

The directors are pleased to present the Group's interim report and condensed accounts for the six months ended 30 June 2003. 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 2003, and the consolidated balance sheet of the Group as at 30 June 2003, all of which are unaudited and condensed, along with selected explanatory notes, are set out on page 9 to 27 of this report.

INTERIM DIVIDEND

The directors are pleased to declare an Interim Dividend of HK\$0.20 (2002: HK\$0.20) per share for 438,000,000 issued shares.

Dividend warrants will be despatched to shareholders on 3 October 2003. The transfer books of the Company will be closed from 24 September 2003 to 26 September 2003, both dates inclusive.

MANAGEMENT DISCUSSION AND ANALYSIS

Review Of Operations

(a) Operating Results For The Period

For the six months ended 30 June 2003, the Group achieved a turnover of HK\$1,434 million, an increase of 3% over the same period last year. Profit attributable to shareholders was HK\$155 million, a 4% decrease over the same period last year. Earnings per share decreased to HK\$0.35 (2002: HK\$0.37).

(b) Business Review And Prospects

Terrestrial Television Broadcasting

The massive negative impact of the SARS outbreak on retail sales, and the consequent negative impact on advertising revenues of all media, are well known and require little comment here. Since many April advertising campaigns could not be cancelled on short notice, the revenue downturn was most pronounced in May. Fortunately, recovery was very swift with June sales showing encouraging single-digit year-on-year growth.

We expect contracted up-front spending for the year to remain intact notwithstanding some reduced utilization of up-front contracts during the months of April and May. Thus our up-front bookings have insulated us considerably from the full impact of SARS, an advantage not enjoyed by other media not employing such a scheme.

In spite of the SARS gloom, spending in the music album category significantly increased. Our innovative strategic partnerships with record companies rejuvenated the entire music industry and resulted in a 400% increase in spending on music CDs from January to June. Every album launched in partnership with TVB has recorded at least platinum-level sales. The top-selling album, a compilation of Mandarin love songs, was launched just at the onset of the SARS outbreak and achieved eight times platinum sales. These partnerships have clearly demonstrated the power of TV advertising and will be used as a model for building business in other categories.

Spending also grew in the categories of electrical appliances, personal hygiene products, medicines, telecommunications services, courier services and supermarkets. However, spending declined in the areas of financial services, real estate, travel, milk powder and restaurants.

At the end of July, the Government announced several significant relaxations in the areas of programme feature sponsorship and product sponsorship. These new forms of sponsorship will provide additional sources of advertising revenue that should increase over time.

During the first half of 2003, TVB Jade, our Chinese channel, achieved an average weekday primetime audience share of 80% (Weekday primetime on Jade: 7:00 - 11:30 p.m.). Our English channel, TVB Pearl, earned an average weekday primetime audience share of 71% (Weekday primetime on Pearl: 7:00 p.m. - 12 midnight).

By March, when SARS had become a full-blown health threat in Hong Kong, TVB was actively supporting and participating in efforts to control the spread of the disease. In addition to news, current affairs and special programmes, Jade produced many short informational SARS-related programmes that were broadcast during primetime. The Company also produced variety and fund-raising programmes intended to boost the morale of medical and healthcare personnel and to encourage the general public during this difficult time. An average 1.35 million viewers watched “Operation Relief 2003”, which raised HK\$8 million for the Charitable Foundation of the Hospital Authority.

The Company’s relocation from the old site at Clearwater Bay to the new TVB City in Tseung Kwan O has proceeded smoothly. On 29 March, on a live variety show viewed by 1.8 million Hong Kong viewers, we bade farewell to our old home at TV City. By the end of June, most departments had completed the move to the new TVB City. The entire relocation should be complete before our anniversary in November.

The production capabilities of the Company will be considerably enhanced and expanded when the new, state-of-the-art, fully digital production centre at the new TVB City comes fully online during the second half of this year. The Company’s upgraded in-house production capabilities, together with our steadily increasing co-production activities in mainland China, should very considerably enrich TVB’s programme repertoire, ensuring greater quantity, higher quality, and broader variety of programming. This expanded and upgraded programme inventory will in turn increase the profit potential of our international licensing and merchandising operations, including those in mainland China.

Programme Licensing And Distribution

Thanks to a significant increase in revenue from telecast licensing in Asia and from VCD licensing in mainland China, our programme licensing and distribution profit for the first half of 2003 continued to deliver attractive double-digit growth. The second half of 2003 should see a continuation of this positive trend.

Overseas Satellite Pay TV Operations

(a) TVB Satellite Platform (“TVBSP”) USA

In the first quarter of 2003, our direct-to-home satellite service in the USA successfully switched its subscriber base over to the DirecTV network, where they continue to subscribe on an a la carte basis to our five-channel Jadeworld channel package. Total subscribers grew 30% in the first half of 2003. Our New York office, opened early this year, has efficiently facilitated our marketing efforts in the USA market. Competition, especially in the area of Mandarin language content, has increased significantly there and is targeting the increasing number of immigrants from mainland China. To chart effectively our future course and strategy for this important market, we are planning for the second half of 2003 a series of in-depth market studies to be conducted in major USA cities with large Chinese populations.

(b) TVB Australia (“TVBA”)

Despite a slow market, our multi-channel satellite service in Australia maintained single-digit subscriber growth in the first half of the year. A recent in-house market survey indicated that we could considerably enhance the appeal of our driver channel, TVBJ, by using more current programming. Accordingly, we have initiated a revamping of the channel commencing in July 2003.

We are also continuing our negotiations with other service carriers in Australia in order to expand our service’s overall penetration of the market.

(c) The Chinese Channel (“TCC”) Europe

In Europe, our direct-to-home TCC channel successfully completed in late January an upgrade of the channel’s encryption system, effectively eliminating the considerable unauthorized viewing that had plagued the channel. However, due to rumours that newly pirated smart cards would soon be available, many previously unauthorized viewers delayed subscribing to the service, requiring major marketing and educational campaigns in response. Nevertheless, the channel did maintain a subscriber growth rate in the low single digits in the first half of 2003.

Channel Operations

(a) Taiwan

Following our restructuring of the Taiwan channel operation and the consolidating of resources there, TVBS channels recorded double-digit improvements in both revenue and cost compared to the first half of 2002. As a result, our Taiwan channel operations delivered a profit in the first half of 2003 notwithstanding the severe impact of SARS on the Taiwan economy and the highly competitive television industry there.

TVBS will focus on enhancement of its programming and news content to maintain its leading position in Taiwan’s television market and to further improve its licensing revenue from overseas. In keeping with the positive first-half results, we expect TVBS to continue its growth through the second half of 2003.

(b) TVB8 And Xing He

The overall performance of these two channels continued to improve in the first half. Consistent programme enhancement and extensive channel promotion have produced a two-fold increase in subscription income. In mainland China, TVB8’s home reach began to grow much faster in April after we migrated the channel’s signal to a popular transponder. Xing He’s market penetration also improved significantly in response to an extensive trial viewing offer.

Advertising income from the channels recorded high double-digit growth resulting primarily from the outstanding performance of Xing He in Malaysia. In mainland China, notwithstanding the negative impact of the SARS outbreak, we still managed to achieve slight revenue growth.

Advertising sales agents were appointed during the first half of 2003 in Sichuan, Shandong and Guangdong provinces. Additional agents will be engaged in key Chinese cities to develop further business.

Other Activities

(a) Jade Animation

Jade Animation has been developing its animation series, “Condor Hero”, with response and publicity in the TV and video markets. Merchandising is under development as well. Studio business has been slowed down in the first half of 2003, but is expected to pick up in the second half of 2003. We are also exploring the possibility of launching an animation channel in the Chinese market.

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

The return from broadband content services has been the main contributor to the profit growth of our Internet operations in the first half of the year. Further growth is expected to come from content services for 3G mobile networks, which are targeted to commence before the end of the year. In mainland China, the production and repackaging of infotainment programmes have produced steady income. SMS and MMS services provided via mobile phone networks commenced in April. This is expected to contribute to future revenue growth.