

programming around the world to derive even greater enjoyment from these productions through the in-depth coverage provided in the magazines. Based on these efforts, we anticipate improvement in both circulation and readership in the coming year, and hence expect to see substantial improvement in TVBP revenues for the coming year.

New Business - HK Pay TV

Galaxy Satellite Broadcasting's pay television licence requires that TVB sell down its ownership in the company below 50% before the launch of the service. Poor financial market sentiment subsequent to the withdrawal of our previous investor has thus far rendered us unable to secure the required outside investment. Discussions are continuing with a range of well-qualified strategic investors who have expressed interest in the project. A decision on the future of the project, within the series of constraints imposed by the licence, will be made in the second quarter of 2002.

FINANCIAL REVIEW

(a) Capital Structure and Liquidity

As of 31 December 2001, shareholders' funds of the Group stood at HK\$3,144 million, a 5% increase over last year (2000: HK\$2,983 million). Total debts, made up of short and long term bank loans, notes payable and bank overdrafts, decreased to HK\$307 million (2001) from HK\$334 million (2000) due to repayment and foreign exchange translation. The debts were taken out mainly for the purchases of properties, equipment and studio facilities in Taiwan. Loans totalling HK\$144 million are secured by the assets of the subsidiary companies. The debts are subject to floating rates of interest at 1% to 2% above the prevailing basic lending rates of the banks.

Cash and bank balances have been drawn down substantially, from the level in 2000 of HK\$1,319 million to HK\$673 million at the end of 2001, to fund progress payments for the New TV City project which is nearing completion in 2002. As a result, current assets moved down by HK\$576 million, while fixed assets were up by HK\$662 million during the year. It is expected that, toward the middle of 2002, it will be necessary for us to outsource from our bankers some part of the fund requirements for the New TV City project. Finance requirements of the Galaxy pay TV project is kept separate from the Group and will be arranged with the investors to be brought in.

Capital commitments of the Group, excluding the Group's share of commitments for jointly controlled entities, decreased by 40% to HK\$1,298 million (2000: HK\$2,152 million).

(b) Contingent Liabilities

There were guarantees to the extent of HK\$93.6 million provided to bankers for banking facilities and a performance bond issued to the Government of HKSAR.

(c) Exposure to fluctuation in exchange rates and related hedges

As of 31 December 2001, exchange contracts entered into with bankers to sell forward certain foreign currencies in order to hedge against fluctuation for trade receipts from

overseas customers amounted to HK\$3.6 million. When translated at rates in force at 31 December 2001, the value worked out comes very close to the value of these contracts.

HUMAN RESOURCES

As of 31 December 2001, the Group employed, excluding directors and freelance workers but including contract artistes and staff in overseas subsidiary companies, a total of 5,194 fulltime employees. About 25% of these were employed in overseas subsidiaries and were paid on a scale and system relevant to their localities and local legislation. For local employment, different pay schemes are operated for contract artistes, sales and non-sales employees. Contract artistes are paid either on a show basis or by a package of shows. Sales personnel are remunerated on the basis of on-target-earning packages comprised of salary and sales commissions. Non-sales personnel are offered, apart from a monthly salary, a year-end bonus equivalent to one month's salary. It has been decided and agreed with local staff that, starting 2002, the year-end bonus will be withdrawn. There was no share option scheme adopted by the Group during the year.