Television Broadcasts Limited

(Incorporated in Hong Kong with limited liability)

Stock Code: 00511

ANNOUNCEMENT OF 2012 ANNUAL RESULTS

RESULTS HIGHLIGHTS:

- Group's turnover increased by 5%, from HK$5,209 million to HK$5,448 million.
- Profit attributable to equity holders increased by 11%, from HK$1,556 million to HK$1,730 million.
- Final dividend was recommended at HK$2.00 per share (2011: HK$1.75 per share), making a total dividend of HK$2.60 per share (2011: HK$2.20 per share) for the year. The total dividend represented a 66% payout (2011: 62%) to the current year's profit attributable to equity holders.

The Board of Directors ("Board") of Television Broadcasts Limited ("Company" or "TVB") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, "Group") for the year ended 31 December 2012 as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	**2012** **HK$'000**	2011 HK$'000
Turnover	2	**5,447,884**	5,208,865
Cost of sales		**(2,023,479)**	(1,807,293)
Gross profit		**3,424,405**	3,401,572
Other revenues	2	**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	9, 10	**(100,000)**	(135,000)
Finance costs	5	**(4,067)**	(4,128)
Share of losses of jointly controlled entities		**(1,071)**	(5,989)
Share of profits/(losses) of associates		**112**	(57,963)
Profit before income tax	4	**2,138,925**	2,096,973
Income tax expense	6	**(402,996)**	(537,438)
Profit for the year		**1,735,929**	1,559,535
Profit attributable to:			
Equity holders of the Company		**1,730,159**	1,555,585
Non-controlling interests		**5,770**	3,950
		1,735,929	1,559,535
Earnings per share (basic and diluted) for profit attributable to equity holders of the Company during the year	7	**HK$3.95**	HK$3.55
Dividends	8	**1,138,800**	963,600

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	HK$'000	HK$'000
Profit for the year	**1,735,929**	1,559,535
Other comprehensive income:		
Currency translation differences	**37,984**	(33,414)
Other comprehensive income for the year	**37,984**	(33,414)
Total comprehensive income for the year	**1,773,913**	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
Total comprehensive income for the year	**1,773,913**	1,526,121

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	**2012**	2011
		HK$'000	HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**2,813,832**	2,352,012
Investment properties		**12,848**	11,821
Land use rights		**71,470**	55,614
Goodwill		**175,545**	170,525
Interests in jointly controlled entities		**15,533**	16,604
Interests in associates	9	**648,947**	529,112
Available-for-sale financial assets		**3**	3
Deferred income tax assets		**18,493**	26,050
Prepayment	10	**–**	16,695
Total non-current assets		**3,756,671**	3,178,436
Current assets			
Programmes and film rights		**368,004**	336,911
Stocks		**13,940**	13,122
Trade and other receivables, prepayments and deposits	10	**1,970,481**	1,605,239
Tax recoverable		**800**	461
Pledged bank deposits		**7,230**	7,316
Bank deposits maturing after three months		**435,099**	397,060
Cash and cash equivalents		**3,169,247**	3,295,584
Total current assets		**5,964,801**	5,655,693
Total assets		**9,721,472**	8,834,129
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**21,900**	21,900
Other reserves	13	**863,623**	807,568
Retained earnings			
– Proposed final dividend		**876,000**	766,500
– Others		**6,039,731**	5,467,480
		7,801,254	7,063,448
Non-controlling interests		**86,084**	30,044
Total equity		**7,887,338**	7,093,492

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
AS AT 31 DECEMBER 2012

	Note	**2012**	2011
		HK$'000	HK$'000
LIABILITIES			
Non-current liabilities			
Borrowing	11	**180,088**	197,153
Deferred income tax liabilities		**152,966**	179,779
Retirement benefit obligations		**5,226**	5,189
Total non-current liabilities		**338,280**	382,121
Current liabilities			
Trade and other payables and accruals	12	**995,876**	896,693
Current income tax liabilities		**474,739**	437,589
Borrowing	11	**25,239**	24,234
Total current liabilities		**1,495,854**	1,358,516
Total liabilities		**1,834,134**	1,740,637
Total equity and liabilities		**9,721,472**	8,834,129
Net current assets		**4,468,947**	4,297,177
Total assets less current liabilities		**8,225,618**	7,475,613

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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. Turnover and other revenues

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.

2. **Turnover and other revenues** (continued)

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

	2012	2011
	HK$'000	HK$'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

3. Segment information

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.

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 10(a)) has been excluded since it had already been reported within additions to non-current assets in the year 2011.

3. Segment information (continued)

	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 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.

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	**2,138,925**	2,096,973

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

3. **Segment information** (continued)

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
	5,447,884	5,208,865

4. **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	**264,385**	233,259
Amortisation of land use rights	**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)	**1,513,879**	1,364,197

5. Finance costs

	2012	2011
	HK$'000	HK$'000
Interest on bank loan		
– Wholly repayable within 5 years	**144**	–
– Wholly repayable over 5 years	**3,923**	4,128
	4,067	4,128

6. 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	2011
	HK$'000	HK$'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	**(19,176)**	13,090
– Effect of decrease in tax rate	**49**	68
	402,996	537,438

Note:
In 2004, the Inland Revenue Department of Hong Kong ("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 10). Similar additional assessments may be issued for subsequent years of assessment.

6. Income tax expense (continued)

Note (continued):

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.

7. 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.

8. 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.

9. Interests in associates

	2012	2011
	HK$'000	HK$'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
Interest receivables from an associate	**12,781**	8,733
	738,764	540,389
Less: Provision for impairment loss	**(89,817)**	(11,277)
	648,947	529,112
Unlisted shares, at cost	**736,813**	542,598

Notes:

(a) 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.

(b) The loan to an associate carries interest at the rate of 1-month HIBOR plus 0.25%. On 27 December 2012, the Company and TVB Pay Vision Limited (renamed as TVB Network Vision Limited on 5 March 2013) mutually agreed to revise the repayment schedule to repay the loan by 7 installments from 2016 to 2022.

(c) 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 10. The Group periodically reviews the aggregate exposures from associates (note (b) and Note 10) 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.

10. Trade and other receivables, prepayments and deposits

	2012 HK$'000	2011 HK$'000
Non-current portion		
Prepayment related to capital expenditure (note (a))	**–**	16,695
Current portion		
Trade receivables from:		
Jointly controlled entities	**24**	2,785
Associates	**422,166**	400,550
Related parties	**74,340**	73,927
Third parties (note (b))	**1,420,031**	1,159,723
	1,916,561	1,636,985
Less: Provision for impairment loss on receivables from:		
Associates	**(421,674)**	(400,217)
Third parties	**(91,046)**	(85,728)
Other receivables, prepayments and deposits	**248,049**	192,042
Tax reserve certificates (Note 6)	**318,591**	262,157
	1,970,481	1,605,239
Total	**1,970,481**	1,621,934

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.

10. 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:

	2012	2011
	HK$'000	HK$'000
Current	**582,488**	539,452
1-2 months	**357,857**	262,871
2-3 months	**249,741**	205,351
3-4 months	**154,916**	125,998
4-5 months	**58,754**	52,084
Over 5 months	**512,805**	451,229
	1,916,561	1,636,985
Trade receivables due from:		
Third parties	**1,420,031**	1,159,723
Jointly controlled entities, associates and related parties	**496,530**	477,262
	1,916,561	1,636,985

11. Borrowing

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

12. Trade and other payables and accruals

	2012	2011
	HK$'000	HK$'000
Trade payables to:		
Associates	**543**	–
Jointly controlled entities	**–**	11
Related parties	**9,378**	3,637
Third parties	**114,181**	82,756
	124,102	86,404
Receipt in advance, deferred income and customers' deposits	**196,102**	231,912
Provision for employee benefits and other expenses	**394,116**	328,650
Accruals and other payables	**281,556**	249,727
	995,876	896,693

12. Trade and other payables and accruals (continued)

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

	2012	2011
	HK$'000	HK$'000
Current	**84,405**	56,317
1-2 months	**25,511**	22,695
2-3 months	**9,814**	4,028
3-4 months	**3,167**	1,009
4-5 months	**702**	498
Over 5 months	**503**	1,857
	124,102	86,404

13. Other reserves

	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 subsidiaries 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**

CHAIRMAN'S STATEMENT

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.

45TH ANNIVERSARY

On 19 November 2012, we celebrated our 45th 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 organization 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

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[1] ("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.

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[1] ATV is one of the two licencees holding the free-to-air broadcasting licence in Hong Kong.

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.

45th Anniversary

To celebrate the grand occasion of TVB's 45th 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[2], 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[3] of 31 and a 97% audience share[4]. 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.

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2 During weekday primetime, Jade is defined as an aggregate of Jade and HD Jade ("Total Jade").

3 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.

4 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.

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 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.

Jade Channel

Jade achieved an average 25 TVRs during weekday primetime[5] 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 45th 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.

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

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 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.

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 Docutainment 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 Cho-lam went travelling in Thailand. The show won Best Variety Programme of 2012.

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*.

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.

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.

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 14th 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.

Pearl Channel

A wide variety of high-quality programmes helped Pearl achieve an average of 81% audience share during its weekly primetime[6] 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.

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 84th Academy Awards®* 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.

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[6] Pearl's weekly primetime runs from 8 p.m. to 1 a.m., Mondays to Sundays.

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.

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 15th 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.

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 E-News brought the latest showbiz stories from all over the world to the audience. The 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, TVBPV 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 TVBPV. 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 TVBPV 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.

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.

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-customized 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 monetization. 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.

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[7] 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%.

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[7] 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

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 impairment loss carried forward at 31 December 2012 amounted to HK$510 million. On this basis, the Group's total interest in TVBPVH 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 TVBPV, 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 TVBPVH.

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.

INTERNATIONAL 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.

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 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 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.

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.

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.

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 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 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.

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 gross debts 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.

FINAL DIVIDEND

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, 17th 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, 17th 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.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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 Company. These practices are in line with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("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 had 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.

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)[Note] of the Company's Articles of Association ("Articles"). The Company put forward a special resolution at its 2012 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.

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.

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 keys terms of their appointment in writing for each of the Directors. Therefore, the Company now complies with D.1.4 of the CG Code.

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 as 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.

All Directors and members of Senior Management confirmed, following specific enquiries by the Company, that they had complied with the Model Code during the year, where applicable, from the period started on 1 January 2012 up to their retirement or resignation dates; or from their appointment dates up to the year ended on 31 December 2012.

AUDIT COMMITTEE

The Audit Committee comprises three members, Mr. Gordon Siu Kwing Chue (Chairman), Mr. Chien Lee and Mr. Kevin Lo Chung Ping, the majority of whom are Independent Non-executive Directors of the Company. The Audit Committee members are experienced in reviewing and analysing financial information and possess appropriate accounting and related financial management expertise.

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 annual consolidated financial statements for the year ended 31 December 2012 before such statements were presented to the Board of Directors for approval.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2012 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This final results announcement is published on the Company's website at www.tvb.com and the designated issuer website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. The Company's 2012 Annual Report containing all the information required by the Listing Rules will be despatched to shareholders and made available on the above websites in April 2013.

ANNUAL GENERAL MEETING

The 2013 AGM of the Company will be held at TVB City, 77 Chun Choi Street, Tseung Kwan O Industrial Estate, Kowloon, Hong Kong on Wednesday, 22 May 2013 at 12:00 noon.

By Order of the Board
Adrian MAK Yau Kee
Company Secretary

Hong Kong, 27 March 2013

As at the date of this announcement, the Board of the Company comprises:

Executive Directors
Dr. Norman LEUNG Nai Pang GBS, LLD, JP, Executive Chairman
Mark LEE Po On Group General Manager

Non-executive Directors
Mona FONG
Kevin LO Chung Ping
Dr. Charles CHAN Kwok Keung
Cher WANG Hsiueh Hong
Jonathan Milton NELSON
Anthony LEE Hsien Pin
CHEN Wen Chi

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

Alternate Directors
Dr. Allan YAP Alternate Director to Dr. Charles CHAN Kwok Keung
Harvey CHANG Hsiao Wei Alternate Director to Cher WANG Hsiueh Hong
SUN Tao Alternate Director to Jonathan Milton NELSON