GROUP CEO'S REPORT

MARK LEE PO ON

I am pleased to further report on the business progress made during the year ended 31 December 2017.

HONG KONG TV BROADCASTING

2017 was one of the toughest years in the last decade of the Company. Our businesses were challenged on many fronts, including a lackluster advertising market in Hong Kong and the global digital revolution that causes significant disruption to many conventional business models.

For long-term development of our business, the Board spearheaded a transformation process to evolve from a traditional terrestrial broadcaster to a media company which includes substantial digital distribution capabilities, offering any content on any devices, anytime and anywhere. With one of the largest programme archive for Chinese programming content, TVB is naturally blessed with a sizeable library of dramas, varieties, documentaries, as well as a deep news archive, as foundation for this digital business. Our strong production and artiste resources as well as promotion platforms are the key capabilities that enabled this fast and seamless digital transformation.

"Content is king" remains as one of the Company's core business strategies. We are producing at an annual rate around 23,700 hours of programmes for our five digital TV channels. Jade maintains leadership as the most popular channel in Hong Kong. This year, we repositioned two of our channels to address the needs of our audience. iNews was renamed to TVB News Channel with strengthened news reporting and documentaries. J5 was renamed TVB Finance & Information Channel which is dedicated to finance related and information programmes. Each of our channels now carries distinct characteristics targeting different audience demographics, whilst complementing each other as a whole.

Advertising revenue from Hong Kong terrestrial TV broadcasting is the largest revenue contributor of the Group. Since 2015, this segment has been disrupted by a sluggish advertising market as it began to consolidate after several years of rapid growth. Between 2014 and 2016, our advertising revenue reported an accumulated decline of over HK$700 million. However since beginning of 2017, we began to note a more sanguine economic situation as the retail sales index recorded a modest growth of 2.2%.

DIGITAL NEW MEDIA

myTV SUPER OTT service has been delivering promising growth in user numbers since launch in April 2016. This business has registered an initial success. To date, the service has accumulated over 5.8 million users in Hong Kong, comprising over 1.0 million users consuming content through set-top boxes ("STB"), approximately 4.1 million accounts operating via mobile apps, and over 0.7 million accounts through the portal. The increasing usage of this platform is boosting our overall TV ratings. With an all-day-all-time average TV rating of 1.68, I am pleased to report that myTV SUPER is now the second most watched TV platform in Hong Kong after Jade.

As consumption of content through myTV SUPER is changing the viewing pattern, we have started to review the dissemination of TV ratings to the market and are adopting a consistent basis of consolidating viewings of programmes across all platforms (terrestrial, OTT, Web and app) over a seven-day period after broadcast. We believe that this approach gives a fairer presentation. We further anticipate that the shift of consumption towards OTT will continue in the future.

Based on the current run rate, we are gathering momentum in digital advertising sales as consumption of content on myTV SUPER increases. We have achieved monthly break-even since December 2017, and anticipate that we shall be reporting positive segmental contributions from 2018.

Big Big Channel social media platform was launched in July 2017 and has registered users and followers in and outside Hong Kong totalling over 10.7 million and is growing rapidly. This represents a good head start.

In 2018, our efforts will focus on monetising myTV SUPER platform and strengthening its technical service capability. We will devote more resources in content offering of Big Big Channel and developments would include increasing content marketing, advertising and expansion into e-commerce business, particularly in collaboration with clients, and the launch of a new app Mai Dui Dui (埋堆堆) through our Mainland China associate. With increasing consumption of content on Big Big Channel, we are hoping to fully cover our costs in the near future.

PRODUCTION FOR MAINLAND CHINA

We have successfully completed and broadcast the first three of a series of co-production drama serials in Hong Kong and Mainland China, namely *Legal Mavericks*; *Line Walker: The Prelude*; and *Heart And Greed* during the year. These drama serials generated significant viewerships in both Hong Kong and Mainland China, and provided higher production budgets to the Company. We are excited with the results and feedbacks received on these productions as they clearly demonstrated our capability in producing sought after drama serials with a distinct Hong Kong characteristics targeting audience in Mainland China. For 2018, at least two new co-production drama serials will be rolled out.

OVERSEAS BUSINESSES

Our overseas businesses made steady progress against a huge and severe pirated content market. Both a business-to-business model and a business-to-consumer model suffer in this environment as consumers are opting for unlicensed content. We are responding quickly in the most forceful way to preserve our markets by working with enforcement agencies. During the year, we maintained close working relationships with our partners in Singapore and Malaysia on enforcement and business developments. With our two partners, we share the common belief that the way forward for distribution rests with digital. TVB Anywhere is becoming an important product for worldwide distribution of our content. In the coming months, we will be finalising various distribution agreements in Mainland China and Singapore. Beyond these traditional markets, our efforts are directed towards growing businesses in new markets, such as Vietnam and Thailand.

SHARE BUY-BACK

As announced on 24 January 2017 and revised on 13 February 2017, the Company put forward a proposal to buy back 120 million shares out of a total of 438 million shares (representing approximately 27.40%) at the offer price of HK$35.075 per share (“Offer”). The Offer was conditional upon, amongst others, a whitewash waiver being granted by the Securities and Futures Commission (“SFC”). As noted in the Company’s interim report for 2017, the Offer was then pending upon the Company’s application to the High Court for a judicial review on certain decisions (“Panel Rulings”) of the Takeovers and Mergers Panel of the SFC ("Panel"). These matters were dealt with at a Court hearing on 26 and 27 September 2017. On 4 October 2017, the Court allowed the Company's application for judicial review and ordered that the Panel Rulings be quashed. The decision affirmed the Company's position to proceed with the Offer on terms as originally proposed by the Company.

The Offer was subject to a condition that no regulatory authority in Hong Kong having objected to the close of the Offer. Pursuant to a referral made by the Panel, the Communications Authority ("CA") informed the Company that it was examining issues relating to two previous applications for shareholding changes in 2015 and 2016 ("CA's Assessment"), and the timeline for concluding such an assessment was not certain. The Company informed Shareholders that it was cooperating with the CA on its assessment but in the event that the CA's Assessment was not satisfactorily concluded by 23 January 2018, being the first anniversary of the making of the Offer, it would apply to the SFC for its consent not to proceed with the Offer.

On 23 January 2018, the Company noted that the CA's Assessment was still ongoing and timeline for the conclusion of the CA's Assessment remained uncertain. Accordingly, the Company announced on 23 January 2018 that it had obtained the SFC's consent for the Company not to proceed with the Offer. In the meantime, the Company will continue to assist the CA in order to bring the CA's Assessment to a conclusion as soon as possible. The Board will continue to evaluate various options for the Company, and at the appropriate time will consider whether to revisit a share buy-back offer, or whether an alternative transaction to achieve the Company's commercial aims could be put to Shareholders.

As required by the SFC, cash totalling HK$4,209 million which was equivalent to the outlays for the Offer had to be locked up in a segregated bank account during the entire period from the first announcement of the Offer on 24 January 2017 to the Board announcement on 23 January 2018 on not proceeding with the Offer. This restricted the Company's ability in generating a return on funds beyond normal time deposit rates from commercial banks. As a result, for the entire period of the lock-up, the interest returns thereon were less than desirable.

OUTLOOK

For 2018, we look forward to more co-production opportunities in Mainland China and increasing contributions from our Hong Kong digital new media businesses.

Mark Lee Po On

Group Chief Executive Officer

Hong Kong, 21 March 2018