Interim Report

The directors are pleased to present the Group's interim report and condensed accounts for the six months ended 30 June 2001. The consolidated profit and loss account, consolidated cash flow statement and consolidated statement of recognised gains and losses for the Group for the six months ended 30 June 2001, and the consolidated balance sheet as at 30 June 2001 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on page 7 to 27 of this report.

INTERIM DIVIDEND

The directors are pleased to declare an Interim Dividend of HK$0.20 (2000: HK$0.20) per share for 438,000,000 issued shares.

Dividend warrants will be despatched to shareholders on 5 October 2001. The transfer books of the Company will be closed from 26 September 2001 to 28 September 2001, both dates inclusive.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

(a) Operating Results for the Period

For the six months ended 30 June 2001, the Group has achieved a turnover of $1,542 million representing just a modest increase of 1.5% over the same period last year. Profit attributable to shareholders amounted to $247 million, a 11.9% increase over the same period last year. Earnings per share increased to HK$0.56 (2000: HK$0.50).

(b) Business Review and Prospect

Terrestrial television broadcasting

In the first half, our ratings and audience share continued high, with the exception of one primetime slot that came under pressure in May, continuing through August, when we launched a directly competing programme that has enabled us to rebuild strength in that spot.

Notwithstanding the sluggish macroeconomic environment, we were able to achieve modest growth in revenues for the first half. Looking ahead to the second half, we anticipate a continuation of the present cyclical downturn and a likely further slowing that will impact all advertising media including television. As we move further into this problematic economic environment during the second half, TVB's traditionally tight control of costs will stand the Company in good stead, as it has in years past under similar circumstances.

In addition to the Company's ongoing strong Hong Kong-based production operations, TVB continues to expand its co-production relationships and ventures in the PRC. These activities not only expand the pool of programming available to the Company's various platforms, but also improve TVB's positioning in relationship to the developing PRC market.

Programme licensing & distribution

Reflecting the continuing powerful appeal of our programming in international markets, the Company's programme licensing and distribution business experienced very healthy growth in the first half, showing a notable increase over first-half 2000. We expect this strong performance to continue throughout the remainder of the year and beyond.

Overseas satellite pay TV operations

(a) TVB Satellite Platform (TVBSP) USA

TVBSP launched its new digital service earlier this year, requiring replacement of old analog set-top boxes with new digital models in the homes of our analog subscribers. The cost of the replacement boxes resulted in an increased loss during the first half, but positioned TVBSP to operate a multi-channel platform and provide state-of-the-art service in the future as business in the USA continues to expand. The TVBSP subscriber base is experiencing steady growth. If as anticipated, growth continues at the present rate, we expect the platform to breakeven in 2003.

(b) TVB Australia (TVBA)

Catering to a smaller Chinese community than in the USA and with subscriber numbers increasing at a slower rate, TVBA is targeting breakeven for 2004.

(c) The Chinese Channel (TCC) Europe

While TCC was originally expected to break even this year, piracy of the service via illegal set-top boxes began to impact negatively on results during the first half. We are presently taking measures to counter the piracy, and will have them in place by the fourth quarter.

Channel operations

(a) Taiwan

Although we have maintained the competitive ratings of our TVBS channels there, the Taiwan operation nevertheless suffered a loss in the first half, hurt by the generally bad economic conditions now prevailing in Taiwan and the attendant depressed advertising market. A boycott of television advertising by the local music industry added to the negative tone of the market. In response, we are taking action to restructure, fine-tune and tighten up our business there. Assuming improvement in the overall economy, we expect to be profitable there in 2002.

(b) TVB8 & Xing He

Following decrypting and reformatting of the TVB8 channel earlier this year, we have seen improved PRC penetration and increased advertising sales for these channels. We are confident of continued progress on this front and anticipate breakeven in late 2002.

Other activities - TVB.COM

By relocating most of TVB.COM's activities to a new, low-cost base in Shanghai, we have dramatically reduced Hong Kong operating costs and expenditures and positioned this business to better take advantage of Internet-related opportunities in the PRC.

TVB.COM is focusing on aggregating content targeted for distribution in the PRC via broadband Internet. TVB.COM is presently involved in late-stage negotiations with key, large-scale broadband service providers in the PRC. These new initiatives will open yet another window for the distribution of TVB content and be an important factor in the conversion from narrow to broadband Internet service in China.

New business - Hong Kong pay TV

TVB sees a major opportunity for the Company and its subsidiary, Galaxy Satellite Broadcasting Limited (Galaxy), in the development of a pay TV service for Hong Kong. This view is based primarily on the following postulates:

1) While subscription rates are among the most affordable in Asia relative to GDP, the Hong Kong pay TV market is considerably under-penetrated at around 25%, indicating substantial potential for growth.
2) The present low rate of penetration of pay TV in Hong Kong is largely attributable to the inadequacies of existing services.
3) TVB, a content powerhouse, and Galaxy possess all the necessary resources to address the considerable shortcomings in existing services and are thus ideally positioned to power growth in rates of pay TV penetration.

As provided for in HKSAR government regulations, Galaxy recently bid for and won a package of 5 pay TV channels to be provided by TVB. Preparations are now underway to launch a 24-channel Galaxy service in the third quarter of 2002, following the expiration of the government's 18-month moratorium.

Working towards reducing, as required by the government, TVB's ownership share in Galaxy below 50%, Galaxy is presently talking with both strategic and financial investors who have expressed interest in the project.

Though outside investment remains to be finalized, as an expression of Galaxy's confidence in and commitment to this project, Galaxy recently posted a performance bond totalling HK$88 million, committing Galaxy to minimum performance in a number of different categories, including (1) numbers of channels to be made available by Galaxy as of specific dates; (2) numbers of homes passed by the service as of specific dates; (3) required levels of capital and operating expenditures as of specific dates, and (4) the construction of certain key facilities by specified dates. The bond specifies no blanket penalty for non-performance in any category; but only specific, limited financial penalties for non-performance in specific categories and sub-stages of development within the categories.

Galaxy's total capital and operating expenditures - such as installation of satellite receiving dishes on buildings, subsidizing of set-top boxes to subscribers, costs of channels and programming for the service - are largely scalable and will grow only as the business grows. The major portion of these expenditures is expected to be financed by Galaxy's internally generated cash flow.