

# GROUP CEO'S REPORT

MARK LEE PO ON



I would like to present my report on the execution of Board's strategy and the performances of our key businesses during the year ended 31 December 2018.

## STRATEGIES AND KEY ACHIEVEMENTS

In 2018, we adhered closely to the Board's strategies and remained steadfast in our digital transformation journey.

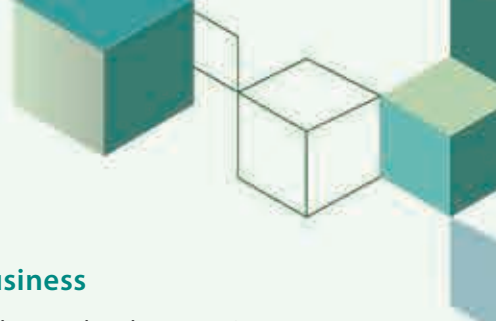
### TV Broadcasting

During the year, our terrestrial TV channels continued to capture robust viewership and reported an average audience share of 82% against all TV channels, free and pay, during weekday prime time. On average, our channels reached a total 5.6 million viewers in homes and 1.6 million viewers out-of-homes in Hong Kong every week. Beyond Hong Kong, TVB's Jade and Pearl channels are distributed widely in the Guangdong Province where Jade always maintains a position at the top three most-watched channels in the key provincial cities. With population of over 70 million in the region, we are presented with ample opportunities to develop product placement and airtime advertising businesses.

Supported by our consistent prime time TV ratings, we have become a trusted partner of many advertiser clients. By structuring the five digital channels with separate demographic targets, we have built over the years a well-diversified client base ranging from international conglomerates to local shops, which helped mitigate the concentration risk and minimise the impact of fluctuating market cycles. In the

2018 interim report, we reported a 2% year-on-year increase in income from advertisers on terrestrial TV channels and were expecting a recovery of the advertising market. However, our business in the second half of the year was disrupted by many factors including tensions arising from the US-China trade disputes; slower China economy; and cautious consumers' sentiment which dampened the growth momentum. For the full year, income from advertisers reported a marginal 1% decline. With the market uncertainties still lingering on, we anticipate that the advertising sales under Hong Kong terrestrial TV broadcasting will remain challenging in 2019.

In July 2018, the Government announced certain relaxations in regulations governing indirect advertising for local programmes. This long-anticipated amendment is very much welcomed as product placement has always been an important source of income for content producers worldwide. We began right away to engineer more product placements in station-produced prime time programmes, with a balanced curation of storylines and products to generate market awareness and attention. Our production team has been using sitcom *Come Home Love: Lo And Behold* as a testing ground for product placements. Recently, we extended the weekday infotainment programme *Scoop* into a daily show to create more advertising opportunities. For advertisers targeting the international market, these in-programme messages and product displays can help accelerate the impact. We hope that the time and the efforts invested in producing product placement will pay off with credible increases in related sales.



To address the changing market evolution between online and offline, we are extending beyond traditional TV commercials to include events management services, by utilising TVB's power to promote outdoors and indoors events using our talent and stage management resources, as well TV platforms.

### myTV SUPER Business

myTV SUPER OTT service is offering subscribers more than 40 channels and over 58,000 hours of VOD programmes. Alongside a subscriber base of over 7.3 million registered users, we are pleased to note that weekly time spent on myTV SUPER has grown to over 20.1 million hours. With an all-day-all-time rating of 1.83 TVRs, myTV SUPER has become the second most-watched platform in Hong Kong after flagship Jade. Thanks to the compelling qualities of our long-form content, daily time spent on myTV SUPER has surpassed the consumption on YouTube and Facebook videos in accordance with a viewer survey conducted by Nielsen in 2018. This puts us in a very favourable position in competing for digital advertising orders locally.

We are pleased to report that myTV SUPER business had delivered a segment profit in 2018 for the first time. To date, we have successfully penetrated 51% of the households in Hong Kong with myTV SUPER set-top boxes ("STB"), and 78% of the TV audience with myTV SUPER mobile app. We are continuing to work on subscriber acquisitions.

myTV SUPER's business in 2019 will be extended into the premium subscription market by offering, under myTV Gold, premium sports; documentary; mega movie channels. myTV SUPER introduced Ad Booking Manager system to facilitate direct bookings by advertisers, and also launched in-video advertisement placements. Moreover, myTV SUPER will cooperate with Google Ad Manager on Addressable TV advertising solution. On the other hand, we are deepening our collaboration with a trusted network partner Hong Kong Broadband Network ("HKBN"), by bundling its enterprise broadband services with TVB's digital advertising solutions on myTV SUPER. This, we hope, will allow us to tap into a new enterprise market via offering cost effective solutions.

### Big Big Channel Business

I am pleased to highlight our development into the social media space. Launched in July 2017, Big Big Channel, which is characterised by TVB's programme-related content, has secured a premier position in the social media space. In view of the growing demand for short-form video, we are leveraging the strong affinity between audience and our artistes/KOLs, to deliver content marketing. These unscripted content, including streaming of live events, e-sports, making-of videos and other spin-off content from original TVB programmes, are well sought-after by fans worldwide. To date, our social media app, Big Big Channel, together with TVB's footprint on Facebook, YouTube, Weibo and other major social media networks attracted over 12.2 million followers worldwide.

Big Big Channel is being transformed into a new business segment comprising marketing event service, social media advertising and promotion, e-commerce adopting the model of "showing on TV, selling in Big Big Shop", and the creation of short video for licensing.

### Mainland China Businesses

During 2018, we devoted substantial efforts in developing new markets. Businesses in Mainland China comprised co-production of dramas and licensing of TVB content to networks and online platforms. The income size has grown notably from 2017, making it a significant revenue contributor. Our strategic collaboration with the leading Chinese online video platforms on co-production of platform-exclusive dramas serials continued in 2018. To cater for bigger markets, programme production budgets were allowed to increase in tandem with increased production fees. These drama serials have funded us with bigger budgets to raise content standard and strengthen our brand. In 2018, three co-production dramas serials were delivered to on-line platforms. For 2019, we will allocate more resources to grasp the business opportunities in the online space.

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The issue of the collection of a licence fee for distribution of two of our channels, Jade and Pearl, in Guangdong is gradually being resolved. Through our persistent efforts, we have made progress in collaborating with the cable operators in the region to develop advertising business using these channels.

## International Distribution

We are now running concurrently a business-to-business ("B2B") model, as well as a business-to-consumer ("B2C") and a business-to-business-to-consumer ("B2B2C") model in Singapore. By working with the local telcos including MyRepublic, M1, StarHub to resell TVB Anywhere app to end users, we aim to amplify our reach and to seize growth opportunity in digital advertising. We anticipate that this model will be similarly considered with our business partner in Malaysia and other Southeast Asia markets. Launch of localised TVB Anywhere services in 2019 has been confirmed for Thailand and Vietnam. By working with M.V. Television in Thailand and Vietnamobile Telecommunication in Vietnam, we are going to extend our service coverage from Chinese-speaking audience residing overseas to mainstream audience in selected markets by offering foreign language sound track. To capture a wider audience group, we are going to launch a global app for TVB Anywhere in 2019.

## Resource Re-allocation

We made a number of changes to our internal structure to align with the new business direction. Over the past years, we added a number of new headcounts to strengthen our digital team for expediting the developments of OTT businesses and social media platform. At the same time, we expanded the production team for TVB Finance & Information Channel (Channel 85) which caters to a growing group of local and overseas investment-savvy viewers. To adapt to a new production workflow, we rationalised the production line by closing one of our studios as more shootings are done on location, and the resources supporting the international licensing business as the old system of programme play-out is being replaced by

server-driven OTT operations. During the year, we migrated our magazine publication business online, and closed down the printed magazine publication. We are confident that these changes will facilitate the Company's long term development.

## SMI Bonds

The Company invested in US\$23 million 9.5% unsecured redeemable fixed coupon bonds due 2020 ("SMI Fixed Coupon Bonds") and US\$83 million 7.5% secured redeemable convertible bonds due 2020 ("SMI Convertible Bonds") issued by SMI Holdings Group Limited ("SMI"), a company listed on The Stock Exchange of Hong Kong Limited (collectively, the "SMI Bonds"). The Company noted that SMI is undergoing a debt restructuring by way of prospective conversion of certain outstanding debts into equity of SMI, and the raising of capital by way of prospective subscription of new shares in SMI. The Company is currently not a party who has entered into letters of intent for conversion of debt or memorandum of understanding for subscription of new shares in SMI. The Company noted that these letters of intent or memorandum of understanding signed in relation to the debt restructuring process are not legally binding, and may or may not materialise.

A special task force of the Board has been formed to consider all available options in recovering the amounts invested in these bonds. The market will be kept informed of major developments.

The Company is monitoring developments in the proposed debt restructuring of SMI and will keep all options open without binding the Company to proceed or not to proceed with any option at this stage. In considering any option, the Company will act in the best interest of the Company and its shareholders as a whole at all times.

## Mark Lee Po On

Group Chief Executive Officer

Hong Kong, 20 March 2019