

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

With funding now in place, GSBL will proceed with preparations to launch by the end of 2003 a competitively priced 24-channel service containing 5 core channels of Chinese language programming supplied by TVB, and, additionally, an attractive package of international and other channels acquired from other sources. The service will be expanded to 40 channels within 18 months of launching.

FINANCIAL REVIEW

(a) Capital Structure and Liquidity

With the new TVB City Project nearing completion, the fixed assets of the Group increased by HK\$512 million, a 31% increase over 2001. This has caused a reduction of HK\$310 million in our cash and bank balances which showed a position of HK\$362 million at the end of the year 2002. It is expected that further cash expenditures of HK\$500 million will be made and taken to account in 2003. For this, 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.

There is an increase in film rights and programme inventories of HK\$126 million on account of increased acquisition and production of programmes during the year enabling us to meet the needs of channel supply agreements with GSBL Pay TV services (to be launched in the latter part of this year) and others. Accounts receivable have been reduced by HK\$181 million reflecting a lower billing for our local advertising sales and improved collection of accounts. Accounts payable have decreased as more progress payments on the new TVB City Project have been made as the project nears completion.

The Group maintained a low gearing ratio of 10.8% as of 31 December 2002 (2001: 9.9%) which was measured by total debts of HK\$356 million (December 2001: HK\$307 million) against a shareholders' fund of HK\$3,274 million (December 2001: HK\$3,095 million). Shareholders' fund as of 31 December 2002 was restated from HK\$3,144 million to HK\$3,095 million to take in adjustments for employee leave entitlements not provided for in prior years, brought about by the adoption of SSAP 34 (Revised) issued by the Hong Kong Society of Accountants on employee benefits.

- Debts increased over last year by HK\$49 million due to additional funding requirements of overseas subsidiaries and also loans taken out for the new TVB City Project.
- Debts consisted 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 the new TVB City Project. Loans totalling HK\$162 million (December 2001: HK\$144 million) were secured by assets of subsidiary companies.
- All debts were subject to floating rates of interest at an agreed percentage above the prevailing basic lending rates of the banks.
- A profile of debt maturity was as follows: within one year, HK\$300 million (84%); in the second year, HK\$9 million (3%); in the third to fifth years, HK\$26 million (7%); and after the fifth year, HK\$21 million (6%).
- Debts were denominated mainly in New Taiwan Dollars (76%), British Pounds (14%), Hong Kong Dollars (8%) and other currencies, such as US and Australian Dollars.
- The Group had no committed borrowing facilities during the year.

Capital commitments of the Group, excluding the Group's share of commitments for jointly controlled entities, decreased by 53% to HK\$606 million (December 2001: HK\$1,298 million).

There was no material acquisition or disposal of subsidiaries and associated companies during the year.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(b) Contingent Liabilities

There were guarantees to the extent of HK\$89.6 million (December 2001: HK\$93.6 million) provided to bankers for banking facilities and a performance bond issued to the Government. Upon entering into the Subscription and Shareholders Agreement with Intelsat Hong Kong, LLC, a subsidiary of Intelsat, the Group's effective interest in GSBL has been reduced to 49%. Arrangement is being made for the new holding company of GSBL to substitute surety for the performance bond (HK\$88 million) issued to the Government.

On 18 July 2002, GSBL was served a court claim filed by Americom Asia-Pacific, LLC ("AAP"), issued in London for outstanding satellite transponder service fees in the total sum of US\$1,132,235 pursuant to the GE-1A Satellite Transponder Service Agreement made between the parties in September 2000. The claim was subsequently withdrawn by AAP and therefore it has no material financial impact on the Group.

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

As of 31 December 2002, 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\$0.79 million. When translated at rates ruling at 31 December 2002, the value worked out came very close to the value of these contracts.

HUMAN RESOURCES

As of 31 December 2002, the Group employed, excluding directors and freelance workers but including contract artistes and staff in overseas subsidiary companies, a total of 5,039 (2001: 5,194) fulltime employees. About 26% 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 based on on-target-earning packages comprised of salary and sales commissions. Non-sales personnel are offered a monthly salary. The year-end bonus equivalent to one month's salary was withdrawn from 1 January 2002. There was no share option scheme adopted by the Group during the year. From time to time, the Group organizes, either in house or with vocational institutions, seminars, courses and workshops on subjects of technical interest, industry safety, management skills and related studies, apart from sponsorship of training programmes that employees may enroll. With GSBL being reclassified as an associated company, about 61 GSBL staff will depart from the TVB Group from 20 February 2003.