

move to this state-of-the art, fully digital facility will further strengthen the Company in its leading role as a world-class television broadcaster and programme producer.

### **Mainland Ventures**

During the year, TVB has entered into agreements to set up joint ventures that will engage in several businesses in the mainland, including the provision of broadband content and production of programmes for overseas and mainland distribution. Such alliances with mainland partners are highly synergistic and profitable and will significantly improve TVB's positioning to take advantage of future opportunities in the mainland, which are expected to proliferate following China's WTO entry.

### **Programme Licensing and Distribution**

Apart from the steady growth of revenue generated from cable operators around the region carrying TVB channels and programmes, video licensing also showed impressive double-digit growth for the year in both revenue and profit. Major areas of growth were in Singapore, Malaysia and the USA. At the same time, VCD sales enjoyed a significant increase over the previous year.

In year 2000 our television licensing business in the mainland suffered as a result of changes in the country's television broadcasting regulations prohibiting the primetime broadcast of imported programming. Our results in this area for 2001 showed considerable improvement year-on-year. Owing to better distribution and cooperative efforts with our licensee in the mainland to combat piracy, our VCD licensing revenue also registered impressive growth. During the year one title of co-produced drama was completed in the mainland and two were in post-production stages. More co-productions will be undertaken in 2002, a year that we anticipate will see double-digit growth in licensing and distribution revenues.

### **Overseas Satellite Pay TV Operations**

#### **(a) TVB Satellite Platform (TVBSP) USA**

After converting the previously one-channel offering there into a multi-channel service, the number of our subscribers has grown by more than two-thirds. New Mandarin language channels, such as CCTV 4, were also introduced during the year to expand our reach into that market segment. Additional new services, such as a pay-per-view movie channel, will gradually be added in 2002 to further enhance growth in the subscriber base.

#### **(b) TVB Australia (TVBA)**

Our multi-channel direct-to-home satellite service in Australia has increased considerably in popularity through better and more intensive marketing and expanded content. In the coming year we will introduce to subscribers more package options so as to further broaden the appeal of the service.

#### **(c) The Chinese Channel (TCC) Europe**

In Europe, our direct-to-home satellite TV operation achieved single-digit percentage growth in the subscriber base over the year. Growth would have been

greater but for some smart card piracy affecting the service. The introduction of new smart cards in 2002 should solve this problem.

### **Channel Operations**

#### **(a) Taiwan**

Although TVBS channels continue to lead the market in popularity, particularly in news programming, advertising revenues declined in 2001 mainly due to depressed economic conditions in Taiwan, exacerbated by the 9/11 terrorist attacks in the USA and two strong typhoons which hit the island in August and September. As a result, our operations in Taiwan made a loss for the year. The shortfalls were offset to some extent by the continuing growth in revenues from our TVBS Magazine and the operation's overseas channel, TVBS-Asia.

In 2002, we expect TVBS to continue its leading market position and to begin to capture the potential benefits from Taiwan's membership in the WTO. The TVBS Magazine should also benefit from this. The revenue of the TVBS-Asia channel should also continue to grow as its distribution base continues to expand.

#### **(b) TVB8 & Xing He**

Penetration of the TVB8 channel in the mainland homes has increased substantially since the signal was unencrypted in April 2001. The Xing He channel, still encrypted, likewise has experienced steady growth. During the past year we have increased infotainment and financial content in order to reach a more affluent Chinese audience. For the coming year, we will focus efforts on exploiting advertising sales in the mainland and expanding distribution of our channels in the country. We anticipate strong growth in advertising revenue for the year.

### **Other Activities**

#### **(a) Jade Animation**

Jade Animation delivered double digit growth in revenue and profit in 2001 in its animation services and licensing activities. In a major business development initiative, Jade Animation is presently preparing to launch its animation channel. In order to build its library, Jade Animation will also actively participate in co-production projects and will seek appropriate opportunities to acquire animation programming from outside sources.

#### **(b) Internet Operations (Hong Kong & China)**

Since April 2001, our Internet operations, which had previously been placed under a non-wholly owned subsidiary, was relocated into a wholly owned subsidiary initially called Jade Profit Limited, and recently renamed TVB.COM Limited. A new issue of shares in TVB Publishing Holding Limited (previously known as TVB.COM Limited), completed in November 2001 with payment due in 2002 and beyond, will be accounted for in those years as "profit arising from the issuance of new shares in subsidiaries".

The year 2001 was indeed an important year for TVB's Internet operations.

In February, our Hong Kong Internet operations were downsized to a level ensuring their long-term viability. Currently the operation employs 27 staff only.

A major positive breakthrough in revenue was achieved through the sale of on-demand TVB content to the NOW.COM service of PCCW. A promising new source of revenue was also developed in the form of interactive Infoline services via fixed line as well as mobile telephone networks and SMS services via mobile networks.

Our “unique visitors per month” and user sessions have held steady throughout the year, and <http://www.tvb.com> continues to be one of the top two media content websites in Hong Kong. A recent online survey, which drew a tremendous response, clearly attests to the high level of usage and viewer loyalty our site commands.

In the mainland, our Internet operations made great strides in expanding its business model through a strategic partnership with Shanghai Telecom. Shanghai Telecom will become a 20% owner of Shanghai Jade Pearl Internet Technologies Limited (SJPIT). Shanghai Telecom will also enter into a commercial agreement with SJPIT for the launch of VOD services using TVB content on Shanghai Telecom’s broadband ADSL network in 2002.

(c) **Magazine Publishing**

Over the past months, the world economy has been in a downturn, with Hong Kong also suffering from the economic malaise. Most local industries, including periodicals, faced hardships during 2001. Owing to increased competitive pressures, as well as the overall economic distress, the principal publication of TVB Publications Limited (TVBP), TVB Weekly, experienced sluggish circulation and reduced advertising revenue.

On the positive side, through careful strategic planning and continued focused effort, TVB Weekly has maintained its traditional family orientation and captured a significant share of the youth market.

The Internet continued to be an important and popular communications medium in 2001, and we aggressively promoted TVB Weekly via that medium during the year. Through TVB’s Internet portal, TVB.COM, readers around the world were able to enjoy the unique content of TVB Weekly.

In 2002 we will continue the hard work and creative planning necessary to ensure our successful passage through the current challenging times. Through appropriate restructuring, we intend to maintain our leading edge and ensure that TVB Weekly will continue to be responsive to our readers’ interests. We will continue to improve our positioning and increase our market share.

TVBP will continue to be involved in overseas projects, including the publishing of TVB Weekly in selected international markets, enabling viewers of TVB