

Review Of Operations

TELEVISION BROADCASTING

The year 2000 was particularly rewarding for the Company in terms of audience and public recognition. Record audience share carried TVB into the new Millennium on a very positive note. In 2000 the Jade and Pearl channels achieved average overall weekday prime time audience shares of 81% and 76% respectively, the highest since Hong Kong's adoption of the Peoplemeter audience measurement system in 1992.

THE JADE CHANNEL

Jade continued to produce a wide range of highly popular dramas that both entertained and informed viewers. The top rating drama series of the year, "Return of The Cuckoo", with its romantic charm, style, and old-world family and neighbourhood values, captured an average of 2.3 million viewers per episode. This uplifting family drama, set in Macau, told a heart-warming story of the life and trials of a young man with a speech impediment. This production was the highest-rated drama series since the Peoplemeter came into use.

The series, "The Green Hope", with its inspiring success story of a former psychiatric patient, was also critically acclaimed. With the help of a devoted brother, the main character realizes his dream of becoming a concert pianist and, in the process, helps others with psychiatric problems to re-enter society and establish normal relationships. The drama attracted an average 1.7 million viewers per episode and received a number of commendations from different social groups.

Another reality-based drama with a positive social message, "Time Off", depicted the stories of former convicts struggling to re-enter society. The series drew 1.9 million viewers per episode.

Reflecting the worries of many in Hong Kong's business community during economic hard times, Jade also produced the comedy series, "Ups and Downs". This series portrayed how, during a time of economic turmoil, a business executive and a speculator refocused their values and priorities and achieved success in love and family relationships as well as in business. Applauded for its dark humour and biting irony as well as positive outlook, the drama achieved an average 2 million viewers per episode.

The successful situation-comedy, "War of The Genders", not only attained superb ratings from its first week, but also became the talk of the town with its outrageous blend of urbane and gender-based humour. The chemistry between the stereotypical, domineering female boss and reluctant male subordinate endured through 100 episodes and enticed 2.2 million viewers per episode.

Jade produced several variations of the basic police drama during the year. The human side of law enforcement was revealed in "Armed Reaction II", which focused on the tribulations and triumphs of two policewomen. The series attracted over 2.2 million viewers per episode. A family-oriented police drama, "Street Fighters", set in bustling Temple Street, drew 2.2 million viewers, while "Sky Is The Limit", featuring law enforcers in tranquil Sha Tau Kok at the mainland border, attracted 1.9 million viewers per episode.

TVB's gripping, reality-based dramas once again won critical acclaim as well as wide viewership. The hospital drama, "Healing Hands II", focusing on medical, health and social issues, drew over 2.1 million viewers per episode.

Our traditional period dramas were also well received. Among these, "The Legendary Four Aces", "The Legend of Lady Yang" and "Witness To A Prosecution", each attracted over 2.1 million viewers per episode.

Offering continued proof of the appeal of the long-series format, and building on the popularity of its first 50 episodes in 1999, the 55-episode mega-drama, "At The Threshold of An Era II", drew over 1.9 million viewers per episode in the millennium year.

Highlighting the success of Chinese athletes, who won a record-breaking total of 28 gold medals, TVB's coverage of the Sydney 2000 Olympic Games achieved outstanding ratings. All live broadcasts garnered nearly 80% shares and live events at night did even better, with an 85% share representing more than 1.6 million viewers per telecast. The dominance of our audience share was a clear indication of viewer appreciation for TVB's exclusive live coverage and exclusive interviews via satellite links.

Jade's variety and musical extravaganzas topped the ratings charts again in 2000 with their innovative formats, star-appeal, glamorous costumes and elaborate sets. Annual specials, such as the "TVB 33rd Anniversary Special", attracted over 2.2 million viewers and a share of 85%. In "Lydia Sum's Glamorous 40 Years", more than 2.1 million viewers spent an evening with the popular comedienne in a star-studded special commemorating her celebrated career. Both the semi-final and final of the "Miss Hong Kong Pageant" drew 2 million viewers. The musical extravaganza, "Jade Solid Gold Best Ten Awards Presentation", and the Hong Kong movie industry's major event of the year, "The 19th Hong Kong Film Awards Presentation", both captured 1.9 million viewers.

Jade's unrivaled star power continued to deliver positive results in our celebrity game shows. "The Super Trio Show" gained the support of an average 1.9 million viewers, while "Happy Family Flagship" attracted 1.8 million viewers per episode.

The "I-Files" provided a change of mood and pace in Jade's regular prime time weekday schedule. This "info-tainment" programme, with its focus on entertainment news and issues from daily life, attracted an average 1.9 million viewers per night.

"How To Get Out of the Poor Life", illustrating success stories of innovative entrepreneurs, was Jade's non-drama initiative aimed at providing encouragement and a positive outlook to viewers in a year of economic uncertainty. With second series of both "What a Wonderful Life" and "City Angels", featuring unsung heroes working to help the less fortunate and heart-warming cases where the physically challenged triumph over their disabilities, Jade continued to celebrate the nobility of the human spirit in 2000.

Innovative programming during the year included the anniversary special, "Underwater Wonder", Jade's first attempt at producing an underwater nature documentary, and "The Feud Club", a talk show using old Cantonese movie footage to highlight and reflect upon social changes and

issues past and present. Other initiatives included the broadcast of renowned Japanese romantic dramas, "Love 2000" and "Long Vacation", repackaged, touching stories of Chinese athletes in "Story Beyond Gold Medal", acquired documentaries such as "New Tech New Life", and "Planet Ocean" - all adding even more diversity to Jade's broad-based and balanced programming.

THE PEARL CHANNEL

Drawing on the very best available sources, Pearl continues to offer English-language viewers diverse, well-balanced and high-quality acquired programming, Hong Kong's 60 highest-rated English channel programmes of the year were broadcast on Pearl. Movies continue the most popular genre, followed by documentaries and drama series. The blockbuster, "The Rock", topped the English ratings chart with over 1 million viewers. Three other action movies, "Face/Off", "Con Air" and "Eraser", each drew over 700,000 viewers, with average audience shares ranging from 87% to 95%.

Through high-tech, computer-generated animation, the stunning BBC documentary series, "Walking with Dinosaurs", brought the great beasts of long ago back to life before viewers' eyes. The 6-episode series captured over 640,000 viewers per night with a phenomenal share of 98%. Wildlife documentaries, such as "Giants with Nigel Marven", "Big Cat Diary" and "The Living Edens", continued to delight viewers of all age groups. During the year, Pearl also featured science documentaries with strong human interest themes. Notable examples included "The Human Genome" which explored the accomplishments of genetic engineering in the breaking of mankind's genetic DNA code. "A Brief History of The Internet" investigated the technological development that has changed the modern world. "The Planets" reviewed missions to explore the solar system.

Pearl's successful "Serial Tuesday" programming strategy, offering episodes of three internationally acclaimed drama series one after the other during prime time, generated excellent viewer support. "The X Files", "ER", "The West Wing" and "Third Watch" continued to attract a steady following.

COMMUNITY AND PUBLIC SERVICE

Above and beyond its traditional mission to inform, educate and entertain Hong Kong viewers, in 2000 TVB continued to serve the Hong Kong community through a wide range of special, public service programmes and activities on-air and off-air. Charity shows were among the Company's most successful and effective fund-raising activities. The annual "Tung Wah Charity Show 2000" attracted about 2.1 million viewers and raised over HK\$68 million for the Tung Wah Group. The "Community Chest Charity Show 2000" raised over HK\$19 million, and the game show, "Happy Family Flagship", HK\$14 million, for The Community Chest. The "Yan Chai Charity Show" raised HK\$ 850,000 for the Yan Chai Group. By bringing hardship cases to the attention of the Hong Kong public, "I-Files" generated over HK\$1.8 million for the "Yan Chai Emergency Assistance Relief Fund." "Childcare Extravaganza 2000" raised HK\$6 million for the "End Child Sexual Abuse Foundation". In addition, TVB also produced charity shows in Atlantic City, Los Angeles, Toronto and Vancouver. A total of HK\$24 million was raised for the Chinese communities in these cities.

COMMENDATIONS AND AWARDS

TVB's production excellence, on-air promotions, and public service initiatives continued to

win critical acclaim and recognition both locally and internationally.

Community recognition for the Jade drama series, "The Green Hope" and "Return of the Cuckoo", was overwhelming and gratifying. The Hong Kong Council of Social Services particularly commended the positive and encouraging portrayal of psychiatric patients in "The Green Hope", and of those with speech impediments in "Return of the Cuckoo". "The Green Hope" also received commendation from the Chinese University/Baptist University Family-to-Family Mental Health Education Programme, which praised the series' positive portrayal of persons recovering from psychiatric problems.

The "Miss Hong Kong Pageant 1999 (Final)" won the Best Entertainment Special Award, and "The Pearl Report: The Body Wars", was Runner-Up for Best Current Affairs Programme at the Asian Television Awards 2000 (ATA). Other TVB programmes to be honoured at ATA 2000 in various categories included "Thursday Report: Priming For The Best" in the Best Documentary Programme category, "Plane Crash Special" in the Best News/Current Affairs Special category, "The Threat of Love" in the Best Single Drama or Telemovie category, and "Plain Love II" in the Best Drama Series category.

At the RTNDA 30th Annual Edward R. Murrow Awards, TVB's "The Chosen Ones" won the award in the News Documentary category, and "News At 6:30" won in the Newscast category. The Company's "Plane Crash Special" was also a finalist in the 2000 International Emmy Awards.

At the 2000 New York Festival, "Dragon Love Opening" won a Silver WorldMedal in Animation (computer): Promo Spot, and "Mid Autumn Festival Station Greeting", garnered a Bronze WorldMedal in Station/Image Promotion. Among the finalists were "News At 6:30: One Child Too Many", in the Inserts: Investigative Report category; and "Olympic 2000: Art In Motion", Sports Program Promotion.

The setting for "Fashion Exclusive", produced for TVB Channel 8, won a Bronze Award at the 22nd Annual BDA Design Awards.

PROGRAM LICENSING & DISTRIBUTION

While our video rental operations suffered further decline in 2000 due to the slow economies of key markets and VCD piracy, our telecast distribution revenue experienced healthy growth as a result of an increase in the number of terrestrial and pay TV operations in the region. Together with the successful launch of our programmes in VCD format in late 2000, we can expect, in the near term, our distribution business will be back on track and see rapid growth for the medium term.

In the mainland, due to changes in broadcast policy restricting broadcast of imported programmes in prime time, we experienced a shortfall in revenue. We nevertheless remain the leading importer to this important market. New co-productions in the mainland are now underway and in different stages of production. We are encouraged by the better-than-expected income from this source.

TAIWAN CABLE CHANNELS

Although TVBS continues to lead in audience ratings and share, particularly in the most important area of news programming, the Taiwan economy was further set back by consumers' continued

unease with the new administration. Television advertising revenue in 2000 declined, resulting in modest losses for TVBS channels. The shortfalls were offset to some extent by the continued improvement in revenues from the TVBS Magazine.

In the year 2001, we can expect TVBS channels to continue to lead in audience share and be well-positioned to benefit and return to the black when the Taiwan economy reverses its present downtrend. Building on the positive numbers of 2000, channel TVBS-Asia's contribution should continue to grow as the number of television operations in the region continues to increase.

NEW BUSINESS DEVELOPMENT

Attendant to our cable distribution in Holland, where we are expecting to conclude additional carriage with UPC Nederland B.V., the largest cable carrier in the market, TVBS Europe saw a growth of 20% in subscribers and overall stable performance.

In the USA, where we have overcome initial technical hurdles, we are on track to convert our previous, one-channel satellite service to a multi-channel, direct-to-home service. Since November over 90% of existing channel subscribers have confirmed they will convert to the new direct-to-home service, with 60% of subscribing homes already successfully converted. Judging from the initial response of subscribers to our multi-channel offerings, we are convinced that our USA operation will bring in an increasingly strong revenue stream and make a significant contribution to the Group in coming years.

In Australia, our new direct-to-home, multi-channel satellite platform fell short of subscription targets due initially to technical systems integration faults and, later, with a large number of the workforce temporarily absorbed by the demands of the Olympics, to a shortage of installers. Since then, labour resources are back to normal and we are cooperating closely with installers and agents to work through the back-log. Plans are also underway to address multiple dwelling units with large numbers of Chinese inhabitants. These may make up as much as 40% of potential homes.

With the additional reach resulting from the launch of our direct-to-home platforms in Australia and the USA, our two satellite channels, TVB8 and Xing He, have reached their initial targets for global coverage. For the coming year we will focus our efforts on reaching distribution targets in the mainland and on revamping our programming and marketing strategies. In 2001 we anticipate substantial improvement in revenue and, hopefully, an increased contribution to the Group from the two channels.

Our wholly owned subsidiary, Galaxy Satellite Broadcasting Limited (Galaxy), has been granted a licence to operate a domestic pay television programme service in Hong Kong. Amongst other conditions, Galaxy is required to launch the services 18 months after commencement of the licence and that TVB's investment in Galaxy must be less than 50% of the share equity of Galaxy.

JADE ANIMATION

Jade Animation, the animation arm of the Group, delivered steady growth in revenue and profit through its animation services and licensing activities. During the year under review, Jade Animation has enhanced its studio with digital animation facilities to improve production quality

and reduce production cost. In the coming year Jade Animation will prepare itself to participate more aggressively in animation project development, international co-productions and marketing activities.

TVB.COM

In June 2000, the tvb.com portal was completely redesigned and officially relaunched with enhanced content and a completely new look.

Throughout the year, the content and services of the portal have been continuously augmented and improved. Major improvements include video streaming of TVB's morning, noon and evening news, online chats with TVB stars, coverage of music topics including online polling in association with the Jade Solid Gold programme, opening of the TVB VCD Shop, an extensive Christmas promotion, and the official star websites of leading TVB-managed stars.

Our continuous effort to improve our portal has paid off. Between January 2000 and December 2000, user sessions have increased by 127% and the duration of user sessions has increased by 10%.

In May 2000, TVB.COM Limited (TVB.COM) opened its portal operations in the mainland, based in Shanghai. Operating under the name of Shanghai Jade Pearl Internet Technologies Limited, the portal team consists of approximately 50 experienced and talented portal designers, engineers and content staff.

Our strategy in the mainland is to build a portal that will capitalise on the fast-growing Internet market in that country and maximize our revenue opportunities through reduced operating costs resulting from our integrated operations in Hong Kong and the mainland. Moving in this direction, a decision was made in December 2000 to downsize the Hong Kong team by approximately a third. In the coming year, TVB.COM will look for more operational efficiencies by further integrating its Hong Kong and the mainland portal operations.

MAGAZINE PUBLISHING

In 2000, TVB Publications Limited (TVBP) was able to achieve impressive double-digit growth in advertising revenue. However, circulation and readership have experienced downward pressure due to the very sluggish retail market and the extremely intense competition in the local periodicals market.

We believe the improvement in revenue has resulted directly from the magazine's wider appeal in the marketplace. After a thorough restructuring, TVB Weekly has maintained its traditional family orientation, but now commands a significant share of the youth market as well.

In an effort to reach Chinese readers all over the world, we aggressively promoted our weekly magazine on the Internet in 2000. Through TVB's Internet portal, tvb.com, readers in every corner of the earth with access to the Internet were able to enjoy the content of TVB Weekly. In coming years TVB Weekly and tvb.com will continue to cooperate in cross-promotional opportunities to maximize growth in both businesses.

In 2001, we will work to ensure that TVB Weekly remains fresh and appealing. We will continue

to review, enrich and renovate our content in order to improve our positioning and to increase our market share. Furthermore, to add to our circulation, TVBP will begin to publish the TVB Weekly in selected international markets. Based on these efforts, we anticipate improvement in both circulation and readership in the coming year.