



GROUP CEO REPORT

MARK LEE PO ON

I wish to report a number of key issues to our shareholders and readers.

PROGRESS DURING YEAR

As noted in the Chairman's Statement, the Group's profit attributable to equity holders declined from HK\$1,331 million to HK\$500 million during the year, representing a decrease of HK\$831 million or 62%. This decline in profit can be explained by four key factors: a decline in revenue of HK\$398 million from Hong Kong TV broadcasting; an under-recovery of HK\$150 million from broadcast of the Rio 2016 Olympic Games; net start-up costs of HK\$44 million for the new myTV SUPER service; and a smaller net exceptional gain in 2016 relating mainly to the disposals of the remaining interest in Taiwan operations and the impairment loss relating to pay TV business, TVB Network Vision Limited, making up to an amount of HK\$115 million.

Hong Kong TV broadcasting, the Group's largest business segment, was mainly supported by advertising, which remained sluggish throughout 2016. The softness was the result of lacklustre retail sales, which have continuously been dropping since March 2015, and the rising trend of online and social media advertising. Both factors contributed to a spending decline among our top advertisers. In trying to overcome such difficult market conditions, our sales strategy is to target new advertisers; tailor-make one-stop advertising solutions for customers; and at the same time, revamp our internal processes to

facilitate sales and to enhance customers' experience. Back in 2014, the Company commissioned a re-write of the advertising sales systems, with the aim of updating workflow and improving services to agencies and clients. I am pleased to report that the first phase of this new system went live in January 2017, and further changes will be progressively introduced in the coming months.

In Hong Kong, our TV broadcasting segment offers five free-to-air channels (Jade, J2, Pearl, iNews, and J5) to a total of 2,463,000 households. Each channel targets different audience demographics but complements each other on the whole. We recently repositioned J5 as a distinct channel for finance with corresponding changes to its programming.

Broadcast of the Rio 2016 Olympic Games fell short of achieving the anticipated advertising sales targets. In spite of this, we successfully delivered via myTV SUPER six live sports channels and over 2,000 hours of Olympics content on demand, covering all 42 sports events. We believe TVB was the first broadcaster to offer such an extensive coverage of the Olympic Games on an OTT platform.

The Group continued to invest heavily to further enrich our content offering. A number of prime time dramas were aired on Jade to critical acclaim in Hong Kong and in the international markets. Since original content creation is a vital part of our business, we have retained a substantial talent pool in script-writing,

production, and performance to support our productions. In 2017, we are expanding our frontier into co-productions with a number of major mainland Chinese platforms, including Tencent and iQiyi, which would further generate new business opportunities in Mainland China. With these new endeavours, we hope to further enhance our brand awareness and raise the bar of our production.

OVERSEAS BUSINESSES

Our distribution businesses in Malaysia and Singapore continued to perform satisfactorily. MEASAT Broadcast Network Systems Sdn Bhd in Malaysia and TVB will further strengthen our partnership over the next four years. The recent production of the *2016 Miss Chinese International Pageant* in Genting, Malaysia, was a clear demonstration of our commitment to enhance the Company's presence there. We are also working with StarHub Cable Vision Ltd. in Singapore to further develop our business and increase joint productions in the coming years.

Back in 2015, the Board decided to exit the Taiwan market to re-direct its resources in Mainland China and Hong Kong. This had resulted in a number of disposals of business operations and property assets. The disposal of the last remaining 47% interest in Liann Yee Production Co., Ltd. and the studio and office building in Neihu District of Taipei City took place in 2016; exceptional items arising from both disposals resulted in a net gain of HK\$295 million. The Board is proposing to dispose of the Group's last remaining property asset in Taipei in 2017.

DEVELOPMENT OF DISTRIBUTION PLATFORMS

myTV SUPER made its debut in Hong Kong on 18 April 2016, representing a major step in our foray into distribution through digital new media. The service allows our audience to choose from a huge selection of programmes and watch them at the click of a button – all at a very low subscription. In a little less than a year, myTV SUPER has accumulated a total of over 3 million users, well exceeding our original target of 1.4 million users by November 2017. Our partnerships with two Internet service providers, Hong

Kong Broadband and Hutchison Telecommunications, to deliver a dual broadband and content offering have proven to be a huge success. In addition, we have been working to migrate existing pay TV subscribers under TVB Network Vision platform to myTV SUPER, as it submitted an application to surrender its domestic pay TV service licence to the Government of the HKSAR.

As a second step of our digital media strategy, we launched an upgraded version of TVB Anywhere for the overseas markets, which includes an e-commerce platform, in September 2016. We believe the two services combined will offer a comprehensive OTT solution that will prove attractive for subscribers.

To complete digital new media plan, we will be launching during 2017 a new social media platform, Big Big Channel. Preparation work is underway, and the platform will showcase TVB-produced short programmes featuring our artistes who engage with online viewers.

OUTLOOK

The market outlook for 2017 remains uncertain and advertising sales may take time to recover. Yet, with the initial success of our OTT services, the Board is confident that these expanded platforms will support our business beyond the existing limits imposed by our free-to-air TV licence.

Mark Lee Po On

Group Chief Executive Officer

Hong Kong, 29 March 2017