

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

(a) Operating Results for the Year

The Group registered turnover of HK\$3,265 million for the year, representing a decrease of 6.5% over last year. Profit attributable to shareholders amounted to HK\$596 million, as compared to HK\$774 million in year 2000. Year 2000 profits included an extraordinary, non-recurring contribution of HK\$129 million from “profit arising from the issuance of new shares in subsidiaries”. Earnings per share were HK\$1.36, compared to HK\$1.77 in 2000.

(b) Business Review and Prospect

Terrestrial television broadcasting

2001 was a challenging year for the Hong Kong advertising industry. In response to the difficult economy and declining sales revenues, many retail advertisers reduced their spending on advertising. Notwithstanding the negative economic environment and reduced advertising pool, the Company was able to increase its share of overall spending on advertising compared to other media. This was made possible by our sales campaign focusing on property developers in the mainland, and on financial institutions in Hong Kong offering credit card, banking, insurance and other services. Our efforts to create more innovative ideas and formats for programme and segment sponsorships were also successful in gaining us an increased share of Hong Kong advertising budgets.

The 9/11 terrorist attacks in the USA wrought economic havoc across the world, and we here in Hong Kong did not escape. Nearly all travel-related advertising came to a complete standstill following the attacks. However, because of our broader, diversified clientele, TVB’s advertising income was less affected in the aftermath of this calamity than other advertising media in Hong Kong. Moreover, the Company’s advance airtime contracts with advertisers also provided something of a safety net to the Company, enabling us to minimize the effect of the massive advertising budget reductions initiated by advertisers following the 9/11 tragedy.

Looking beyond 2001, we will continue to strive for larger market share and improved advertising earnings by providing additional multi-media services to Hong Kong clients as well as increasing significantly our selling activities inside the mainland. With China’s new membership in the World Trade Organization (WTO), the country’s economy should become more vibrant in the coming years, experiencing anticipated growth rates in the high single-digits. The positive growth prospects in the mainland’s potentially huge economy will provide TVB a fruitful field to continue to expand its business there. With the concerted efforts of our sales, production and programme divisions, we are confident that we will continue to maintain our dominant market share and see improvement in our revenues once the economy recovers.

Despite keen competition in the television broadcasting industry, both TVB channels continued to garner impressive audience share in 2001.

The Jade Channel

For the year 2001, Jade achieved an overall weekday primetime average audience share of 77%. The top 66 programmes on Chinese terrestrial TV were Jade programmes. 8 of the top 10 programmes in 2001 were dramas on Jade.

Advanced computer technology greatly enhanced production values for our spectacular drama series, “A Step into the Past” and “Gods of Honour”. Both achieved high ratings.

During the year, Jade family entertainment dramas creatively and successfully included information about various trades and professions. Reality-based dramas, “On the Track or Off” and “Healing Hands II”, captivated vast audiences, while other series, such as “The Awakening Story” and “Reaching Out”, celebrated the human spirit and touched the hearts of viewers.

Jade remained strong in variety and game shows, and in musical extravaganzas. The “TVB 34th Anniversary Special” enjoyed a very large audience share, while the “Jade Solid Gold Best Ten Awards Presentation” was very popular with viewers. Jade successfully introduced to Chinese-speaking viewers the BBC’s popular game show format, “The Weakest Link”, earning high ratings and nosing out the competition. Our celebrity game show, “Super Trio Show”, was also very successful. TVB’s innovative “reality-format” shows, “Wild Castaway” and “Slim Fight”, were very well received by our audiences.

TVB news and public affairs programmes continued to provide timely reports and in-depth analysis. Great efforts were made in the coverage of the 9/11 events, including nearly 16 hours of live coverage of the latest breaking news and information on subsequent developments. TVB was also the only Hong Kong news team with its own reports on the scene in New York almost immediately after the attack providing first-hand, instant information to audiences in Hong Kong.

The Pearl Channel

With its continuous efforts to provide balanced, quality programming, our English language Pearl Channel achieved an overall primetime average audience share of 76% for the year. In 2001, 99 of the Hong Kong’s top-rated 100 English language programmes were on Pearl.

A strong lineup of blockbusters movies enabled Pearl to become the second-highest-rated terrestrial channel, including both English and Chinese channels, in the 9:30 p.m. - 11:30 p.m. timeslot, just behind Jade.

Apart from movies, mini-series and award-winning dramas offered on Pearl through our “Serial Tuesday” format attracted a stable group of viewers.

Different kinds of quality documentary programmes, such as “The Blue Planet”, “Planet Ocean”, “The Ballad of Big Al”, and “Big Al the Science” were broadcast in response to viewers’ growing interest in nature and science.

During the year, Pearl brought to Hong Kong audiences world-class sporting events like “Wimbledon Tennis 2001” and “Salem Open 2001”. The live broadcast of “The F.A. Charity Shield 2001 - Manchester United vs. Liverpool” was cheered during primetime by a vast number of the Hong Kong’s soccer fans.

Pearl also started to further cultivate audience interest in cultural programmes. A series of music programmes featuring singer virtuoso, Andrea Boccelli, was a fine example.

Community and Public Service

Despite the economic challenges faced by Hong Kong’s businesses and citizens, TVB was able to raise a total of HK\$133 million for a variety of social causes and charitable organizations during the year.

The annual fund-raising programme, “Tung Wah Charity Special”, not only entertained millions of viewers, but also enjoyed tremendous public support, raising a total of HK\$70 million for the Tung Wah Group. The “Community Chest Charity Show 2001” captivated audiences and raised HK\$14.7 million. The 12-episode “Happy Family Flagship” added HK\$6.4 million to the Chest, and the popular game show, “The Weakest Link”, also contributed a total of HK\$2.1 million to various charity organizations and services.

Commendations and Awards

During the year TVB earned international recognition for our contributions to the Hong Kong community, as well as for our programming and promotional productions.

The National Association of Broadcasters (NAB) awarded TVB their “International Broadcasting Excellence Award 2001” in recognition of the company’s outstanding contributions to the community through a wide range of charitable programmes and activities. Hong Kong thus became the first city in Asia to receive this award.

At the New York Festivals 2001, “The Pearl Report: Clawing Out the Cage”, won the “Silver Medal in the category of Nature and Wildlife”. “2008 Olympic Image” won the “Bronze Medal of Station/Image Production”.

Other awards included the news programme, “Fortune Global Forum & Protests”, which was given “Special Commendation for Information Programmes Television” by the Asian Broadcasting Union. “Valentine’s Day Image” won the “Gold Prize for Best Holiday Promo” at the PROMAX Asia 2001 Awards, and the set design of “At The Threshold of an Era” won the “Silver Medal” in the “One Time Only Set” at the 23rd Annual BDA Design Awards. At the Asian Television Awards, “News at 6:30 (9 June 2001)” was joint runner-up in the “Best News Programme” category.

New TV City

To further strengthen TVB’s production capabilities, the Company is presently constructing and equipping a new TV City located in the Tseung Kwan O Industrial Estate. The new facility will offer total covered and usable floor space of more than 100,000 square meters, 30% larger than our existing facility at Clear Water Bay. The