

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

(a) Operating Results for the Year

For the year ended 31 December 2002, the Group has achieved a turnover of HK\$3,162 million representing a decrease of 3% over last year. Profit attributable to shareholders amounted to HK\$590 million, a slight increase of 0.1% over last year's profit of HK\$589 million. Last year's originally announced profit of HK\$596 million was restated downward to HK\$589 million to reflect adjustments pursuant to the adoption of a new accounting standard SSAP 34 (Revised) issued by the Hong Kong Society of Accountants on Employee Benefits. Earnings per share are the same as last year, i.e. HK\$1.35.

(b) Business Review and Prospect

Terrestrial television broadcasting

At the beginning of 2002, we looked forward to capitalizing on the revenue opportunities brought about by the growth of the market in mainland China.

Our efforts in this direction have proven worthwhile. Programme sponsorship revenue from advertisers of mainland China grew substantially in 2002, rivaling programme sponsorship revenue from advertisers of Hong Kong.

Another important 2002 sales initiative, designed to combat the weakness of the overall advertising market, was the development of what we call "info-service segments". These are short, informative programme segments sponsored by advertisers. We were able to increase revenue substantially in this area without any opportunity cost to regular airtime resources.

Though growth in these areas was insufficient to make up for market softness in other revenue categories, the potential for further growth in both areas in 2003 is very encouraging. Our sales efforts in mainland China in particular will be geared-up considerably.

Although recently announced Government of HKSAR ("the Government") strategies to balance the budget by increasing taxes will inevitably take their toll on consumer spending, the economy is expected to show modest improvement in the latter part of the year. Moreover, other changes in government policy are encouraging and supportive of an improved outlook for our business. With effect from the renewal of our licence in November 2002, the Government has relaxed restrictions on programme and product sponsorship.

With these relaxations, product and programme sponsorship have the potential to contribute significantly to our total revenue in coming years than in the past. Our efforts will be focused strongly in these areas in 2003. We will also work to increase significantly both the frequency of client contact and the number of creative selling proposals that we make.

The Jade Channel

With an overall weekday primetime average audience share of 81%, Jade Channel's rating performance in 2002 was impressive. The top 67 highest-rating programmes on Chinese terrestrial TV were Jade programmes.

The top ten dramas on Jade attracted an average of 1.9 to 2.2 million viewers per episode. Light-hearted series with warm, positive messages, such as "The Monkey King - Quest For The Sutra", "Family Man", "Legal Entanglement" and "The Trust of a Lifetime", topped the chart. The long-running costume situation comedy, "Virtues of Harmony", concluded during the year with a total of 322 episodes, drawing an average 1.8 million viewers.

Jade continued the market leader in variety, game shows and musical extravaganzas. "TVB's 35th Anniversary Special" was the top TV programme of the year with an average viewership of 2.4 million. The "Miss Hong Kong Pageant 2002 (Final)", which celebrated its 30th Anniversary, pulled an average of 2 million viewers.

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Adding diversity to its programming lineup, Jade presented “Passion for Life”, the fruit of a two-year production effort. The series, which gained much acclaim in the community, brought to life for local audiences the lives, visions and passions of four distinguished Chinese cultural icons.

TVB was also able to broadcast live to Hong Kong sports fans the crucial last three matches of “2002 FIFA World Cup Korea/ Japan”, including quality commentary and production. The highly popular semi-final contests garnered an average audience share of 90% of terrestrial Chinese channel viewers.

TVB continued to deliver timely reports and quality analysis of issues of public interest. More than 2.4 million viewers watched the news special “9/11 Anniversary Ceremonies” in memorial of the tragic events in New York.

The Pearl Channel

The Pearl Channel achieved an overall average primetime audience share of 74% for the year. The top 112 highest-rating programmes on terrestrial English TV were all on Pearl.

With its strong line-up of blockbuster movies, Pearl in 2002 maintained its position as the second most-highly-rated of all terrestrial channels, including both English and Chinese channels, in the 9:30 p.m. - 11:30 p.m. timeslot on Sundays, just behind the Jade Channel.

Throughout the year, Pearl continued successfully to draw viewers to its high-quality and varied programming. Highly acclaimed drama series such as “ER”, “The X-Files”, “The West Wing”, “24”; documentaries like “Dinotopia”, “Evolution” “Space”; and business programmes such as “CEO Exchange: Conversations in Leadership”, “Commanding Heights - The Battle for the World Economy”, were all well received by Pearl viewers.

During the year, Pearl brought to Hong Kong audiences, important and popular international sports events such as the live broadcasts of the semi-finals and finals of the “2002 FIFA World Cup Korea/Japan”, highlights of the “UEFA Cup Special” and “English Premier League”. Through the broadcast of cultural performances (e.g. concerts of cellist Yo-Yo Ma and pianist Yundi Li), Pearl continued its effort to cultivate audience interest in cultural programming.

Community and Public Service

Despite the downbeat economic climate of the year, TVB, through its different fund-raising programmes and other community work, raised about HK\$114.7 million for a variety of social causes and charitable organizations. The ever-popular annual fund raising programme, “Tung Wah Charity Show 2002”, raised HK\$71.9 million, topping the list of all fund raising programmes for the year. The “Community Chest Charity Show 2002” raised over HK\$13 million, while the game shows “Brainworks” and “Russian Roulette” contributed HK\$1.6 million and HK\$0.6 million respectively to various charity organizations and services.

Commendations and Awards

As in previous years, TVB’s excellence in programme production, on-air promotion and commitment to community service won critical acclaim and international recognition in 2003.

“WTO Challenge” was given the Peabody Award in the 61st Annual Peabody Awards. “News Magazine: Asian Economy, Japan” was winner of the “Best News/Current Affairs Special in the Asian Television Awards 2002”, while “News At 6:30” was runner-up for “Best News Programme”. “News Magazine: Hu Jintao - In The Wings”, “Tuesday Report: Agony & Ecstasy” and “Friday Report: My Dad Is An Old Man”, were all selected as finalists in “The New York Festivals 2002”. “Friday Report: My Dad Is An Old Man” and “Friday Report: The Broken Schoolhouse” were also selected as finalists in ABU/CASBAA UNICEF Child Rights Awards 2002.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In the Asian Television Awards 2002, “Dreams Come True” was winner of “Most Innovative Programme” while “Step Into The Past”, “Miss Chinese International Pageant 2002” and TVB Jade were highly commended for “Best Drama Series”, “Best Entertainment Special” and “Terrestrial Channel Of the Year”, respectively.

In the Promax Asia 2002 Awards, “Wimbledon 2002 - Kung Fu” won the gold prize in “Best Sports Promo” and “Valentine's Day Image” won the silver prize in the “Holiday/Seasonal Programme Promotion” category.

At the 24th Annual BDA Design Awards, “Miss Hong Kong Pageant 2001 (Final)” received the silver award in the “One Time Only Set” category, and “K-100” won the bronze award in the “Talk Set” category.

“Morning Star Incredible Journey 2002” was granted the bi-annual “Friends of Thailand Award 2002” by the Tourism Authority of Thailand under the “International Media” category.

In 2002, in view of its contribution to the community, TVB was also recognized as a “Caring Company” by the Hong Kong Council of Social Service.

New TVB City

Construction of the new TVB City at Tseung Kwan O was substantially completed in 2002. Relocation of studios and offices to the new facility also started in the latter half of the year, with the entire removal scheduled for completion by the third quarter of 2003. Substantially larger than the old facility at Clearwater Bay, the new, all-digital, state-of-the-art production and management facility will expand and upgrade TVB's production capability and position the company favourably for many years to come.

Licence Renewal and Operating Conditions

The Chief Executive in Council approved the renewal of TVB's domestic free television programme service licence for 12 years upon the expiry of its current licence on 30 November 2003.

To improve business prospects of television broadcasters, the Government also announced its intention to allow greater flexibility and latitude in the broadcast of non-designated-language commercials and in programming, product placement and sponsorship arrangements.

Programme Licensing and Distribution

Notwithstanding a slight setback in our video business resulting from sluggish economies around the region, the overall performance of programme licensing and distribution for the year 2002 showed single-digit growth year-on-year. The growth came mainly from licensing to the television sectors of key markets such as Malaysia, Singapore and Canada.

Notwithstanding a change in regulations in mainland China in year 2000 prohibiting the broadcast of imported programming in primetime, our 2001 results showed considerable improvement over the previous year. However, a further change in July 2002 extended the duration of the primetime period, further reducing the broadcasting window available to imported programming. This resulted in a small reduction in our mainland China television licensing revenue. The shortfall was offset by the continuing strong growth in our VCD licensing revenue supported by better distribution and improved cooperation with the licensees of mainland China in combating piracy. Overall, our 2002 licensing revenue from mainland China recorded double-digit growth over 2001.