

Other than the conventional TV media business, our new media business including provision of content to SMS and Broadband Services, also shows favourable progress. Our SMS business which is integrated with various TV programmes, contributes healthy cash flow since its launch in late 2003. We expect considerable growth of our content supply after commencing services in Guangzhou in June 2004 and the introduction of Interactive Voice Response and Multi-media Messaging Services in due course. Regarding Broadband Content Provision, there are plans to launch such services in the later part of the year in cooperation with mainland telecommunication companies.

In view of the above progress and the continuous vigorous growth of the economy in China, we are optimistic that our joint venture in the mainland will enjoy a quantum leap in the near future.

New Business - Hong Kong Pay TV

The pay TV platform of Galaxy Satellite Broadcasting Limited (“GSBL”) - exTV, was launched in February 2004. (GSBL is a joint venture company, with 51% share owned by Intelsat and 49% by TVB.) TVB will continue to produce and package five channels for exTV. The 24-hour-news channel TVBN, drama and entertainment channel TVBE and the children’s channel by day and family channel by night TVBQ are produced for the local pay TV market and broadcast in Cantonese; and the general entertainment channel TVB8 and the drama channel Xing He, which also serve the mainland and overseas markets, in Putonghua. Our share of the start up losses to 30 June 2004 amounting to HK\$77 million was recorded. The project is at its very early stage and steps are being taken to improve the home reach of the services.

Financial Review

(a) Capital Assets, Investment, Liquidity And Debts

As at 30 June 2004, fixed assets of the Group stood at HK\$2,295 million, a decrease from last year end of HK\$70 million, which represented depreciation charges exceeding the assets acquired during the period. With the completion of the TVB City Project last year, CAPEX has reduced substantially.

In accordance with the Subscription & Shareholders Agreement entered into with Intelsat Hong Kong Limited, TVB will contribute a total investment of HK\$520 million to be paid over a period of time. As of 31 December 2003, a sum of HK\$138 million was paid. Further cash investment of HK\$45 million was paid on 18 February 2004 and contribution in kind (mainly for programmes supplied) capitalized during the period amounted to HK\$74 million, thus increasing the total investment contribution in Galaxy Satellite TV Holding Limited (which owns 100% of GSBL, the company holding the pay TV service licence) to HK\$257 million as at 30 June 2004. Further contributions in kind and cash will be due: in 2004 HK\$76 million, in 2005 HK\$138 million and the balance HK\$49 million in 2006, thus making up a total of HK\$520 million.

Cash and bank balances as at 30 June 2004 amounted to HK\$335 million, a slight decrease of HK\$27 million over last year end (HK\$362 million). About 31% of the cash balance was maintained in overseas subsidiaries for their daily operation and 17% in accounts for specially assigned purposes. To finance current working capital requirements, sufficient banking facilities have been arranged. Cash and cash equivalents held by the Group were principally in Hong Kong Dollars and US Dollars and were not related to debts.

Accounts receivable decreased by 4% from the position at the end of last year, reflecting a lower level of billing for local advertising at the beginning of the year. Adequate provision has been set aside to allow for any delinquency. Accounts payable remains almost the same as last year end.

The Group recorded a gearing ratio of 15.7% as of 30 June 2004 (December 2003: 18.7%) which was measured by total debts of HK\$510 million (December 2003: HK\$618 million) against a shareholders’ fund of HK\$3,247 million (December 2003: HK\$3,295 million). The decrease was due to repayment of bank loans taken out by overseas subsidiary companies.

- Debts decreased over last year by HK\$108 million due to repayment of short-term loans.
- Debts consisted of short and long-term bank loans and bank overdrafts taken out for purchase of properties, equipment and studio facilities in Taiwan and the TVB City Project, etc. Loans totalling HK\$70 million (December 2003: HK\$85 million) were secured by assets of subsidiary companies.
- All debts are subject to floating rates of interest at an agreed percentage above the prevailing lending rates of the banks.
- The debt maturity profile as at 30 June 2004 was as follows: within one year HK\$461 million (91%); in the second year HK\$5 million (1%); in the third to fifth years HK\$17 million (3%) and after the fifth year HK\$27 million (5%).
- Debts were denominated mainly in Hong Kong Dollars (86%), New Taiwan Dollars (13%) and other currencies, such as US Dollars and Australian Dollars.
- The Group did not have any committed borrowing facilities during the period.

Capital commitments of the Group, excluding the Group's share of commitments for jointly controlled entities and associated companies, decreased by 32% to HK\$165 million (December 2003: HK\$243 million).

(b) Provision Written-back

The Group had a contractual commitment for transponder capacity (36 MHz) on AMC-4 (beaming over the USA, including Hawaii) provided by SES Americom for a period of ten years to 30 September 2012. Following the migration of our satellite platform to DirecTV in USA, this transponder capacity became redundant. In March 2004, Memorandums of Understanding ("MOUs") were signed with channel operators and operators of broadcasting platforms which we anticipated would lead to the signing of subleases, at prevailing market rates, covering the full original transponder capacity. These sublease rates were expected to be lower than the rates in our original transponder lease. Accordingly, a provision of HK\$54 million was made in last year's accounts to cover the shortfall between our original lease obligation and the anticipated revenue from subleases through to the end of the original contract term. However, upon further negotiation with SES Americom before the conclusion of the MOUs, they were willing to accept an early termination of the lease subject to a cash compensation. The amount of compensation was paid on 28 May 2004 and charged against the provision aforesaid. A surplus in the provision of HK\$11 million was written back in the accounts for the period ended 30 June 2004.

(c) Contingent Liabilities

There were guarantees to the extent of HK\$1.1 million (December 2003: HK\$1.1 million) provided to bankers for banking facilities.

(d) Exposure To Fluctuations In Exchange Rates And Related Hedges

As of 30 June 2004, there was no exchange contract entered into with bankers to sell forward certain foreign currencies in order to hedge against fluctuation for trade receipts from overseas customers (December 2003 : HK\$15.5 million). Therefore, no potential loss on such contracts was recognised in the accounts (December 2003 : HK\$0.8 million).

HUMAN RESOURCES

As of 30 June 2004, the Group employed, excluding directors and freelance workers but including contract artistes and staff in overseas subsidiary companies, a total of 5,082 (December 2003: 5,242) full-time employees. The decrease was due to manpower retrenched during the period. About 27% of our manpower was employed in overseas subsidiaries and was 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 per-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. There was no share option scheme adopted by the Group during the period. From time to time, the Group organizes, either in-house or with vocational institutions, seminars, courses and workshops on subjects of technical interest, such as industrial safety, management skills and other related studies, apart from sponsorship of training programmes that employees may enroll on their own initiative.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2004, the Company has not redeemed any of its ordinary shares. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's ordinary shares.

CORPORATE GOVERNANCE

During the six months ended 30 June 2004, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Exchange") save that independent non-executive directors who have not been appointed for a specific term are subject to retirement by rotation as specified by the Company's Articles of Association.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30 June 2004.

The interim financial statements for the six months ended 30 June 2004 have not been audited but have been reviewed by the Company's external auditors.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2004, the beneficial interests of the directors and chief executive in the shares of the Company as recorded in the register maintained under Section 352 of the Securities and Futures Ordinance were as follows:

	No. of Ordinary Shares of HK\$ 0.05 each				Percentage of Issued Capital (%)
	Personal Interests	Family Interests	Corporate Interests	Total	
Sir Run Run Shaw	-	1,146,000#	141,174,828* (a)	142,320,828	32.49%
Christina Lee Look Ngan Kwan	602,144	-	16,701,000 (b)	17,303,144	3.95%
Lee Jung Sen	1,262,415	-	-	1,262,415	0.28%
Mona Fong	1,146,000#	-	-	1,146,000	0.26%
Chien Lee	600,000	-	-	600,000	0.14%
Li Dak Sum	-	-	300,000 (c)	300,000	0.07%
Louis Page	100,000	-	-	100,000	0.02%

*Note: Duplication of shareholdings occurred between parties # shown above and between parties * shown above and below under "Substantial Shareholders".*