

The directors are pleased to present the Group's interim report and condensed accounts for the six months ended 30 June 2004. 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 2004, and the consolidated balance sheet of the Group as at 30 June 2004, all of which are unaudited and condensed, along with selected explanatory notes, are set out on page 9 to 26 of this report.

INTERIM DIVIDEND

The directors are pleased to declare an Interim Dividend of HK\$0.20 (2003: HK\$0.20) per share for 438,000,000 issued shares.

Dividend warrants will be despatched to shareholders on 30 September 2004. The transfer books of the Company will be closed from 22 September 2004 to 24 September 2004, both dates inclusive.

MANAGEMENT DISCUSSION AND ANALYSIS

Review Of Operations

(a) Operating Results For The Period

For the six months ended 30 June 2004, the Group achieved a turnover of HK\$1,696 million, an increase of 18% over the same period last year. Profit attributable to shareholders amounted to HK\$217 million, an increase of 40% over the same period last year (2003: HK\$155 million). Earnings per share increased to HK\$0.50 (2003: HK\$0.35).

(b) Business Review And Prospects

Terrestrial Television Broadcasting

Forward sales for 2004 recorded at the close of upfront selling in December 2003 showed promising growth over that of 2003.

This heralded the start of a six-month period (January to June 2004) of robust growth in advertising revenues. Total advertising sales revenue recorded a 23% growth over the same period in 2003.

The programme and product sponsorship relaxations that took effect in July last year contributed significant non-airtime dollars. The contribution from programme sponsorship has shown double-digit growth over last year while the contribution from product sponsorship has exceeded internally set targets. These innovative forms of promotion will continue to be improved and developed in the months ahead in order to increase our share of the total media pie.

The prospects for the second half of the year are positive given the widespread consensus of a significantly improved economy this year and the strong sales momentum generated so far.

In terms of viewership, Jade and Pearl continued to gain strong audience support during the first half of 2004. Jade achieved an average 81% weekday primetime (7:00 - 11:30 p.m.) audience share of terrestrial Chinese channels; and Pearl garnered an average 73% weekly primetime (Monday to Sunday 7:00 p.m. - 12:00 midnight) audience share of terrestrial English channels.

With the Government's announcement, in July, of the policy framework of implementing digital terrestrial television ("DTT") in Hong Kong, as one of the two incumbent terrestrial television broadcasters, TVB would have one and a half multiplexes for the development of digital services - half a multiplex for digital migration, i.e. simulcasting of existing analogue channels, and an additional multiplex to launch new HDTV broadcasting services. The digital services are expected to commence in 2007. The Government's priority is to ensure a smooth analogue-to-digital migration of the existing terrestrial television services. The remaining two multiplexes (out of the five multiplexes available in Hong Kong) would be assigned later after existing terrestrial broadcasters have confirmed the technical feasibility of the Single Frequency Network configuration. Discussions on multiplex licensing details would be held with the Government during the second half of 2004.

TVB has been preparing to meet the DTT challenge when building the digital production centre at TVB City, Tseung Kwan O. Digital production of our drama and non-drama programmes have started since our state-of-the-art studios at TVB City became fully operational last November.

We will continue to expand our production capabilities and diversity in 2004. Drama co-productions were extended to Thailand early in the year and production output in China will be increased to 100 hours annually.

Programme Licensing And Distribution

Revenue from programme licensing and distribution during the period recorded single-digit percentage growth. We have started to look beyond conventional media and will supply content to broadband and wireless media.

The stringent Government restriction is still the main obstacle to the growth of our telecast licensing business in China. A new policy was implemented in the first half of 2004 that banned certain types of programmes. This affected our telecast licensing business in the same period, but the impact will not last long as the demand for content continues to grow and we have a larger library of other types of programmes to supply to this market.

Together with the strong growth in our VCD licensing business, we expect our licensing business to continue to grow this year.

Overseas Satellite Pay TV Operations

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

With joint promotional activities and special package offers by DirecTV and our installers, the subscriber base of our 5-channel package grew at a satisfactory double-digit rate. We anticipate the same growth rate throughout 2004.

In April, TVBSP was able to reach a settlement agreement with SES Americom for an early exit of the remaining 9-year transponder lease of AMC-4.

(b) TVB Australia (“TVBA”)

In Australia, the programming revamp introduced in July 2003 delivered a steady and stable growth in subscribers and also reduced churn. TVBA maintained a double-digit growth for the first half of 2004.

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

In Europe, TCC’s subscription growth has been moderate. Churn was still high thus reducing net growth.

Besides the satellite delivery channel that will be used to deliver live news and variety programmes directly from Hong Kong to TCC’s playout centre as an immediate measure to improve programming, TCC is exploring the viability of increasing its channel capacity to enrich its current single-channel offering.

Channel Operations

(a) Taiwan

Despite the political controversies after the March 2004 presidential election and the slow economic recovery, our Taiwan channel operations continued to record strong growth in both advertising revenue and profit. This was achieved through our creative effort in advertising sales, production and programming.

TVBS has been focusing on enhancement of its programmes and production, especially its local drama production, which has received good response and would generate more overseas licensing revenue. In the second half of 2004,

TVBS will produce and broadcast more drama series and major events as well as equipping its leading news channel for the coming Legislative Council Elections in Taiwan. We expect to maintain our growth pace in the remaining months of the year.

(b) TVB8 And Xing He

Xing He and TVB8 have made good progress to substantially reduce losses.

Subscription income has increased, especially Xing He in China where revenue grew as a result of the trial viewing offered last year.

The landing of the channels on the Galaxy pay TV platform in February also contributed towards revenue. Advertising income managed a mild increase despite fierce competition in Hong Kong and China. The savings in direct cost especially in production is another key to the much improved results.

Other Activities

(a) Jade Animation

The animated series “Condor Hero” produced by Jade Animation performed well in TV audience ratings and regional TV and video distribution. Apart from the continuous work for Disney, the animation servicing business has slowed down due to keen competition in other markets. For future business development, Jade Animation is expanding its merchandising business and is considering the launch of an animation channel.

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

Advertising income doubled due to the creation of more mini sites and web pages for sponsors of TVB programmes. This has helped to make up for a shortfall in the income from Broadband, due to a lower rate of new subscriptions. A substantial new revenue stream is the sale of content to 3G network providers. These brought about a healthy 24% growth in total revenue in the first 6 months of 2004. The operation in China has successfully developed a new revenue stream for content provision to Short Message Services (“SMS”) which shows potential for further growth.

(c) Magazine Publishing

Advertising income recovered strongly, showing a 20% growth over the same period last year. However, magazine sales has been under pressure along with the rest of the magazine market. The advertising revenue prospects for the rest of the year are positive and steps are being taken to reverse erosion in magazine sales.

(d) Mainland Joint Venture

Solid economic growth and the rapid commercialization of the TV media industry in the mainland helped our joint venture show encouraging growth in the first half of 2004. Further growth is expected following the expansion of existing business and the launch of new projects.

The daily infotainment programme which commenced last year continues to enjoy satisfactory ratings. Advertising income has also shown good growth since the first quarter of the year. Our joint venture is actively seeking similar opportunities for syndications and cooperations with local media partners on life-style and variety programmes.

We have also strengthened our drama syndication business to a nationwide coverage. An efficient and effective network has been established linking all major TV stations in the mainland. We have invested in various costume dramas in the mainland and have imported high quality Chinese language dramas into the mainland markets.