financial statements for the year ended 31 December 2012 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the 2013 AGM.

On behalf of the Board

**Norman Leung Nai Pang**  
Executive Chairman

Hong Kong, 27 March 2013

# CORPORATE GOVERNANCE REPORT

This Corporate Governance Report (“CG Report”) has been prepared in accordance with the requirements set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

## CORPORATE GOVERNANCE PRACTICES

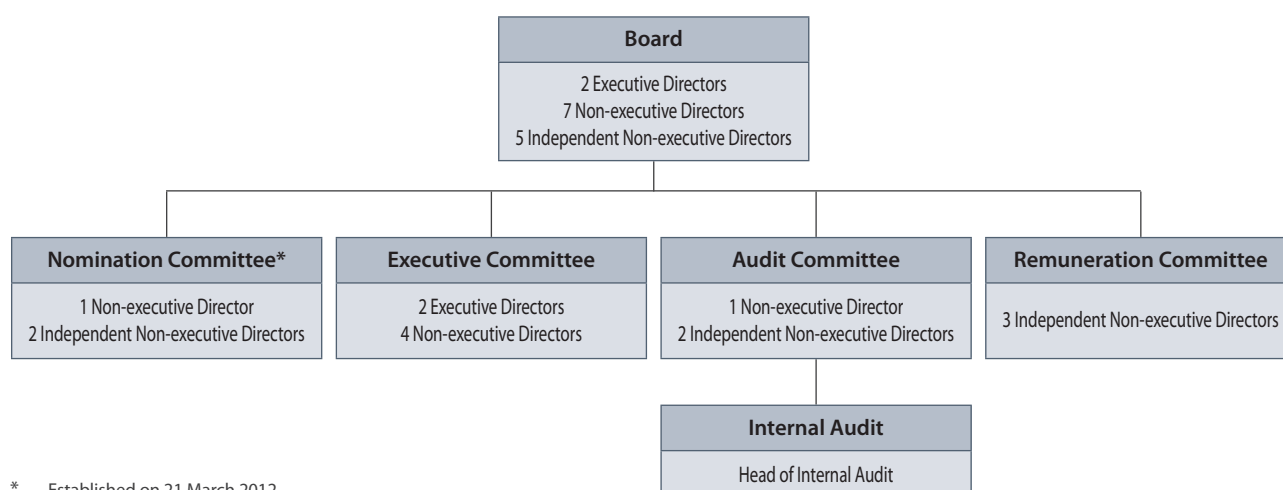
Maintaining high standards of business ethics and corporate governance practices has always been one of the Company’s core objectives. The Company believes that conducting business in an open and responsible manner serves its long-term interests and those of the shareholders.

The Company has adopted its own code on corporate governance, the TVB Code on Corporate Governance

(“TVB CG Code”). The TVB CG Code summarises the corporate governance practices adopted by the Board. These practices are in line with the requirements of the Listing Rules (including all code provisions and certain recommended best practices in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules). Further updates to the TVB CG Code has been made from time-to-time to reflect changes in code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules (“CG Code”).

The Board monitors the Company’s progress on corporate governance practices and reviews the TVB CG Code adopted by the Company from time-to-time to comply with the increasingly stringent regulatory requirements, and to meet the rising expectations of stakeholders.

The governance structure of the Company at the date of this CG Report is as follows:



\* Established on 21 March 2012

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the TVB CG Code as its own code on corporate governance. Following the amendments to the Listing Rules and the CG Code relating to corporate governance effective on 1 January 2012 and 1 April 2012, the Board approved the latest updates to the TVB CG Code in March 2012 to align the TVB CG Code with the latest changes.

Save as disclosed below, the Company was in compliance with the code provisions of the Code on Corporate Governance Practices as set out in old Appendix 14 (which were in effect until 31 March 2012) and the code

provisions of the Corporate Governance Code as set out in Appendix 14 (which took effect from 1 April 2012) of the Listing Rules during the year ended 31 December 2012.

In respect of compliance with code provision A.4.2 of the CG Code, the Company noted that the Chairman was not subject to retirement under Article 114(C)<sup>(Note)</sup> of the Company’s Articles of Association (“Articles”). The Company put forward a special resolution at the Company’s annual general meeting held on 16 May 2012 (“2012 AGM”). The shareholders, among other things, approved the special resolution to amend the Articles by removing the exclusion of the Chairman from the requirement to retire at the conclusion of the third annual general meeting following his appointment. Therefore, the Company now complies with A.4.2 of the CG Code.

# CORPORATE GOVERNANCE REPORT

In respect of compliance with code provision A.6.7 of the CG Code, the Company noted that five Directors were not able to attend the 2012 AGM due to prior engagements.

In respect of compliance with code provision D.1.4 of the CG Code, the Company noted that the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment. Although there was no formal letter of appointment entered into between the Company and each of the Non-executive Directors, all Directors of the Company are subject to retirement and election/re-election in accordance with the Articles. In early 2013, the Company issued letters of appointment to document the key terms of their appointment in writing for each of the Directors. Therefore, the Company now complies with D.1.4 of the CG Code.

Note: Under this Article, the Chairman was exempted from retirement as it was considered that this deviation was well-founded as the former Chairman, Sir Run Run Shaw, being a founder of the Company, had a wealth of experience which was essential to the Board and contributed to the continued stability of the Company's business. Following the retirement of Sir Run Run Shaw in December 2011, it was felt that the Articles should be amended to remove this exemption.

## DIRECTORS' SECURITIES TRANSACTIONS

### COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules ("Model Code"), as amended from time-to-time, as the code for Directors and members of Senior Management in their dealings in the securities of the Company ("TVB Code for Securities Transactions by Directors").

Mrs. Christina Lee Look Ngan Kwan, who retired as Non-executive Director of the Company on 3 February 2012, confirmed, following specific enquiries by the Company, that she had complied with the Model Code throughout the period between 1 January 2012 and 3 February 2012.

Ms. Vivien Chen Wai Wai, who resigned as Independent Non-executive Director of the Company on 3 February 2012, confirmed, following specific enquiries by the Company, that she had complied with the Model Code throughout the period between 1 January 2012 and 3 February 2012.

Mr. Harvey Chang Hsiao Wei, who was appointed as an Alternate Director to Ms. Cher Wang Hsiueh Hong, a Non-executive Director of the Company, on 3 February 2012, confirmed, following specific enquiry by the Company, that he had complied with the Model Code throughout the period between 3 February 2012 and 31 December 2012.

Mr. Sun Tao, who was appointed as an Alternate Director to Mr. Jonathan Milton Nelson, a Non-executive Director of the Company, on 18 June 2012, confirmed, following specific enquiry by the Company, that he had complied with the Model Code throughout the period between 18 June 2012 and 31 December 2012.

Mr. Chen Xian, who ceased as an Alternate Director to Mr. Jonathan Milton Nelson, a Non-executive Director of the Company, on 18 June 2012, confirmed, following specific enquiry by the Company, that he had complied with the Model Code throughout the period between 1 January 2012 and 18 June 2012.

Mr. Raymond Or Ching Fai, who was appointed as Independent Non-executive Director of the Company on 6 December 2012, confirmed, following specific enquiry by the Company, that he had complied with the Model Code throughout the period between 6 December 2012 and 31 December 2012.

Mr. Peter Au Wai Lam, Assistant General Manager, who became member of Senior Management of the Company on 1 April 2012, confirmed, following specific enquiry by the Company, that he had complied with the Model Code throughout the period between 1 April 2012 and 31 December 2012.

Mr. Desmond Chan Shu Hung, Assistant General Manager, who became member of Senior Management of the Company on 1 December 2012, confirmed, following specific enquiry by the Company, that he had complied with the Model Code throughout the period between 1 December 2012 and 31 December 2012.

Mr. Adrian Mak Yau Kee, Chief Financial Officer and Company Secretary, who became member of Senior Management of the Company on 1 April 2012, confirmed, following specific enquiry by the Company, that he had complied with the Model Code throughout the period between 1 April 2012 and 31 December 2012.

Mr. Stephen Chan Chi Wan, who resigned as General Manager–Broadcasting of the Company on 29 February



2012, confirmed, following specific enquiry by the Company, that he had complied with the Model Code throughout the period between 1 January 2012 and 29 February 2012.

All other Directors and members of Senior Management confirmed, following specific enquiries by the Company, that they had complied with the Model Code throughout the year ended 31 December 2012.

## **BOARD OF DIRECTORS AND ITS COMMITTEES**

### **BOARD OF DIRECTORS**

The Company is headed by an effective Board which is charged with the duty of promoting the success of the Company by directing and supervising its affairs in a responsible manner.

The Board is the highest governing body of the Company and is supported by four Board Committees, namely the Executive Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee.

The Board is responsible for performing the corporate governance duties to develop and review the Company's policies and practices on corporate governance; to review and monitor the training and continuous professional development of Directors and members of Senior Management; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct and compliance manual (where applicable) to employees and Directors; and to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

### **COMPOSITION OF THE BOARD AND ITS COMMITTEES**

The composition of Board comprises sufficient number of executive directors and non-executive directors (including independent non-executive directors) which gives the Board a balance of skills and experience appropriate for the requirements of the Company's business. The high proportion of non-executive directors enables that there is a strong independent element on the Board, which can effectively exercise independent judgement, and that their views carry weight at Board meetings.

During the year and up to the date of this CG report, the following changes to the composition of the Board and its Committees took place:

On 1 January 2012, Dr. Norman Leung Nai Pang, who was the Executive Deputy Chairman between September 2003 and December 2011, was appointed as the Executive Chairman of the Board.

On 3 February 2012, Mrs. Christina Lee Look Ngan Kwan retired as a Non-executive Director and as a member of the Executive Committee of the Company. Mr. Anthony Lee Hsien Pin, her son, ceased to act as her Alternate Director on the same day. On 3 February 2012, Mr. Anthony Lee Hsien Pin was appointed as a Non-executive Director of the Board. Pursuant to the Articles, he held office as a Director until the 2012 AGM. Mr. Lee was successfully elected at the 2012 AGM.

On 3 February 2012, Ms. Vivien Chen Wai Wai resigned as an Independent Non-executive Director and as a member of the Remuneration Committee of the Board.

On 3 February 2012, Mr. Chen Wen Chi, who was an Alternate Director to Ms. Cher Wang Hsiueh Hong between 13 May 2011 and 3 February 2012, was appointed as a Non-executive Director of the Company. Pursuant to the Articles, he held office as a Director until the 2012 AGM. Mr. Chen was successfully elected at the 2012 AGM.

On 3 February 2012, Mr. Harvey Chang Hsiao Wei was appointed as an Alternate Director to Ms. Cher Wang Hsiueh Hong.

On 21 March 2012, Dr. Charles Chan Kwok Keung and Mr. Chen Wen Chi were appointed as members of the Executive Committee of the Board.

On 21 March 2012, the Nomination Committee of the Board was established. Dr. Chow Yei Ching was appointed as the Chairman, and Mr. Edward Cheng Wai Sun and Mr. Anthony Lee Hsien Pin were appointed as members of the Nomination Committee of the Board.

On 31 March 2012, Ms. Mona Fong retired as Deputy Chairperson and Managing Director of the Company and was re-designated as a Non-executive Director of the Company on 1 April 2012.

On 18 June 2012, Mr. Sun Tao was appointed as an Alternate Director to Mr. Jonathan Milton Nelson in place of Mr. Chen Xian who ceased to act as an Alternate Director to Mr. Nelson on the same day.

On 6 December 2012, Mr. Raymond Or Ching Fai was appointed as an Independent Non-executive Director of the Company.

# CORPORATE GOVERNANCE REPORT

As of the date of this CG Report, the Board and its Committees comprises:

Board of Directors	Also serving:	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee
<b>Executive Directors</b>					
Norman Leung Nai Pang		Chairman	–	–	–
Mark Lee Po On		Member	–	–	–
<b>Non-executive Directors</b>					
Mona Fong		Member	–	–	–
Kevin Lo Chung Ping		Member	Member	–	–
Charles Chan Kwok Keung		Member	–	–	–
Cher Wang Hsiueh Hong		–	–	–	–
Jonathan Milton Nelson		–	–	–	–
Anthony Lee Hsien Pin		–	–	–	Member
Chen Wen Chi		Member	–	–	–
<b>Independent Non-executive Directors</b>					
Chow Yei Ching		–	–	–	Chairman
Edward Cheng Wai Sun		–	–	Member	Member
Chien Lee		–	Member	Chairman	–
Gordon Siu Kwing Chue		–	Chairman	Member	–
Raymond Or Ching Fai		–	–	–	–
<b>Alternate Directors</b>					
Allan Yap	Alternate Director to Charles Chan Kwok Keung	n/a	n/a	n/a	n/a
Harvey Chang Hsiao Wei	Alternate Director to Cher Wang Hsiueh Hong	n/a	n/a	n/a	n/a
Sun Tao	Alternate Director to Jonathan Milton Nelson	n/a	n/a	n/a	n/a

n/a: not applicable

Biographical information of Directors are set out on pages 46 to 50 of this Annual Report.

## ATTENDANCE RECORDS OF DIRECTORS

The attendance<sup>1</sup> records of Directors at the Board and the Board Committees' meetings and annual general meeting in 2012 are set out below:

Directors	Board of Directors meetings	Executive Committee meetings	Audit Committee meetings	Remuneration Committee meeting	Nomination Committee meeting	2012 AGM
Norman Leung Nai Pang	5/5	9/9	–	–	–	1/1
Mark Lee Po On	5/5	9/9	–	–	–	1/1
Mona Fong	5/5	8/9	–	–	–	1/1
Kevin Lo Chung Ping	5/5	7/9	3/3	–	–	1/1
Charles Chan Kwok Keung	3/5 <sup>2</sup>	8/8	–	–	–	1/1
Cher Wang Hsiueh Hong	1/5 <sup>3</sup>	–	–	–	–	0/1
Jonathan Milton Nelson	1/5 <sup>4</sup>	–	–	–	–	0/1 <sup>4</sup>
Anthony Lee Hsien Pin	5/5	–	–	–	1/1	1/1
Chen Wen Chi	5/5 <sup>5</sup>	8/8	–	–	–	0/1
Chow Yei Ching	2/5	–	–	–	1/1	0/1
Edward Cheng Wai Sun	4/5	–	–	1/1	1/1	0/1
Chien Lee	4/5	–	3/3	1/1	–	1/1
Gordon Siu Kwing Chue	5/5	–	3/3	1/1	–	1/1
Raymond Or Ching Fai <sup>6</sup>	–	–	–	–	–	–

Alternate Directors	Board of Directors meetings	Executive Committee meetings	Audit Committee meetings	Remuneration Committee meeting	Nomination Committee meeting	2012 AGM
Allan Yap Alternate Director to Charles Chan Kwok Keung	2/5 <sup>2</sup>	–	–	–	–	–
Harvey Chang Hsiao Wei Alternate Director to Cher Wang Hsiueh Hong (from 3 February 2012)	2/5 <sup>3</sup>	–	–	–	–	–
Chen Xian Alternate Director to Jonathan Milton Nelson (until 18 June 2012)	1/5 <sup>4</sup>	–	–	–	–	1/1 <sup>4</sup>
Sun Tao Alternate Director to Jonathan Milton Nelson (from 18 June 2012)	3/5 <sup>4</sup>	–	–	–	–	–

Retired and resigned Directors	Board of Directors meetings	Executive Committee meetings	Audit Committee meetings	Remuneration Committee meeting	Nomination Committee meeting	2012 AGM
Christina Lee Look Ngan Kwan <sup>7</sup>	–	–	–	–	–	–
Vivien Chen Wai Wai <sup>8</sup>	–	–	–	–	–	–

### Notes:

- Directors may attend meetings in person, by phone or through other means of electronic communication or by their alternate directors in accordance with the Articles.
- Five Board meetings were held for 2012, three of which were attended by Dr. Charles Chan Kwok Keung in person and another two were attended by Dr. Chan's alternate director. Eight Executive Committee meetings were held for 2012, following the appointment of Dr. Chan as a member of the Executive Committee of the Board on 21 March 2012.
- Five Board meetings were held for 2012, one of which was attended by Ms. Cher Wang Hsiueh Hong in person and another two were attended by Ms. Wang's alternate director.
- Five Board meetings were held for 2012, one of which was attended by Mr. Jonathan Milton Nelson in person and another four were attended by Mr. Nelson's alternate director. The 2012 AGM was attended by Mr. Nelson's alternate director.
- Mr. Chen Wen Chi was appointed as a Non-executive Director of the Company on 3 February 2012 and a member of the Executive Committee of the Board on 21 March 2012. Eight Executive Committee meetings were held for 2012, following the appointment of Mr. Chen as a member of the Executive Committee of the Board.
- Mr. Raymond Or Ching Fai was appointed as an Independent Non-executive Director of the Company on 6 December 2012. No Board meeting was held during the period from 6 December 2012 and 31 December 2012, following the appointment of Mr. Or as a Director of the Company.
- Mrs. Christina Lee Look Ngan Kwan retired as a Non-executive Director and a member of the Executive Committee of the Board on 3 February 2012. No Board meeting and meetings of the Executive Committee were held during the period from 1 January 2012 to 3 February 2012, before the retirement of Mrs. Lee as a Director of the Company.
- Ms. Vivien Chen Wai Wai resigned as an Independent Non-executive Director and a member of the Remuneration Committee of the Board on 3 February 2012. No Board meeting and meeting of the Remuneration Committee were held during the period from 1 January 2012 to 3 February 2012, before the resignation of Ms. Chen as a Director of the Company.

# CORPORATE GOVERNANCE REPORT

## DIRECTORS' RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS

Each Director has a duty to act in good faith and in the best interests of the Company. The Directors are collectively and individually responsible to all shareholders for the manner in which the affairs of the Company are managed, controlled and operated.

Each Director is kept abreast of his/her responsibilities as Director of the Company and of the conduct, business activities and development of the Company. Management provides monthly updates and other appropriate and sufficient information to Directors in a timely manner to keep them apprised of the Group's latest development, performance, position and prospects. Directors also have independent access to management in respect of operational issues.

The Company organises and funds suitable trainings to the Directors on their roles, functions and duties; and other topics relating to the Group's business. In 2012, the Company organised a "Boardroom Training" in August and a presentation on the subject of "Technology adopted for distribution of channels and TVB's contents on multi-platforms" was made in December. Each Director provided the Company a record of training he/she received in respect of the year ended 31 December 2012.

The Board sets the strategic direction of the Company and monitors the performance of the Group's business and management; and ensures that a risk management framework is in place to enable risks be assessed and managed. The Board exercises a number of reserved approval powers over matters which include:

- significant changes in accounting policies or capital structure;
- issuance of financial statements and public announcements;
- major acquisitions, disposals and major capital projects;
- material borrowings and any issuing, or buying back, of equity securities;
- the remuneration policy;
- the annual group budget;
- the dividend policy; and
- treasury policy.

During 2012, the Chairman of the Board held a meeting with the Non-executive Directors (including the Independent Non-executive Directors) without the presence of the other Executive Director to discuss any issues arising at the Board meetings.

All Directors confirmed, following enquiry by the Chairman of the Board, that they had spent sufficient time in the affairs of the Company during 2012, and the Chairman is of the view that the Board works effectively and performs its responsibilities.

## BOARD MEETINGS

The Board normally holds five regular meetings annually, and meets at such other times as are necessary. Five Board meetings were held during the year ended 31 December 2012. The attendance records of Directors at the Board meetings in 2012 are set out in the table on page 65 of this CG Report.

## PROCEEDINGS OF THE BOARD MEETINGS AND BOARD COMMITTEE MEETINGS

The Board meets in person regularly. Notice of Board meetings are given to all Directors and the agendas of Board meetings are approved by the Executive Chairman, and all Directors are given opportunities to include matters for discussion in the agenda. The Board is provided with adequate (which must be accurate, clear, complete and reliable) and timely information about the Group's business and developments before each meeting at which Directors can actively participate and hold informed discussions. All Directors are asked to comment on minutes prepared for previous meetings within a reasonable time after the meetings to ensure that the minutes accurately reflect the discussions which took place and decisions reached.

Pursuant to the Articles, a resolution-in-writing signed by all the Directors shall be as valid and effectual as if it had been passed at a meeting of the Directors duly convened and held. However, if a Director or a substantial shareholder has a conflict of interest in a matter to be considered by the Board which it has determined to be material, the matters should be dealt with by a meeting rather than a written resolution.

Proceedings of the Board Committee meetings shall be governed by the provisions in the Articles for regulating the proceedings of the meetings of Directors.

## DELEGATION TO MANAGEMENT

The Board has formalised the functions delegated to Senior Management and reviews such arrangements on a periodic basis. Senior Management is charged with the following responsibilities:

- implementing and reporting to the Board on the Company's strategies;
- overseeing the realisation by the Company of the objectives set by the Board;
- providing all such information to the Board as is necessary to enable the Board to monitor the performance of Senior Management; and
- discharging duties and authorities as may be delegated by the Board.

## DIRECTORS' INDEPENDENCE

The Company currently has five Independent Non-executive Directors and complies with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules that require at least three Independent Non-executive Directors and such Directors represent at least one-third of the Board. All of the Independent Non-executive Directors possess related financial management expertise.

Each of the Independent Non-executive Directors has given the Company an annual confirmation of his independence for 2012. The Nomination Committee of the Board has reviewed the independence of each of the Independent Non-executive Directors of the Company and considered that all of them are independent, under the guidelines set out in Rule 3.13 of the Listing Rules.

## RELATIONSHIPS AMONG DIRECTORS

The Directors have no relationship (including financial, business, family or other material/relevant relationships) among themselves, and between the chairman and the chief executive, save for the following:

- wife-husband relationship between Ms. Cher Wang Hsiueh Hong and Mr. Chen Wen Chi;
- cousin relationship between Mr. Chien Lee and Mr. Anthony Lee Hsien Pin; and
- business relationship between Dr. Charles Chan Kwok Keung, Ms. Cher Wang Hsiueh Hong and Providence (in which Mr. Jonathan Milton Nelson is the Chief Executive Officer and the Founder).

## DIRECTORS' TERM OF OFFICE, ELECTION AND RE-ELECTION

Following the amendments to the Articles approved by shareholders at the 2012 AGM removing the exemption from retirement of the Chairman, all Directors shall be subject to retirement and re-election. Any Director (including Non-executive Directors) appointed by the Board either to fill a casual vacancy or as an additional Director shall hold office only until the next following general meeting of the Company and shall then be eligible for election at such meeting. Thereafter, they shall be subject to retirement and re-election at every third annual general meeting of the Company in accordance with the Articles. None of the Directors of the Company has a service contract with the Company which is not determinable within one year, without payment of compensation, other than statutory compensation.

The Company issues letter of appointment to document the key terms of his appointment in writing for each of the Directors. The Company provided to the Directors a set of "TVB Directors' Manual" containing the Company's memorandum of association and Articles, the TVB Code on Corporate Governance, TVB Code for Securities Transactions by Directors and notification procedures, Terms of Reference of the respective Board Committees, and certain internal policies and rules update and guidelines issued by the regulatory and professional bodies in respect of their duties. The Company offers formal induction training to the Directors on their appointment.

Mr. Anthony Lee Hsien Pin and Mr. Chen Wen Chi, who were appointed by the Board as Directors on 3 February 2012, held offices as Directors until the 2012 AGM in accordance with the provisions in the Articles. At that meeting, Mr. Lee and Mr. Chen were successfully elected.

In accordance with Article 109 of the Articles, Mr. Raymond Or Ching Fai, who was appointed by the Board as a Director on 6 December 2012, will hold office as a Director until the annual general meeting of the Company to be held on 22 May 2013 ("2013 AGM"), and being eligible, offers himself for election at the 2013 AGM.

In accordance with Article 114(A) of the Articles, Dr. Norman Leung Nai Pang and Mr. Mark Lee Po On and Mr. Edward Cheng Wai Sun will retire at the 2013 AGM and, being eligible, offer themselves for re-election at the 2013 AGM.

# CORPORATE GOVERNANCE REPORT

Details of the Directors, who are subject to retirement for election or re-election at the 2013 AGM, as required under Rule 13.51(2) of the Listing Rules, are set out in the notice of the 2013 AGM which will be sent together with this Annual Report to the shareholders of the Company.

## CHAIRMAN AND MANAGING DIRECTOR

The roles of the Chairman and the Managing Director (or its equivalent position) of the Company are segregated and clearly defined, as set out in the TVB CG Code.

Dr. Norman Leung Nai Pang is the Executive Chairman of the Board. Mr. Mark Lee Po On is Executive Director and Group General Manager of the Company who assumes the duties and functions of a managing director, since the retirement of Ms. Mona Fong from the position of Managing Director on 31 March 2012.

The Executive Chairman provides leadership for the Board. He chairs the Board meetings and promotes a culture of openness to encourage all Directors to make actively contribution to the Board's affairs, to express their views and concerns, to allow sufficient time for discussion of issues and to ensure that the Board decisions fairly reflect the Board consensus and the Board acts in the best interest of the Company.

The Group General Manager of the Company is the pinnacle of a management structure. He is responsible for implementing and reporting to the Board on the Company's strategies, overseeing the realisation by the Company of the objectives set by the Board, and providing all information to enable the Board to monitor the performance of Management.

## BOARD COMMITTEES

The Board is supported by four Board Committees, namely the Executive Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee. Each of them has defined terms of reference covering its authority, duties and functions. The terms of reference of these four Committees are available on the website of The Stock Exchange of Hong Kong Limited ("Exchange's website") and the Company's website.

The Company provides sufficient resources to the Board Committees to perform their duties. The Board Committees shall report to the Board on their works, decisions and recommendations in a timely manner.

Major roles and functions, composition and operating mode of the Executive Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee of the Board are set out below.

## EXECUTIVE COMMITTEE

The Executive Committee has been delegated by the Board with the powers in the oversight of the management of the business and affairs of the Company.

### Major roles and functions

The Executive Committee shall undertake the following duties:

- to monitor and review the implementation of the Group's strategic and investment plans;
- to monitor and review the organisation, business and personnel policies of the Group;
- to liaise and consult with other committees of the Board on all matters in relation to the businesses of the Group;
- to do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board; and
- to work to the requirements that may from time-to-time be delegated by the Board or contained in the constitution of the Company.

### Composition

The Executive Committee comprises six members. Members of the Executive Committee at the date of this CG Report are set out in the table on page 64.

### Committee meetings

The Executive Committee normally meets once a month. Additional meetings may be held as the work of the Executive Committee demands.

During 2012, the Executive Committee held nine meetings or by way of passing written resolutions which dealt with, inter-alia, the following matters:

- reviewed the Group's cash deposits position;
- made recommendation to the Board for dividend payments;
- nominated the appointment of Directors to the Board for approval;
- examined the possible ways for field enhancement on the Group's cash balance;
- endorsed the report on share dealing clearance under the Model Code; and
- approved other Group's routine corporate matters.

The attendance records of Directors at the Executive Committee meetings in 2012 are set out in the table on page 65 of this CG Report.

## REMUNERATION COMMITTEE

The Remuneration Committee is responsible for formulating remuneration policy for Senior Management, making recommendations on annual remuneration review and determining remuneration of Executive Directors and Senior Management.

### Major roles and functions

The Remuneration Committee shall undertake the following duties:

- to make recommendations to the Board on the Company's policy for the remunerations of all Directors and Senior Management and on the establishment of a formal and transparent procedure for developing the remuneration policy;
- to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- to determine, with delegated responsibility, the specific remuneration packages of all individual Executive Directors and members of Senior Management, which would include benefits in kind, pension rights; and any compensation payable for loss or termination of their office or appointment;
- to make recommendations to the Board on the remuneration of Non-executive Directors;

- to consider salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group (including the Company and its subsidiaries);
- to review and approve the compensation payable to Executive Directors and Senior Management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
- to ensure that no Director or any of his associates is involved in deciding his own remuneration.

### Composition

The Remuneration Committee comprises three members, all of whom are Independent Non-executive Directors of the Company. Members of the Remuneration Committee at the date of this CG Report are set out in the table on page 64.

### Committee meetings

The Remuneration Committee normally meets at least once a year. Additional meetings may be held as the work of the Remuneration Committee demands.

During 2012 and in early 2013, the Remuneration Committee held two meetings or by way of passing written resolutions which dealt with, inter-alia, the following matters:

- reviewed and approved the discretionary bonus to Senior Management and senior executives for 2012;
- reviewed and approved the discretionary bonus to the Executive Chairman and the Group General Manager for 2012;
- approved the terms of extension of service contract with the Group General Manager;
- approved the remuneration package of Senior Management for 2013;
- reviewed and recommended increases in the fees for Directors and members of certain Board Committees; and
- reviewed compensation structure.

# CORPORATE GOVERNANCE REPORT

The Remuneration Committee determines, with delegated authority in the terms of reference, the remuneration packages of individual executive directors and members of Senior Management.

The attendance records of Directors at the Remuneration Committee meetings in 2012 are set out in the table on page 65.

Group's remuneration policies

The key elements of the Group's remuneration policies are:

- remuneration should be set which is commensurate with pay levels in the market;
- remuneration should be able to attract and retain individuals with appropriate background, skills, knowledge and experience, relevant to the industry and the business; and
- no individual should determine his or her own remuneration.

Remuneration of Directors

All Directors are entitled to a fixed Director's fee which fee was recommended by the Remuneration Committee, determined by the Board and approved by the shareholders.

The Executive Directors are remunerated by way of a fixed Director's fee, salaries and other incentive, such as discretionary bonus (which is determined and approved in recognition of their performance and contributions to the Company), and they are not entitled to any additional fee for serving on the Board Committees.

The Non-executive Directors are remunerated by a fixed Director's fee and Board Committee fees, if they also serve on those Committees.

Any increases in Director's fee shall be recommended and proposed by the Board and approved by shareholders at annual general meetings. Any increases in fees to the chairman or members of the Board Committees shall be approved by the Board.

The annual fee paid to the Directors for serving on the Board and the additional annual fees paid to Non-executive Directors for serving on the Board Committees for the year ended 31 December 2012 are set out below:

Individual Director serving	Annual fees for 2012 HK\$
<b>Board of Directors</b>	
Executive and Non-executive Directors	150,000 <sup>1</sup>
<b>Executive Committee</b>	
Chairman	–
Members (who is not an Executive Director)	75,000 <sup>2</sup>
<b>Audit Committee</b>	
Chairman	140,000
Members	100,000
<b>Remuneration Committee</b>	
Chairman	50,000 <sup>3</sup>
Members	40,000 <sup>4</sup>
<b>Nomination Committee</b>	
Chairman	60,000 <sup>5</sup>
Members	50,000 <sup>6</sup>

Notes:

On the recommendation of the Remuneration Committee of the Company after its meeting held on 4 December 2012:

- <sup>1</sup> It was proposed an increase of fee payable to Directors from HK\$150,000 per annum to HK\$180,000 per annum with effect from 1 January 2013, subject to shareholders' approval at the 2013 AGM.
- <sup>2</sup> The Board approved an increase in the fee payable to members (who is/are not Executive Director(s)) of the Executive Committee from HK\$75,000 per annum to HK\$150,000 per annum with effect from 1 January 2013.
- <sup>3</sup> The Board approved an increase in the fee payable to the chairman of the Remuneration Committee from HK\$50,000 per annum to HK\$60,000 per annum with effect from 1 January 2013.
- <sup>4</sup> The Board approved an increase in the fee payable to members of the Remuneration Committee from HK\$40,000 per annum to HK\$50,000 per annum with effect from 1 January 2013.
- <sup>5</sup> The Board approved a fee of HK\$60,000 per annum payable to the chairman of the Nomination Committee with effect from 21 March 2012, the establishment date of the Nomination Committee. Such fee was paid on a pro rata basis by reference to the length of his service as the chairman of the Nomination Committee for 2012.
- <sup>6</sup> The Board approved a fee of HK\$50,000 per annum payable to members of the Nomination Committee with effect from 21 March 2012, the establishment date of the Nomination Committee. Such fee was paid on a pro rata basis by reference to the length of their service as a member of the Nomination Committee for 2012.



The Company does not operate any employee share option scheme and therefore, no share options of the Company were granted in 2012. Details of the Directors' and members of Senior Management's emoluments are set out on pages 133 to 135 of the Notes to the Consolidated Financial Statements.

## NOMINATION COMMITTEE

The Nomination Committee was established on 21 March 2012. It is responsible for making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, and for determining the policy for nomination of Directors, the nomination procedures and the process and criteria adopted by the Committee to select and recommend candidates for directorship.

### Major roles and functions

The Nomination Committee shall undertake the following duties:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- to identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorship;
- to assess the independence of Independent Non-executive Directors; and
- to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Managing Director.

### Composition

The Nomination Committee comprises three members, the majority of whom are Independent Non-executive Directors of the Company. Members of the Nomination Committee at the date of this CG Report are set out in the table on page 64.

### Committee meeting

The Nomination Committee normally meets at least once a year. Additional meetings may be held as the work of the Nomination Committee demands.

During 2012, the Nomination Committee held one meeting or by way of passing written resolutions which dealt with, inter-alia, the following matters:

- reviewed and made recommendations to the Board for the appointment of Mr. Sun Tao as an Alternate Director to Mr. Jonathan Milton Nelson, a Non-executive Director of the Company;
- reviewed and made recommendations to the Board for the appointment of Mr. Raymond Or Ching Fai as an Independent Non-executive Director of the Company; and
- reviewed the Board composition.

The attendance records of Directors at the Nomination Committee meeting in 2012 are set out in the table in this CG Report on page 65.

## NOMINATION OF DIRECTORS

Prior to the establishment of the Nomination Committee of the Company, the Executive Committee, as delegated by the Board, is responsible for nominating suitably qualified candidates to be Directors of the Company. On the recommendation of the Executive Committee, the Board resolved the following appointment of Directors in 2012:

- the appointment of Mr. Anthony Lee Hsien Pin and Mr. Chen Wen Chi as Non-executive Directors of the Company, on 3 February 2012; and
- the appointment of Mr. Harvey Chang Hsiao Wei as Alternate Director to Ms. Cher Wang Hsiueh Hong, a Non-executive Director of the Company, in place of Mr. Chen Wen Chi, on 3 February 2012.

In connection with the above appointments, the Nomination Committee/Executive Committee made reference to criteria including, inter alia, reputation for integrity, background, accomplishment and extensive business experience in the commercial industry, time commitment, relevant interest, and independence (for Independent Non-executive Director only), and considered that they are suitable candidates to fill the said positions.

# CORPORATE GOVERNANCE REPORT

## AUDIT COMMITTEE

The Audit Committee shall provide assistance to the Board in fulfilling its responsibilities to independently review and supervise on financial reporting and effectiveness of the system of internal controls of the Company and its subsidiaries ("Group"); review objectivity and effectiveness of the audit process in accordance with applicable standards; and review the appointment of external auditor and ensure continuing auditor's independence.

### Major roles and functions

The Audit Committee shall undertake the following duties:

In respect of relationship with the external auditor:

- to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor and any questions of its resignation or dismissal;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to develop and implement policy on engaging the external auditor to supply non-audit services;
- to discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- to act as the key representative body for overseeing the Company's relations with the external auditor;
- to meet with auditor, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise;

In respect of review of the Company's financial information:

- to monitor the integrity of the Company's financial statements and annual reports and accounts, half-year reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:
  - any changes in accounting policies and practices;
  - major judgemental areas;
  - significant adjustments resulting from the audit;
  - the going concern assumptions and any qualifications;
  - compliance with accounting standards; and compliance with the Listing Rules and legal requirements in relation to financial reporting;
- regarding the last point mentioned above, members of the Committee should liaise with the Board and Senior Management; and the Committee must meet at least twice a year with the Company's auditor; and the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, and it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- to review the continuing connected transactions entered into by the Company and to report to the Board following the conclusion of such review, as required under the Listing Rules;

In respect of oversight of the Company's financial reporting system and internal control procedures:

- to review the Company's financial controls, internal control and risk management systems;
- to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. Such discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

- to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- where an internal audit function exists, to ensure co-ordination between the internal and the external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- to review the Group's financial and accounting policies and practices;
- to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- to ensure the Board will provide a timely response to the issues raised in the external auditor's management letter;
- to report to the Board on the matters in these terms of reference;
- to consider other topics, as defined by the Board; and

#### Others

- to maintain a whistleblowing policy and system which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that such a whistleblowing policy and system are in place for fair and independent investigation of these matters and for appropriate follow up actions. The whistleblowing policy and system shall also enable those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Committee about possible improprieties in any matter related to the Company.

#### Composition

The Audit Committee comprises three members, the majority of whom are Independent Non-executive Directors of the Company and is chaired by an Independent Non-executive Director. They are experienced in reviewing and analysing financial information and possess appropriate accounting and

related financial management expertise. Therefore, the Company complies with the requirement under Rule 3.21 of the Listing Rules. Members of the Audit Committee at the date of this CG Report are set out in the table on page 64.

#### Committee meetings

The Audit Committee normally meets three times a year. Additional meetings may be held as the work of the Audit Committee demands.

During 2012, the Audit Committee held three meetings and dealt with, inter-alia, the following matters:

- reviewed the selected accounting principles and practices;
- reviewed developments in the accounting standards and assessed their potential impacts;
- reviewed draft financial statements and results announcements;
- reviewed draft interim and annual reports;
- considered the proposed scope and approach of the external audit;
- reviewed and discussed audit findings and significant issues;
- reviewed the adequacy and effectiveness of the Group's system of internal controls; and
- made recommendation to the Board regarding appointment and remuneration of the external auditor.

During 2012, the Audit Committee has reviewed with Management and the Group's auditor, PricewaterhouseCoopers, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the interim financial information and annual consolidated financial statements before such statements were presented to the Board of Directors for approval.

With endorsement by the Board, the Audit Committee on 21 March 2012 established a whistleblowing policy and system which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The whistleblowing policy and system shall also enable those who deal with the Company to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company.

# CORPORATE GOVERNANCE REPORT

The reporting responsibilities of PricewaterhouseCoopers, the external auditor, are set out in the Independent Auditor's Report on page 81 of this Annual Report.

The attendance records of Directors at the Audit Committee meetings in 2012 are set out in the table on page 65.

## FINANCIAL REPORTING AND AUDIT

The Board is responsible for presenting financial information of the Group in a clear, balanced and timely manner in the form of financial statements that give a true and fair view of the Group's state of affairs. The Board also carries out the responsibility to select the most appropriate accounting policies for the Group. In this regard, the Board has adopted the Hong Kong Financial Reporting Standards as promulgated by the Hong Kong Institute of Certified Public Accountants.

## INTERNAL CONTROLS

### RESPONSIBILITY

The Board has overall responsibility for the Group's internal control system and management of risks. It is committed to maintaining a sound and effective internal control system to safeguard the Group's assets and shareholders' interests, while the responsibility of day-to-day management of operational risks and implementation of remedial control measures rests with management and individual divisions, departments and offices.

### KEY CONTROL PROCESSES

A system of internal controls has been designed by management in safeguarding assets from unauthorised use or disposition, ensuring reliability of financial reporting, and ensuring effectiveness and efficiency of operation and compliance with applicable laws and regulations. This system of internal controls is, however, designed to provide reasonable, but not absolute, assurance of no material mis-statement or loss, to manage, rather than eliminate, risk of failure in operational systems, and to help achieve the Group's objectives.

The key internal control procedures that the Board established to provide effective internal controls include:

- establishment of a clear organisation structure with well-defined lines of responsibilities from the Board to Board Committees, management, and the heads of operating subsidiaries/divisions;

- documentation of a comprehensive set of internal control procedures covering all business operations of the Group;
- establishment of a comprehensive monthly management reporting system to provide financial and operational performance data to management. Variances from targets are analysed, explained, and improvement actions are taken, if necessary, to rectify deficiencies;
- regular monitoring and assessment of effectiveness of the system of internal controls by considering the reviews performed by the Audit Committee, management, internal auditors and external auditors, as appropriate; and
- adoption of TVB Code of Ethics governing the conduct of staff members and setting the standards of integrity and professionalism.

## MONITORING CONTROLS AND GROUP INTERNAL AUDIT

The Group advocates the principle of maintaining good corporate governance and the importance of creating the right tone in the organisation, influencing control consciousness of its employees, with emphasis on factors such as integrity, ethical values, competence, responsibility and authority.

To assist the Board in its monitoring control function, an internal audit department ("Internal Audit") has been established to provide an independent appraisal and assurance of its internal governance process, effectiveness of the risk management framework, methodology, together with the control activities in the Group's business operations. To preserve the independence of the internal audit function, the Head of Internal Audit reports directly to the Audit Committee on audit matters. Other key principles, including the principles of accountability and objectivity, under which Internal Audit is refrained from involving in daily operations being audited, have been firmly established in the Group's Internal Audit Charter approved by the Audit Committee.

Internal Audit performs its independent reviews of different financial, business and functional operations and activities using a pro-active risk based approach to focus on areas of major risks as identified by a comprehensive risk analysis. Division or department heads and the management concerned will be notified of all control deficiencies for rectification within a set time frame.

Major control deficiencies are brought to the attention of Senior Management and the Audit Committee on a regular basis and, if necessary, to the Board for remedial actions. Internal Audit has from time-to-time liaised and worked with relevant regulatory bodies with a view to enhancing its corporate governance and internal control systems, as well as protecting the Group's assets and shareholders' interests.

On 11 March 2010, the Company made an announcement to clarify an incident concerning an investigation conducted by the Independent Commission Against Corruption ("ICAC") in respect of three former employees of the Company. ICAC subsequently released one of these former employees. The Company has clarified that the investigation conducted by ICAC had not affected and would not affect the normal operation of the Company, nor its services to its audience and customers and the Company would fully co-operate with ICAC in the investigation. In September 2011, all the defendants were acquitted after trial in the District Court. The Prosecution appealed against the 1<sup>st</sup> and 2<sup>nd</sup> defendants. In November 2012, the Court of Appeal ordered that trial of the case be resumed in the District Court. In March 2013, the District Court once again acquitted the 1<sup>st</sup> and 2<sup>nd</sup> defendants. The Prosecution has filed its appeal against such ruling.

## 2012 REVIEW OF INTERNAL CONTROL SYSTEMS

The Board, through the Audit Committee, has conducted a review of the adequacy and the effectiveness of the Group's internal control systems for the year ended 31 December 2012, covering financial, operational and compliance controls, together with risk management functions ("Control Review").

This Control Review was conducted by way of a risk and control self-assessment, whereby key business and operational risks identified in a comprehensive risk assessment survey were mapped to relevant control activities and procedures.

Evaluations were then performed to assess whether the design and functioning of these control activities are sufficient to mitigate the risks identified. Based on the outcome of the review, the Board is satisfied that the internal controls within the Group are functioning in a sound and effective manner to safeguard the Group's assets and shareholders' investment.

## AUDITORS' REMUNERATION

Management performs a review of the remuneration to the Group's auditors on an annual basis. The fees for audit and non-audit services have been reviewed and approved by the Audit Committee and endorsed by the Board. The fees for audit and non-audit services are set out as follows:

### Fees for audit services

	2012 HK\$'000	2011 HK\$'000
Company	1,700	1,415
Subsidiaries	3,162	2,988
<b>Total</b>	<b>4,862</b>	<b>4,403</b>
Fees payable to PricewaterhouseCoopers, the principal auditor	4,070	3,698

### Fees for non-audit services

	2012 HK\$'000	2011 HK\$'000
Company	2,230	351
Subsidiaries	3,014	1,735
<b>Total</b>	<b>5,244</b>	<b>2,086</b>
Fees payable to PricewaterhouseCoopers, the principal auditor	4,739	1,686

#### Notes:

- Non-audit services rendered to the Company by PricewaterhouseCoopers during 2012 included professional tax consulting services, review of reward structures and policies and an investigation of the online voting system of an event. Such services were provided by the Tax Department, Advisory Department and Risk & Control Assurance Department of PricewaterhouseCoopers in Hong Kong, which were separated from the audit team of the Group's audit.
- Non-audit services rendered to the Company's subsidiaries by PricewaterhouseCoopers during 2012 included provision of professional tax consulting services in response to queries raised to our overseas subsidiaries. Such services were provided by the Tax Department of PricewaterhouseCoopers in Hong Kong and USA, which were separated from the audit team of the Group's audit.

# CORPORATE GOVERNANCE REPORT

The Audit Committee reviewed the non-audit services rendered by PricewaterhouseCoopers, the principal auditor, during 2012 and considered that such non-audit services rendered to the Group did not impair its independence and objectivity.

## COMPANY SECRETARY

Mr. Adrian Mak Yau Kee has been appointed the Company Secretary since 2004. He is a fellow member of the Hong Kong Institute of Certified Public Accountant, and has extensive experience in the areas of corporate finance and compliance, in particular, the Listing Rules and other relevant law and regulations, including the Securities and Futures Ordinance, Companies Ordinance, and the Hong Kong Code on Takeovers and Mergers. Mr. Mak, confirmed, following specific enquiry by the Company, that he took sufficient hours of relevant professional training as required under Rule 3.29 of the Listing Rules during the year ended 31 December 2012.

## CORPORATE COMMUNICATION

### DISCLOSURE OF INFORMATION

The Company adopted a policy of disclosing relevant information to shareholders and the public in a timely manner:

- the Company makes announcements pursuant to the requirements of the Listing Rules on the Exchange's website and the Company's website;
- the Company maintains a library of corporate information, including announcements, circulars and financial reports at its website for reference purpose;
- the Company provides a forum at the annual general meetings for shareholders to meet and communicate with management; and
- reports and circulars are distributed to all registered shareholders.

The Board is vested with the responsibility to disseminate to shareholders and the public any inside information in the form of announcements and circulars, in accordance with the Listing Rules.

## GENERAL MEETINGS

Proceedings of annual general meetings and other general meetings are reviewed periodically to ensure that the Company follows the CG Code.

Pursuant to the Listing Rules, the notice of annual general meetings is sent to all shareholders at least 20 clear business days before the meetings, and at least 10 clear business days for all other general meetings setting out details of each proposed resolution, poll procedures and other relevant information.

Voting by poll is mandatory at all general meetings except where the chairman of a general meeting, in good faith, decides to allow a resolution which purely relates to a procedural and administrative matter (as defined under the Listing Rules) to be voted on by a show of hand.

The chairman of a general meeting shall ensure that an explanation is provided of the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll. Poll results are released on the Exchange's website and the Company's website, in accordance with the requirements under the Listing Rules.

Separate resolutions are proposed for each substantially separate issue and are voted by poll at the general meetings.

The chairman of the Board shall attend the annual general meeting and shall invite the chairman of the Board Committees to attend and they should be available to answer questions at the meeting. Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Management of the Company shall ensure the external auditor attend the annual general meeting to answer the questions about the audit.

## SHAREHOLDERS' RIGHTS

### CONVENING EXTRAORDINARY GENERAL MEETING AND MAKING PROPOSALS AT SHAREHOLDERS MEETING

The procedures for shareholders of the Company to convene an extraordinary general meeting and to make proposals at shareholders' meetings are set out in a paper titled "Shareholders' Rights". The full text of the paper is set out below and is available on the Company's website.

#### Shareholders' Rights

The procedures for shareholders of the Company ("Shareholders") to convene an extraordinary general meeting ("EGM") and to make proposals at shareholders' meetings are set out below:

1. Shareholders holding not less than one-twentieth of the paid-up capital of the Company can send a written request to convene an EGM to the Company Secretary at the address below.
2. The written request must state the objects of the meeting, and must be signed by the shareholders concerned and may consist of several documents in like form, each signed by one or more of those Shareholders.
3. The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board of Directors to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders. On the contrary, if the request has been verified as not in order, the Shareholders concerned will be advised of this outcome and accordingly, no EGM will be convened as requested.
4. The notice period to be given to all the registered shareholders for consideration of the proposal raised by the shareholders concerned at an EGM varies according to the nature of the proposal, as follows:
  - 14 days' notice in writing if the proposal constitutes an ordinary resolution of the Company.
  - 21 days' notice in writing if the proposal constitutes a special resolution of the Company.
  - 28 days' notice in writing if the proposal requires the serving of a special notice under the Companies Ordinance of Hong Kong.

Proposals from shareholders for convening an EGM and to make proposals at shareholders' meetings should be sent to the Company at the following address:

**Television Broadcasts Limited**

TVB City

77 Chun Choi Street

Tseung Kwan O Industrial Estate

Kowloon, Hong Kong

Attention: The Company Secretary

or

by email to: [companysecretary@tvb.com.hk](mailto:companysecretary@tvb.com.hk)

## ENQUIRY

### SHAREHOLDERS' COMMUNICATION POLICY AND COMMUNICATION CHANNELS

#### Shareholders' Communication Policy

The Company established a shareholders' communication policy for maintaining an ongoing dialogue with its shareholders. The Board shall review the policy on a regular basis to ensure its effectiveness. The policy provides communication channels to shareholders. The full text of the policy is set out below and is available on the Company's website.

# CORPORATE GOVERNANCE REPORT

## Shareholders' Communication Policy

### PURPOSE

1. The Shareholders' Communication Policy ("Policy") aims to set out the provisions with the objective of ensuring that the Company's Shareholders, and the investment community are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments and governance profile), in order to allow Shareholders and the investment community to engage actively with the Company.
2. For the purpose of this policy, references to the investment community is intended to include the Company's potential investors as well as analysts reporting and analysing the Company's performance.

### GENERAL POLICY

3. The Board shall maintain an on-going dialogue with Shareholders and the investment community, and will regularly review this Policy to ensure its effectiveness.
4. Information shall be communicated to Shareholders and the investment community mainly through the Company's announcements and financial reports (interim and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to The Stock Exchange of Hong Kong Limited ("Stock Exchange") and its corporate communications and other corporate publications on the Company's website.
5. Effective and timely dissemination of information to Shareholders and the investment community shall be ensured at all times. Any question regarding this Policy shall be directed to the Company Secretary.

### COMMUNICATION STRATEGIES

#### Shareholders' enquiries

6. Shareholders should direct their questions about their shareholdings to the Company's Registrar.
7. Shareholders and the investment community may at any time make a request for the Company's information to the extent such information is publicly available.
8. Shareholders and the investment community shall be provided with designated contacts, email addresses and enquiry lines of the Company in order to enable them to make any query in respect of the Company.

### CORPORATE COMMUNICATION \*

9. Corporate communication will be provided to Shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding.
10. Shareholders are encouraged to provide, amongst other things, in particular, their email addresses to the Company in order to facilitate timely and effective communications.

\* Corporate Communication refers to any document issued or to be issued by the Company for the information or action of holders of any of its securities, including, but not limited to, the directors' report and annual accounts together with a copy of the auditor's report, the interim report, a notice of meeting, a circular and a proxy form.

### CORPORATE WEBSITE

11. Information released by the Company to the Stock Exchange is also posted on the Company's website immediately thereafter. Such information includes financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents etc.
12. Important press releases issued by the Company or its subsidiaries will also be made available on the Company's website.

### SHAREHOLDERS' MEETINGS

13. Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings.
14. Appropriate arrangements for the annual general meetings shall be in place to encourage Shareholders' participation.
15. The process of the Company's general meetings will be monitored and reviewed on a regular basis, and, if necessary, changes will be made to ensure that Shareholders' needs are best served.
16. Board members, in particular, either the chairmen of the Board and its Board Committees or their delegates, appropriate management executives and external auditors will attend annual general meetings to answer Shareholders' questions.



## INVESTMENT MARKET COMMUNICATIONS

- Investor/analysts briefings and one-on-one meetings shall be arranged in order to facilitate communication between the Company, Shareholders and the investment community.
- The Company's Directors and employees who have contacts or dialogues with investors, analysts, media or other interested outside parties are required to comply with the relevant Company's policy.

## SHAREHOLDER PRIVACY

- The Company recognises the importance of Shareholders' privacy and will not disclose Shareholders' information without their consent, unless required by law to do so.

## SHAREHOLDERS' COMMUNICATION CHANNELS

The Policy provides the following communication channels to shareholders:

### Television Broadcasts Limited

Shareholders' enquiries should be sent via email [companysecretary@tvb.com.hk](mailto:companysecretary@tvb.com.hk) to the Company Secretary.

### Share Registrars and Transfer Office

Computershare Hong Kong Investor Services Limited

Address: 17M Floor, Hopewell Centre,  
183 Queen's Road East,  
Wan Chai, Hong Kong

Telephone: (852) 2862 8555

Fax: (852) 2865 0990 / 2529 6087

email: [hkinfo@computershare.com.hk](mailto:hkinfo@computershare.com.hk)

## INVESTOR RELATIONS

The Company devotes substantial resources in ensuring that its dissemination of details of major activities, price sensitive information and transactions is in full compliance with the Listing Rules. The Company has designated key officers to communicate with institutional shareholders and analysts ensuring consistency of information. Through one-on-one meetings and presentations, the Company keeps the investment community informed of its latest developments.

During the year, 101 meeting and conference calls, 32 overseas roadshows, 12 post-results briefing and meetings, and 8 investor conference / forums were attended by the Company.

## CHANGE TO CONSTITUTIONAL DOCUMENT AND SIZE OF TRADING BOARD LOT

On 16 May 2012, the Company had, by passing a special resolution at the 2012 AGM, amended certain provisions in the Articles following the amendments to the Listing Rules relating to the Corporate Governance Code and associated Listing Rules which took effect on 1 January 2012 and 1 April 2012, in order to bring them in line with the Listing Rules.

On 18 January 2013, the Company announced that the board lot size of the shares of HK\$0.05 each in the capital of the Company ("Shares") for trading on the Stock Exchange will be reduced from 1,000 Shares to 100 Shares with effect from 8 February 2013. The change in board lot size will reduce the board lot value. The Board is of the view that the reduction in board lot size of the Shares may enable more investors who are interested in the Company to buy the Shares on the Stock Exchange, which may improve the liquidity of the Shares and broaden the Company's shareholder base. The change in board lot size will not affect any of the relative rights of the shareholders of the Company. The Board considers that the change in board lot size is in the interest of the Company and its shareholders as a whole.

On behalf of the Board

**Norman Leung Nai Pang**  
Executive Chairman

Hong Kong, 27 March 2013

# FINANCIAL INFORMATION

## FIVE-YEAR FINANCIAL REVIEW

	2012 HK\$'mil	2011 HK\$'mil	2010 HK\$'mil	2009 HK\$'mil	2008 HK\$'mil
Turnover	5,448	5,209	4,675	3,983	4,407
Profit before income tax	2,139	2,097	1,811	1,221	1,286
Income tax expense	403	537	479	321	230
Profit attributable to equity holders of the Company	1,730	1,556	1,330	900	1,055
Earnings per share	HK\$3.95	HK\$3.55	HK\$3.04	HK\$2.06	HK\$2.41
Property, plant and equipment	2,814	2,352	2,489	2,549	2,532
Investment properties	13	12	–	–	–
Land use rights	71	56	–	–	–
Goodwill	176	171	176	163	161
Interests in associates	649	529	581	676	376
Other non-current assets	34	59	121	26	52
Current assets	5,965	5,656	4,666	3,629	3,621
Current liabilities	(1,496)	(1,359)	(1,134)	(827)	(678)
	<b>8,226</b>	<b>7,476</b>	<b>6,899</b>	<b>6,216</b>	<b>6,064</b>
Share capital	22	22	22	22	22
Reserves	7,779	7,042	6,439	5,771	5,586
Shareholders' funds	7,801	7,064	6,461	5,793	5,608
Non-controlling interests	86	30	27	25	26
Non-current liabilities	339	382	411	398	430
	<b>8,226</b>	<b>7,476</b>	<b>6,899</b>	<b>6,216</b>	<b>6,064</b>

The figures for the years 2008 and 2009 have been restated following the adoption of HKAS 17 (amendment) "Leases".

# INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

## TO THE SHAREHOLDERS OF TELEVISION BROADCASTS LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Television Broadcasts Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 82 to 147, which comprise the consolidated and Company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 27 March 2013

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*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	2,813,832	2,352,012
Investment properties	7	12,848	11,821
Land use rights	8	71,470	55,614
Goodwill	9	175,545	170,525
Interests in jointly controlled entities	11	15,533	16,604
Interests in associates	12	648,947	529,112
Available-for-sale financial assets	13	3	3
Deferred income tax assets	22	18,493	26,050
Prepayment	15	–	16,695
Total non-current assets		3,756,671	3,178,436
<b>Current assets</b>			
Programmes and film rights		368,004	336,911
Stocks	14	13,940	13,122
Trade and other receivables, prepayments and deposits	15	1,970,481	1,605,239
Tax recoverable		800	461
Pledged bank deposits	16	7,230	7,316
Bank deposits maturing after three months		435,099	397,060
Cash and cash equivalents	17	3,169,247	3,295,584
Total current assets		5,964,801	5,655,693
<b>Total assets</b>		<b>9,721,472</b>	<b>8,834,129</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	18	21,900	21,900
Other reserves	19	863,623	807,568
Retained earnings			
– Proposed final dividend	30	876,000	766,500
– Others		6,039,731	5,467,480
		7,801,254	7,063,448
<b>Non-controlling interests</b>		<b>86,084</b>	<b>30,044</b>
<b>Total equity</b>		<b>7,887,338</b>	<b>7,093,492</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowing	21	180,088	197,153
Deferred income tax liabilities	22	152,966	179,779
Retirement benefit obligations	23	5,226	5,189
Total non-current liabilities		338,280	382,121

	Note	2012 HK\$'000	2011 HK\$'000
<b>Current liabilities</b>			
Trade and other payables and accruals	20	995,876	896,693
Current income tax liabilities		474,739	437,589
Borrowing	21	25,239	24,234
Total current liabilities		1,495,854	1,358,516
<b>Total liabilities</b>		1,834,134	1,740,637
<b>Total equity and liabilities</b>		9,721,472	8,834,129
<b>Net current assets</b>		4,468,947	4,297,177
<b>Total assets less current liabilities</b>		8,225,618	7,475,613

The consolidated financial statements on pages 82 to 147 were approved by the Board of Directors on 27 March 2013 and were signed on its behalf.

**Norman Leung Nai Pang**  
Director

**Mark Lee Po On**  
Director

The notes on pages 90 to 147 are an integral part of these consolidated financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	1,409,958	1,399,757
Investment properties	7	2,869	–
Land use rights	8	18,650	–
Interests in subsidiaries	10	986,665	715,555
Interests in jointly controlled entities	11	26,231	26,231
Interests in associates	12	642,176	529,112
Prepayment	15	–	16,695
Total non-current assets		3,086,549	2,687,350
<b>Current assets</b>			
Programmes and film rights		337,767	306,855
Stocks	14	4,456	3,621
Trade and other receivables, prepayments and deposits	15	1,151,023	913,199
Bank deposits maturing after three months		237,848	243,056
Cash and cash equivalents	17	2,327,844	2,484,997
Total current assets		4,058,938	3,951,728
<b>Total assets</b>		<b>7,145,487</b>	<b>6,639,078</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	18	21,900	21,900
Other reserves	19	712,144	712,144
Retained earnings			
– Proposed final dividend	30	876,000	766,500
– Others		4,896,657	4,144,389
<b>Total equity</b>		<b>6,506,701</b>	<b>5,644,933</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	22	70,753	68,298
Total non-current liabilities		70,753	68,298

	Note	2012 HK\$'000	2011 HK\$'000
<b>Current liabilities</b>			
Trade and other payables and accruals	20	542,107	850,256
Current income tax liabilities		25,926	75,591
Total current liabilities		568,033	925,847
<b>Total liabilities</b>		638,786	994,145
<b>Total equity and liabilities</b>		7,145,487	6,639,078
<b>Net current assets</b>		3,490,905	3,025,881
<b>Total assets less current liabilities</b>		6,577,454	5,713,231

The consolidated financial statements on pages 82 to 147 were approved by the Board of Directors on 27 March 2013 and were signed on its behalf.

**Norman Leung Nai Pang**  
Director

**Mark Lee Po On**  
Director

The notes on pages 90 to 147 are an integral part of these consolidated financial statements.

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
Turnover	5	5,447,884	5,208,865
Cost of sales		(2,023,479)	(1,807,293)
<b>Gross profit</b>		<b>3,424,405</b>	<b>3,401,572</b>
Other revenues	5	73,250	57,874
Selling, distribution and transmission costs		(554,701)	(530,852)
General and administrative expenses		(702,502)	(629,780)
Other gains, net		3,499	1,239
Impairment loss on loan to and trade receivables from an associate	12,15	(100,000)	(135,000)
Finance costs	26	(4,067)	(4,128)
Share of losses of jointly controlled entities		(1,071)	(5,989)
Share of profits/(losses) of associates		112	(57,963)
<b>Profit before income tax</b>	24	<b>2,138,925</b>	<b>2,096,973</b>
Income tax expense	27	(402,996)	(537,438)
<b>Profit for the year</b>		<b>1,735,929</b>	<b>1,559,535</b>
<b>Profit attributable to:</b>			
Equity holders of the Company	28	1,730,159	1,555,585
Non-controlling interests		5,770	3,950
		<b>1,735,929</b>	<b>1,559,535</b>
<b>Earnings per share (basic and diluted) for profit attributable to equity holders of the Company during the year</b>	29	<b>HK\$3.95</b>	<b>HK\$3.55</b>
<b>Dividends</b>	30	<b>1,138,800</b>	<b>963,600</b>

The notes on pages 90 to 147 are an integral part of these consolidated financial statements.



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 HK\$'000	2011 HK\$'000
<b>Profit for the year</b>	<b>1,735,929</b>	1,559,535
Other comprehensive income: Currency translation differences	37,984	(33,414)
<b>Other comprehensive income for the year</b>	<b>37,984</b>	(33,414)
<b>Total comprehensive income for the year</b>	<b>1,773,913</b>	1,526,121
Total comprehensive income attributable to: Equity holders of the Company	1,768,136	1,522,384
Non-controlling interests	5,777	3,737
<b>Total comprehensive income for the year</b>	<b>1,773,913</b>	1,526,121

The notes on pages 90 to 147 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Note	Attributable to equity holders of the Company			Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
		Share capital HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000			
Balance at 1 January 2011		21,900	818,244	5,620,720	6,460,864	27,154	6,488,018
Comprehensive income:							
Profit for the year		–	–	1,555,585	1,555,585	3,950	1,559,535
Other comprehensive income:							
Currency translation differences		–	(33,201)	–	(33,201)	(213)	(33,414)
Total comprehensive income		–	(33,201)	1,555,585	1,522,384	3,737	1,526,121
Transactions with owners:							
Transferred to legal reserve	19(a)	–	22,525	(22,525)	–	–	–
2010 final dividend paid		–	–	(722,700)	(722,700)	(847)	(723,547)
2011 interim dividend paid		–	–	(197,100)	(197,100)	–	(197,100)
Total transactions with owners		–	22,525	(942,325)	(919,800)	(847)	(920,647)
Balance at 31 December 2011		21,900	807,568	6,233,980	7,063,448	30,044	7,093,492
Balance at 1 January 2012		21,900	807,568	6,233,980	7,063,448	30,044	7,093,492
Comprehensive income:							
Profit for the year		–	–	1,730,159	1,730,159	5,770	1,735,929
Other comprehensive income:							
Currency translation differences		–	37,977	–	37,977	7	37,984
Total comprehensive income		–	37,977	1,730,159	1,768,136	5,777	1,773,913
Transactions with owners:							
Transferred to legal reserve	19(a)	–	19,108	(19,108)	–	–	–
2011 final dividend paid		–	–	(766,500)	(766,500)	(762)	(767,262)
2012 interim dividend paid		–	–	(262,800)	(262,800)	–	(262,800)
Capital injection by non-controlling interests		–	–	–	–	55,080	55,080
Change in ownership interests in a subsidiary without change of control		–	(1,030)	–	(1,030)	(4,055)	(5,085)
Total transactions with owners		–	18,078	(1,048,408)	(1,030,330)	50,263	(980,067)
<b>Balance at 31 December 2012</b>		<b>21,900</b>	<b>863,623</b>	<b>6,915,731</b>	<b>7,801,254</b>	<b>86,084</b>	<b>7,887,338</b>

The notes on pages 90 to 147 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	31	2,120,953	2,328,710
Interest paid		(4,081)	(4,119)
Hong Kong tax paid		(307,076)	(312,108)
Overseas tax paid		(78,236)	(125,769)
Net cash generated from operating activities		1,731,560	1,886,714
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment, investment properties and land use rights		(687,954)	(143,311)
Funds advanced to a jointly controlled entity		–	(10,000)
Increased investment in an associate		(194,215)	(13,726)
Increase in bank deposits maturing after three months		(38,039)	(185,412)
Capital injection by non-controlling interests		55,080	–
Proceeds from sales of property, plant and equipment		891	289
Interest received		57,533	33,983
Net cash used in investing activities		(806,704)	(318,177)
<b>Cash flows from financing activities</b>			
Proceeds from short-term bank loan		315,220	–
Repayments of short-term bank loan		(315,220)	–
Repayments of long-term bank loan		(24,843)	(24,987)
Acquisition of additional shares from non-controlling interests		(5,085)	–
Decrease/(increase) in pledged bank deposits		86	(431)
Dividends paid to equity holders of the Company		(1,029,300)	(919,800)
Dividends paid to non-controlling interests		(762)	(847)
Net cash used in financing activities		(1,059,904)	(946,065)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(135,048)</b>	<b>622,472</b>
Cash and cash equivalents at 1 January		3,295,584	2,679,151
Effect of foreign exchange rate changes		8,711	(6,039)
<b>Cash and cash equivalents at 31 December</b>		<b>3,169,247</b>	<b>3,295,584</b>

The notes on pages 90 to 147 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

Television Broadcasts Limited (the "Company") and its subsidiaries are collectively referred to as the Group in the consolidated financial statements. The principal activities of the Company are terrestrial television broadcasting, together with programme production and other television-related activities. The principal activities of the principal subsidiaries are detailed in Note 37.

The Company is a limited liability company incorporated and listed in Hong Kong. Its registered office is at TVB City, 77 Chun Choi Street, Tseung Kwan O Industrial Estate, Kowloon, Hong Kong.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2013.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis and 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.

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). They have been prepared under the historical cost convention, except that some financial assets are stated at their fair values as explained in Note 2.10.

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 especially significant to the consolidated financial statements, are disclosed in Note 4.

#### (a) New or revised standards adopted by the Group

The Group has adopted the following new or revised standards, which are mandatory for the financial year ended 31 December 2012 and are relevant to its operations.

* HKAS 1 (amendment)	Presentation of financial statements
* HKFRS 7 (amendment)	Financial instruments: disclosures
HKAS 12 (amendment)	Income taxes

\* representing amendments to existing HKFRS under the HKICPA Annual Improvements Project published in 2011

The adoption of these new or revised standards has not had a material financial effect on the Group's reported results and financial position for current or prior years.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

#### (b) Relevant standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group

The following relevant standards and amendments have been published and are mandatory for the first time for the Group's accounting periods beginning on or after 1 January 2013 or later periods, but the Group has not early adopted them:

HKAS 1 (revised)	Presentation of financial statements
HKAS 19 (revised)	Employee benefits
HKAS 27 (revised)	Separate financial statements
HKAS 28 (revised)	Associates and joint ventures
HKAS 32 (amendment)	Financial instruments: presentation
HKFRS 7 (amendment)	Financial instruments: disclosures
HKFRS 9	Financial instruments
HKFRS 10	Consolidated financial statements
HKFRS 12	Disclosures of interests in other entities
HKFRS 13	Fair value measurement
HKFRS 10, HKFRS 11 and HKFRS 12 (amendment)	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: transition guidance

The Group is in the process of making an assessment of the impact of these relevant standards and amendments to the Group's results and financial position in the period of initial application. On a preliminary basis, it has concluded that the adoption of these standards and amendments is unlikely to have a significant impact on the Group's results of operations and financial position.

### 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of 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. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the aggregate fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Consolidation (continued)

#### (a) Subsidiaries (continued)

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the aggregate fair value of the identifiable net assets acquired is recorded as goodwill (Note 2.8). If the consideration is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

All significant inter-company transactions and balances within the Group are eliminated on consolidation. The financial statements of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### (b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases of additional interests from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset, as appropriate. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the income statement where appropriate.

#### (c) Associates and jointly controlled entities

An associate is an entity over which the Group has significant influence but not control, generally accompanying a holding of between 20% and 50% of the voting rights.

A jointly controlled entity is an entity held 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 consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or jointly controlled entity equals or exceeds its interests in the associate or jointly controlled entity, including any unsecured receivables or loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate and jointly controlled entity.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Consolidation (continued)

#### (c) Associates and jointly controlled entities (continued)

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. The financial statements of associates and jointly controlled entities have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

In the Company's statement of financial position, the interests in associates and jointly controlled entities are stated at cost less provision for impairment losses (Note 2.9). The results of the associates and jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

### 2.3 Segment reporting

The Group reports its operating segments based on the internal reports reviewed by the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance.

### 2.4 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 the Group's 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 or valuation where items are remeasured. 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 consolidated income statement.

#### (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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (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 in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowing, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Property, plant and equipment

Leasehold land classified as finance leases and all other property, plant and equipment, comprising freehold land and buildings, leasehold improvements, studio, broadcasting and transmitting equipment, furniture and fixtures and motor vehicles, are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. Amortisation of leasehold land classified as finance leases commences from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance leases and depreciation on other property, plant and equipment are calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold land classified as finance leases	Shorter of remaining lease term or useful life
Buildings	2.5% – 5%
Leasehold improvements	Over the unexpired term of the lease
Studio, broadcasting and transmitting equipment	10% – 20%
Furniture, fixtures and equipment	5% – 25%
Motor vehicles	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

### 2.6 Investment properties

Investment properties are defined as properties held to earn rentals or capital appreciation or both. The Group has applied the cost model to its investment property. The investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. The cost of investment property comprises its purchase price and any directly attributable expenditure. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of 20 years. The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at the end of each reporting period. The effects of any revision are included in the income statement when the changes arise.

### 2.7 Land use rights

The upfront prepayments made for land use rights are expensed in the consolidated income statement on a straight-line basis over the period of the rights.



## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 Goodwill

Goodwill represents the excess of the cost of an acquisition of a subsidiary or an associate over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognised in the statement of financial position (Note 2.2(a)). Goodwill on acquisitions of associates is included in interests in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. The determination of 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 identified according to the operating segment.

### 2.9 Impairment of investments in subsidiaries, associates, jointly controlled entities and other non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Other assets 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 an 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 its 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). Non-financial assets other than goodwill that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.10 Financial assets

#### Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose 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) 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 those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the statement of financial position (Notes 2.14 and 2.15).

#### (b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified as loans and receivables. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

#### Recognition and measurement

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. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.10 Financial assets (continued)

#### Recognition and measurement (continued)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the consolidated 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.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

#### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired or have legally transferred and the Group has transferred substantially all the risks and rewards of the financial asset.

### 2.11 Impairment of financial assets

#### (a) Loans and receivables

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A provision for impairment of the Group's 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 original effective interest rate. The amount of the provision is recognised in the consolidated income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivable. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement.

#### (b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period 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 consolidated income statement – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.12 Programmes and film rights

Programmes and film rights are stated at cost less amounts expensed and any provision considered necessary by management. Their costs are amortised over the shorter of their economic lives and the underlying licence period systematically by reference to projected revenues.

#### (a) Programme cost

Programme cost comprises direct expenditure and an appropriate proportion of production overheads. The cost of programmes is apportioned between the domestic terrestrial market and the 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.

#### (b) Film rights

Film rights are expensed in accordance with a formula computed to write off the cost over the contracted number of transmissions.

### 2.13 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 sale proceeds less estimated selling expenses.

### 2.14 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.

### 2.15 Cash and cash equivalents

Cash and cash equivalents includes 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.

### 2.16 Share capital

Ordinary shares are classified as equity.

### 2.17 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.

### 2.18 Borrowing

The Group's borrowing is recognised initially at fair value, net of transaction costs incurred. The borrowing is subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowing using the effective interest method.

Borrowing is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries, associates and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, 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 end of the reporting period are used to determine deferred income tax.

Deferred income tax assets are recognised only 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 interests in subsidiaries, associates and jointly controlled entities, except for deferred income tax liabilities where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

### 2.20 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 end of the reporting period.

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 who are 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\$1,250\* 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 who joined after 1 June 2003, full time artistes and temporary staff is 5% of individual’s “relevant income” with a maximum amount of HK\$1,250\* 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). The employer’s voluntary contributions shall be refunded to the Group according to the vesting scale when eligible members leave employment prior to vesting fully in the MPF Scheme.

The contributions are recognised as employee benefit expense when they are due.

\* The maximum amount increased from HK\$1,000 to HK\$1,250 with effect from 1 June 2012.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.20 Employee benefits (continued)

#### (b) Pension obligations (continued)

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.

Employees located in Taiwan were 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 were 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 were 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.

The liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period 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 cost 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 and 10% of the present value of the defined benefit obligation are recognised in the consolidated income statement over the employees' expected average remaining working lives.

Past-service costs are recognised immediately as expenses, 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.

### 2.21 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.22 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.

### 2.23 Revenue recognition

Advertising income net of agency deductions is recognised (i) when the advertisements are telecast on television, delivered through internet and mobile platforms or published in a magazine; or (ii) ratably over the displayed period of the contract when the advertisements are placed on the Group's website and mobile platforms.

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 licensing of content to mobile devices and website portals is recognised when the services are rendered and when the right to receive payment is established. Distribution income from video sell through is recognised upon delivery of the video.

Subscription income from operation of satellite pay television networks is recognised on a straight-line basis over the contract period which generally coincides with 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 statement of financial position.

Income from sales of decoders and sales of magazines is 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.

### 2.24 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 to the consolidated 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 consolidated 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 (as lessee)

Leases of land 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 lower of the fair value of the leased land and the present value of the minimum lease payment.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.25 Related parties

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of the parent of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### 2.26 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 or Directors, where appropriate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. FINANCIAL RISK MANAGEMENT

### Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity 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, that are in a currency that is not the entity's 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 seeking contracts effectively denominated in HK dollars and/or US dollars where possible and economically favourable. The Group currently does not have a foreign currency hedging policy but manages its exposure through closely monitoring the movement of the foreign currency rates and will consider to enter into foreign exchange forward contracts to reduce the exposure if required. The Group does not conduct any foreign currency speculative activities.

The following table summarises the change in the Group's profit after taxation in response to reasonably possible changes in foreign exchange rates on currencies to which the Group have exposure at the end of the reporting period and that all other variables remain constant. Such exposure relates to the portion of trade receivables, bank deposits, cash and bank balances and trade payables.

	2012		2011	
	Changes in foreign exchange rates %	Increase/ (decrease) in profit after taxation HK\$'000	Changes in foreign exchange rates %	Increase/ (decrease) in profit after taxation HK\$'000
Foreign currency against Hong Kong dollars				
Renminbi	1% (1%)	1,766 (1,766)	5% (5%)	10,992 (10,992)
Malaysian Ringgit	6% (6%)	3,304 (3,304)	5% (5%)	2,970 (2,970)
Australian Dollars	5% (5%)	3,131 (3,131)	8% (8%)	3,217 (3,217)



### 3. FINANCIAL RISK MANAGEMENT (continued)

#### Financial risk factors (continued)

##### (a) Market risk (continued)

###### (ii) Interest rate risk

The Group's principal interest bearing assets are a loan to an associate and cash balances and bank deposits. The tenor of the bank deposits is usually less than one year. The Group actively manages cash balances and deposits by comparing quotations from banks, with a view to selecting terms which are most favourable to the Group.

The Group's interest rate risk also arises from bank borrowing which is at floating interest rates.

Sensitivity analysis has been conducted on the loan to an associate, bank deposits and bank borrowing. If interest rates had been 100 basis-points higher/lower with all other variables held constant, the Group's profit after taxation for the year would have been increased/decreased by HK\$6,112,000 (2011: HK\$6,078,000) and HK\$32,840,000 (2011: HK\$33,631,000) in respect of loan to an associate and bank deposits respectively and the Group's profit after taxation for the year would have been decreased/increased by HK\$1,704,000 (2011: HK\$1,838,000) in respect of bank borrowing.

###### (iii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified in the consolidated statement of financial position as available-for-sale financial assets. The Group is not exposed to commodity price risk.

##### (b) Credit risk

The Group's credit risk is primarily attributable to its loan to an associate (Note 4(c)), credit sales and bank balances and bank deposits. The Group has implemented policies to assess the credit worthiness of customers, and to conduct credit reviews and monitoring procedures that include a formal collection process. In addition, the Group reviews the recoverable amount of each individual trade debtor and associate at the end of each reporting period to ensure that impairment has adequately been provided for doubtful debts. The credit risk on bank balances is limited as all deposits are placed with banks with acceptable credit ratings.

##### (c) Liquidity risk

The Group employs cash flow forecasting to manage liquidity risk by forecasting the amount of cash required (including working capital, loan repayments, dividend payments and potential new investments) and by maintaining sufficient cash and adequate undrawn banking facilities to ensure our funding requirements are met.

The Group's financial liabilities include trade payables, other payables and accruals. The trade payables and other payables are generally on credit terms of one to three months after the invoice date. For accruals, there are generally no specified contractual maturities and amounts owing are paid upon the counterparty's formal notification, of which should be within 12 months from the end of the reporting period. The repayment schedule of bank borrowing is set out in Note 21.

#### Capital risk factors

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. FINANCIAL RISK MANAGEMENT (continued)

### Capital risk factors (continued)

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt is calculated as total borrowing (including current and non-current borrowing as shown in the consolidated statement of financial position). Total capital is calculated as total equity, as shown in the consolidated statement of financial position.

The gearing ratios at 31 December 2012 and 2011 were as follows:

	Group	
	2012	2011
	HK\$'000	HK\$'000
Total borrowing	205,327	221,387
Total equity	7,887,338	7,093,492
Gearing ratio	2.6%	3.1%

### Fair value estimation

Financial instruments that are measured in the statement of financial position at fair value are analysed below by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2012, the fair value measurement of the Group's only financial assets – available-for-sale financial assets is classified in level 3 (Note 13).

## 4 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 (Note 9) in accordance with the accounting policy stated in Note 2.8. 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.

#### 4 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 is called into doubt, 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) Loan to and trade receivables from associates

The Group reviews its loan to and trade receivables from associates to assess impairment at least half yearly. The impairment losses of loan to and trade receivables from associates are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

The Group's assumptions on the recoverability of the loan (including loan interest) to and trade receivables from TVB Pay Vision Limited ("TVBPV", now known as TVB Network Vision Limited from 5 March 2013) in the amount of HK\$731,993,000 and HK\$420,675,000 respectively, are based on (i) the Group's commitment to support, in cash or in kind, the businesses of TVBPV for the long term, and (ii) the ability of TVBPV to maintain its growth in subscribers. The Group believes that the impairment loss of HK\$510,000,000 (2011: HK\$410,000,000) against its loan and trade receivables (Note 12 and 15) is adequate. If the financial conditions of TVBPV were to deteriorate, impacting their ability to make payments, additional impairment losses may be required.

Sensitivity analysis has been conducted on the loan to an associate. If the year-on-year growth in subscriber numbers had been 10% higher/lower than has been assumed with all other variables held constant, the Group's impairment loss on loan to an associate for the year would have been decreased by HK\$100,000,000 and increased by HK\$120,000,000 respectively.

##### (d) 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.

##### (e) Income taxes

As detailed in Note 27, the Inland Revenue Department of Hong Kong ("IRD") had initiated a tax audit and issued protective profits tax assessment notices on the profits generated by the Group's programme licensing and distribution business carried out overseas. A total provision of HK\$336,000,000 for the years of assessment from 1998/99 to 2011/12 has been made against those exposures including other related costs. Due to the uncertainty inherent in the tax audit where the outcome of the tax audit is different from the amounts that provided, such differences would impact the income tax provisions in the year in which such determination is made.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### (f) Deferred income tax assets

Deferred income tax assets are recognised for all temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available in the future against which the temporary differences, the carry forward of unused tax credits and unused tax losses could be utilised.

Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the end of the reporting period and which are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Where the actual or expected tax positions in future are different from the original estimate, such difference will impact the recognition of deferred income tax assets and income tax charge in the period in which such estimate has been changed.

## 5 TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in terrestrial television broadcasting with programme production, programme licensing and distribution, overseas satellite pay TV operations, Taiwan operations, channel operations and other related activities.

Turnover comprises advertising income net of agency deductions, licensing income, subscription income, as well as other income from sales of decoders, sales of magazines, programmes/commercial production income, management fee income, facility rental income and other service fee income.

Other revenues comprise mainly interest income and others.

The amount of each significant category of revenue recognised during the year is as follows:

	2012 HK\$'000	2011 HK\$'000
Turnover		
Advertising income, net of agency deductions	3,729,020	3,403,988
Licensing income	849,939	917,554
Subscription income	507,164	535,134
Others	430,201	426,427
	5,516,324	5,283,103
Less: Withholding tax	(68,440)	(74,238)
	5,447,884	5,208,865
Other revenues		
Interest income	59,163	42,695
Others	14,087	15,179
	73,250	57,874
	5,521,134	5,266,739

## 5 TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION (continued)

The Group reports its operating segments based on the internal reports reviewed by the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. As programmes being produced for the Hong Kong pay TV channels are increasingly shared between terrestrial TV and pay TV channels in Hong Kong, and advertising packages covering both terrestrial TV and pay TV channels are increasingly offered to advertisers, the segments of Hong Kong terrestrial TV broadcasting and channel supply to Hong Kong pay TV market have been combined and presented as one to the chief operating decision maker during the year for the purpose of allocating resources, producing channel contents and assessing performance. Accordingly, the previous "Hong Kong terrestrial TV broadcasting" operating segment has been expanded to include the "Channel supply to Hong Kong pay TV platform", previously analysed under Channel Operations, and has been renamed as "Hong Kong TV broadcasting". Corresponding comparative figures have been adjusted to conform with the re-classification. The Group has six reportable segments as follows:

- |  |   |  |
|--|---|--|
| (a) Hong Kong TV broadcasting            | – | broadcasting of television programmes on terrestrial TV platform, broadcasting of commercials on terrestrial and pay TV platforms and production of programmes |
| (b) Programme licensing and distribution | – | distribution of television programmes and channels to telecast, video and new media operators  |
| (c) Overseas satellite pay TV operations | – | provision of satellite pay television services to subscribers in USA, Europe and Australia   |
| (d) Taiwan operations                    | – | production of programmes and distribution of television channels to pay television operators in Taiwan   |
| (e) Channel operations                   | – | compilation and distribution of television channels in Mainland China, Malaysia, Singapore and other countries   |
| (f) Other activities                     | – | provision of contents to mobile devices, website portal, magazine publication and other related services   |

The segments are managed separately according to the nature of products and services provided. Segment performance is evaluated based on operating results which in certain respect, as explained in the table below, is measured differently from the profit before income tax in the consolidated financial statements.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5 TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION (continued)

An analysis of the Group's turnover and results for the year by operating segments is as follows:

	Hong Kong TV broadcasting HK\$'000	Programme licensing and distribution HK\$'000	Overseas satellite pay TV operations HK\$'000	Taiwan operations HK\$'000	Channel operations HK\$'000	Other activities HK\$'000	Elimination HK\$'000	Total HK\$'000
For the year ended 31 December 2012								
Turnover								
External customers	3,142,639	804,856	388,312	830,052	100,248	181,777	-	5,447,884
Inter-segment	23,917	135,336	370	3,846	16,234	8,121	(187,824)	-
Total	3,166,556	940,192	388,682	833,898	116,482	189,898	(187,824)	5,447,884
Reportable segment profit excluding impairment loss	1,205,018	611,814	82,757	273,759	30,471	36,065	-	2,239,884
Impairment loss on loan to and trade receivables from an associate	(100,000)	-	-	-	-	-	-	(100,000)
Reportable segment profit including impairment loss	1,105,018	611,814	82,757	273,759	30,471	36,065	-	2,139,884
Interest income	48,856	6,350	182	1,804	-	1,971	-	59,163
Finance costs	-	-	-	(4,067)	-	-	-	(4,067)
Depreciation and amortisation	(198,369)	(2,606)	(5,203)	(42,487)	(124)	(18,374)	-	(267,163)
Additions to non-current assets*	215,112	5,235	8,460	447,907	377	10,863	-	687,954

\* Non-current assets comprise goodwill, property, plant and equipment, investment properties and land use rights (including prepayment related to capital expenditure if any). The amount of HK\$16,695,000 transferred from prepayment (refer to Note 15(a)) has been excluded since it had already been reported within additions to non-current assets in the year 2011.

For the year ended 31 December 2011								
Turnover								
External customers	2,965,342	768,756	388,178	829,526	107,226	149,837	-	5,208,865
Inter-segment	21,795	133,899	375	4,647	15,031	7,355	(183,102)	-
Total	2,987,137	902,655	388,553	834,173	122,257	157,192	(183,102)	5,208,865
Reportable segment profit excluding impairment loss	1,247,854	598,027	99,886	278,368	41,606	30,184	-	2,295,925
Impairment loss on loan to and trade receivables from an associate	(135,000)	-	-	-	-	-	-	(135,000)
Reportable segment profit including impairment loss	1,112,854	598,027	99,886	278,368	41,606	30,184	-	2,160,925
Interest income	35,975	2,890	189	1,144	-	2,497	-	42,695
Finance costs	-	-	-	(4,128)	-	-	-	(4,128)
Depreciation and amortisation	(170,414)	(2,594)	(4,373)	(43,604)	(100)	(13,994)	-	(235,079)
Additions to non-current assets#	102,776	2,077	6,972	21,400	28	10,058	-	143,311

# Non-current assets comprise goodwill, property, plant and equipment, investment properties and land use rights (including prepayment related to capital expenditure if any). The amount of HK\$74,512,000 transferred from prepayment has been excluded since it had already been reported within additions to non-current assets in the year 2010.

## 5 TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION (continued)

A reconciliation of reportable segment profit to profit before income tax is provided as follows:

	2012 HK\$'000	2011 HK\$'000
Reportable segment profit including impairment loss	2,139,884	2,160,925
Share of losses of jointly controlled entities	(1,071)	(5,989)
Share of profits/(losses) of associates	112	(57,963)
Profit before income tax	<b>2,138,925</b>	2,096,973

No single customer accounted for 10% or more of the total revenue for the years ended 31 December 2011 and 2012.

An analysis of the Group's turnover from external customers for the year by geographical location is as follows:

	2012 HK\$'000	2011 HK\$'000
Hong Kong	3,323,798	3,116,792
Taiwan	833,101	834,284
USA and Canada	241,869	240,274
Australia	128,039	128,478
Europe	63,132	67,748
Mainland China	280,704	263,606
Malaysia and Singapore	532,746	523,311
Other countries	44,495	34,372
	<b>5,447,884</b>	5,208,865

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 PROPERTY, PLANT AND EQUIPMENT

### (a) Group

	Construction in progress HK\$'000	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
<b>Cost</b>							
At 1 January 2011	-	2,077,982	27,307	2,200,785	739,390	46,974	5,092,438
Exchange differences	-	(37,390)	(65)	(18,048)	(1,334)	(513)	(57,350)
Additions	-	11,984	1,128	95,264	26,259	97	134,732
Disposals	-	-	-	(60,233)	(6,513)	-	(66,746)
At 31 December 2011	-	2,052,576	28,370	2,217,768	757,802	46,558	5,103,074
At 1 January 2012	-	2,052,576	28,370	2,217,768	757,802	46,558	5,103,074
Exchange differences	-	42,561	74	17,437	1,906	561	62,539
Additions	13,315	433,090	4,855	190,985	34,079	6,710	683,034
Disposals	-	-	-	(90,356)	(7,949)	(5,023)	(103,328)
Transferred from investment properties (Note 7)	-	1,449	-	-	-	-	1,449
At 31 December 2012	13,315	2,529,676	33,299	2,335,834	785,838	48,806	5,746,768
<b>Accumulated depreciation and impairment</b>							
At 1 January 2011	-	376,817	18,980	1,761,851	402,249	43,506	2,603,403
Exchange differences	-	(2,547)	(62)	(14,774)	(920)	(446)	(18,749)
Charge for the year	-	59,908	3,588	116,243	51,907	1,226	232,872
Written back on disposals	-	-	-	(60,089)	(6,375)	-	(66,464)
At 31 December 2011	-	434,178	22,506	1,803,231	446,861	44,286	2,751,062
At 1 January 2012	-	434,178	22,506	1,803,231	446,861	44,286	2,751,062
Exchange differences	-	2,856	37	14,694	1,431	458	19,476
Charge for the year	-	60,135	5,953	139,226	57,050	1,423	263,787
Written back on disposals	-	-	-	(88,649)	(7,834)	(5,023)	(101,506)
Transferred from investment properties (Note 7)	-	117	-	-	-	-	117
At 31 December 2012	-	497,286	28,496	1,868,502	497,508	41,144	2,932,936
<b>Net book value</b>							
At 31 December 2012	13,315	2,032,390	4,803	467,332	288,330	7,662	2,813,832
At 31 December 2011	-	1,618,398	5,864	414,537	310,941	2,272	2,352,012



## 6 PROPERTY, PLANT AND EQUIPMENT (continued)

### (a) Group (continued)

Notes:

- (i) Property, plant and equipment includes freehold land outside Hong Kong at cost of HK\$814,861,000 (2011: HK\$369,193,000).
- (ii) No depreciation is provided for studio, broadcasting and transmitting equipment with cost of HK\$41,271,000 (2011: HK\$12,773,000) as they were not ready in use at the year end.
- (iii) At 31 December 2012, land and buildings with net book value of HK\$815,188,000 (2011: HK\$798,433,000) were pledged to secure loans and banking facilities granted to a subsidiary of the Group.
- (iv) At 31 December 2012, leasehold land held under finance leases and its net book value was analysed as follows:

	2012 HK\$'000	2011 HK\$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	189,011	193,358
Leases of over 50 years	5,673	5,837
	<b>194,684</b>	<b>199,195</b>

- (v) Construction in progress as at 31 December 2012 mainly comprised a building being constructed in Hong Kong.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 PROPERTY, PLANT AND EQUIPMENT (continued)

### (b) Company

	Construction in progress HK\$'000	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
<b>Cost</b>							
At 1 January 2011	-	1,156,760	6,034	1,597,543	626,019	33,074	3,419,430
Additions	-	-	60	74,107	11,817	97	86,081
Transferred to subsidiaries	-	-	-	(373)	(9)	-	(382)
Disposals	-	-	-	(13,460)	(2,322)	-	(15,782)
At 31 December 2011	-	1,156,760	6,094	1,657,817	635,505	33,171	3,489,347
At 1 January 2012	-	1,156,760	6,094	1,657,817	635,505	33,171	3,489,347
Additions	13,315	1,201	705	174,194	17,513	3,361	210,289
Disposals	-	-	-	(72,430)	(4,612)	(4,055)	(81,097)
At 31 December 2012	13,315	1,157,961	6,799	1,759,581	648,406	32,477	3,618,539
<b>Accumulated depreciation</b>							
At 1 January 2011	-	322,683	4,446	1,252,627	323,410	32,032	1,935,198
Charge for the year	-	42,304	801	88,258	38,656	395	170,414
Transferred to subsidiaries	-	-	-	(373)	(9)	-	(382)
Written back on disposals	-	-	-	(13,350)	(2,290)	-	(15,640)
At 31 December 2011	-	364,987	5,247	1,327,162	359,767	32,427	2,089,590
At 1 January 2012	-	364,987	5,247	1,327,162	359,767	32,427	2,089,590
Charge for the year	-	42,373	1,070	112,476	41,788	663	198,370
Written back on disposals	-	-	-	(70,768)	(4,556)	(4,055)	(79,379)
At 31 December 2012	-	407,360	6,317	1,368,870	396,999	29,035	2,208,581
<b>Net book value</b>							
At 31 December 2012	13,315	750,601	482	390,711	251,407	3,442	1,409,958
At 31 December 2011	-	791,773	847	330,655	275,738	744	1,399,757

#### Notes:

- (i) No depreciation is provided for studio, broadcasting and transmitting equipment with cost of HK\$41,271,000 (2011: HK\$12,773,000) as they were not ready in use at the year end.
- (ii) At 31 December 2012, leasehold land held under finance leases and its net book value was analysed as follows:

	2012 HK\$'000	2011 HK\$'000
Leases of between 10 to 50 years held in Hong Kong	189,011	193,358

- (iii) Construction in progress as at 31 December 2012 mainly comprised a building being constructed in Hong Kong.

## 7 INVESTMENT PROPERTIES

	Group HK\$'000	Company HK\$'000
<b>Cost</b>		
At 1 January 2011	–	–
Additions	11,639	–
Exchange differences	577	–
	<hr/>	<hr/>
At 31 December 2011	12,216	–
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
At 1 January 2012	12,216	–
Additions	2,965	2,869
Transferred to property, plant and equipment (Note 6(a))	(1,449)	–
Exchange differences	(6)	–
	<hr/>	<hr/>
<b>At 31 December 2012</b>	<b>13,726</b>	<b>2,869</b>
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Accumulated depreciation</b>		
At 1 January 2011	–	–
Charge for the year	387	–
Exchange differences	8	–
	<hr/>	<hr/>
At 31 December 2011	395	–
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
At 1 January 2012	395	–
Charge for the year	598	–
Transferred to property, plant and equipment (Note 6(a))	(117)	–
Exchange differences	2	–
	<hr/>	<hr/>
<b>At 31 December 2012</b>	<b>878</b>	<b>–</b>
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Net book value</b>		
<b>At 31 December 2012</b>	<b>12,848</b>	<b>2,869</b>
	<hr/>	<hr/>
At 31 December 2011	11,821	–
	<hr/>	<hr/>
<b>Fair values</b>		
<b>At 31 December 2012 (note (b))</b>	<b>13,197</b>	<b>2,232</b>
	<hr/>	<hr/>
At 31 December 2011	13,809	–
	<hr/>	<hr/>

### Notes:

- (a) During the year, certain properties with net book value of HK\$1,332,000 (2011: Nil) were reclassified as property, plant and equipment (Note 6(a)) due to a change in usage.
- (b) Net book value for the Company's investment property comprises of the purchase price and the directly attributable expenditure for the acquisition in December 2012. Variance between the net book value and the fair value estimate was arising from the directly attributable expenditure capitalised in the cost of the investment property and no impairment indicator was identified.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Leases of between 10 to 50 years held outside Hong Kong	71,470	55,614	18,650	–

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
At 1 January	55,614	–	–	–
Additions	18,650	54,757	18,650	–
Amortisation (Note 24)	(2,778)	(1,820)	–	–
Exchange differences	(16)	2,677	–	–
At 31 December	71,470	55,614	18,650	–

Note:

The additions for the year ended 31 December 2012 included a prepayment amounting to HK\$16,695,000 made in 2011 (Note 15(a)).

## 9 GOODWILL

	Group HK\$'000
<b>At 1 January 2011</b>	
Cost	181,734
Accumulated impairment	(5,894)
<b>Net book amount</b>	<b>175,840</b>
<b>Year ended 31 December 2011</b>	
Opening net book amount	175,840
Exchange differences	(5,315)
<b>Closing net book amount</b>	<b>170,525</b>
<b>At 31 December 2011</b>	
Cost	176,419
Accumulated impairment	(5,894)
<b>Net book amount</b>	<b>170,525</b>
<b>Year ended 31 December 2012</b>	
Opening net book amount	170,525
Exchange differences	5,020
<b>Closing net book amount</b>	<b>175,545</b>
<b>At 31 December 2012</b>	
Cost	181,439
Accumulated impairment	(5,894)
<b>Net book amount</b>	<b>175,545</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9 GOODWILL (continued)

### Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the operating segment.

An operating segment-level summary of the goodwill allocation is presented below:

	2012			2011		
	Overseas satellite pay TV operations HK\$'000	Taiwan operations HK\$'000	Total HK\$'000	Overseas satellite pay TV operations HK\$'000	Taiwan operations HK\$'000	Total HK\$'000
Europe	49,448	–	49,448	49,448	–	49,448
Taiwan	–	126,097	126,097	–	121,077	121,077
	49,448	126,097	175,545	49,448	121,077	170,525

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 assumed growth rate does not exceed the long-term average growth rate in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	Overseas satellite pay TV operations	Taiwan operations
	Europe	Taiwan
Gross margin	44%	44%
Growth rate	4%	4%
Discount rate	6%	5%

These assumptions have been used for the analysis of each CGU within the operating 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.

## 10 INTERESTS IN SUBSIDIARIES

	Company	
	2012 HK\$'000	2011 HK\$'000
Unlisted shares, at cost	78,454	11,135
Amounts due from subsidiaries (note)	908,211	704,420
	<b>986,665</b>	<b>715,555</b>

Note:

The amounts due from subsidiaries are unsecured and interest free, and have no fixed terms of repayment.

Details of the principal subsidiaries at 31 December 2012 are listed in Note 37.

## 11 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Investment cost (note (a))	–	–	–	–
Funds advanced (note (b))	26,231	26,231	26,231	26,231
Less: Accumulated share of losses	(10,698)	(9,627)	–	–
	<b>15,533</b>	<b>16,604</b>	<b>26,231</b>	<b>26,231</b>

Notes:

(a) Investment cost amounting to HK\$1 (2011: HK\$1) represents consideration paid for 1 ordinary share of HK\$1 each in Concept Legend Limited.

(b) The Group has advanced in aggregate HK\$26,231,000 (2011: HK\$26,231,000) to the jointly controlled entities for movie production.

At 31 December 2012, the carrying amount of the advances approximated their fair values.

Details of the jointly controlled entities are listed below:

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	Percentage of interest in ownership
Concept Legend Limited	Hong Kong	Production of films and television programmes	Ordinary shares of HK\$1 each	50%
# Wealth Founder Limited	Hong Kong	Production of motion picture	Ordinary shares of HK\$1 each	33.5%

# a jointly controlled entity held indirectly by the Group

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11 INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

Summary of the Group's share of financial information on jointly controlled entities is as follows:

	Assets HK\$'000	Liabilities HK\$'000	Equity HK\$'000	Revenues HK\$'000	Losses for the year HK\$'000
2012	20,756	31,454	(10,698)	17,671	(1,071)
2011	20,354	29,981	(9,627)	18,557	(5,989)

## 12 INTERESTS IN ASSOCIATES

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Investment costs	736,813	542,598	–	–
Less: Accumulated share of losses	(730,042)	(730,154)	–	–
	6,771	(187,556)	–	–
Loan to an associate (note (b))	719,212	719,212	719,212	719,212
Interest receivables from an associate	12,781	8,733	12,781	8,733
	738,764	540,389	731,993	727,945
Less: Provision for impairment loss	(89,817)	(11,277)	(89,817)	(198,833)
	648,947	529,112	642,176	529,112
Unlisted shares, at cost	736,813	542,598	–	–

Notes:

- During the year, TVB Satellite TV Holdings Limited, a wholly-owned subsidiary of the Company, acquired 304,042,972 non-voting preferred shares (28% of the entire issued share capital) of TVB Pay Vision Holdings Limited ("TVBPVH") at a total cash consideration of HK\$194,215,000. However, the Group's voting interest in TVBPVH remains unchanged at 15%. Without the existence of control, the Group is of the view that equity accounting for TVBPVH as an associate continues to be appropriate. Interests in associates as at 31 December 2012 included goodwill of HK\$461,934,000 arising from the acquisition of a 28% equity interest in TVBPVH during the year.
- The loan to an associate carries interest at the rate of 1-month HIBOR plus 0.25%. On 27 December 2012, the Company and TVBPV mutually agreed to revise the repayment schedule to repay the loan by 7 installments from 2016 to 2022.
- In addition to the loan described in (b), the Group has trade receivables from associates of HK\$422,166,000 (2011: HK\$400,550,000) as disclosed in Note 15. The Group periodically reviews the aggregate exposures from associates (note (b) and Note 15) to assess whether there is any potential impairment. In 2012, after reviewing the performance of and repayments from these associates, a provision for impairment loss of HK\$100,000,000 (2011: HK\$135,000,000) had been made, in which HK\$78,540,000 and HK\$21,460,000 (2011: HK\$11,277,000 and HK\$123,723,000) were provided against the loan and trade receivables from associates respectively.



## 12 INTERESTS IN ASSOCIATES (continued)

Details of the associates are as follows:

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	*15%
			Non-voting preferred shares of HK\$1 each	*100%
# TVB Pay Vision Limited (now known as TVB Network Vision Limited)	Hong Kong	Domestic pay television programme service	Ordinary shares of HK\$1 each	*90%

# an associate held indirectly by the Group  
\* the Group's equity interest was 90% and voting interest remained at 15% as at 31 December 2012

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	Profits/(losses) for the year HK\$'000
2012	225,407	1,086,532	(861,125)	207,225	112
2011	139,139	732,657	(593,518)	145,417	(57,963)

The carrying amount of the loan to an associate approximates its fair value, as the impact of discounting is not significant. The fair value is based on cash flows discounted using a rate based on 1-month HIBOR plus 0.25%.

## 13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2012 HK\$'000	2011 HK\$'000
Beginning and end of the year	3	3
Available-for-sale financial assets include the following:		
Unlisted equity securities – Canada	3	3

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14 STOCKS

At 31 December 2012 and 2011, all stocks were stated at lower of cost and net realisable value.

## 15 TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
<b>Non-current portion</b>				
Prepayment related to capital expenditure (note (a))	–	16,695	–	16,695
<b>Current portion</b>				
Trade receivables from:				
Jointly controlled entities (Note 35(c))	24	2,785	24	2,785
Associates (Note 35(c))	422,166	400,550	420,183	398,723
Related parties (Note 35(c))	74,340	73,927	–	–
Third parties (note (b))	1,420,031	1,159,723	1,019,715	815,020
	1,916,561	1,636,985	1,439,922	1,216,528
Less: Provision for impairment loss on receivables from:				
Associates (Note 4(c))	(421,674)	(400,217)	(420,183)	(398,723)
Third parties	(91,046)	(85,728)	(50,100)	(50,000)
Other receivables, prepayments and deposits	248,049	192,042	181,384	145,394
Tax reserve certificates (Note 27)	318,591	262,157	–	–
	1,970,481	1,605,239	1,151,023	913,199
<b>Total</b>	<b>1,970,481</b>	<b>1,621,934</b>	<b>1,151,023</b>	<b>929,894</b>

### Notes:

- (a) The balance as at 31 December 2011 represented the payment of consideration in respect of the acquisition of properties located in Beijing which was completed in December 2012. Upon the completion of the acquisition, the costs were transferred to land use rights.
- (b) 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.

## 15 TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (continued)

At 31 December 2012, trade receivables including trading balances due from jointly controlled entities, associates and related parties were aged as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Current	582,488	539,452	285,345	274,202
1-2 months	357,857	262,871	304,808	225,080
2-3 months	249,741	205,351	207,244	174,863
3-4 months	154,916	125,998	128,930	101,212
4-5 months	58,754	52,084	51,234	44,097
Over 5 months	512,805	451,229	462,361	397,074
	<b>1,916,561</b>	1,636,985	<b>1,439,922</b>	1,216,528
Trade receivables due from:				
Third parties	1,420,031	1,159,723	1,019,715	815,020
Jointly controlled entities, associates and related parties	496,530	477,262	420,207	401,508
	<b>1,916,561</b>	1,636,985	<b>1,439,922</b>	1,216,528

The percentages of amounts of trade receivables (before impairment loss) are denominated in the following currencies:

	Group		Company	
	2012 %	2011 %	2012 %	2011 %
Hong Kong dollars	79	79	100	100
US dollars	7	7	–	–
New Taiwan dollars	9	9	–	–
Malaysian Ringgit	4	4	–	–
Other currencies	1	1	–	–
	<b>100</b>	100	<b>100</b>	100

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15 TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (continued)

As at 31 December 2012, trade receivables not determined to be impaired were aged as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Up to 5 months	1,352,234	1,082,244	931,814	719,857
Over 5 months to 1 year	40,593	62,089	32,174	46,923
Over 1 year	11,014	6,707	5,651	1,025
	<b>1,403,841</b>	<b>1,151,040</b>	<b>969,639</b>	<b>767,805</b>
Less: Amounts not yet due	(823,699)	(676,005)	(527,308)	(403,739)
Amounts past due	<b>580,142</b>	<b>475,035</b>	<b>442,331</b>	<b>364,066</b>

Receivables that were past due but not impaired were related to customers that have a good trade record with the Group and the Company. Management believes that no impairment allowance is necessary for these balances.

As at 31 December 2012, trade receivables which were impaired were aged as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Up to 5 months	51,522	103,512	45,747	99,597
Over 5 months to 1 year	25,359	65,177	23,829	63,941
Over 1 year	435,839	317,256	400,707	285,185
	<b>512,720</b>	<b>485,945</b>	<b>470,283</b>	<b>448,723</b>

Movements on the provision for impairment of trade receivables are as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
At 1 January	485,945	372,607	448,723	305,029
Provision for impairment loss				
– Associates	21,460	123,723	21,460	123,723
– Third parties	9,509	26,151	100	20,000
Reversal of provision for impairment				
– Associates	(3)	(115)	–	–
– Third parties	(3,041)	(6,625)	–	(29)
Receivables written off as uncollectible	(1,308)	(29,561)	–	–
Exchange differences	158	(235)	–	–
At 31 December	<b>512,720</b>	<b>485,945</b>	<b>470,283</b>	<b>448,723</b>

## 15 TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (continued)

The carrying amounts of trade and other receivables, prepayments and deposits approximate their fair values.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## 16 PLEDGED BANK DEPOSITS

At 31 December 2012, the Group had pledged bank deposits of HK\$7,230,000 (2011: HK\$7,316,000) to secure banking and credit facilities granted to subsidiaries of the Group. The carrying amounts of bank deposits approximated their fair values.

## 17 CASH AND CASH EQUIVALENTS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Cash at bank and on hand	257,753	312,904	14,460	13,408
Short-term bank deposits	2,911,494	2,982,680	2,313,384	2,471,589
	<b>3,169,247</b>	<b>3,295,584</b>	<b>2,327,844</b>	<b>2,484,997</b>

Note:

The maximum exposure to credit risk on bank balances is represented by the carrying amount in the statement of financial position.

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Hong Kong dollars	1,028,674	1,340,250	835,180	1,195,683
US dollars	1,467,676	1,417,087	1,291,311	1,102,092
New Taiwan dollars	222,826	183,210	53	–
Renminbi	345,074	270,759	200,582	186,425
Other currencies	104,997	84,278	718	797
	<b>3,169,247</b>	<b>3,295,584</b>	<b>2,327,844</b>	<b>2,484,997</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18 SHARE CAPITAL

	Number of ordinary shares of HK\$0.05 each	Nominal value HK\$'000
Authorised: At 1 January 2011 and 2012 and 31 December 2012	1,300,000,000	65,000
Issued and fully paid: At 1 January 2011 and 2012 and 31 December 2012	438,000,000	21,900

## 19 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 2011	602,026	70,000	839	95,266	40,118	9,995	818,244
Currency translation differences:							
– Group	–	–	–	–	–	(33,201)	(33,201)
Transferred from retained earnings	–	–	–	22,525	–	–	22,525
Balance at 31 December 2011	602,026	70,000	839	117,791	40,118	(23,206)	807,568
Balance at 1 January 2012	602,026	70,000	839	117,791	40,118	(23,206)	807,568
Currency translation differences:							
– Group	–	–	–	–	–	37,977	37,977
Transferred from retained earnings	–	–	–	19,108	–	–	19,108
Change in ownership interests in a subsidiary without change of control	–	–	(1,030)	–	–	–	(1,030)
Balance at 31 December 2012	602,026	70,000	(191)	136,899	40,118	14,771	863,623

Capital reserve – in accordance with the local regulations of a subsidiary in Taiwan, the subsidiary is required to transfer the gain on deemed disposal of its associate to the capital reserve which can only be used to cover operating losses; the effects of all transactions with non-controlling interests are dealt with in accordance with the accounting policies set out in Note 2.2(b).

Legal reserve – 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.

Translation reserve – 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 2.4.

## 19 OTHER RESERVES (continued)

### (b) Company

	Share premium HK\$'000	General reserve HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
Balance at 1 January 2011 and 2012 and 31 December 2012	602,026	70,000	40,118	712,144

The capital redemption reserve and share premium account of the Company were set up in accordance with the requirements of the Hong Kong Companies Ordinance.

## 20 TRADE AND OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Trade payables to:				
Associates (Note 35(c))	543	–	–	–
Jointly controlled entities (Note 35(c))	–	11	–	–
Related parties (Note 35(c))	9,378	3,637	–	–
Third parties	114,181	82,756	62,918	38,880
	124,102	86,404	62,918	38,880
Amount due to subsidiaries	–	–	5,698	417,600
Receipt in advance, deferred income and customers' deposits	196,102	231,912	49,162	53,637
Provision for employee benefits and other expenses	394,116	328,650	247,968	190,689
Accruals and other payables	281,556	249,727	176,361	149,450
	995,876	896,693	542,107	850,256

At 31 December 2012, trade payables including trading balances due to associates, jointly controlled entities and related parties were aged as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Current	84,405	56,317	49,080	30,351
1-2 months	25,511	22,695	7,882	7,732
2-3 months	9,814	4,028	4,336	492
3-4 months	3,167	1,009	988	253
4-5 months	702	498	558	12
Over 5 months	503	1,857	74	40
	124,102	86,404	62,918	38,880

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20 TRADE AND OTHER PAYABLES AND ACCRUALS (continued)

The percentages of amounts of trade payables are denominated in the following currencies:

	Group		Company	
	2012 %	2011 %	2012 %	2011 %
Hong Kong dollars	49	40	68	56
US dollars	16	20	32	43
New Taiwan dollars	26	35	–	–
Malaysian Ringgit	8	4	–	–
Other currencies	1	1	–	1
	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

The carrying amounts of trade and other payables and accruals approximate their fair values.

## 21 BORROWING

	Group	
	2012 HK\$'000	2011 HK\$'000
Bank borrowing:		
Non-current	180,088	197,153
Current	25,239	24,234
Total bank borrowing	<b>205,327</b>	<b>221,387</b>

Movements in bank borrowing are analysed as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
Opening balance as at 1 January	221,387	256,405
Repayments	(24,843)	(24,987)
Exchange differences	8,783	(10,031)
Closing balance as at 31 December	<b>205,327</b>	<b>221,387</b>



## 21 BORROWING (continued)

At 31 December 2012, the Group's bank borrowing was repayable as follows:

	2012 HK\$'000	2011 HK\$'000
Within 1 year	25,239	24,234
Between 1 and 2 years	25,239	24,235
Between 2 and 5 years	75,718	72,703
Wholly repayable within 5 years	126,196	121,172
Over 5 years	79,131	100,215
	<b>205,327</b>	<b>221,387</b>

Bank borrowing is secured by land and buildings with net book value of HK\$707,535,000 (2011: HK\$694,244,000).

The effective interest rate at the end of the reporting period was 1.85% (2011: 1.85%).

The carrying amount of the Group's borrowing is denominated in New Taiwan dollars. The carrying amount of current borrowing approximates its fair value, as the impact of discounting is not significant. The fair value is based on cash flow discounted using a rate based on the borrowing rate of 1.83% (2011: 1.83%).

## 22 DEFERRED INCOME TAX

Deferred income tax assets and deferred income tax liabilities on the statement of financial position are analysed as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Net deferred income tax assets recognised on the statement of financial position	(18,493)	(26,050)	–	–
Net deferred income tax liabilities recognised on the statement of financial position	152,966	179,779	70,753	68,298
	<b>134,473</b>	<b>153,729</b>	<b>70,753</b>	<b>68,298</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22 DEFERRED INCOME TAX (continued)

The movements in the deferred income tax liabilities/(assets) account are as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
At 1 January	153,729	140,658	68,298	76,900
Exchange differences	(129)	(87)	–	–
Recognised in the income statement (Note 27)	(19,127)	13,158	2,455	(8,602)
At 31 December	134,473	153,729	70,753	68,298

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. At 31 December 2012, the Group has unrecognised tax losses of HK\$167,759,000 (2011: HK\$150,611,000) to carry forward against future taxable income. These tax losses will expire as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
After the fifth year	5,073	–	–	–
No expiry date	162,686	150,611	–	–
At 31 December	167,759	150,611	–	–

The movements in deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

### (a) Group

#### Deferred income tax liabilities

	Accelerated tax depreciation		Others		Total	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
At 1 January	78,744	82,587	110,346	97,717	189,090	180,304
Recognised in the income statement	3,151	(3,851)	(29,607)	12,641	(26,456)	8,790
Exchange differences	(36)	8	10	(12)	(26)	(4)
At 31 December	81,859	78,744	80,749	110,346	162,608	189,090

## 22 DEFERRED INCOME TAX (continued)

### (a) Group (continued)

#### Deferred income tax assets

	Tax losses		Others		Total	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
At 1 January	9,423	18,537	25,938	21,109	35,361	39,646
Recognised in the income statement	(9,529)	(9,265)	2,200	4,897	(7,329)	(4,368)
Exchange differences	106	151	(3)	(68)	103	83
At 31 December	–	9,423	28,135	25,938	28,135	35,361

### (b) Company

#### Deferred income tax liabilities

	Accelerated tax depreciation		Others		Total	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
At 1 January	77,534	81,545	1,223	1,130	78,757	82,675
Recognised in the income statement	2,974	(4,011)	(56)	93	2,918	(3,918)
At 31 December	80,508	77,534	1,167	1,223	81,675	78,757

#### Deferred income tax assets

	Others		Total	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
At 1 January	10,459	5,775	10,459	5,775
Recognised in the income statement	463	4,684	463	4,684
At 31 December	10,922	10,459	10,922	10,459

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 23 RETIREMENT BENEFIT OBLIGATIONS

	Group	
	2012 HK\$'000	2011 HK\$'000
Obligations on:		
Pensions – defined contribution plans (note (a))	8,555	7,465
Pensions – defined benefit plans (note (b))	5,226	5,189
	<b>13,781</b>	<b>12,654</b>

Notes:

### (a) Pensions – defined contribution plans

Forfeited contributions totalling HK\$77,000 (2011: HK\$152,000) were utilised during the year.

Contributions totalling HK\$8,555,000 (2011: HK\$7,465,000) were payable to the fund at the year end and are included in accruals and other payables.

### (b) Pensions – defined benefit 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 cost method. The latest valuation was carried out as of 31 December 2012 by ClientView Management Consulting Co., Ltd..

The amounts recognised in the consolidated statement of financial position are determined as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
Present value of funded obligations	135,754	116,037
Fair value of plan assets	(63,025)	(56,176)
	<b>72,729</b>	59,861
Unrecognised actuarial losses	(67,503)	(54,672)
	<b>5,226</b>	5,189

Expected contributions to defined benefit plans for the year ending 31 December 2013 are HK\$4,355,000 (2012: HK\$4,273,000).

## 23 RETIREMENT BENEFIT OBLIGATIONS (continued)

### (b) Pensions – defined benefit plans (continued)

Plan assets comprise:

	2012		Group		2011	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Bank deposits	14,742	23	13,409	24	13,409	24
Equity	5,729	9	5,640	10	5,640	10
Debt	13,563	22	10,780	19	10,780	19
Others	28,991	46	26,347	47	26,347	47
	<b>63,025</b>	<b>100</b>	<b>56,176</b>	<b>100</b>	<b>56,176</b>	<b>100</b>

The movements in the present value of the liability recognised in the consolidated statement of financial position are as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
At 1 January	116,037	101,697
Current service cost	581	580
Interest cost	2,078	2,258
Actuarial losses	12,493	16,357
Benefits paid	(480)	–
Exchange differences	5,045	(4,855)
At 31 December	<b>135,754</b>	<b>116,037</b>

The movements in the fair value of plan assets of the year are as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
At 1 January	56,176	53,583
Expected return on plan assets	1,218	1,101
Actuarial losses	(640)	(449)
Employer contributions	4,351	4,345
Benefits paid	(480)	–
Exchange differences	2,400	(2,404)
At 31 December	<b>63,025</b>	<b>56,176</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 23 RETIREMENT BENEFIT OBLIGATIONS (continued)

### (b) Pensions – defined benefit plans (continued)

The amounts recognised in the consolidated income statement are as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
Current service cost	581	580
Interest cost	2,078	2,258
Expected return on plan assets	(1,218)	(1,101)
Net actuarial losses recognised	2,734	2,184
Total, included in employee benefit expense (Note 25(b))	<b>4,175</b>	3,921

The actual return on plan assets was HK\$578,000 (2011: HK\$652,000).

The principal actuarial assumptions used were as follows:

	Group	
	2012 %	2011 %
Discount rate	1.50	1.75
Expected rate of return on plan assets	1.75	2.00
Expected rate of future salary increases	3.00	3.00

Historical information:

	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000
Present value of defined benefit obligation	135,754	116,037	101,697	72,596	75,475
Fair value of plan assets	(63,025)	(56,176)	(53,583)	(43,526)	(38,418)
Deficit	<b>72,729</b>	59,861	48,114	29,070	37,057
Experience adjustments on plan liabilities	1,939	3,186	582	558	4,533
Experience adjustments on plan assets	604	436	225	760	(336)

## 24 PROFIT BEFORE INCOME TAX

The following items have been charged/(credited) to the profit before income tax during the year:

	2012 HK\$'000	2011 HK\$'000
Net exchange gain	(3,499)	(1,239)
Gross rental income from investment properties	(2,068)	–
Direct operating expenses arising from investment properties	482	–
Loss/(gain) on disposals of property, plant and equipment	931	(7)
Auditors' remuneration	4,971	4,444
Non-audit service fees (mainly tax services)	5,244	2,086
Cost of programmes, film rights and stocks	1,369,645	1,187,639
Depreciation (Note 6 and 7)	264,385	233,259
Amortisation of land use rights (Note 8)	2,778	1,820
Operating leases		
– Equipment and transponders	23,469	22,852
– Land and buildings	25,715	24,416
Employee benefit expense (excluding directors' emoluments) (Note 25(b))	1,513,879	1,364,197

## 25 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS AND EMPLOYEE BENEFIT EXPENSE

### (a) Directors' emoluments

The emoluments of all Directors for the year ended 31 December 2012 and 2011 are set out below:

Name of Director	2012				Total HK\$'000
	Fees HK\$'000	Salaries, allowances and leave pay HK\$'000	Discretionary bonuses HK\$'000	Pension contributions HK\$'000	
Dr. Norman Leung Nai Pang, GBS, LLD, JP	150	5,760	3,000	14	8,924
Mark Lee Po On (note (vii))	150	4,208	2,500	14	6,872
Mona Fong (note (i))	207	637	–	–	844
Christina Lee Look Ngan Kwan (note (ii))	21	–	–	–	21
Kevin Lo Chung Ping	325	–	–	–	325
Dr. Charles Chan Kwok Keung	209	–	–	–	209
Cher Wang Hsiueh Hong	150	–	–	–	150
Jonathan Milton Nelson	150	–	–	–	150
Anthony Lee Hsien Pin (note (iii))	176	–	–	–	176
Chen Wen Chi (note (iii))	196	–	–	–	196
Dr. Chow Yei Ching, GBS	197	–	–	–	197
Edward Cheng Wai Sun, SBS, JP	230	–	–	–	230
Chien Lee	300	–	–	–	300
Gordon Siu Kwing Chue, GBS, JP	330	–	–	–	330
Raymond Or Ching Fai, SBS, JP (note (iv))	11	–	–	–	11
Vivien Chen Wai Wai (note (v))	18	–	–	–	18
	2,820	10,605	5,500	28	18,953

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS AND EMPLOYEE BENEFIT EXPENSE (continued)

### (a) Directors' emoluments (continued)

Name of Director	2011					Total HK\$'000
	Fees HK\$'000	Salaries, allowances and leave pay HK\$'000	Discretionary bonuses HK\$'000	Pension contributions HK\$'000		
Dr. Norman Leung Nai Pang, GBS, LLD, JP	150	4,980	1,000	12		6,142
Mark Lee Po On	150	3,838	900	12		4,900
Mona Fong	150	2,550	1,000	-		3,700
Sir Run Run Shaw, GBM (note (vi))	500	-	-	-		500
Christina Lee Look Ngan Kwan	225	-	-	-		225
Kevin Lo Chung Ping	325	-	-	-		325
Dr. Charles Chan Kwok Keung	114	-	-	-		114
Cher Wang Hsiueh Hong	114	-	-	-		114
Jonathan Milton Nelson	114	-	-	-		114
Dr. Chow Yei Ching, GBS	150	-	-	-		150
Edward Cheng Wai Sun, SBS, JP	190	-	-	-		190
Chien Lee	300	-	-	-		300
Gordon Siu Kwing Chue, GBS, JP	330	-	-	-		330
Vivien Chen Wai Wai	190	-	-	-		190
	3,002	11,368	2,900	24		17,294

#### Notes:

- (i) The Director retired as Deputy Chairperson and Managing Director on 31 March 2012 and was re-designated as a Non-executive Director on 1 April 2012.
- (ii) The Director retired on 3 February 2012.
- (iii) The Directors were appointed on 3 February 2012.
- (iv) The Director was appointed on 6 December 2012.
- (v) The Director resigned on 3 February 2012.
- (vi) The Director retired on 31 December 2011.
- (vii) Mr. Mark Lee Po On assumes the functions of the chief executive of the Company.

### (b) Employee benefit expense

	2012 HK\$'000	2011 HK\$'000
Wages and salaries	1,425,722	1,284,462
Pension costs – defined contribution plans	83,982	75,814
Pension costs – defined benefit plans (Note 23(b))	4,175	3,921
	1,513,879	1,364,197



## 25 DIRECTORS' AND SENIOR MANAGEMENT'S 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 (2011: two) Directors whose emoluments are reflected in the analysis presented in note (a) above. The emoluments payable to the remaining three (2011: three) individuals during the year are as follows:

	2012 HK\$'000	2011 HK\$'000
Salaries and allowances	9,047	9,071
Bonuses	3,170	2,450
Pension contributions	905	907
	<b>13,122</b>	<b>12,428</b>

The aggregate emoluments paid to the individuals are further analysed into the following bands:

Emolument bands	Number of individuals in each band	
	2012	2011
HK\$3,500,001 – HK\$4,000,000	2	1
HK\$4,000,001 – HK\$4,500,000	–	1
HK\$4,500,001 – HK\$5,000,000	–	1
HK\$5,000,001 – HK\$5,500,000	1	–
	<b>3</b>	<b>3</b>

### (d) Senior management's emoluments

Details of emoluments paid to members of senior management fell within the following bands:

Emolument bands	*Number of individuals in each band	
	2012	2011
Nil – HK\$1,000,000	2 <sup>#</sup>	–
HK\$1,500,001 – HK\$2,000,000	1 <sup>Δ</sup>	–
HK\$2,000,001 – HK\$2,500,000	1 <sup>Δ</sup>	1
HK\$4,000,001 – HK\$4,500,000	–	1
HK\$4,500,001 – HK\$5,000,000	–	2
HK\$5,000,001 – HK\$5,500,000	1	–
HK\$6,500,001 – HK\$7,000,000	1	–
	<b>6</b>	<b>4</b>

\* included one (2011: one) Director of the Company

# one employee joined senior management with effect from 1 December 2012 and one employee departed from senior management with effect from 29 February 2012

Δ the employee joined senior management with effect from 1 April 2012

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 FINANCE COSTS

	2012 HK\$'000	2011 HK\$'000
Interest on bank loans		
– Wholly repayable within 5 years	144	–
– Wholly repayable over 5 years	3,923	4,128
	<b>4,067</b>	<b>4,128</b>

## 27 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) 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.

The amount of income tax charged to the consolidated income statement represents:

	2012 HK\$'000	2011 HK\$'000
Current income tax:		
– Hong Kong	278,389	288,289
– Overseas	144,399	120,372
– Over provisions in prior years	(665)	(2,381)
– Provision for prior years (note)	–	118,000
Deferred income tax:		
– Origination and reversal of temporary differences (Note 22)	(19,176)	13,090
– Effect of decrease in tax rate (Note 22)	49	68
	<b>402,996</b>	<b>537,438</b>

Note:

In 2004, the IRD initiated a tax audit on the Group. Since then, the Group has received protective profits tax assessment notices from the IRD for the eight consecutive years of assessment from 1998/99 to 2005/06 relating to the profits generated by the Group's programme licensing and distribution business carried out overseas, to which the Group has objected. Of the total additional tax demanded in these assessments, the Group had been granted conditional holdovers by the purchase of tax reserve certificates in the amounts of HK\$23,990,000, HK\$23,561,000, HK\$20,205,000, HK\$35,028,000, HK\$49,365,000, HK\$53,809,000, HK\$56,199,000 and HK\$56,434,000 for the eight consecutive years of assessment from 1998/99 to 2005/06 respectively. The total amount of tax reserve certificates purchased by the Group is HK\$318,591,000 (Note 15). Similar additional assessments may be issued for subsequent years of assessment.

The Group has been in discussion with the IRD with a view to resolving the dispute for the entire period from 1998/99 up to the current year. As of 31 December 2012, the Group has provided a total provision of HK\$336 million against the potential tax exposures for the years of assessment from 1998/99 to 2011/12. The tax provision is considered to be adequate and not excessive.

The Group will continue to monitor the progress of the tax audit and vigorously defend the Group's position. Due to the uncertainty inherent in the tax audit, the outcome of the tax dispute could be different from the amounts provided; such difference would impact the income tax provisions in the year in which any determination is made.

## 27 INCOME TAX EXPENSE (continued)

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:

	2012 HK\$'000	2011 HK\$'000
Profit before income tax	2,138,925	2,096,973
Calculated at a taxation rate of 16.5% (2011: 16.5%)	352,923	346,001
Effect of different taxation rates in other countries	(24,112)	(26,492)
Tax effect on the share of results of associates and jointly controlled entities	158	10,552
Income not subject to taxation	(8,438)	(6,556)
Expenses not deductible for taxation purposes	41,873	48,815
Tax losses not recognised	6,012	653
Utilisation of previously unrecognised tax losses	(309)	(2,217)
Tax credit allowance	(467)	(461)
Withholding tax on overseas dividend	3,858	53,129
Tax levied on undistributed profits	29,213	–
Allowance for previous non-deductible expenses	(420)	(2,527)
Re-measurement of deferred tax due to change in tax rate	49	68
Others	3,321	854
Over provisions in prior years	(665)	(2,381)
Provision for prior years	–	118,000
	402,996	537,438

## 28 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\$1,891,068,000 (2011: HK\$1,478,866,000).

## 29 EARNINGS PER SHARE

Earnings per share is calculated based on the Group's profit attributable to equity holders of HK\$1,730,159,000 (2011: HK\$1,555,585,000) and 438,000,000 shares in issue throughout the years ended 31 December 2012 and 2011. No fully diluted earnings per share is presented as there were no potentially dilutive shares outstanding.

## 30 DIVIDENDS

	2012 HK\$'000	2011 HK\$'000
Interim dividend paid of HK\$0.60 (2011: HK\$0.45) per ordinary share	262,800	197,100
Proposed final dividend of HK\$2.00 (2011: HK\$1.75) per ordinary share	876,000	766,500
	1,138,800	963,600

At a meeting held on 27 March 2013, the Directors recommended a final dividend of HK\$2.00 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 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before income tax to cash generated from operations:

	2012 HK\$'000	2011 HK\$'000
Profit before income tax	2,138,925	2,096,973
Depreciation and amortisation	267,163	235,079
Impairment loss on loan to an associate	78,540	11,277
Impairment loss on trade receivables	27,925	143,134
Loss/(gain) on disposal of property, plant and equipment	931	(7)
Share of losses of jointly controlled entities	1,071	5,989
Share of (profits)/losses of associates	(112)	57,963
Interest income	(59,163)	(42,695)
Finance cost	4,067	4,128
Exchange differences	(10,132)	3,177
	<b>2,449,215</b>	<b>2,515,018</b>
Increase in programmes, film rights and stocks	(31,911)	(22,933)
Increase in trade and other receivables, prepayments and deposits	(395,585)	(301,501)
Increase in trade and other payables and accruals	99,197	138,784
Increase/(decrease) in retirement benefit obligations – defined benefit plans	37	(658)
	<b>2,120,953</b>	<b>2,328,710</b>

## 32 CONTINGENT LIABILITIES

The amounts of contingent liabilities are as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Guarantees for banking facilities granted to an investee company	10,127	9,903	–	–

It is anticipated that no material liabilities will arise from the above bank and other guarantees, which arose in the ordinary course of business.

### 33 COMMITMENTS

#### (a) Capital commitments

The amounts of commitments for property, plant and equipment are as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Authorised but not contracted for	1,423,478	461,737	1,181,099	332,756
Contracted but not provided for	147,550	34,225	127,735	20,609
	<b>1,571,028</b>	495,962	<b>1,308,834</b>	353,365

#### (b) Operating lease commitments as lessee

At 31 December 2012, the Group had future aggregate minimum lease payments under non-cancellable operating leases which fall due as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Land and buildings				
– not later than one year	18,388	18,680	10,012	7,030
– later than one year and not later than five years	32,931	15,104	22,654	1,961
	<b>51,319</b>	33,784	<b>32,666</b>	8,991
Equipment and transponders				
– not later than one year	20,257	22,454	–	–
– later than one year and not later than five years	45,851	10,147	–	–
– later than five years	5,519	–	–	–
	<b>71,627</b>	32,601	–	–
	<b>122,946</b>	66,385	<b>32,666</b>	8,991

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 33 COMMITMENTS (continued)

### (b) Operating lease commitments as lessee (continued)

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 24.

### (c) Operating lease commitments as lessor

At 31 December 2012, the Group had contracted with tenant for future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Land and buildings				
– not later than one year	9,794	7,047	7,047	7,047
– later than one year and not later than five years	2,696	7,047	–	7,047
	12,490	14,094	7,047	14,094

## 34 OBLIGATIONS UNDER TELEVISION BROADCASTING LICENCE

The Company operates under the terms of a domestic free television programme licence granted by the Government of the HKSAR which runs for a period of twelve years to 30 November 2015. Following the mid-term review of the licence conducted by the Broadcasting Authority ("BA") (Communications Authority has replaced BA since 1 April 2012), the Government announced on 2 July 2010 that the Chief Executive in Council had approved the recommendations made by the BA, including new licence conditions to be imposed for the six-year period from 2010 to 2015. Under the new licence conditions, the Company is required to (i) make a programming and capital investment of HK\$6,336 million for the six-year period from 2010 to 2015; (ii) commit to enhanced programme requirements; (iii) increase the amount of high definition television programming; (iv) step up incrementally its subtitling service; and (v) participate in annual public engagement activities in the form of focus group discussion to be conducted by the BA.

## 35 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	2012 HK\$'000	2011 HK\$'000
<b>Sales of services:</b>			
<i>Jointly controlled entities</i>			
* Movie production charges	(i)	2,026	3,075
* Advertising income	(i)	434	986
* Other services	(i)	128	317
<i>Associates</i>			
Programmes and channel licensing fees	(iii)	16,693	118,199
Technical and operational service fees	(iii)	3,600	–
Rental income and related charges	(iii)	7,047	7,047
Advertising income	(iii)	5,999	1,468
Others	(iii)	3,837	3,346
<i>Other related parties</i>			
* Programmes and channel licensing fees	(iv)	281,152	277,808
* Advertising consultancy fees	(iv)	40,461	44,932
		<b>361,377</b>	<b>457,178</b>
<b>Purchases of services:</b>			
<i>Jointly controlled entities</i>			
* Programmes licensing fees	(i)	(8,500)	(7,400)
* Programmes licensing fees	(ii)	–	(1,600)
<i>Associates</i>			
Playback and uplink service fees	(iii)	(30,811)	(30,103)
Others	(iii)	(1,991)	(3,741)
<i>Other related parties</i>			
* Rental fee and related charges	(v)	–	(2,820)
* Programmes licensing fees	(vi)	(1,070)	–
* Project management fees	(vii)	(1,880)	–
		<b>(44,252)</b>	<b>(45,664)</b>

\* This is regarded as connected transactions or continuing connected transactions as defined under Main Board Listing Rules.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

### (a) Transactions with related parties (continued)

Notes:

- (i) The fees were received from/(paid to) Concept Legend Limited, a jointly controlled entity of the Company.
- (ii) The fees were paid to Wealth Founder Limited, a jointly controlled entity of Concept Legend Limited.
- (iii) The fees were received from/(paid to) TVBPV, an associate of the Company.
- (iv) The fees were received from MEASAT Broadcast Network Systems Sdn. Bhd., a fellow subsidiary of the non-controlling shareholder of non wholly-owned subsidiaries of the Company.
- (v) The fees were paid to Hong Kong Movie City Company Limited (now known as Shaw Movie City Hong Kong Limited), an entity controlled by a substantial shareholder of the Company. Such shareholder ceased to be our substantial shareholder on 31 March 2011.
- (vi) The fees were paid to Celestial Television Networks Ltd., a fellow subsidiary of the non-controlling shareholder of non wholly-owned subsidiaries of the Company.
- (vii) The fees were paid to ITC Properties Management Limited. This entity is controlled by a person, who has significant influence over the Company, and a close member of that person's family.
- (viii) The disclosure requirements in accordance with Chapter 14A of the Main Board Listing Rules have been properly complied with.

In addition, during the year, the channel supply arrangement between the Company and TVBPV has been restructured. Under the revised terms, the Company supplies, from 1 January 2012, the channel contents to TVBPV in exchange of its advertising revenue attributable to the relevant channels.

The fees received/(paid to) related parties are based upon mutually agreed terms and conditions.

### (b) Key management compensation

	2012 HK\$'000	2011 HK\$'000
Salaries and other short-term employee benefits	26,747	25,359

### (c) Balances with related parties

	2012 HK\$'000	2011 HK\$'000
Receivables from jointly controlled entities	24	2,785
Receivables from associates (note)	422,166	400,550
Receivables from other related parties	74,340	73,927
	<b>496,530</b>	<b>477,262</b>
Payables to associates	543	-
Payables to jointly controlled entities	-	11
Payables to other related parties	9,378	3,637
	<b>9,921</b>	<b>3,648</b>



### 35 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

#### (c) Balances with related parties (continued)

Note:

At 31 December 2012, a provision for impairment loss of trade receivables from associates of HK\$421,674,000 (2011: HK\$400,217,000) had been provided (Note 15).

#### (d) Fund advanced/loan to related parties

	2012 HK\$'000	2011 HK\$'000
Fund advanced to jointly controlled entities		
Beginning of the year	26,231	16,231
Fund advanced	–	10,000
End of the year	26,231	26,231
Loan to an associate		
Beginning of the year	727,945	724,709
Interest charged	4,048	3,236
End of the year	731,993	727,945

At 31 December 2012, a provision for impairment loss of the loan to an associate of HK\$89,817,000 (2011: HK\$11,277,000) had been provided (Note 12).

### 36 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 27 March 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 37 PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name	Place of Incorporation <sup>a</sup>	Issued and fully paid		Percentage of equity capital held by		Principal activities
		ordinary share capital	preference share capital	the Group	the Company	
# iTVB Holdings Limited	British Virgin Islands	HK\$10,000	–	100	100	Investment holding
Long Wisdom Limited	Hong Kong	HK\$2	–	100	100	Properties holding
* Television Broadcasts Airtime Sales (Guangzhou) Limited	The People's Republic of China	HK\$500,000	–	100	100	Provision of agency services on design, production and exhibition of advertisements
TVB (China Production) Company Limited	Hong Kong	HK\$1	–	100	100	Owner of film rights and programme licensing
TVB Investment Limited	Bermuda	US\$20,000	–	100	100	Investment holding
TVB Music Limited	Hong Kong	HK\$1	–	100	100	Production, publishing and licensing of musical works
# TVB Satellite TV Holdings Limited	Bermuda	US\$12,000	–	100	100	Investment holding
TVBI Company Limited	Hong Kong	HK\$2,000,000	–	100	100	Investment holding and programme licensing
TVBO Production Limited	Bermuda	US\$12,000	–	100	100	Owner of film rights and programme licensing
* 广东采星坊演艺咨询服务有限公司	The People's Republic of China	RMB10,000,000	–	100	100	Provision of consultancy, management and agency services to artistes
* 上海翡翠東方傳播有限公司	The People's Republic of China	RMB100,000,000	–	55	55	Provision of agency services on advertisements, television programmes, film rights and management services
Art Limited	Hong Kong	HK\$10,000	–	73.68	–	Film licensing and distribution

### 37 PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of Incorporation <sup>A</sup>	Issued and fully paid		Percentage of equity capital held by		Principal activities
		ordinary share capital	preference share capital	the Group	the Company	
# Capital Empire Limited	British Virgin Islands	US\$1,000	–	100	–	Owner of film rights and programme licensing
CC Decoders Ltd.	United Kingdom	GBP2	–	100	–	Provider of decoder units and relating technical services
# Condor Entertainment B.V.	The Netherlands	EUR18,400	–	100	–	Investment holding
Countless Entertainment (Taiwan) Company Ltd.	Taiwan	NT\$10,000,000	–	100	–	Investment holding and programme licensing
# Extra Profit Holdings Limited	British Virgin Islands	HK\$1	–	100	–	Investment holding
# Fairwork Group Limited	British Virgin Islands	US\$1,000	–	100	–	Investment holding
# Fantastic Production Co., Ltd.	Taiwan	NT\$10,000,000	–	100	–	Production of television programmes and programme licensing
Interface Communication Co., Ltd.	Taiwan	NT\$214,906,000	–	100	–	Magazine Publications
# iTVB Limited	British Virgin Islands	HK\$10,000	–	100	–	Investment holding
Jade Multimedia International Limited	Bermuda	US\$12,000	–	100	–	Animation investment, licensing and distribution
Liann Yee Production Co., Ltd.	Taiwan	NT\$880,000,000	–	100	–	Production of television programmes, channel operation and advertising

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 37 PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of Incorporation <sup>A</sup>	Issued and fully paid		Percentage of equity capital held by		Principal activities
		ordinary share capital	preference share capital	the Group	the Company	
# Peony Holding N.V.	Curaçao	US\$100	US\$6,000	100	–	Investment holding
The Chinese Channel Limited	United Kingdom	GBP1,111	–	100	–	Provision of services for programme productions and channel operations
The Chinese Channel Limited	Hong Kong	HK\$4	–	100	–	Provision of services for channel operations
* The Chinese Channel (France) SAS	France	EUR600,000	–	100	–	Provision of satellite and subscription television programmes
# The Chinese Channel (Holdings) Limited	Cayman Islands	GBP89,640	–	100	–	Investment holding
TVB (Australia) Pty. Ltd.	Australia	A\$5,500,000	–	100	–	Provision of satellite and subscription television programmes
TVB Facilities Limited	Hong Kong	HK\$10,000	–	100	–	Provision of services for programme productions
* TVB Holdings (USA) Inc.	USA	US\$6,010,000	–	100	–	Investment holding and programme licensing and distribution
TVB Macau Company Limited	Macau	MOP25,000	–	100	–	Provision of services for programme productions
* TVB (Overseas) Holdings Limited	British Virgin Islands	US\$50,000	–	55	–	Programme licensing
TVB Publications Limited	Hong Kong	HK\$20,000,000	–	73.68	–	Magazine publications
<sup>5</sup> TVB Publishing Holding Limited	Hong Kong	HK\$8,550,000	–	73.68	–	Investment holding
TVB Satellite Broadcasting Limited	Hong Kong	HK\$2	–	100	–	Provision of programming and channel services

### 37 PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of Incorporation <sup>Δ</sup>	Issued and fully paid		Percentage of equity capital held by		Principal activities
		ordinary share capital	preference share capital	the Group	the Company	
* TVB Satellite Platform, Inc.	USA	US\$3,000,000	–	100	–	Provision of satellite and subscription television programmes
TVB Satellite TV Entertainment Limited	Bermuda	US\$12,000	–	100	–	Provision of satellite and subscription television programmes
TVB Satellite TV (HK) Limited	Hong Kong	HK\$2	–	100	–	Provision of pay television programmes
TVB (UK) Limited	United Kingdom	GBP2	–	100	–	Investment holding
* TVB (USA) Inc.	USA	US\$10,000	–	100	–	Provision of satellite and subscription television programmes
TVB Video (UK) Limited	United Kingdom	GBP1,000	–	100	–	Programme licensing
TVB.COM Limited	Hong Kong	HK\$2	–	100	–	Internet web portal
TVBO Facilities Limited	Bermuda	US\$12,000	–	100	–	Provision of services for programme productions
# Zennora Group Limited	British Virgin Islands	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.

<sup>S</sup> 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 non-controlling 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 2012.

<sup>Δ</sup> All principal subsidiaries are limited liability companies.

# MAJOR TVB CHANNELS

Channel	Language	Description
 翡翠台 Jade	C	TVB's flagship service and the most popular channel in Hong Kong. With strong production and star power, Jade offers viewers a sumptuous amount of home-grown drama, variety and enrichment content with local taste and flavor
 Pearl	E	The leading English-language free-to-air channel bringing viewers high-quality programmes across a range of genres which includes movies, drama, lifestyle and documentary acquired from different corners of the globe
 高清翡翠台 HD Jade	C	24-hour high-definition (HD) terrestrial channel showcasing true HD quality of TVB production complemented by high-end acquired drama and documentary
 J2	C	Unique digital channel tailor-made for young and kidult audiences with in-house production as well as popular drama, anime and annual events from Asian and international markets
 互動新聞台 iNews	C	The only 24-hour news channel offering free service to viewers in Hong Kong. It is also simulcast on tvb.com, myTV and TVB News mobile applications

Channel	Language	Description
 TVBS TVBS	M	One of the most watched infotainment channels in Taiwan covering interactive discussion and in-depth analysis on social, political and economic issues
 TVBS NEWS TVBS-News	M	The first 24-hour all-news channel in Taiwan presenting viewers the most instant and important news coverage around the world
 TVBS 歡樂台 TVBS-G	M	One of the most popular entertainment channels in Taiwan presenting dramas, music, fashion, sports and other rich and diverse programming
 TVB8 TVB8	M	24-hour Mandarin channel tailor-made for all Chinese viewers around the world, offering a diverse line-up of infotainment programmes as well as in-house-produced programmes plus variety shows
 TVB 星河 TVB Xing He	C/M	The world's first 24-hour Chinese drama channel offering a wide array of classic TVB dramas from thrilling actions series, heart-touching romances to delightful comedies
 翡翠台 TVB Jade	C	Featuring family-oriented entertainment programmes tailored to the viewing preferences and schedules for Chinese viewers in USA
 tvbj TVBJ	C	The unique Cantonese-speaking channel in Singapore, featuring dramas and sitcoms, music specials, game shows, live broadcast of grand specials and star-studded spectacles

Channel	Language	Description
 TVB Drama	C	Drama channel delivering the latest and most popular titles from Korea, Japan and Taiwan, casted with the most prominent idols from these regions
 TVB Select	C	Drama channel assembling flagship drama titles from all around Asia, including popular TVB titles
 TVB Classic	C	Drama channel presenting a collection of the most memorable and admired TVB dramas from TVB's well-established library
 TVB Food	C	Unique channel on food tailor-made for HK audience with celebrity chefs and culinary experts introducing the most peculiar delicacies of the world
 TVB Lifestyle	C	General infotainment channel featuring modern living and lifestyle programmes hosted by local celebrities and professionals
 TVB Kids	C	Children channel offering a mixture of carefully selected animation and educational series that aim at encouraging creativity in children of all ages
 TVB Entertainment News	C	Entertainment News channel delivering the latest showbiz buzz from all over the world, as well as exclusive interviews with the hottest celebrities, both local and international
 TVB Movies	C	24-hour channel featuring a movie line-up of hits from Hong Kong, as well as the best of Asian cinema and animation titles
 TVBM	C	Music channel featuring non-stop sizzling hits, music videos, interviews as well as original music specials of popular local singers
 TVB Encore	C	Offering a same-day catch-up service of TVB Jade's weekday primetime programmes, including the two flagship TVB drama series, sit-com and infotainment programmes. On weekends, all five episodes of the two flagship dramas are broadcast consecutively
 TVBN	C	24-hour news channel reporting up-to-the-minute breaking news both locally and internationally as well as financial, sports and weather information
 TVBN2	C	24-hour news channel airing live and full coverage of selected local and international events ranging from Government press conferences to meetings and speeches of Legislative and District Council



**Television Broadcasts Limited**  
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