

# **MANAGEMENT DISCUSSION AND ANALYSIS**

## **REVIEW OF OPERATIONS**

### **(a) Operating Results for the Year**

For the year ended 31 December 2003, the Group achieved a turnover of HK\$3,311 million, an increase of 5% over last year. Profit attributable to shareholders amounted to HK\$441 million, as compared to last year's profits of HK\$590 million. Included in profits for the year were capital gains, totalling HK\$33 million, from the issue at a premium of new shares of a subsidiary company and the dilution of equity ownership in a previously wholly owned subsidiary company, Galaxy Satellite Broadcasting Limited. Earnings per share was HK\$1.01 (2002: HK\$1.35).

### **(b) Business Review and Prospects**

#### **Terrestrial Television Broadcasting**

Our advertisers began the year on a highly cautious note. Upfront commitments barely matched those of the previous year, and spending in January and February showed single-digit declines year-on-year. A slight pickup in business in March was quickly nullified by the powerful, negative impact of the SARS outbreak. Revenues in April and May declined 27% year-on-year, in line with all other media and indeed retail sales. The market showed some resilience in June, with revenues that month showing very slight growth. The overall effect of the initial caution in the economy, followed by the outbreak of SARS, was to reduce our first half 2003 revenues by more than 10% compared to 2002.

Successful government initiatives to open up cross-border travel were a great support to our efforts to recoup, in the second half of 2003, revenues lost in the first half of the year. These initiatives gave a great boost to consumer confidence and spending. In fact, for the first time in two years, private consumption expenditures for the third quarter of the year grew 2% year-on-year. This, together with the contractually binding upfront commitments made by our major advertisers, gave both existing and new advertisers the confidence to spend. In addition, the relaxing of programme sponsorship restrictions, and the introduction of product sponsorship, led to robust double-digit growth in non-airtime revenue.

All of this enabled us to substantially recoup revenue lost in the first half, and to end 2003 with total revenue within 3% of the previous year.

The significant and steady growth in consumer and advertiser confidence since mid-2003 has continued unabated to the present. This resulted in a healthy growth in our upfront commitments for 2004. A recent survey of more than 160 members of the Hong Kong Advertisers Association confirms this increase in advertisers' confidence. In addition, we expect certain major categories, such as mobile telecommunications and credit cards, to show very strong growth.

Assuming no major health crises, we expect high single-digit to low double-digit growth in all advertising media markets in 2004. We will aim to maintain and grow our market share through greater focus on non-airtime revenue, such as programme and product sponsorships, and by increasing the number of advertisers from the mainland. The 2004 Olympics and our revamped Miss Hong Kong Pageant 2004 will be important sales focal points.

TVB continued to be Hong Kong's station of choice in 2003. Jade achieved an overall weekday prime time average of 80% among terrestrial Chinese channels and Pearl a weekly average of 72% among terrestrial English channels\*.

\* Prime time audience share refers to average share from 7:00 p.m. to 11:00 p.m. on Jade, and 7:00 p.m. to midnight on Pearl.

#### **The Jade Channel**

Jade's live broadcast of the soccer match "Hong Kong Vs Real Madrid" in August attracted an average of 2.8 million viewers (92% audience share of terrestrial Chinese channels), breaking the TV programme ratings record since the first use of the PeopleMeter audience measurement system in October 1991.

## **MANAGEMENT DISCUSSION AND ANALYSIS** (Continued)

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Locally-produced drama remains the most popular programme genre in Hong Kong. 7 out of the Top 10 weekday prime time programmes were TVB-produced dramas. The top drama, “Square Pegs”, drew an average audience of 2.4 million (92% share), breaking the ratings record for drama series which has been in place since 1992.

Jade also expanded its scope of reality dramas. Both “Triumph in the Skies” and “Ups and Downs in the Sea of Love” attracted over 2 million viewers on average. The situation comedy, “Virtue of Harmony II”, continued to attract an average of 1.9 million viewers.

2003 was a special year for TVB. Viewers were able to celebrate different occasions with us through our programmes and specials. Over 2.2 million viewers celebrated with us in the “TVB 36th Anniversary Special”, 1.9 million helped us bid goodbye to our former Clear Water Bay facility in “A Splendid Finale of CWB Studio 1”, and close to 1.8 million joined us at the “TVB City Grand Opening Ceremony”. 1.7 million viewers at home witnessed the crowning of Miss Hong Kong 2003 via the “Miss Hong Kong Pageant 2003 (Final)”, and, in “Forever Remembrance - Leslie Cheung” over 1.9 million viewers reminisced with us on the passing of a superstar.

During the year, Jade produced different series of infotainment programmes under the umbrella title of “Club House”. Its top programme, “Gourmet Secret Agent (II)”, attracted an average of 1.6 million viewers.

Adding to regular news and public affairs programmes, TVB comprehensively covered the war in Iraq in March, produced an array of informational and documentary programmes on SARS, and a series, “China Space Project”, all of which were well received by the general public.

### **The Pearl Channel**

TVB Pearl continued to secure the best in international programmes and provide balanced, quality programming for the people of Hong Kong.

Blockbuster movies were still the main attraction on Pearl. 72 of the Top 100 programmes on terrestrial English TV were Pearl’s movies. Pic of the Year, “Spirited Away” and Mega Movie “Saving Private Ryan” topped the chart, drawing an average of 896,000 and 861,000 viewers and 88% and 91% shares of the English terrestrial television channels respectively.

In the summertime, 769,000 Pearl watchers caught the Real Madrid fever via the match “Real Madrid Vs FC Tokyo”.

Critically acclaimed drama series such as “The West Wing”, “ER” and “24” remained Pearl’s main attractions. Pearl also introduced new, quality drama series, such as “Monk” and “Fastlane”, and the mini-series, “Band of Brothers”, which became the top drama on Pearl.

Documentaries like “Child of Our Time” and “The Life of Mammals”, popular reality programmes such as “America’s Next Top Model” and “Bridezillas”, and lifestyle programmes, including “Oliver’s Twist” and “Celebrity Homes”, were also well-supported by the people of Hong Kong.

### **Community and Public Service**

Facing the outbreak of SARS, low public morale and economic gloom, the Company took a leading role in bringing together experts, stars and celebrities, different business sectors and the people of Hong Kong to provide informational programmes and charity specials. TVB also participated in fundraising events and other activities to provide moral support to the public and the medical profession.

## **MANAGEMENT DISCUSSION AND ANALYSIS** (Continued)

Responding quickly to the need for informational programmes, TVB produced a series of information and health-related programmes, including daily mini-programmes, “Prevention Against Atypical Pneumonia” and “One-minute Health Tips”, and the series “Body Talk” and “Immunity and Health”.

TVB also organised and participated in the telecast of a series of SARS-related programmes, including “Operation Relief 2003”, “Operation Unite”, “A Loving Tribute to SARS Heroes”, “Anti SARS Emergency Relief” and “1:99 Concert”. These programmes sought to raise funds, unite the community’s efforts to fight the SARS threat to public health, and support Hong Kong’s frontline medical professionals.

Despite the gloomy economy, TVB was able to raise HK\$183 million in 2003 for different social causes, including SARS relief and various charitable organisations. The annual fund raising programme, “Tung Wah Charity Show 2003”, not only entertained 1.3 million viewers, but also enjoyed tremendous public support, raising a total of HK\$ 73 million for the Tung Wah Group. The “Yan Chai Charity Show” raised a total of HK\$18 million for Yan Chai Hospital.

### **Commendations and Awards**

Many of the TVB programmes and specials receiving international recognition in 2003 reflected TVB’s long-standing public service commitment. “News Magazine: A Blood Legacy”, on the spread of AIDS in the mainland provided a lesson in disease control in the wake of the SARS outbreak, won the Asian Television Award in Best News/Current Affairs Special and was a finalist in the New York Festival in the Health/Medical Issues category. TVB finalist entries in the New York Festival also included “SARS Campaign” in Station/Image Promotion, “News Report: Hong Kong People Power: - Article 23 Protest” in Newscast, and “Band of Brothers” in Entertainment Programme Promo. “Saturday Report: The Game Boy” was a finalist in the ABU/CASBAA UNICEF Child Rights Award, and “Tsui Chuk Explosion” was a semi-finalist in the 2003 International Emmy Awards in Asian/African News.

Also, “News Magazine: Chinese Communist Party Congress - Retreating Ideology” won the 2003 Regional RTNDA Edward R. Murrow Awards.

### **New TVB City**

The new TVB City in Tseung Kwan O had its Grand Opening on 12 October. Equipped with fully digital news and production centres, TVB City is a world-class facility and an important milestone in the history of the TV industry in Hong Kong. All studios were fully operational by the end of 2003.

### **Prospects**

TVB’s renewed 12-year Domestic Free Television Programme Services Licence commenced on 1 December 2003. At the same time, the 15-year new Carrier Licence for broadcast transmission, awarded to TVB as a result of the Government’s separate licensing scheme, also came into effect.

TVB will continue to invest in local productions to serve audience needs.

To generate more revenue for our terrestrial TV operation, we have successfully negotiated with the Government a relaxation in restrictions on sponsorship. New formats of programme and product sponsorship were put into effect towards the end of the year.

### **Programme Licensing and Distribution**

Despite a bigger revenue base after years of consistent growth, we nevertheless recorded double-digit percentage growth in our programme licensing and distribution income from overseas. This benefits our profit margin since there is little need to increase overheads to support the growth of the businesses of our existing licensees.