

REVIEW OF OPERATIONS

OVERSEAS OPERATIONS – OTT AND PAY TV

OTT

To cater to the audience's changing viewing patterns, an upgraded OTT service TVB Anywhere was launched in September 2016. It provides TV channels and VODs in multiple languages to serve audiences around the world, except a small number of territories in which the service has been geo-blocked due to contractual constraints. Built on a highly integrated content platform, the service allows viewers to select and watch a wide range of TVB and acquired programmes anywhere, anytime.

TVB Anywhere adopts a low-cost operation model by delivering programmes over the Internet instead of via the more costly conventional satellite, cable or terrestrial television networks; it uses TVB's voluminous archived and current productions as the backbone of its content offering, thereby reducing content acquisition fees. As a result, TVB Anywhere could be offered at a low service fee, which would hopefully help combat the illicit OTT services in the market.

TVB Anywhere's major revenue sources include basic service fees, additional subscription fees for premium channels or VODs, and advertising income. Viewers can subscribe through local distributors in various countries and online via the official website: www.tvbanywhere.com. It is our plan to replace the conventional pay TV service through satellite or cable transmission in Europe, Australia and North America (USA) with this OTT service in the overseas markets as far as practicable.

Europe

The conventional satellite pay TV service has been completely replaced with our OTT service TVB Anywhere. Both subscriber numbers and financial performance in the European markets have continued to improve over the past year following the introduction of TVB Anywhere.

AUSTRALIA

We have been actively introducing multi-media elements into different segments of our business, including traditional television, OTT service, magazine, events organisation and sponsorships as well as mobile apps; these have boosted advertising revenue in 2016 despite the economic downturn. The upgraded OTT service TVB Anywhere was launched in the Australian market in September 2016 and this has led to a sharp increase in subscriber numbers, which will further improve advertising income.

NORTH AMERICA (USA)

Having released TVB content on various digital platforms in the US market since 2015, we began seeing encouraging results in both advertising revenue and viewership over the past year.

Following a pronounced judgment by a US court against a notorious illegal OTT syndication last year, requesting local Internet service providers to disconnect illegal signals has become a priority. Continuous anti-piracy actions have been taken in conjunction with local business partners against other illegal TV box distributors and retailers.

CHANNEL OPERATIONS

Total revenue dropped by 14% to HK\$90 million during the year due to an economic downturn and fierce competition in the region. To increase viewership and attract advertisers' spending, we devoted more resources and worked with our clients in Malaysia and Singapore to produce a series of local programmes. Various shows including *Wellness On The Go 4 – Going Green and Sustainable Living*, *Auspicious Festivals*, *TVB Star Awards Malaysia 2016*, *Eating well with Madam Wong In Singapore*, and *Neighborhood Gourmet 3* were well received by the audience.

Going forward, we will continue to locally produce more programmes in the two markets. Scheduled for release in Singapore in the first quarter of 2017 was *Chef Minor – Singapore*, which was produced with the support of StarHub and, more importantly, advertisers sponsoring the programme.

Satellite migration for the TVB8 and Xing He channels has been completed, resulting in significant cost savings. We have re-invested such savings to further expand our viewership, particularly among the younger generation, in different new media platforms and in Mainland China.

COMBATING PIRACY

Governments and industries around the world have been cooperating more closely to crack down on illegal set-top TV boxes.

The UK Government convened an enforcement seminar in May 2016 to collect industry feedback on how legislation could be improved to tackle the problem. In September 2016, representatives from the international law enforcement community and the industries held two forums in London to explore effective measures against illicit TV boxes.

Similar actions are being taken in the US, including the formation of an industry working group comprising major content providers against illegal streaming on IPTV, including set-top boxes. Following its first successful civil suit against “TV Pad” in the United States, TVB has started a new suit against the operator of another TV box “H.TV” for copyright infringement.

In June 2016, a Canadian Federal Court granted an interlocutory injunction order against several retailers of illegal set-top boxes following a suit jointly filed by a number of major local pay TV operators. TVB has issued warning letters to the retailers selling illicit set-top boxes carrying TVB content and will consider taking further legal actions against those who do not halt such activities.

Efforts to lobby the Australian government to strengthen its copyright legislation against illegal piracy will resume when the new administration is ready to work on the matter.

In Mainland China, the online piracy problem has abated to some extent following successful government crackdown on illegal IPTV streaming unlicensed foreign programmes including TVB’s.