

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

Interstitial/Promotainment - General Programming category. In BDA 2004, the design of the invitation card of “TVB City Grand Opening” won a Gold Prize for Invitation or Card category while the backdrop design of “Jade Starbiz” won the Silver Prize for Scenic Design category. In The Asian Television Awards, newscast “Clearing The Ground” earned the runner-up in Best Single News Story/Report. In the First Beijing Under My Pen Award Beijing News Awards, “Newscast: Behind Bars - Under New Management” and “Newscast: A Different Ideal” won Award for Excellent Works.

### **Community and Public Service**

TVB continued to contribute to the Hong Kong community through on-air and outreach community service and fund-raising programmes and activities.

A total of HK\$131.36 million was raised for local and international charity organisations in aid of diverse worthy causes. Among such were the annual fund raising programme “Tung Wah Charity Show 2004” which not only entertained 1.5 million viewers, but also raised a sum of HK\$76.29 million for the Tung Wah Group. “Caritas Star Studded Charity Show” drew 1.5 million viewers and raised a sum of HK\$2.36 million for Caritas Hospital. “Gala Spectacular 2004” attracted 1.3 million viewers and raised a sum of HK\$4 million for Po Leung Kuk. “Yan Chai Charity Show” also captured 1.3 million viewers and raised a sum of HK\$14.93 million for Yan Chai Hospital. The anniversary special charity event, the final challenge of “Aiming High”, featuring the race to the roof of the 88-storey International Finance Centre Phase II, drew 1.5 million viewers and raised HK\$4.2 million for The Community Chest of Hong Kong.

### **Digital Terrestrial Television**

Subsequent to the Government’s announcement of the implementation framework for digital terrestrial television (“DTT”) in Hong Kong in July, TVB submitted the proposed plan for DTT Programme Services and technical proposal on our DTT Network to the Government on 31 December. TVB will provide the digital simulcast of Jade and Pearl on the 50% of the Multiple Frequency Network (“MFN”) multiplex and new programme services with enhanced features such as High-Definition TV (“HDTV”) on the Single Frequency Network (“SFN”) assigned to TVB. DTT programme services would be launched within 2007. Upgrade plans for our digital production centre at the Tseung Kwan O TVB City would include equipping our studios in phases for HDTV productions.

### **Programme Licensing and Distribution**

Business from distribution and licensing was strong with single-digit percentage growth. The thrust of the growth came from strong video sales in mainland China and increased content supply to television channels in Singapore and Indonesia.

DVD and web piracy still pose a great challenge to our licensing revenue. Peer-to-peer download on the Internet has taken away some of our rental revenue among the younger viewers in many markets. Nevertheless, increase in revenue of our licensing operation by sharing a bigger subscriber base of our pay TV operator clients made up for the shortfall from the abovementioned areas.

We have also made inroads into content supply to new media such as Video-On-Demand (“VOD”) over broadband and 3G operators in selected markets in Asia. This would become an important revenue generator to the Company in a few years to come.

### **Overseas Satellite Pay TV Operations**

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

In the USA, the subscriber base of our Jadeworld package on DirecTV achieved a satisfactory double-digit growth. Competition in Putonghua language programming escalated when the bundle of “Great Wall” channels from mainland China entered the market in October 2004.

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

TVBSP is working closely with DirecTV to enhance our Jadeworld package offer to effectively tackle the changing landscape of the Chinese pay TV business in the USA.

### **(b) TVB Australia (“TVBA”)**

In Australia, the subscriber base of our Jadeworld platform grew at a satisfactory double-digit rate. TVBA further strengthened its Putonghua programming with the inclusion of contents from Hunan TV in August 2004.

The stringent cost control measures implemented since early 2004 has resulted in a much improved performance compared to results of the previous year.

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

Amidst the stagnant market, TCC’s subscriber base grew at a mild single-digit rate through improved programming delivered via satellite commencing from August 2004. TCC has also established itself as an effective advertising medium, as reflected in the fast growing advertising revenue.

In 2005, TCC will revise its subscription offer aiming to increase profitability and reduce churn.

## **Channel Operations**

### **(a) Taiwan**

Although the economy of Taiwan was still sluggish in 2004, TVBS managed to grow from an already profitable year of 2003. This had mainly been achieved through advertising growth and cost control.

In late 2004, the Minister of Government Information Office of Taiwan declared that the Government would support the terrestrial TV stations and Taiwan Telecommunications in providing competition to cable TV. He also indicated that the Government would exert tighter control over cable TV. Operators will have to be more cautious in both programming and marketing while facing more competition. Despite this, TVBS plans to enhance its programmes and production as well as to step up its cost control to further improve its profitability in Taiwan.

### **(b) TVB8 and Xing He**

Subscription revenue has increased and the growth was mainly attributed to the licensing of TVB8 and Xing He channels to Galaxy in Hong Kong and Astro in Malaysia. Astro has managed to tackle the pirated set top boxes problem and the subscription numbers had consequently increased. Advertising sales and commission income from Malaysia are still going strong. Subscription income of Xing He from mainland China has made great progress through extensive distribution efforts.

In 2005, TVBI will formulate a marketing plan to concentrate on developing TVB8 and Xing He channels to Mandarin speaking subscribers in Malaysia. In mainland China, we will continue to strengthen our distribution network. Besides, the coverage of Xing He channel will extend to Singapore, Vietnam, Thailand and the USA. It is hoped that a promising subscription revenue can be generated.

### **(c) HK Pay TV**

During the year, TVB supplied a package of 5 channels - TVBN, TVBE, TVBQ, TVB8 and Xing He to the pay TV platform operated by Galaxy.

## **Other Activities**

### **(a) Jade Animation**

Jade Animation is curtailing its production activities as the cost of production in Shenzhen has surpassed many Asian countries like India and the Philippines.

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

### **(b) Internet Operations**

For the second year running, advertising income on TVB.COM showed good growth in double-digit territory. The factors contributing to this included growth in TVB's programme sponsorships (for which TVB.COM provides a value-added service of building mini-web sites for the sponsors) and increase in advertiser interest in Internet promotion.

Broadband income fell due to a slow down in the growth of new subscribers. This was made up for by the huge increase (from a low base) of 3G content income. The sales of content for 3G devices is most definitely an area of substantial revenue growth in 2005 as all of the major 3G network licensees will be launching their services in the course of the year.

Overall, revenues were up by 5% but cost savings in bandwidth and rent and lower depreciation charges helped to push profit growth beyond 30%.

Many initiatives were started in 2004. Though they are not expected to generate substantial revenue within 2005, they hold the promise of good growth in future years. These include the launching of "giv" a service displayed within TVB programmes whereby viewers can play games ("g"), ask for more information ("i") and vote or voice their opinions ("v") through SMS on their mobile phones. Simple java-based games were launched on mobile networks using popular TVB drama themes. Finally, a trial pay-per-view service featuring TVB variety and infotainment programmes has been launched on Sohu, one of the 3 largest portals in mainland China.

### **(c) Magazine Publishing**

This was a difficult year for magazine publishers in terms of holding up circulation revenue. We believe magazine sales as a whole fell in Hong Kong as magazine buyers are able to readily find the same or equivalent content on the Internet. Fortunately, the decline in circulation revenue could almost be made up for by the increase in advertising revenue and loose insert revenue, resulting in only a slight drop in total revenue for the year.

Savings in staff expenses and printing costs helped us to achieve a substantial profit growth despite the slight drop in revenue.

Our distribution in mainland China, which started in November 2003, has now run for one full year with a strong indication of increasing demand.

### **(d) Mainland Joint Venture**

2004 saw a dynamic year for TV media industry in mainland China. Spectacular growth was recorded as a result of the prosperous economic situation. There was clear relaxation in government policies, which made it easier for private entities to enter into the market. Our joint venture was a clear beneficiary of this favourable trend.

Our joint venture marked an encouraging 2004 with revenue rising by over two folds. With continuous support from our strategic partners, we have produced reputable TV drama series and launched rewarding advertising models during the year. The momentum remains robust along all business lines.

Our recent 32-episode drama production "History of Time", which was a dramatized TV series with the mainland's contemporary history from 1940s to 1980s as its background, received great acclaim. It also won "The Fourth Best Rating TV Drama Award, 2004" from Shanghai Dragon TV, the only satellite TV channel of Shanghai Media and Entertainment Group which has nationwide coverage. Underpinned by our well-maintained syndication platform both inside and outside mainland China, we plan to further increase the output of high quality Chinese drama production in 2005.

Our infotainment programme continued to be very well received in Zhejiang province, as evident by its high rating in a number of major cities around the region. We are also in discussion with major channels throughout mainland China on