

REVIEW OF OPERATIONS

MAINLAND CHINA OPERATIONS

Operations from Mainland China mainly comprised co-production of dramas and licensing of TVB content to TV stations and online platforms. Total revenue from Mainland China rose by 38% from HK\$530 million to HK\$733 million (Note 5: geographical analysis), accounting for 16% of the Group's turnover (2017: 12%). This income growth was mainly fueled by robust growth in online video business in Mainland China as mega online players competing heavily for content and audiences. During the year, our income from co-production (booked under Hong Kong TV Broadcasting segment) and new media licensing (booked under programme licensing and distribution segment) had increased notably.

CO-PRODUCTION

Co-production arrangement provides a unique opportunity for TVB as a strong content creator to gain viewership in Mainland China market, leveraging on these established online platforms. Three drama titles, namely *Deep in the Realm of Conscience*, *The Defected* (soon-to-be released) both co-produced with Tencent; *Another Era* made for iQiyi; were delivered to the respective online partners, bringing us altogether HK\$299 million of co-production income in 2018, a 61% increase from HK\$185 million in 2017. Production budget and profit were increased following the robust stream views of the past co-produced titles. These titles were released concurrently in Mainland China and Hong Kong, which enabled us to benefit from the strong viewing momentum and online applause.

PROGRAMME LICENSING

With the continued growth in the digital new media sector, players in this market are aggressively aggregating more platform-exclusive content under licensing arrangements. Youku Tudou and TVB entered into licensing arrangements to release a selection of new TVB drama titles concurrently in Mainland China and Hong Kong. This in sync arrangement enables TVB to earn a higher licensing fee than the old model. Four new drama titles, namely *The Learning Curve Of A Warlord*, *Life On The Line*, *OMG Your Honour* and *Fist Fight* were licensed to Youku Tudou under this new arrangement during the year. Together with licensing

income earned from other digital sources, total new media licensing revenue grew by 44% from HK\$244 million to HK\$352 million in 2018.

With a goal to closely engage with fans in Mainland China, Mai Dui Dui was launched by a Mainland China associate in March 2018. Mai Dui Dui is a mobile app which targets TVB fans and is a platform for fans to collect artistes' information, update and exchange TVB related information.

OVERSEAS OPERATIONS – OTT AND PAY TV

Segment revenue comprising income from pay TV platforms in the USA and TVB Anywhere OTT business, decreased by 7% year-on-year from HK\$151 million to HK\$140 million. The segment's losses were narrowed by 71% year-on-year from HK\$53 million to HK\$16 million as a result of rationalisation of resources with closure of certain operation in Australia. Further positive contribution is expected by an expansion of OTT service in Southeast Asia.

TVB ANYWHERE OTT SERVICE

TVB Anywhere service currently covers territories outside Hong Kong but excluding the USA, Mainland China, Taiwan and Malaysia. The rollout of TVB Anywhere in Australia, New Zealand, and Europe has successfully migrated our satellite TV subscribers to the OTT service. With a goal to form new business for a bigger slice of the expanding digital new media pie, we have formulated strategies to extend our service coverage from Chinese-speaking audience residing overseas to mainstream audience in selected territories such as Thailand and Vietnam by offering foreign language sound tracks. We hope to accelerate our OTT penetration in these markets by way of telco-supported B2B2C business model, tapping into local subscription and online-advertising spend.

We introduced a tailor-made TVB Anywhere Singapore mobile app in September 2018. Through partnering with the leading telcos in Singapore, namely StarHub, M1 and MyRepublic to resell our OTT app as value-added service and bundling service, we have potentially covered a very substantial size of mobile users in this market. To realign business resources with digital transformation goals, a local sales and

marketing team has been built in Singapore to accelerate the development plan, growing revenue from both subscription and advertising sources.

In January 2019, TVB Anywhere announced partnership with M.V. Television (Thailand) Co. Ltd., a broadcaster and an OTT operator in Thailand to offer a Thai version of TVB Anywhere with several thousand hours of dubbed TVB programmes on VOD and live-streaming of TVB channels. Our collaboration with a major telco in Vietnam, Vietnamobile Telecommunication Joint Stock Company commenced in March 2019, under which a dedicated Vietnamese version of TVB Anywhere service was introduced.

In addition to the localised applications in above-named markets, a global version of TVB Anywhere will soon be released. This new app will offer multi-languages, multi-screen experience to users, enabling us to effectively serve the borderless, dynamic and fast-growing OTT market.

NORTH AMERICA (USA)

Our operation in the USA generates revenues from programme supply to conventional pay TV operators, new media platforms and advertising. The total revenue was relatively stable in 2018. The channel supply agreement with DISH network will expire in November 2019 and we look forward to servicing the existing users via their preferred platforms, whether traditional or digital.

COMBATING PIRACY

The global problem of online piracy of TVB contents remained rampant in 2018. We are committed to protecting our IPs and the industry by engaging proactive anti-piracy actions in our major overseas markets, with notable results.

In Australia, TVB made the first site-blocking application on illicit streaming devices (“ISDs”) in the world and obtained a site-blocking order against 7 ISDs in September 2018. A Variation Application is being made to the Court to block the new domain names created by ISD syndicates to circumvent the blocks under the original court order. In December

2018, TVB and 8 other content owners successfully obtained a site-blocking order in Australia against 77 infringing websites. Similar site-blocking applications will continue in future.

In the USA, TVB succeeded in obtaining an injunction order against an ISD “TV Pad” in 2017. A follow-up application successfully extended the injunction order to a related ISD “Blue TV”. In June 2018, “TV Pad” announced the closure of its global operation on “TV Pad” and “Blue TV”. A similar injunction order against an ISD “HTV” was also obtained in 2018 and enforcement of the injunction order is in progress.

In Canada, TVB joined a coalition of TV broadcasters and content providers in early 2018 to lodge an application with the Canadian Radio-television and Telecommunications Commission for establishing an administrative site-blocking procedure. The Commission later declined the application on the ground of lacking jurisdiction over the matter. The coalition is considering other actions to tackle the online piracy problem, including appealing to the Government to update the copyright legislation.

In Singapore, TVB is in the process of filing a site-blocking application to court against ISDs and an infringing app. Discussions with ISPs are now progressing to work out a more effective technical arrangement for implementing the prospective site-blocking orders.



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In Malaysia, TVB is considering to make a request to the Malaysian authorities for issuing an administrative site-blocking order against infringing websites and ISDs. Similar site-blocking actions are being planned for the UK and Macau.

For Vietnam, TVB has established a semi-automated procedure on reporting to websites for removal of infringing TVB contents. Substantial take-down rates were recorded monthly. A service contract was signed with the Vietnam's Authority of Broadcasting and Electronic Information ("ABEI") for reporting and taking down online infringing TVB contents. Very speedy removal actions were taken soon after the contract came into operation. A delegation from ABEI visited TVB City in October 2018 to gain a better understanding of the online piracy problem faced by TVB. ABEI pledged to offer their best assistance to TVB in combating piracy in Vietnam.

For Thailand, their copyright legislation has recently been strengthened and their enforcement authorities have stepped up actions against ISD syndicates. A meeting with the Thailand enforcement authorities is being planned to work out suitable arrangements to tackle the online piracy problem affecting TVB in Thailand.

In May 2018, Hong Kong Customs searched 4 ISD retail shops and arrested 8 persons who sold ISDs. The operation has created a significant deterrent effect in Hong Kong.

Efforts to lobby different governments for improving their copyright legislation to tackle the online piracy problem will continue.