

Other Activities

Jade Animation

Upon the expiry of the business license of the joint venture company with Shenzhen Art Museum on 5 June 2005, Jade Animation discontinued its animation production operations and disposed of its assets in Shenzhen. Licensing activities of the animation library stock will be carried out by the marketing teams of TVB's Programme Licensing & Distribution Division.

Internet Operations

Growth was propelled mainly by the increase in the demand for 3G contents. This segment showed a 70% growth in revenue. As more 3G operators launch or enhance their services, further growth can be expected in the short to medium term.

Advertising income showed a slight decline but this was due to seasonal factors and the full year performance is expected to grow. As a result, profit for the Period showed a healthy increase of 24% over last year.

Devices and transmission technology for the reception and dissemination of digital content continue to evolve at a rapid pace. The Company will exploit all appropriate technologies to increase revenue generation and penetration of TVB content in an increasingly diverse media market.

Publishing Operations

TVB Weekly has positioned itself to be the weekly magazine targeting the followers of TVB *Jade* channel. To increase competitiveness in an oversupplied magazine market in Hong Kong, *TVB Weekly* had undergone a substantial restructuring of all aspects of its operations, including editorial, distribution and marketing, during the Period. This has resulted in a better format and presentation of the contents, as well as improvement in the standard of photography. Staffing level had also been streamlined. As a result, operating costs, including staff costs, had been significantly reduced compared with the same period of last year.

Despite the efforts made, advertising income from *TVB Weekly* saw a reduction that was partially offset by savings in operating costs. Overall, profit from this segment of the business was down by 24%. However, we expect that through the changes made the publishing operations will be on a better footing for revenue and profit growth in the next 12 months.

Hong Kong Pay TV Platform

The Group's pay TV operation is held under GSB. In May 2005, GSB changed its brand name "*ex-TV*" to "*SuperSUN*" to reflect a new operation.

To increase its service coverage, GSB signed a cooperation agreement with Hutchison Global Communications Limited ("HGC") in January 2005 to deliver GSB's *SuperSUN* pay TV service by leveraging HGC's broadband network in Hong Kong. This arrangement enhances both companies' competitive edges in bringing innovative infotainment services to customers.

New bundled services incorporating both GSB and HGC's services have been launched in the market since the end of July 2005. Under these arrangements, subscribers will simply install a set-top box with HGC's broadband connectivity to enjoy *SuperSUN*'s TV programmes.

Currently, *SuperSUN* is transmitted via satellite through existing SMATV and CABD networks as well as through HGC's broadband network into set-top boxes of individual homes. On channels line-up, *SuperSUN* is currently carrying 42 channels on its SMATV platform and 40 channels over its broadband platform. Amongst these channels in the respective platforms, six are produced and packaged by TVB. 24-hour news channel *tvbN*, TVB's classic drama channel *tvbChoice*, interactive consultation and health advices channel *tvbHealth*, music channel *tvbM*, children's channel *tvbQ*, and acquired Asian region and overseas soap operas channel *Drama Select*, are produced for the local pay TV market and broadcast in Cantonese.

Besides the provision of pay television business in Hong Kong, GSB also engages in teleport business which includes the provision of satellite uplink and playback services.

Financial Review

Important Events

On 4 February 2005, a wholly-owned subsidiary of the Company entered into a conditional sale and purchase agreement with Primasia Development Co. Ltd. for the purchase of the remaining 30% of the issued share capital in Liann Yee Production Co. Ltd. ("LYP") not held by the Group for a cash consideration of NT\$900 million (approximately HK\$220.95 million). The transaction was approved by shareholders at an extraordinary general meeting held on 21 March 2005. As a result, the Group's interest in the shareholding in LYP increased from 70% to 100%.

On 21 April 2005, TVB Satellite TV Holdings Limited ("TVB Satellite"), a wholly-owned subsidiary of the Company, entered into a transaction with Enjoy Profits Limited, Ruili Holdings Limited, Dr. Chan Kwok Keung, Charles for the disposal of 49% and 2% equity interests respectively in GSTV, which owns 100% equity interest in GSB, to Ruili Holdings Limited, through Enjoy Profits Limited, and Dr. Chan Kwok Keung, Charles for a total cash consideration of HK\$350 million. Completion of the transaction is subject to, inter-alia, the settlement of unpaid capital contribution by the Group to GSTV of HK\$377 million. Completion of the first closing of the transaction took place on 12 August 2005, and completion of the second closing is scheduled to take place before 31 December 2005.

Capital Assets, Investment, Liquidity and Debts

As at 30 June 2005, non-current assets of the Group stood at HK\$2,553 million, a decrease from 31 December 2004 of HK\$2,615 million. The net decrease was attributable to the recognition of goodwill on acquisition of the remaining 30% equity interest in LYP, offset by the decrease in the net book value of property, plant and equipment and the shared losses of the associated company, GSTV.

Cash and bank balances as at 30 June 2005 amounted to HK\$456 million, a decrease of 15% over last year end (December 2004: HK\$536 million). About 38% of the cash balance was maintained in overseas subsidiaries for their daily operation. To finance current working capital requirements, sufficient banking facilities have been arranged. Cash and cash equivalents held by the Group were principally in Hong Kong Dollars, US Dollars and New Taiwan Dollars.

Trade and other receivables, prepayment and deposits increased from HK\$1,025 million to HK\$1,111 million which represented an 8.4% increase from the position at the end of last year, reflecting a higher level of billing and the programme fee receivable from GSB. Specific provision had been made, where appropriate, to cover any potential bad and doubtful debts. Trade and other payables and accruals remained almost the same as last year end.

The Group recorded a gearing ratio of 0.04% as of 30 June 2005 (December 2004: 2%) which was measured by total debts of HK\$1.5 million (December 2004: HK\$61 million) against a shareholders' fund of HK\$3,874 million (December 2004: HK\$3,671 million). The decrease was due to the repayment of bank loans.

Contingent Liabilities

There were guarantees to the extent of HK\$8.5 million (December 2004: HK\$8.8 million) provided to bankers for banking facilities.

In March 2005, the Group received additional profits tax assessment notices from the Inland Revenue Department of Hong Kong for the year of assessment 1998/99 for profits generated by the Group's programme licensing and distribution business carried out overseas. The total amount of the additional assessments of profits tax was HK\$98,277,000. The Group was granted a holdover of the payment on condition that tax reserve certificates are purchased. Tax reserve certificates of HK\$23,989,000 were purchased in May 2005. The Group has objected to these additional assessments. The Group believes that the objection is well founded, and is determined to defend the Group's position vigorously. On this basis, the Group is of the view that no additional tax provision is necessary.

Exposure to Fluctuations in Exchange Rates and Related Hedges

As at 30 June 2005, there was no exchange contract entered into by the Group with financial institutions to sell forward foreign currencies in order to hedge against fluctuation for trade receipts from overseas customers (December 2004: HK\$5.8 million). Consequently, there were no unrealised gains or losses arising from such forward contracts (December 2004: HK\$0.5 million).

HUMAN RESOURCES

As of 30 June 2005, the Group employed, excluding directors and freelance workers but including contract artistes and staff in overseas subsidiary companies, a total of 4,625 (December 2004: 4,843) full-time employees. About 27% of our manpower was employed in overseas subsidiaries and was paid on a scale and system relevant to their localities and local legislation. For local employment, different pay schemes are operated for contract artistes, sales and non-sales employees. Contract artistes are paid either on a per-show basis or by a package of shows. Sales personnel are remunerated based on on-target-earning packages comprised of salary and sales commissions. Non-sales personnel are offered a monthly salary. There was no share option scheme adopted by the Group during the Period. From time to time, the Group organises, either in-house or with vocational institutions, seminars, courses and workshops on subjects of technical interest, such as industrial safety, management skills and other related studies, apart from sponsorship of training programmes that employees may enroll on their own initiative.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2005, the beneficial interests of the Directors and chief executive in the shares of the Company as recorded in the register maintained under Section 352 of the Securities and Futures Ordinance were as follows:

	No. of Ordinary Shares of HK\$ 0.05 each				Percentage of Issued Capital (%)
	Personal Interests	Family Interests	Corporate Interests	Total	
Sir Run Run Shaw	-	1,146,000#	141,174,828* (a)	142,320,828	32.49%
Christina Lee Look Ngan Kwan	602,144	-	16,701,000 (b)	17,303,144	3.95%
Mona Fong	1,146,000#	-	-	1,146,000	0.26%
Chien Lee	600,000	-	-	600,000	0.14%
Dr. Li Dak Sum	-	-	300,000 (c)	300,000	0.07%
Louis Page	160,000	-	-	160,000	0.04%
Dr. Chow Yei Ching	100,000	-	-	100,000	0.02%

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

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

(b) 10,377,000 shares were held by Trio Investment Corporation S.A., 1,581,000 shares were held by Crystal Investments Limited, 3,162,000 shares were held by Compass Inc. and 1,581,000 shares were held by Bonus Inc. and in respect of such shares only, directors of these companies are all accustomed to act in accordance with the directions of Mrs. Christina Lee Look Ngan Kwan.

(c) The shares were held by Roxy Property Investment Co. Ltd. in which Dr. Li Dak Sum holds a 100% equity interest.

All the interests stated above represent long positions. The Company or its subsidiaries did not grant to the Directors or chief executive or their spouse or children under 18 years of age any rights to subscribe for shares or debentures of the Company or any other body corporate.