The directors are pleased to present the Group's interim report and condensed accounts for the six months ended 30 June 2002. The consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June 2002, and the consolidated balance sheet of the Group as at 30 June 2002, all of which are unaudited and condensed, along with selected explanatory notes, are set out on page 7 to 25 of this report.

INTERIM DIVIDEND

The directors are pleased to declare an Interim Dividend of HK$0.20 (2001: HK$0.20) per share for 438,000,000 issued shares.

Dividend warrants will be despatched to shareholders on 4 October 2002. The transfer books of the Company will be closed from 25 September 2002 to 27 September 2002, both dates inclusive.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

(a) Operating Results for the Period

For the six months ended 30 June 2002, the Group has achieved a turnover of HK$1,386 million representing a decrease of 10% over the same period last year. Profit attributable to shareholders amounted to HK$162 million, a 35% decrease over the same period last year. Earnings per share decreased to HK$0.37 (2001: HK$0.56).

(b) Business Review and Prospects

Terrestrial television broadcasting

TVB's ratings and audience share performance were very good during the first-half of 2002, continuing our long tradition of strong relative performance in the local free-to-air television market. The Chinese language Jade Channel's average weekday prime time audience share for the period was 83%, while the channel's audience share for the month of March hit 87%, the highest in ten years. Pearl, our English channel, achieved an average weekday prime audience share of 76% for the first-half.

However, the overall performance of our business and industry is closely correlated to the macro economy and, regrettably, as every one is well aware, Hong Kong's economic situation worsened considerably in the first-half of 2002 compared to the same period of the previous year. GDP was down substantially year-on-year, unemployment was much worse than in the first-half of 2001, and retail sales were off significantly - all indications of an economic environment calculated to test the mettle of all advertising media including television.

However, while our pre-tax local operating profit for the first-half was down a painful 57%, our consolidated net profits were down only 35% year-on-year, indicating the continuing growth and strength of our offshore businesses.

Looking forward to the second-half, we see several factors that support expectations for improvement. First, given the tragic events and attendant economic weakness of second-half 2001, our year-on-year comparison in the second-half of 2002 will be easier. This alone should enable us to make up some ground lost in the first-half. Second, there is a typical seasonality to our business that weights the second-half of the year heavier in sales than the first. Finally, if the underlying economy begins to recover, the normal second-half seasonality should be amplified, further improving results.

The construction of the new TV City at Tsueng Kwan O has been completed. We are commencing relocation this year, and the entire move should be accomplished by mid-2003. This world-class, state-of-the-art production centre, providing us increased capacity, and cutting-edge, digital technology across the board, will further enhance and upgrade our already strong production capacity.

Our production operations in the mainland have expanded steadily in recent years and will further expand in 2002, increasing the programme inventory drawn upon by our highly profitable licensing operations and international platforms and further broadening our base of operations in the mainland.

Programme licensing & distribution

First-half results clearly indicate the ongoing strength and growth of our licensing and distribution operations. Revenues were up nearly 16% year-on-year, and profits up an impressive 58% over the same period the previous year. The major thrust of growth is coming from telecast licensing to Malaysia, Singapore, Taiwan and North America. VCD sales have been affected by the economic malaise in Hong Kong and the month-long World Cup competition, but the negative impact there has been partially offset by substantial growth in our VCD business in the mainland. We anticipate continued growth in licensing and distribution in line with recent years.

Overseas satellite pay TV operations

(a) TVB Satellite Platform (TVBSP) USA

In the USA our multi-channel direct-to-home service showed double-digit first-half growth in its subscriber base. The service has expanded to include more Mandarin language channels. A new service package has stimulated new subscriber growth as well as increased average revenue per user.

(b) TVB Australia (TVBA)

Through concerted marketing efforts in local communities, our multi-channel direct-to-home service in Australia enjoys increased visibility and popularity in the market, generating double-digit subscriber growth in the first-half. Negotiations are underway to add additional, quality channels from the mainland to enable the service to increase penetration into Australia's Mandarin-speaking community.

(c) The Chinese Channel (TCC) Europe

Like other pay TV services in Europe, TCC's business has been negatively impacted by smart card piracy. As a result, growth in the subscriber base was stagnant. With the rollout of a new version of smart card, we anticipate the piracy problem can be solved before the end of 2002, allowing for a resumption of subscriber growth.

Channel operations

(a) Taiwan

Despite the popularity and strong ratings of our TVBS channels, advertising revenue was still affected by generally bad economic conditions in Taiwan. The revenue shortfall has been partially offset by a substantial increase in channel subscription income and double-digit revenue growth from our overseas channel, TVBS-Asia. Additional cost-cutting initiatives helped us reduce by approximately 40% year-on-year losses in our channel operations in the first-half.

As we continue efforts to restructure and fine-tune our Taiwan business, we expect further second-half improvement in both advertising revenue and operating costs and expect to be profitable in Taiwan in 2002.

(b) TVB8 & Xing He

The landing of our TVB8 channel in Malaysia in January has contributed considerable growth in subscription revenue for the period. To capitalize on TVB8's and Xing He's increased penetration in the mainland, we opened advertising sales offices in Shanghai and Beijing. We expect to see positive results from these initiatives in the coming months.

Other activities

(a) Jade Animation

Jade Animation continues to perform well, achieving double-digit growth in profits in the first-half of 2002 and expanding its involvement in original animation projects. Strategically, Jade Animation has launched its multimedia product activities in Shanghai with an eye to exploiting licensing and merchandising potential in the mainland.

(b) Internet Operations (Hong Kong and Mainland China)

The first-half saw considerable growth in revenues to our Internet operations, with the greatest growth coming from a substantial increase in interactive services related to TVB's on-air programmes. Internet operations were responsible for managing the Interactive Voice Response System for all games shows, musicals, and special events broadcast by TVB. Additionally, partnerships with mobile phone operators enabled us to offer SMS-related services tied into popular TVB programmes. We have also licensed other TVB content for use on 3G mobile phone networks. As a result of these and other initiatives, our Internet operations should break even in the second-half of 2002.

In the mainland we have progressively accumulated content for the impending launch of our VOD services to subscribers of Shanghai Telecom's broadband Internet service.

(c) Magazine Publishing

The first-half has been an extremely competitive period for the magazine industry as a whole. As a result, we have had to increase on-magazine give-aways, and have given our publication a bold new look targeted at increasing its appeal with readers. Cooperative marketing activities with advertisers have also been increased. We have implemented aggressive cost control and have realized major savings in printing costs.

New business - Hong Kong pay TV

TVB has been granted an extension until February 2003, to sell down below 50% its ownership in Galaxy Satellite Broadcasting Limited, TVB's Hong Kong pay TV business unit. Negotiations with prospective investors are ongoing and we anticipate securing the required financing within the February 2003 deadline.

Financial Review

(a) Capital structure and liquidity

Apart from a gradual building up of fixed assets - mainly on account of more capital expenditure (HK$370 million) incurred for our new TV City project at Tseung Kwan O - resulting in a depletion of our cash balances (HK$386 million), the capital structure of the Group was unchanged during the first-half. Cash and bank balances stood at HK$287 million as at 30 June 2002, with further capital commitments over the existing cash level to be met in the remainder of the year. We have arranged with our bankers additional facilities to cover the shortfall if it cannot be met by cash generated from operations. Cash and cash equivalents held by the Group were principally in Hong Kong Dollars and US Dollars and were not related to debts.

The Group maintained a low gearing ratio of 11.8% as of 30 June 2002 (December 2001: 9.8%) which was measured by total debts of HK$353 million (December 2001: HK$307 million) against a shareholders' fund of HK$2,988 million (December 2001: HK$3,144 million).

– Debts increased slightly over year-end 2001 due to additional funding requirements of overseas subsidiaries.

– Debts were made up of short and long-term bank loans, notes payable and bank overdrafts taken out mainly for purchase of properties, equipment and studio facilities in Taiwan and loans totalling HK$152 million (December 2001: HK$144 million) were secured by assets of the subsidiary companies.

– All debts were subject to floating rates of interest at 1% to 2% above the prevailing basic lending rates of the banks.

– A profile of debts maturity was as follows: within one year, HK$285 million (81%); in the second year, HK$15 million (4%); in the third to fifth years, HK$29 million (8%); and after the fifth year, HK$24 million (7%).