

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Overseas Satellite Pay TV Operations

(a) TVB Satellite Platform (TVBSP) USA

The subscriber base of our multi-channel direct-to-home (“DTH”) satellite service in the USA grew at an attractive rate in 2002. Commencing in early 2003, DirecTV will distribute our 5-channel package on its nationwide platform. Penetration of the Chinese market segment is expected to accelerate considerably with the improved distribution and sales support provided by the DirecTV network. Our New York office will be operational in the first quarter of 2003, strengthening our distribution and advertising sales presence in the region.

(b) TVB Australia (TVBA)

In Australia, our DTH satellite service revamped its subscription packages and was able to achieve modest growth in the subscriber base during the year. Shanghai Broadcasting Network’s satellite channel was added to our service, enabling us to offer a competitively stronger, 10-channel package. Negotiations with several programming channels from mainland China have begun. Including these channels in our package will enable us to more effectively target the sharply increasing Mandarin speaking Chinese population in Australia.

(c) The Chinese Channel (TCC) Europe

In Europe, smart card piracy in our DTH service in 2002 was still the main impediment to healthy growth. A number of interim remedial measures were implemented during the year but were unsuccessful in solving the problem. However, the technology available to address this sort of piracy has improved considerably, and our system supplier has recently completed installation of a new, state-of-the-art encryption system which we believe will solve the problem, opening the way to reinvigorated growth in the subscriber base in 2003.

Channel Operations

(a) Taiwan

Following thorough restructuring within our Taiwan television operation in mid 2002, both revenue and operating results of our TVBS channels recorded substantial growth in 2002 despite continuing poor economic conditions and the highly competitive television industry in Taiwan.

In 2003, TVBS will consolidate its television and magazine resources to improve further on revenue and profitability. Together with steady growth in revenue from its overseas channel, TVBS-Asia, as well as the potential benefits from Taiwan’s membership in the WTO, we expect TVBS to continue to grow and to be profitable in 2003.

(b) TVB8 & Xing He

The landing of our Xing He and TVB8 channels in Malaysia has brought substantial growth in subscription revenue. Other markets, such as the USA, Japan, Singapore and Australia, also delivered healthy increases in subscribers. A balanced mix of programming focused on entertainment and leisure content was welcomed by viewers and supported subscriber growth. The number of homes reached by TVB8 in mainland China rose significantly through extensive distribution efforts.

2003 will see additional effort focused on further increasing the number of homes reached in mainland China, which in turn will support advertising sales in the country.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Other Activities

(a) Jade Animation

Despite the drop in revenue in 2002, Jade Animation achieved single-digit growth in profit by improved margins and cost saving measures. Animation distribution and merchandising activities in mainland China have commenced contributing to the Group's revenue and profits. Jade Animation will focus on own project development and animation channel operation while building up international strategic partners to secure co-production and international markets.

(b) Internet Operations (Hong Kong & China)

Our Hong Kong Internet operations, conducted through our wholly-owned subsidiary, TVB.COM Limited, achieved a modest level of operational profitability in 2002 after a year of consolidation.

Because of impressive growth in the numbers of Hong Kong broadband subscribers, the provision of content to broadband content portals has generated a substantial increase in revenue. Revenue from infoline and mobile telephone related services also provided a steady income flow that promises to grow further in the coming year.

A new source of revenue growth is the provision of value-added content to multimedia services on 2.5G and 3G mobile networks. Operational expenses have been well controlled. This, together with the promising growth of mobile telephone services, gives us an encouraging, positive income outlook for 2003.

To better reflect the expansion of its business scope to provide value-added content to multimedia platforms, the name of our Shanghai-based jointly controlled entity was changed to 上海新视线互动多媒体有限公司. The provision of value-added content to Shanghai Telecom's broadband subscribers is expected to commence this year. This promises to improve revenue substantially.

(c) Magazine Publishing

The economic downturn and high unemployment rates contributed to extremely hard times for Hong Kong in 2002. The publishing industry suffered along with the rest of the economy and will continue to face stiff challenges in the coming year. Notwithstanding the negative influences, TVB Publications Limited recorded an increase in net profit for 2002, mainly contributed by advertising income and below-the-line sales projects.

According to research recently conducted by The Hong Kong Advertisers Association, advertising spending through different media decreased dramatically in 2002. The one exception was Internet advertising which saw an increase based on growing numbers of Internet users. In year 2002, we continued actively to promote our magazine and latest news through tvb.com, which allows direct interaction with our readers in different parts of the world.

To ensure our position as the leader of the industry and to maintain stable profit for the company, in 2003 we will put more effort into event marketing and advertisement recruitment. We are looking forward to a substantial growth in revenues as well as an increased market share in 2003.

HK Pay TV

After negotiations extending over several months during the second half of 2002, TVB was very pleased to announce on 20 February 2003 the signing of an investment agreement with Intelsat, Ltd. ("Intelsat") for the funding of TVB's Hong Kong Pay TV subsidiary, Galaxy Satellite Broadcasting Limited ("GSBL"). Under the agreement, Intelsat will acquire 51% of GSBL's effective interest, while TVB will retain a 49% minority stake.