**Television Broadcasts Limited**
**電視廣播有限公司**
(Incorporated in Hong Kong with limited liability)
**Stock Code: 00511**

# ANNOUNCEMENT OF 2020 INTERIM RESULTS

## RESULTS HIGHLIGHTS

For the six months ended 30 June 2020 (the "Period"):

- Total revenue of the Group decreased from HK$1,965 million to HK$1,226 million, a decline of 38%, whilst total costs together with income tax decreased from HK$1,770 million to HK$1,572 million, a reduction of 11%.

- Loss attributable to equity holders of the Company was HK$293 million (2019: Profit of HK$213 million). Loss per share was HK$0.67 (2019: Earnings per share of HK$0.49).

- No interim dividend was declared by the Board. However, the Board will review payment of any final dividend at the year-end taking into account the full year's results and the business prospect.

## BUSINESS HIGHLIGHTS

- *Forensic Heroes IV* (法證先鋒IV) and *Airport Strikers* (機場特警) reported average ratings of 36.3 and 33.2 TVRs respectively, and the final episode of *Death By Zero* (殺手) topped by a rating of 35.2 TVRs. Such strong ratings will pave the way for recovery of the advertising business post pandemic.

- myTV SUPER OTT users had increased to 8.6 million (including paid and free subscribers) as of 30 June 2020, an 11% growth from a year ago. Adopting a direct-to-consumer strategy, myTV SUPER Original (offering exclusive contents) will be launched in the last quarter of 2020 to further build ARPU and subscriber base.

- The pandemic has significantly increased online consumption benefitting Big Big Shop. Monthly active users and buyers have increased during the Period following a boost using promotions like Jade's programmes *Big Big Shopping Nite* (big big shop 感謝祭) and *Homegrown Flavours (*香港原味道*)*. Overall, Big Big Channel Business segment including Big Big Shop delivered a profit of HK$31 million (2019: HK$14 million), an increase of 123%.

- Despite the sharp decline of Hong Kong TV advertising income, total non-advertising income from the digital platforms (myTV SUPER, TVB Anywhere, Big Big Channel and Big Big Shop) increased from HK$232 million to HK$272 million, an increase of 17%. Digital revenue accounted for 28% of the total revenue of the Group in the Period.

- Revenue from China which comprises revenue from the mainland digital platforms, landing rights fees and co-production revenue increased by 54%. This was mainly fueled by an increase in drama co-production revenue. Four titles are under co-production with various digital platforms: *Line Walker: Bull Fight* (使徒行者3); *Legal Mavericks 2020* (踩過界II/盲俠大律師2020); *Armed Reaction 2021* (陀槍師姐2021); and *Murder Diary* (刑偵日記) and several other drama projects are under active negotiation.

- Recently, Youku and TVB entered into a strategic framework cooperation agreement to strengthen cooperation on distribution and production of dramas and variety shows, artiste management, e-commerce and streaming service which will increase exposure of TVB's content on Youku's platform.

- During the Period, new content supply agreements were signed with Huawei and China Mobile, respectively, while both of which have very large number of mobile device users in multiple countries. This will further accelerate the growth of our digital content distribution to a new international level.

**OUTLOOK**

- Mainland China is one of the Group's key markets for future growth. Our co-production business has been strengthened with a solid pipeline of drama projects currently under production and under active negotiation. Through our subsidiary TVBC and our strategic partnership with Youku, we will continue to expand our business scope in mainland China.

- Internationally, we expect our TVB Anywhere OTT service to replace conventional licensing and directly capture a larger share of the overseas Chinese audience, by leveraging on TVB's high quality and deep archive of Chinese language content.

- Big Big Shop should continue to ride on the popular online shopping trend and benefit from the immense promotional power of Jade to raise sales and broaden its sales territories beyond Hong Kong.

- The road to recovery is full of uncertainties. Outlook of the Group's advertising-related businesses in Hong Kong will remain challenging for the remaining months of 2020, but we are cautiously optimistic that our businesses in the second half of 2020 will progressively recover. We are confident that our service propositions covering online and offline platforms are attractive to advertisers and marketers in the region including the Greater Bay Area.

The Board of Directors ("Board") of Television Broadcasts Limited ("Company" or "TVB") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, "Group") for the six months ended 30 June 2020 ("Period") as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**
FOR THE SIX MONTHS ENDED 30 JUNE 2020

| | Note | **Unaudited Six months ended 30 June 2020 HK$'000** | 2019 HK$'000 |
|---|---|---|---|
| Revenue | 3 | **1,226,276** | 1,965,336 |
| Cost of sales | | **(965,548)** | (911,261) |
| **Gross profit** | | **260,728** | 1,054,075 |
| Other revenues | | **37,100** | 10,437 |
| Interest income | | **61,801** | 96,580 |
| Selling, distribution and transmission costs | | **(289,387)** | (324,133) |
| General and administrative expenses | | **(391,436)** | (488,279) |
| Other (losses)/gains, net | | **(21,187)** | 15,977 |
| Gain on disposal of bond securities at amortised cost | | **13,884** | – |
| Net (impairment loss)/reversal of impairment loss on financial assets at amortised cost | | **(21,274)** | 23,313 |
| Gain on disposal of properties | | **26,931** | – |
| Finance costs | | **(40,266)** | (56,852) |
| Share of profits/(losses) of joint ventures | | **868** | (52,705) |
| Share of profits of associates | | **–** | 1,186 |
| **(Loss)/profit before income tax** | 4 | **(362,238)** | 279,599 |
| Income tax credit/(expense) | 5 | **73,899** | (46,465) |
| **(Loss)/profit for the period** | | **(288,339)** | 233,134 |
| **(Loss)/profit attributable to:** | | | |
| Equity holders of the Company | | **(293,050)** | 212,634 |
| Non-controlling interests | | **4,711** | 20,500 |
| | | **(288,339)** | 233,134 |
| **(Loss)/earnings per share (basic and diluted) for (loss)/profit attributable to equity holders of the Company during the period** | 6 | **HK$(0.67)** | HK$0.49 |

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2020

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| **(Loss)/profit for the period** | **(288,339)** | 233,134 |
| Other comprehensive income/(loss): | | |
| Items that may be reclassified to profit or loss: | | |
| Exchange differences on translation of foreign operations | | |
| – Subsidiaries | **(12,173)** | (8,093) |
| – Joint ventures | **1,011** | 545 |
| Share of other comprehensive loss of an associate | **(2,887)** | (191) |
| **Other comprehensive loss for the period, net of tax** | **(14,049)** | (7,739) |
| **Total comprehensive (loss)/income for the period** | **(302,388)** | 225,395 |
| Total comprehensive (loss)/income attributable to: | | |
| Equity holders of the Company | **(304,539)** | 205,320 |
| Non-controlling interests | **2,151** | 20,075 |
| **Total comprehensive (loss)/income for the period** | **(302,388)** | 225,395 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
AS AT 30 JUNE 2020

| | Note | **30 June 2020 Unaudited HK$'000** | 31 December 2019 Audited HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **1,675,834** | 1,808,054 |
| Investment properties | | **5,956** | 28,981 |
| Land use rights | | **43,891** | 45,874 |
| Intangible assets | | **210,596** | 191,616 |
| Interests in joint ventures | 8 | **706,453** | 708,905 |
| Interests in associates | | **159,123** | 162,009 |
| Financial assets at fair value through other comprehensive income | | **31,870** | 39,775 |
| Bond securities at amortised cost | 9 | **762,512** | 1,250,090 |
| Financial assets at fair value through profit or loss | 10 | **–** | – |
| Deferred income tax assets | | **88,394** | 7,697 |
| Prepayments | 11 | **50,287** | 51,284 |
| Total non-current assets | | **3,734,916** | 4,294,285 |
| **Current assets** | | | |
| Programmes and film rights | | **1,162,802** | 1,112,660 |
| Stocks | | **31,188** | 38,195 |
| Trade and other receivables, prepayments and deposits | 11 | **1,616,606** | 1,722,360 |
| Movie investments | | **46,657** | 66,992 |
| Interests in joint ventures | 8 | **71,849** | 42,650 |
| Tax recoverable | | **4,935** | 7,870 |
| Bond securities at amortised cost | 9 | **163,245** | 125,624 |
| Bank deposits maturing after three months | | **166,546** | 79,137 |
| Cash and cash equivalents | | **883,162** | 1,105,611 |
| Total current assets | | **4,146,990** | 4,301,099 |
| **Total assets** | | **7,881,906** | 8,595,384 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** (continued)
AS AT 30 JUNE 2020

| | Note | **30 June 2020 Unaudited HK$'000** | 31 December 2019 Audited HK$'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | | **664,044** | 664,044 |
| Other reserves | 12 | **128,617** | 132,908 |
| Retained earnings | | **4,271,632** | 4,654,654 |
| | | **5,064,293** | 5,451,606 |
| **Non-controlling interests** | | **139,207** | 137,056 |
| **Total equity** | | **5,203,500** | 5,588,662 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 13 | **1,813,606** | 1,865,660 |
| Lease liabilities | | **21,441** | 36,437 |
| Deferred income tax liabilities | | **53,511** | 68,592 |
| Total non-current liabilities | | **1,888,558** | 1,970,689 |
| **Current liabilities** | | | |
| Trade and other payables and accruals | 14 | **738,839** | 650,074 |
| Current income tax liabilities | | **17,316** | 7,051 |
| Borrowings | 13 | **–** | 342,716 |
| Lease liabilities | | **33,693** | 36,192 |
| Total current liabilities | | **789,848** | 1,036,033 |
| **Total liabilities** | | **2,678,406** | 3,006,722 |
| **Total equity and liabilities** | | **7,881,906** | 8,595,384 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 1. Independent review

The unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2020 has been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). PricewaterhouseCoopers has issued a qualified conclusion because of the possible effects on the comparability of the current period's figures and the corresponding figures for the period ended 30 June 2019 in the interim condensed consolidated income statement and the interim condensed consolidated statement of changes in equity. Please refer to "Extract of review report" on page 43 of this announcement for more details. The unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2020 has also been reviewed by the Audit Committee of the Company.

### 2. Basis of preparation and accounting policies

This unaudited condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA. The unaudited condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the year ended 31 December 2019 that is included in the condensed consolidated financial information for the six months ended 30 June 2020 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company's auditor has reported on those financial statements. The auditor's report was qualified; contained a statement under sections 407(2) and (3) of the Hong Kong Companies Ordinance; but did not include a reference to any matters to which the auditor drew attention by way of emphasis.

The accounting policies applied and methods of computation used in the preparation of these interim accounts are consistent with those used in the 2019 annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected total annual earnings.

2. **Basis of preparation and accounting policies** (continued)

(a) **New and amended standards adopted by the Group**

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

(b) **Impact of standards issued but not yet applied by the Group**

The Group has not early adopted new or revised standards, amendments to standards and interpretations that have been issued but are not yet effective for the accounting period ending 31 December 2020. The Group is in the process of making an assessment of the likely impact of these new or revised standards, amendments to standards and interpretations to the Group's results and financial position in the period of initial application.

3. **Segment information**

The Group is principally engaged in terrestrial television broadcasting with programme production, myTV SUPER, Big Big Channel business, programme licensing and distribution, overseas pay TV and TVB Anywhere, and other activities.

The Group Chief Executive Officer is the Group's chief operating decision maker. The Group reports its operating segments based on the internal reports reviewed by the Group Chief Executive Officer for the purposes of allocating resources to the segments and assessing their performance.

The segments are managed separately according to the nature of products and services provided. Segment performance is evaluated based on operating results which in certain respects, as explained in the table below, is measured differently from the results before income tax in the condensed consolidated financial information.

Revenue comprises income from advertisers net of agency deductions, licensing income, subscription income, co-production income, as well as other income from e-commerce income, digital marketing and event income, music entertainment income, management fee income, movie income, facility rental income and other service fee income.

The Group's inter-segment transactions mainly consist of licensing of programmes and film rights and provision of services. Licensing of programmes and film rights were entered into at similar terms as that contracted with third parties. The services provided are charged on a cost plus basis or at similar terms as that contracted with third parties.

## 3. **Segment information** (continued)

An analysis of the Group's revenue and results for the period by operating segment is as follows:

| | Six months ended 30 June | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Hong Kong TV broadcasting | | myTV SUPER | | Big Big Channel business | | Programme licensing and distribution | | Overseas pay TV and TVB Anywhere | | Other activities | | Corporate support | | Elimination | | Total | |
| | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 |
| Revenue | | | | | | | | | | | | | | | | | | |
| Timing of revenue recognition: | | | | | | | | | | | | | | | | | | |
| At a point in time | **901** | 3,509 | **2,201** | 532 | **15,058** | 5,900 | **130,552** | 143,323 | **–** | 44 | **–** | – | **–** | – | **–** | – | **148,712** | 153,308 |
| Over time | **560,097** | 1,224,215 | **199,620** | 225,640 | **46,666** | 55,050 | **195,447** | 237,929 | **73,699** | 67,170 | **2,035** | 2,024 | **–** | – | **–** | – | **1,077,564** | 1,812,028 |
| External customers | **560,998** | 1,227,724 | **201,821** | 226,172 | **61,724** | 60,950 | **325,999** | 381,252 | **73,699** | 67,214 | **2,035** | 2,024 | **–** | – | **–** | – | **1,226,276** | 1,965,336 |
| Inter-segment | **16,246** | 22,340 | **12,024** | 12,184 | **33,672** | 25,385 | **29,780** | 31,509 | **1,800** | – | **189** | 409 | **59,601** | 50,602 | **(153,312)** | (142,429) | **–** | – |
| Total | **577,244** | 1,250,064 | **213,845** | 238,356 | **95,396** | 86,335 | **355,779** | 412,761 | **75,499** | 67,214 | **2,224** | 2,433 | **59,601** | 50,602 | **(153,312)** | (142,429) | **1,226,276** | 1,965,336 |
| Reportable segment (loss)/profit before the following items | **(509,237)** | 78,158 | **1,324** | 31,759 | **30,608** | 13,740 | **142,802** | 277,501 | **(2,795)** | (7,764) | **(1,555)** | (2,161) | **(74,519)** | (74,955) | **–** | – | **(413,372)** | 316,278 |
| Impairment loss net of gain on bond securities at amortised cost[§] | **(6,116)** | (20,000) | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **(6,116)** | (20,000) |
| Gain on disposal of properties | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **26,931** | – | **–** | – | **–** | – | **26,931** | – |
| Reportable segment (loss)/profit | **(515,353)** | 58,158 | **1,324** | 31,759 | **30,608** | 13,740 | **142,802** | 277,501 | **(2,795)** | (7,764) | **25,376** | (2,161) | **(74,519)** | (74,955) | **–** | – | **(392,557)** | 296,278 |
| Interest income[#] | **65,158** | 74,665 | **9** | 83 | **1** | 4 | **3,604** | 6,400 | **60** | 62 | **225** | 285 | **–** | – | **(36,707)** | (19,759) | **32,350** | 61,740 |
| Finance costs | **(1,861)** | (1,008) | **(27)** | (16) | **(36)** | (9) | **(120)** | (34) | **(3)** | (10) | **(1)** | – | **(74,925)** | (75,534) | **36,707** | 19,759 | **(40,266)** | (56,852) |
| Depreciation and amortisation | **(118,987)** | (161,574) | **(38,522)** | (46,836) | **(3,154)** | (2,998) | **(7,339)** | (6,223) | **(3,573)** | (3,641) | **(1,907)** | (2,318) | **(22,137)** | (11,232) | **–** | – | **(195,619)** | (234,822) |
| Additions to non-current assets[*] | **39,544** | 90,053 | **10,277** | 24,376 | **243** | 8,180 | **5,006** | 1,235 | **2,553** | 1,115 | **229** | 19 | **36,129** | 49,961 | **–** | – | **93,981** | 174,939 |

* Non-current assets comprise property, plant and equipment, investment properties, land use rights and intangible assets (including prepayments related to capital expenditure, if any).

\# excluding interest income from a joint venture

§ represents impairment loss net of gain on disposal of bond securities at amortised cost

3. **Segment information** (continued)

A reconciliation of reportable segment (loss)/profit to (loss)/profit before income tax is provided as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Reportable segment (loss)/profit | **(392,557)** | 296,278 |
| Interest income from a joint venture | **29,451** | 34,840 |
| Share of profits/(losses) of joint ventures | **868** | (52,705) |
| Share of profits of associates | **–** | 1,186 |
| (Loss)/profit before income tax | **(362,238)** | 279,599 |

An analysis of the Group's revenue from external customers for the period by geographical location is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Hong Kong | **667,820** | 1,505,343 |
| Mainland China | **355,881** | 231,168 |
| Malaysia and Singapore | **99,143** | 125,468 |
| USA and Canada | **55,342** | 57,332 |
| Vietnam | **16,140** | 13,890 |
| Australia | **5,097** | 5,306 |
| Europe | **3,624** | 4,211 |
| Other territories | **23,229** | 22,618 |
| | **1,226,276** | 1,965,336 |

## 4. (Loss)/profit before income tax

The following items have been charged/(credited) to the (loss)/profit before income tax during the period:

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Depreciation | **174,359** | 222,924 |
| Amortisation of land use rights | **1,449** | 1,515 |
| Amortisation of intangible assets | **19,811** | 10,383 |
| Cost of programmes and film rights | **676,687** | 675,524 |
| Cost of other stocks | **5,924** | 5,524 |
| Net exchange losses/(gains) | **5,320** | (3,720) |
| Employee benefit expense (excluding directors' emoluments) | **685,854** | 802,099 |
| Government subsidies from Employment Support Scheme | **(33,681)** | – |

## 5. Income tax (credit)/expense

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the territories in which the Group operates. Income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

The amount of income tax (credited)/charged to the condensed consolidated income statement represents:

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Current income tax: | | |
| – Hong Kong | **17,306** | 20,374 |
| – Overseas | **3,258** | 20,683 |
| – (Over)/under provisions in prior periods | **(1,194)** | 2,684 |
| | **19,370** | 43,741 |
| Deferred income tax: | | |
| – Origination and reversal of temporary differences | **(93,269)** | 2,724 |
| | **(73,899)** | 46,465 |

## 6. (Loss)/earnings per share

The (loss)/earnings per share is calculated based on the Group's loss attributable to equity holders of the Company of HK$293,050,000 (2019: profit attributable to equity holders of the Company of HK$212,634,000) and 438,000,000 ordinary shares in issue throughout the six months ended 30 June 2020 and 2019.

During the six months ended 30 June 2020, no fully diluted loss per share was presented as the assumed exercise of the share options would result in a decrease in loss per share.

During the six months ended 30 June 2019, no fully diluted earnings per share was presented as the Company did not have any potentially dilutive ordinary shares as the exercise price of the share option was higher than the average market price of the Company's shares.

## 7. Dividends

| | **Six months ended 30 June** | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| 2019 interim dividend, declared after the end of the reporting period, of HK$0.30 per ordinary share | **–** | 131,400 |

A final dividend of HK$0.20 per ordinary share for the year ended 31 December 2019 amounting to HK$87,600,000 was approved by shareholders on 27 May 2020 and paid on 16 June 2020.

## 8. Interests in joint ventures

| | 30 June 2020 HK$'000 | 31 December 2019 HK$'000 |
|---|---|---|
| **Non-current** | | |
| Investment costs (note) | **205,127** | 205,988 |
| Less: accumulated share of losses | **(204,964)** | (205,988) |
| | **163** | – |
| Funds advanced to joint ventures | **20,231** | 20,231 |
| Loan to a joint venture (note) | **576,720** | 579,566 |
| Interest receivable from a joint venture (note) | **126,506** | 127,130 |
| | **723,620** | 726,927 |
| Less: share of losses in excess of investment costs | **(17,167)** | (18,022) |
| | **706,453** | 708,905 |
| **Current** | | |
| Interest receivable from a joint venture (note) | **71,849** | 42,650 |
| | **778,302** | 751,555 |

Note:

In July 2017, the Group entered into the agreement with Imagine Holding Company LLC ("Imagine") in relation to the formation of a joint venture company, namely Imagine Tiger Television, LLC ("ITT"), on a 50:50 basis between both parties. The purpose of ITT is to finance the development and production of a slate of television projects whether developed and/or produced by Imagine alone or with third-party co-financiers/co-production partners. The Group has contributed to the capital of ITT in an amount of US$33,333,000 as to 50% of the equity interests in ITT and has provided a loan to ITT in an amount of US$66,667,000 in the form of the Promissory Note. The Promissory Note is unsecured and bears an interest rate of 12% per annum and will mature in July 2032. Imagine shall not be making any capital contribution to ITT but shall contribute in-kind in the form of production expertise as it has the duty to manage and control the business and affairs of ITT and all creative and production decisions with respect to the television projects financed by ITT. With reference to this capital contribution arrangement, the Group would share 100% of ITT's result until ITT has accumulated a positive balance of retained earnings. When the Group's equity interests in ITT has reduced to zero, the Group would not recognise further losses. With effect from 1 July 2019, a conversion of the Group's equity contribution of US$7,742,000 into a loan to ITT was executed, which accumulated the loan to ITT with an amount of US$74,409,000.

8. **Interests in joint ventures** (continued)

Note:

As at 30 June 2020 and 31 December 2019, the carrying amounts of the loan and receivables from ITT approximated their fair values. As there was no past due amount from ITT and management do not expect deterioration in the operating results of ITT based on its cash flow forecast, the Group considered the credit risk of default for ITT was low. In addition, management would closely monitor the development of the COVID-19 outbreak and evaluate its possible impact on ITT's operating results. As at 30 June 2020, no loss allowance on the loan to and interest receivables from ITT with gross carrying amount of HK$775,075,000 (31 December 2019: HK$749,346,000) was recognised based on the assessment of 12 months' expected losses under expected credit loss model. The maximum exposure to credit risk is the carrying values of the loan and receivables above.

9. **Bond securities at amortised cost**

| | **30 June 2020 HK$'000** | 31 December 2019 HK$'000 |
|---|---|---|
| **Non-current** | | |
| Bond securities at amortised cost: | | |
| Unlisted | **431,673** | 431,914 |
| Listed in Hong Kong | **238,937** | 441,351 |
| Listed in other countries | **406,027** | 670,950 |
| Less: provision for impairment loss on bond securities (notes (b), (c) and (d)) | **(314,125)** | (294,125) |
| | **762,512** | 1,250,090 |
| **Current** | | |
| Bond securities at amortised cost: | | |
| Listed in Hong Kong | **132,345** | 125,624 |
| Listed in other countries | **30,900** | – |
| | **163,245** | 125,624 |
| | **925,757** | 1,375,714 |

**9. Bond securities at amortised cost** (continued)

Notes:

(a) The bond securities portfolio (excluding SMI Holdings Group Limited ("SMI") fixed coupon bonds and China Energy Reserve and Chemicals Group ("CERC") Bonds as detailed in Note 9(b) and Note 9(c) respectively) carry a weighted average yield to maturity of 4.2% (31 December 2019: 4.7%) per annum and have ranges of maturity dates with the last maturity date up to 1 October 2027. The largest fixed income securities from the same issuer within the portfolio, which is made up by a total of 19 (31 December 2019: 26) issuers of fixed income securities, represented approximately 1.4% (31 December 2019: 2.5%) of the total assets of the Group as at 30 June 2020. They are denominated in Hong Kong dollars and US dollars. The interest received and receivable during the period from the bond securities at amortised cost amounted to HK$24,658,000 (2019: HK$51,523,000).

During the period ended 30 June 2020, the Group disposed/redeemed bond securities at amortised cost with the aggregate carrying amount of HK$423,027,000 (2019: Nil) with gain on disposal amounted to HK$13,884,000 (2019: Nil).

(b) SMI Fixed Coupon Bonds

On 23 April 2018, the Group subscribed a US$23,000,000 9.5% unsecured redeemable fixed coupon bonds due 2020 (extendable to 2021) ("Fixed Coupon Bonds") issued by SMI. Trading in SMI's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since 3 September 2018. The suspension of trading of SMI's shares for a period of more than ten consecutive trading days has triggered an event of default for Fixed Coupon Bonds in accordance with the subscription agreement. SMI has made announcements that since its trading suspension, SMI and certain of its subsidiaries have defaulted in certain borrowings. Pursuant to SMI's announcement dated 12 March 2019, it has commenced negotiation with the creditors concerning the debt restructuring process, including prospective conversion of outstanding debts into equity, and raising of capital by prospective subscription of new shares of SMI. However, no agreement or material terms in relation to the above arrangements have been entered into or agreed between the Group and its lenders or creditors.

In view of the above background, management performed an impairment assessment of the credit-impaired Fixed Coupon Bonds using a lifetime expected credit loss ("ECL") model, which estimated the eventual shortfall of cash recoverable from the Fixed Coupon Bonds in 2018. Based on management's impairment assessment, a full impairment charge of the Fixed Coupon Bonds of HK$180,125,000 was recognised for the year ended 31 December 2018.

**9. Bond securities at amortised cost** (continued)

Notes:

(b) SMI Fixed Coupon Bonds (continued)

During the period ended 30 June 2020, SMI has released its unaudited annual results for the year ended 31 December 2018 but no audited results since 2017 are announced up to date. As such, management has adopted key inputs and assumptions based on financial information extracted from the 2017 audited financial statements and unaudited 2018 annual results of SMI Group and other forward looking factors in view of SMI's recent announcements up to the approval date of the respective set of financial statements and performed an updated impairment assessment for the year ended 31 December 2019 and the period ended 30 June 2020. Please refer the details to Note 10. The management considered full impairment of the Fixed Coupon Bonds was adequate but not excessive at 31 December 2019 and 30 June 2020.

(c) CERC Bonds

The Group had purchased the CERC Bonds totalling US$12 million nominal amount (2018 Bond US$6 million and 2019 Bond US$6 million). On 11 May 2018, CERC had defaulted the principal payment of the 2018 CERC Bond due in May 2018 and as a result, this triggered a cross default for the 2019 CERC Bond.

CERC is a state-owned oil and gas trading, logistics and distribution and supply services provider in China. According to CERC's announcement dated 25 May 2018, CERC plans to divest certain of its assets in order to resolve its current cash flow difficulties. Management has reviewed a report ("Report") dated 17 August 2018 and prepared by the financial adviser appointed by CERC ("CERC's financial adviser"), in relation to, among other things, a review of the financial condition of CERC. CERC has prepared a plan for the repayment of the principal and the interest over an eight-year period.

On 24 December 2018, the Group had received coupon interests from CERC Bonds. Based on the review of the Report and the receipt of the bond interests, management believes that CERC has both the intention and ability to settle the outstanding balances in an extended schedule. The Group has approached the impairment assessment under the ECL model by way of discounting of the expected cashflow to be recovered over an eight-year period for calculation of the net present value of the CERC Bonds, taking into consideration comparable probability of default, recovery rate quoted from international credit-rating agencies after adjustments to specific conditions/financial conditions and current creditworthiness of CERC and its restructuring progress. On this basis, an impairment loss of HK$26 million was made during the year ended 31 December 2018.

On 8 November 2019, CERC released the revised restructuring proposal prepared by CERC's financial adviser with the key elements of (i) increasing the installment percentage of principal repayments in earlier years and (ii) suspending all interest payments on the outstanding CERC Bonds.

**9. Bond securities at amortised cost** (continued)

Notes:

(c) CERC Bonds (continued)

On 25 March 2020, after considering a wide range of feedback from bondholders, CERC further released the revised restructuring proposal by increasing the installment percentage of principal repayment in the first year of repayment. The management is still negotiating the restructuring plan with CERC.

Based on the revised proposal dated 8 November 2019 and 25 March 2020, management continues to believe that CERC has both the intention and ability to settle the outstanding balances under the revised repayment schedules. The Group has performed impairment assessment under the ECL model to estimate the loss allowance on the investment in CERC Bonds as at 31 December 2019 and 30 June 2020. No further impairment losses were made during the year ended 31 December 2019 and the period ended 30 June 2020.

(d) Other bonds

Other than SMI's Fixed Coupon Bonds and CERC Bonds, the net carrying amount of the bond securities at amortised cost as at 1 January 2020 was HK$1,308,246,000. During the period, the Group disposed/redeemed bond securities with a total carrying amount of HK$423,027,000. For the unlisted bond securities at amortised cost considered as credit-impaired as at 31 December 2019 and 30 June 2020, as a result of default events pursuant to the bond agreements, a lifetime ECL loss allowance has been assessed. Management has engaged an independent professional valuer to perform an analysis of the recovery rate of the credit-impaired bond securities by adopting its independently selected parameters which contain credit rating profile similar to such bond securities. With reference to the assessment performed by the external valuer, a lifetime ECL provision on such credit-impaired bond securities of HK$20 million (2019: HK$20 million) has been recognised during the period. As at 30 June 2020, the net carrying amount of other securities at amortised costs after provision for impairment loss was HK$858,748,000 (31 December 2019: HK$1,308,246,000).

## 10. Financial assets at fair value through profit or loss

| | **30 June 2020 HK$'000** | 31 December 2019 HK$'000 |
|---|---|---|
| Beginning of the period/year | **–** | 330,015 |
| Change in fair value | **–** | (330,015) |
| End of the period/year | **–** | – |

In addition to the Fixed Coupon Bonds described in Note 9, the Group subscribed a US$83,000,000 7.5% secured redeemable convertible bonds due 2020 (extendable to 2021 by mutual agreement) ("Convertible Bonds") issued by SMI on 7 May 2018. The Company may exercise its right to convert all or any part of the principal amount of the Convertible Bonds into new shares of SMI at any time during the period from and including the date falling six months from 7 May 2018 up to the close of the business on the maturity date of the Convertible Bonds at the initial conversion price of HK$3.85 per conversion share. None of them was converted up to 30 June 2020.

Under the subscription agreement of the Convertible Bonds and a related share charge agreement with Campbell Hall Limited, a wholly-owned subsidiary of SMI, dated 7 May 2018, the Convertible Bonds are secured by way of a priority charge ("Share Charge") against 100% of the issued share capital of SMI International Cinemas Limited ("SMI International", an indirect wholly-owned subsidiary of SMI) (the "Collateral"). SMI International is an investment holding company that owns 41.34% of the registered capital of Chengdu Runyun Culture Broadcasting Limited ("Chengdu Runyun"). Chengdu Runyun and its subsidiaries (together, the "Chengdu Runyun group") operates SMI's principal business as cinema operators in a number of cities in the mainland China.

As at 31 December 2018, management performed a fair value assessment of the Convertible Bonds and the Group recognised a fair value loss of HK$320,000,000 on the Convertible Bonds for the year ended 31 December 2018.

On 3 July 2019, the Company served statutory demands dated 2 July 2019 to SMI in relation to the two SMI Bonds. No response has been received from SMI, despite a 30-day period had elapsed since the service of the statutory demands. On 12 August 2019, the Company applied to the High Court of Hong Kong to be the substituting petitioner for a winding up petition filed by HSBC, the original petitioner, which confirmed that it had reached a settlement with SMI and would no longer proceed with the winding-up petition against SMI. On 2 September 2019, a petition for winding up of SMI was filed in the High Court by the Company. On 7 May 2020, SMI was ordered to be wound up and joint and several liquidators of SMI were appointed on 12 May 2020. On 8 May 2020, the Listing Committee of the Stock Exchange decided to cancel the listing of SMI's shares.

10. **Financial assets at fair value through profit or loss** (continued)

During the year ended 31 December 2019, it was noted that there were some other share pledges in the PRC, which were made without the knowledge or consent of the Company, may negatively impact the value of the security held by the Company. In addition, due to the fact that SMI is under liquidation petition from its creditors, and also given the outbreak of COVID-19 that halted its main cinema operating businesses in mainland China, management considered the value of the collateral is minimal and the Company would retrieve the highest value through liquidation of SMI Group. However, based on a waterfall analysis under liquidation basis with reference to the valuation performed by an independent firm of professionally qualified valuers, the management are of the view that any recovery of the remaining carrying value of the SMI Bonds through the winding-up petition of SMI, is not likely. As such, the Group recognised a further fair value loss of HK$330,015,000 on the Convertible Bonds for the year ended 31 December 2019, reducing the carrying amount to zero at 31 December 2019.

As at 30 June 2020, after considering the latest development of SMI, management is of the same view that any recovery from SMI Bonds is not likely, resulting in the carrying amount of the Convertible Bonds to remain at nil.

11. **Trade and other receivables, prepayments and deposits**

| | **30 June 2020 HK$'000** | 31 December 2019 HK$'000 |
|---|---|---|
| **Non-current** | | |
| Prepayments related to capital expenditure | **50,287** | 51,284 |
| **Current** | | |
| Trade receivables from: | | |
| Associates | **–** | 693 |
| Third parties (note) | **1,116,233** | 1,239,994 |
| | **1,116,233** | 1,240,687 |
| Less: provision for impairment loss on receivables from third parties | **(52,005)** | (51,750) |
| | **1,064,228** | 1,188,937 |
| Other receivables, prepayments and deposits | **533,483** | 514,201 |
| Contract acquisition and fulfilment costs | **18,895** | 19,222 |
| | **1,616,606** | 1,722,360 |
| | **1,666,893** | 1,773,644 |

11. **Trade and other receivables, prepayments and deposits** (continued)

Note:

The Group operates a controlled credit policy to the majority of the Group's customers who satisfy the credit evaluation. The Group generally allows an average credit period of 40-60 days to advertisers, 14-180 days to subscribers and 60 days in respect of programme licensees in PRC. Cash on delivery, advance payments or bank guarantees are required from other customers of the Group.

At 30 June 2020 and 31 December 2019, the ageing of trade receivables, net of provision for impairment based on invoice dates were as follows:

| | **30 June 2020 HK$'000** | 31 December 2019 HK$'000 |
|---|---|---|
| Current | **409,845** | 529,521 |
| 1-2 months | **108,171** | 208,274 |
| 2-3 months | **89,940** | 82,288 |
| 3-4 months | **66,178** | 79,019 |
| 4-5 months | **27,986** | 50,517 |
| Over 5 months | **362,108** | 239,318 |
| | **1,064,228** | 1,188,937 |

## 12. Other reserves

| | General reserve HK$'000 | Capital reserve HK$'000 | Legal reserve HK$'000 | Share-based payment reserve HK$'000 | Financial assets at FVOCI reserve HK$'000 | Translation reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2019 | 70,000 | (20,699) | 112,193 | 24,125 | (7,661) | (52,717) | 125,241 |
| Transferred from retained earnings | – | – | 5,874 | – | – | – | 5,874 |
| Exchange differences on translation of foreign operations: | | | | | | | |
| – Subsidiaries | – | – | – | – | – | (7,668) | (7,668) |
| – Joint ventures | – | – | – | – | – | 545 | 545 |
| Share of other comprehensive loss of an associate | – | – | – | – | 13 | (204) | (191) |
| Share-based payments | – | – | – | 8,191 | – | – | 8,191 |
| Balance at 30 June 2019 | 70,000 | (20,699) | 118,067 | 32,316 | (7,648) | (60,044) | 131,992 |
| Balance at 1 January 2020 | 70,000 | (20,699) | 118,067 | 39,946 | (7,756) | (66,650) | 132,908 |
| Transferred from retained earnings | – | – | 2,372 | – | – | – | 2,372 |
| Exchange differences on translation of foreign operations: | | | | | | | |
| – Subsidiaries | – | – | – | – | – | (9,613) | (9,613) |
| – Joint ventures | – | – | – | – | – | 1,011 | 1,011 |
| Share of other comprehensive loss of an associate | – | – | – | – | – | (2,887) | (2,887) |
| Share-based payments | – | – | – | 4,826 | – | – | 4,826 |
| **Balance at 30 June 2020** | **70,000** | **(20,699)** | **120,439** | **44,772** | **(7,756)** | **(78,139)** | **128,617** |

## 13. Borrowings

| | **30 June 2020 HK$'000** | 31 December 2019 HK$'000 |
|---|---|---|
| **Non-current** | | |
| Notes, unsecured (note) | **1,813,606** | 1,865,660 |
| **Current** | | |
| Short-term bank borrowings (note) | **–** | 342,716 |
| | **1,813,606** | 2,208,376 |

Note:

On 11 October 2016, the Group issued US$500,000,000 3.625% five-year notes due 2021 ("Notes"). Up to 30 June 2020, the Company purchased US$264,820,000 (31 December 2019: US$258,828,000) in aggregate nominal amount of the Notes issued by TVB Finance Limited.

During the period ended 30 June 2020, the Group's short-term bank borrowings of HK$342,716,000 as at 31 December 2019 were fully repaid.

On 30 June 2020, the Group entered into a new 3-year term loan facility with the amount of US$250,000,000. The entire amount under the facility was drawn down on 6 July 2020 subsequent to the period end, which will mature on 6 July 2023.

## 14. Trade and other payables and accruals

| | **30 June 2020 HK$'000** | 31 December 2019 HK$'000 |
|---|---|---|
| Trade payables to: | | |
| Associates | **1,703** | – |
| Third parties | **121,561** | 83,231 |
| | **123,264** | 83,231 |
| Contract liabilities | **179,225** | 188,611 |
| Provision for employee benefits and other expenses | **59,181** | 97,333 |
| Accruals and other payables | **377,169** | 280,899 |
| | **738,839** | 650,074 |

## 14. Trade and other payables and accruals (continued)

At 30 June 2020 and 31 December 2019, the ageing of trade payables based on invoice date were as follows:

| | **30 June 2020 HK$'000** | 31 December 2019 HK$'000 |
|---|---|---|
| Current | **78,056** | 58,869 |
| 1-2 months | **18,372** | 17,124 |
| 2-3 months | **8,140** | 2,729 |
| 3-4 months | **6,845** | 1,910 |
| 4-5 months | **5,727** | 1,464 |
| Over 5 months | **6,124** | 1,135 |
| | **123,264** | 83,231 |

## 15. Comparative figures

Certain comparative figures have been reclassified to conform with current period's presentation, including the presentation of (impairment loss)/reversal of impairment loss on trade receivables and bond securities at amortised cost in a single line as net (impairment loss)/reversal of impairment loss on financial assets at amortised cost in the condensed consolidated income statement. These reclassifications have no impact on the Group's total equity as at 30 June 2020, 31 December 2019 and 30 June 2019, or on the Group's results for the six months ended 30 June 2020 and 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

This year began with the adverse impact of the COVID-19 pandemic subsequent to the 2019 social unrest events in Hong Kong. This pandemic further depressed the already fragile local economy and significantly dampened market sentiment.

The Company's immediate responses to the pandemic were directed towards protecting the health of our employees; ensuring continuous operation and services; mitigating impact of the virus on the community; and maintaining the financial health of the Company.

Employees' health remains at the top of our list of priorities. Since early January, we instigated prompt measures to ensure a healthy and safe working environment including work-from-home arrangements which helped minimise physical contact amongst staff; providing sufficient protective materials for employees including artistes; maintaining the highest standard of cleanliness in studios and offices. Much to our relief, cases of infection amongst staff members were minimal, and our broadcasting and programme production activities sustained full operation during the Period.

To help mitigate impact of the spread of the virus, we produced a series of short programmes *Let's Build Resilience Against Pandemic* (疫境自強) to promote positive living under stress and anxiety. By adopting a self-narrating format, a number of artistes and members of the public shared their own personal stories in confronting the hardship. To further strengthen the dissemination of anti-pandemic information, *Scoop* (東張西望) was used to deliver news updates and health related information to raise awareness. We hope that we can promote knowledge of the basic preventive measures. With over six months of efforts, we are indeed grateful to learn that these programmes were well-received.

We continued to monitor closely our cashflow amid a declining business environment and ensured that we maintain a sufficient level of cash to meet our needs.

Ironically, we achieved significant improvements in TV ratings of prime time drama serials during the Period as viewers were homebound to enjoy our channels. However, the demand for advertising services on terrestrial TV channels remained very weak amid the COVID-19 outbreak, resulting in a 69% year-on-year decline in income from advertisers under Hong Kong TV Broadcasting segment in the first half of 2020. We had to carefully monitor costs and make adjustments to optimise the overall costs of programmes of the five channels. The overall results for the broadcasting segment was a loss of HK$515 million (2019: profit of HK$58 million).

The impact of the pandemic is equally prominent in our major licensing territories. Licensing businesses in the major markets managed to sustain to some extent due to the contractual fee structure, but advertising fee-based businesses contracted. We are working hard to drive revenue from digital platforms – OTT; social media and e-commerce. Notably, Big Big Shop is benefitting from the online shopping trend amid effect of the pandemic.

During the Period, new content supply agreements were signed with Huawei and China Mobile, respectively, while both of which have very large number of mobile device users in multiple countries. This will further accelerate the growth of our digital content distribution to a new international level.

## OUTLOOK

Mainland China is one of the Group's key markets for future growth. The co-production business has been strengthened with a solid pipeline of drama projects currently under production and under active negotiation. We are working to enrich our offerings by adding variety programmes to the co-production genre.

Recently, Youku and TVB entered into a strategic framework cooperation agreement to strengthen cooperation on distribution and production of dramas and variety shows, artiste management, e-commerce and streaming service which will increase exposure of TVB's content on Youku's platform. The latest partnership with Youku is set to further boost IP development, content distribution and co-production opportunities for TVB.

Adopting a direct-to-consumer strategy for growth, myTV SUPER will invest in platform-specific content, myTV SUPER Original, to be launched in the last quarter of 2020 as the key market differentiator.

Internationally, we expect our TVB Anywhere OTT service to replace conventional licensing and directly capture a larger share of overseas Chinese audience, by leveraging on TVB's high quality and deep archive of Chinese language content.

The road to recovery is full of uncertainties. The outlook of the Group's advertising-related businesses in Hong Kong will remain challenging for the remaining months of 2020, but we are cautiously optimistic that our businesses in the second half of 2020 will progressively recover. We are confident that our service propositions covering online and offline platforms are attractive to advertisers and marketers in the region including the Greater Bay Area.

## HONG KONG TV BROADCASTING

| **For the period ended 30 June** | **2020 HK$ million** | 2019 HK$ million | **Year-on-year change** |
|---|---|---|---|
| Segment revenue (external) | **561** | 1,228 | **-54%** |
| Inter-segment revenue | **16** | 22 | **-27%** |
| Less: costs | **(1,092)** | (1,192) | **-8%** |
| Segment (loss)/profit | **(515)** | 58 | **Loss-making** |

This business segment includes operation of Hong Kong TV broadcasting through the five terrestrial TV channels and programme co-production businesses. Segment revenue from external customers declined 54% from HK$1,228 million to HK$561 million. As a direct consequence of the impact of COVID-19 pandemic, the demand for advertising services on terrestrial TV channels remained very weak throughout the Period, and therefore income from advertisers under this segment declined 69% from HK$1,136 million to HK$351 million. Co-production of drama serials with mainland China's online platforms had resumed for the Period, which generated a total income of HK$146 million (2019: Nil). By exercising careful controls, total costs declined 8% from HK$1,192 million to HK$1,092 million. Overall, this segment reported a loss of HK$515 million for the Period (2019: profit of HK$58 million).

## TV ADVERTISING

Local businesses have already been shoved to absorb multiple blows. First came the social unrest which started in June 2019. On-going anti-government protests weighed on the inbound tourism and sapped consumer sentiment. Then the first wave of COVID-19 cases hit in January 2020. Implementation of travel bans brought inbound tourism to a halt, and austere labour market conditions slammed the consumption sentiment. GDP suffered a record contraction of 9.1% and 9.0% in the first and second quarter of 2020, respectively. The value of total retail sales shrunk 33.3% for the first six months of 2020. Of all, sales of jewellery, watches, clocks and valuable gifts endured the largest year-on-year decline at 65.5%, while medicines and cosmetics slumped 54.7%. Unemployment rate rose to 6.2% for the three-month rolling period from April to June 2020, the highest in more than 15 years. While containment measurements abated the local virus situation momentarily in May and June and aided the city's return to relative normalcy, the recent wave of epidemic recurrence could hammer the embattled economy further.

Battered by the prevalent domestic and external economic crisis, advertisers adopted survival plans by cutting their spending. With virtually no inbound travellers, the fast-moving consumer goods sector, including milk powder; personal care and beauty; beverages and dining, which places heavy reliance on tourist spending recorded a steep decline.

Against this troubled advertising environment, we canvassed spending from categories less affected by the pandemic such as pharmaceutical and healthcare; hygiene products; property development; banking and finance. During the first quarter, we launched special packages targeting businesses from these categories. Noting that advertisers may need more flexibility, a comprehensive service bundle comprising product placement, info-service and commercial spot is in the offerings.

## TERRESTRIAL TV CHANNELS

As a major broadcaster, TVB is mindful of the public's expectation on up-to-date information. We operate round-the-clock free-to-air programming services, and for the Period, noted significant improvements in TV ratings of prime time programmes. Naturally, pandemic-related programmes were well-received since the outbreak. On flagship Jade, we dedicated positive stories in our programmes and hoped that these can serve to motivate and disseminate positive thinking.

## JADE CHANNEL

Jade's programming strategy is missioned to keep the public informed, educated and entertained. During this Period, we produced in-depth reports on epidemic-control measurements, medical and health advice, including *The Coronavirus Forum* (全民開講齊抗疫), *Sidewalk Scientist Coronavirus Special* (學是疫學非) and in-programme segments of *Scoop* (東張西望) and *Sidewalk Scientist (Sr. 7)* (學是學非).

Epidemic prevention supplies were in short supply during the early phase of the outbreak. A donation appeal was made through *Scoop* (東張西望) to gather virus prevention supplies, including face masks and sanitisers, to meet the pressing needs of the less-privileged families and protect the at-risk groups. This campaign was well-supported as more than one million items of supplies were collected from donors within a short space of time for distribution.

With more families confined to their homes, TV ratings of our prime time drama serials improved notably. *Forensic Heroes IV* (法證先鋒IV), the fourth sequel of a popular police procedural series, which was about forensic teams investigating a variety of murder cases ended on a big hit. This blockbuster scored an average rating of 36.3 TVRs[1], with the top rated episode at 40.0 TVRs. Police-themed drama serial *Airport Strikers* (機場特警) also received an impressive average rating of 33.2 TVRs. Another crime-action comedy *Death By Zero* (殺手) also gained popularity as its finale topped a rating of 35.2 TVRs.

In the midst of adversities, we produced a positive reinforcement programme *We shall stand together to rebuild the city* (疫/逆境同行 • 香港再起動) to boost morale amongst citizens. A series of short programmes *Let's Build Resilience Against Pandemic* (疫境自強) was hosted by a number of artistes and members of the public who shared their own personal stories in confronting the hardship.

The list of variety programmes continued with a brand new marketing programme *Big Big Shopping Nite* (big big shop 感謝祭) broadcast on selected Saturday nights which was purposely designed to showcase, selected goods on sale in Big Big Shop using our artistes. This cross-platform promotion effort is part of our strategy of "*Showing on TV, Selling in Big Big Shop*" and takes advantage of the immensely powerful promotional power of Jade. Progressively, we have extended this cross-platform promotion to other variety programmes, including *Scoop* (東張西望)*, Homegrown Flavours* (香港原味道)*, Savoury Taiwan* (台灣原味道)*, Big City Shop* (流行都市)*, All Things Girl* (姊妹淘).

[1] Rating (TVR) performance quoted is a consolidated rating which represents the average rating of a programme summing both the live viewing from the spectrum and on myTV SUPER OTT service (STB, App, Web) as well as VOD viewing of that programme within seven days after being aired on terrestrial TV. For 2020, total TV population comprises 6,539,000 viewers, and 1 TVR represents 65,390 viewers (1% of the total TV population). Data source: CSM Media Research, Adobe Analytics & Nielsen Out-of-home Study

**J2 CHANNEL**

Cultivating viewership from the youth audience remains J2's priority. During the Period, we made some scheduling changes to bring audience the hottest dramas from Japan, Korea, Taiwan and mainland China during late prime time.

Station-created chic and experiential travelogue is a signature genre on J2. Amid the travel restrictions, we engaged our team stationed in Taiwan to produce a series of lifestyle varieties, including *Taiwan Fun 101* (台北101種玩法), *Night Marketeers* (蒲夜市), *Tainan Walker* (潮遊台南), *Go Go! Summer Go!* (在夏天出發). Together with *Arabian Days & Nights* (這一站阿拉伯), these travelogues fed the audience's wanderlust fittingly.

**TVB NEWS CHANNEL**

Channel 83 TVB News remains the "go-to" place for live coverage of major updates on the global pandemic situation and health-related matters. The news team keeps close checks on the emerging situation around the globe, and updating anti-epidemic information using a number of mini-programme series including *Anti-coronavirus Handbook* (抗疫手冊), *China Anti-COV Update* (全國抗疫快訊), *Anti-coronavirus Strategy* (抗疫攻略), *Anti-COV Guide* (抗疫指南) and *Anti-COV Story* (抗疫 • 情). Timely, trusted news and useful precautionary advice kept audience tuned in and further increased the in-home live rating of TVB News Channel to 2.1 TVRs during prime time for the Period (2019: 1.4 TVRs)[2].

TVB News has also strengthened its news content for both Jade and Pearl channels. Jade extended weekday *News At 630* (六點半新聞報道) to a 45-minute report, which is followed by a 5-minute *Global View* (世界觀) to give a fair and broad discussion on international news and current affairs. TVB News continues to enrich offerings of inspiring mini programmes, including *As Far As You Reach* (這麼遠，那麼近) and *5G The Next-Gen* (5G新世代).

**PEARL CHANNEL**

Pearl's programming was revamped to further enrich its entertainment content. From April, all-time favourite weekend movies were extended to include Friday nights. The weekend blockbuster timeslot from Fridays to Sundays continues to attract sizable viewership with *Kingsman The Secret Service* and *Cinderella* recording an average rating of 6.5 TVRs and 5.8 TVRs respectively.

*News roundup* on Pearl has been rescheduled to an earlier slot on Monday to Thursday's prime time, while *Putonghua News Report* and *China 24* were added.

2 Data source: CSM Media Research.

**TVB FINANCE & INFORMATION CHANNEL**

TVB Finance & Information Channel recorded a higher in-home live rating of 0.9 TVRs during prime time (2019: 0.6 TVRs).

The channel endeavours to stay ahead and keep audience abreast of the rapidly changing economy of the region. Besides financial related content, a wide range of international documentaries is supplemented for programming. At the popular 20:30 station-produced time slot, the channel covers investment related topics ranging from property, health, education, career to knowledge. In addition to documentaries *Vital Lifeline* (最強生命線) and *Revel in Retirement* (無耆不有), new programmes such as *Hong Kong Marriage* (港式婚姻) and *News Treasury* (新聞掏寶) were added to the line-up.

**myTV SUPER**

| For the period ended 30 June | 2020<br>HK$ million | 2019<br>HK$ million | Year-on-year<br>change |
|---|---|---|---|
| Segment revenue (external) | **202** | 226 | **-11%** |
| Inter-segment revenue | **12** | 12 | **–** |
| Less: costs | **(213)** | (206) | **3%** |
| Segment profit | **1** | 32 | **-96%** |

Segment revenue from external customers decreased from HK$226 million to HK$202 million, a decline of 11%. Included in segment revenue was advertising revenue which decreased from HK$98 million to HK$53 million, a decline of 46% due to the weak market sentiment. Subscription revenue increased from HK$126 million to HK$146 million, an increase of 16%. Increase in annual subscription fees upon renewal since December 2019 helped increase the ARPU during the Period.

As of 30 June 2020, myTV SUPER's total registered user base had increased to 8,580,468 (2019: 7,717,195), an increase of 11% across the three service platforms. Out of this total, 1,286,326, 6,137,901, and 1,156,241 users were registered under set-top-boxes ("STBs"), mobile devices and the portal, respectively. Total number of paying subscribers has increased to approximately 1.3 million. The growth in registered users was mainly fueled by users from mobile devices who opt for the free service. This customer segment is important as they belong to the young demographics and can become paying subscribers later.

Strategically, we are positioned to growing more direct-to-consumer revenue. myTV SUPER now offers a tiered product structure consisting of myTV Gold and the basic pack. myTV Gold service, launched in April 2019, has a growing base of over 40,000 paying users. This is the top tiered product offering over 55 channels (including 25 additional premium channels) and more than 87,000 hours of VOD content (including TVB's archive) under a fixed subscription fee.

myTV SUPER enriched sports offering by introducing two soccer leagues, namely K League and Bundesliga. More live soccer games such as FA Cup, Swedish Allsvenskan and Eredivisie will be added.

The platform also launched thematic Subscription Video-on-Demand (SVOD) zones for Chinese and Korean drama fans. Under the new arrangement, a selection of Korean drama serials will be premiered on the same day as their home market releases.

Viewers are consuming more content during the pandemic. During the week of 23 March 2020, the total time spent on myTV SUPER platform reached a record high of 26.6 million hours per week (equivalent to a weekly consumption of 21.3 hours per unique stream viewer), as well as an all-day-all-time rating of 2.42 TVRs, and a prime time rating of 4.27 TVRs. The prevailing stay at home routine will continue to encourage families to focus more on home entertainment via OTT services. myTV SUPER is planning to strengthen its exclusive content offering (whether TVB or third party produced) under myTV SUPER Original to be launched in the fourth quarter of 2020.

With the positive responses from the clickable TV ads launched last year, myTV SUPER further extended this service by offering an e-commerce platform (named "OK BUY") to capture consumers' impulsive buying behaviour. In the first phase, viewers can connect up with the advertisers' e-commerce platforms through mobile devices. Further development efforts are being made to eventually build a total transaction platform.

## BIG BIG CHANNEL BUSINESS

| **For the period ended 30 June** | **2020**<br>**HK$ million** | 2019<br>HK$ million | **Year-on-year**<br>**change** |
|---|---|---|---|
| Segment revenue (external) | **62** | 61 | **1%** |
| Inter-segment revenue | **34** | 25 | **33%** |
| Less: costs | **(65)** | (72) | **-11%** |
| Segment profit | **31** | 14 | **123%** |

Big Big Channel ("BBC") Business comprises social media, e-commerce, events management, and music entertainment. During the Period, external segment revenue increased by 1% from HK$61 million to HK$62 million, which was mainly contributed by growth in e-commerce and short video licensing business, but partly offset by drop in revenue from events management (due to the pandemic). In addition to revenue growth, some cost saving measures were made which contributed to growth of the overall segment profit to HK$31 million (2019: HK$14 million), an increase by 123%.

For monetisation of BBC app, we produced over 8,600 short videos adapted from TVB's long form content such as drama, variety library content. These contents are also supplied to BBC's other social media accounts on Facebook, Instagram, Sina Weibo etc. to capture a total of 14.8 million registered users globally. A weekly stream view of 27.4 million was recorded for the last week of June 2020. More online content is under planning, such as online original drama and variety show, vertical thematic content, news, artiste content for multi-channel network and online live shows. BBC is using the expanding follower base to grow video stream views and impression worldwide for monetisation. In addition, we have started to license short videos to third parties. The first of such licensing agreement was entered into with China Mobile to license a library of BBC short videos for its network customers in Hong Kong as a value-added service.

Big Big Shop ("BBS") is our e-commerce offshoot and has become a recognisable online shopping platform. BBS has adopted the unique strategy of "*Showing on TV, Selling in Big Big Shop*" to benefit from impulsive buying after promotion on TVB channels. To-date, we successfully integrated a range of products into our variety programmes which generated good sales responses. Number of monthly active users and buyers are going up rapidly following the boost using our promotional programmes like *Big Big Shopping Nite* (big big shop 感謝祭) and *Homegrown Flavours* (香港原味道).

On the music distribution business, the Voice Entertainment Group ("VEG") has broken a few hits with over a million YouTube stream views during this Period, namely Pakho Chau's *Free My Love* (讓愛高飛) from drama serial *Wonder Women* (多功能老婆) which exceeded 7 million stream views up to July 2020. Also, songs from drama serial *The Exorcist's 2nd Meter* (降魔的2.0) has spawned three hit singles with over million stream views, with two songs performed by Hubert Wu and one song by Tam Ka Yee. VEG's YouTube hit rates increased 66% on a year-on-year basis.

## INTERNATIONAL OPERATIONS

Our international operations comprise programme licensing and distribution, overseas pay TV and TVB Anywhere. We continue to transform our programme licensing business from limited-reach business-to-business ("B2B") conventional licensing to wide-open OTT distribution by diversifying into business-to-consumer ("B2C") and business-to-business-to-consumer ("B2B2C") models through collaborating with telcos and hardware device manufacturers in key markets.

## PROGRAMME LICENSING AND DISTRIBUTION

| For the period ended 30 June | **2020 HK$ million** | 2019 HK$ million | **Year-on-year change** |
|---|---|---|---|
| Segment revenue (external) | **326** | 381 | **-14%** |
| Inter-segment revenue | **30** | 32 | **-5%** |
| Less: costs | **(213)** | (135) | **57%** |
| Segment profit | **143** | 278 | **-49%** |

Programme licensing and distribution business comprises the distribution of TVB's programmes outside of Hong Kong through telecast and new media licensing. During the Period, segment revenue decreased by 14% from HK$381 million to HK$326 million due to lower sharing of advertising revenue. The absence of the write-back of impairment losses of HK$38 million booked in the first half of 2019 pertaining to prior year's receivables of Guangdong landing rights fees also contributed to the decline in segment profit.

The pandemic had adversely affected the performance of our international businesses. The economic slowdown in our traditional overseas markets has resulted in higher churn rates and lower ARPU of pay TV services alongside fewer ad spend by advertisers. Confronted with such evolving operating environment, we endeavour to maintain attractiveness of our brand by offering appealing original content.

We renewed the programme supply agreement with MEASAT Broadcast Network System Sdn Bhd ("MEASAT") in Malaysia for a period of three years. Under this new arrangement, multiple TVB channels including TVB Jade, TVB News, TVB Entertainment News, TVB Classic and TVB Xing He are made available to MEASAT's pay TV subscribers. TVB Jade is supplied to replace the Wah Lai Toi channel previously compiled by MEASAT. We hope to strengthen our bond with fans in Malaysia by investing in locally produced contents and delivering more value to advertisers through product placements and title sponsorships.

In Singapore, with our new programme supply agreement with Singtel Global Private Limited ("Singtel") commencing September 2019, we now provide an additional platform choice to viewers beyond our long-standing programme supply arrangements to StarHub Cable Vision Limited ("StarHub"). We are prepared to enrich our offering to Singapore viewers by offering more unique content.

In Vietnam, our programme supply agreement with Saigontourist Cable Television Company Limited ("SCTV") has provided us with steady income in the first half of 2020. This is an important market where we have built a large and growing fans base over the years. Taking the opportunity of our next licence renewal, we are working closely with SCTV to formulate a long-term content strategy for this market.

## MAINLAND CHINA OPERATIONS

Operations in mainland China mainly comprise co-production of dramas and distribution of contents to digital new media platforms. Total revenue from mainland China operations increased by HK$125 million or 54% from HK$231 million to HK$356 million, which was contributed mainly by the drama co-production projects. A total of HK$146 million co-production income was booked in the first half of 2020 (2019: Nil) for four drama projects-in-progress. However, the growth in China revenue was partially offset by lower revenue from the Guangdong landing rights fees. Licensing income from new media platforms totalled HK$183 million during the Period (2019: HK$191 million).

As reported earlier, the year-long suspension of drama co-production business was uplifted in the second half of 2019, and we were able to re-start soon thereafter with the production of the sequel of one of our favourite IPs *Line Walker: Bull Fight* (使徒行者3). Despite impact of the pandemic, our creative and production teams remained active throughout the Period, and substantive progress was made across our co-production drama-in-progress, including *Line Walker: Bull Fight* (Tencent), *Armed Reaction 2021* (陀槍師姐2021) (Tencent), *Legal Mavericks 2020* (踩過界II/盲俠大律師2020) (iQiyi), *Murder Diary* (刑偵日記) (Youku). The first three of these titles are targeted for completion in 2020, and *Murder Diary* is for completion in 2021.

Since working with Tencent and iQiyi, we have built a successful track record of six TVB produced titles during the two years 2017 and 2018, which had their own characteristics. This business model has enabled us to build online viewership and strengthen our brand image as a content provider. Over the years, the value of our drama serials has increased.

Youku will become our third co-production partner in this market with our recently announced strategic framework cooperation agreement. TVB and Youku will strengthen cooperation on distribution and production of dramas and variety shows, artiste management, e-commerce and streaming service which will increase exposure of TVB's content on Youku's platform. This latest strategic partnership with Youku is set to further boost IP development, content distribution and co-production opportunities for TVB.

**OVERSEAS PAY TV AND TVB ANYWHERE**

| For the period ended 30 June | 2020 HK$ million | 2019 HK$ million | Year-on-year change |
|---|---|---|---|
| Segment revenue (external) | **74** | 67 | **10%** |
| Inter-segment revenue | **2** | – | **N/A** |
| Less: costs | **(79)** | (75) | **4%** |
| Segment loss | **(3)** | (8) | **-64%** |

This segment revenue comprises income from the USA and TVB Anywhere OTT business. The subscriber base of TVB Anywhere has continued to grow after migrating from the legacy pay TV services, which contributed to a topline growth of 10% from HK$67 million to HK$74 million. Segment loss has narrowed from HK$8 million to HK$3 million.

**OVERSEAS PAY TV**

Operations in the USA cover licensing of programmes to pay TV operators, new media platforms and advertising. Our cooperation with DISH Network is providing us greater flexibility to develop new media business in this market. Both of our free and paid services are available on top video streaming platforms and on connected TV devices including Apple TV, Roku and Amazon's Fire TV.

The pandemic had adversely impacted our business performance. However, we are encouraged by the increase in free zone subscribers during the lockdown which underpins the strong demand for TVB content.

**TVB ANYWHERE**

TVB Anywhere, together with subscribers/users from overseas third-party online platforms carrying TVB content, currently has an aggregated user base of approximately 15.2 million.

Besides the paid service via STBs, TVB Anywhere+ app is tiered into a paid zone and a free zone. The paid zone offers first run TVB contents and 20,000 hours of TVB library programmes. Its major features include up to six multi-language offering, multiple-screen viewing, and global access with a single sign on. The free zone, equipped with a selection of VOD content, has enabled us to upsell and build our subscriber base further for advertising business.

We operate TVB Anywhere business on B2B2C and B2C models. Through collaborating with telcos and device manufacturers in key Asian markets like Macau, Singapore, Vietnam and Thailand, we have witnessed a steady growth in the subscriber base. Amongst these markets, subscription growth in Macau has been particularly promising, thanks to our partnership with Companhia de Telecomunicações de Macau ("CTM") since 2018.

In Singapore, TVB Anywhere+ is distributed by all the major telcos – Singtel, StarHub, M1 Limited and MyRepublic Limited as well as direct purchase from App Store and Play Store. Marketing of the application is mainly conducted online which has proven to be more cost effective and efficient in customer acquisition. A steady growth on both free and paid customers has been recorded during the pandemic period as people consumed more online video entertainment.

Localised versions of TVB Anywhere service are available in Vietnam and Thailand, with the aim to extend subscription service to the much larger mainstream audience. Through partnering with Vietnamobile Telecommunications Joint Stock Company, subscriber growth has been notable.

In Malaysia, a free version of TVB Anywhere+ was soft-launched in May 2020, while the paid service will be available in the second half of 2020. We believe our strong bond with fans in this market will help fuel growth in subscription and advertising sources.

In addition to TVB Anywhere service through our branded STB and app, we are co-operating with a number of global video online platforms including YouTube and Line TV to carry our channels and programmes under an ad-supported model. Besides the Cantonese, Mandarin, Vietnamese, Thai, and Cambodian audio versions, two new subtitled versions, namely Bahasa Indonesia and Arabic, have been added to our YouTube offerings. The overall video traffic has increased by more than 50% comparing with the same period last year due to the global increase in online video consumption.

TVB Anywhere has been syndicating its branded SVOD service to global device manufacturers. In April 2020, a TVB Anywhere SVOD service was supplied to Huawei Video app, a pre-loaded application on all Huawei mobile devices. The collaboration allows TVB Anywhere to reach Huawei handset users in 26 markets initially, and increasing to over 50 markets in 2021. TVB Anywhere is targeting to extend branded SVOD services with other device manufacturers.

An updated version of the STB based on an Android TV platform is incorporated into the development plan for 2020. This new STB will aggregate TVB content with other online platforms under one box which will greatly enhance users' experience.

## FINANCIAL REVIEW

### OPERATING RESULTS

Revenue of the Group decreased from HK$1,965 million to HK$1,226 million, a decline of 38%. This decrease was mainly due to a low demand for advertising services since the beginning of the Period which resulted in a sharp decline in advertising revenue from Hong Kong TV Broadcasting from HK$1,136 million to HK$351 million, a decline of HK$785 million or 69%. Offsetting this decline was the recognition of revenue in the amount of HK$146 million (2019: Nil) from four drama co-production projects (at various stages of completion) and non-advertising revenue from the digital platforms (myTV SUPER, TVB Anywhere, Big Big Channel and Big Big Shop) which rose from HK$232 million to HK$272 million, an increase of 17% during the Period.

Cost of sales increased from HK$911 million to HK$966 million, an increase of 6%. Included in cost of sales were the cost of programmes and film rights which amounted to HK$677 million (2019: HK$676 million). The increase in cost of sales was mainly due to the recognition of the amortised production costs of the four drama co-production projects (not included in cost of programmes and film rights), which was offset by savings from certain tightened cost control measures over production spending.

Selling, distribution and transmission costs decreased from HK$324 million to HK$289 million, a decrease of 11%. This decrease was mainly related to the lower sales commission and other reductions in sales-related costs.

General and administrative expenses decreased from HK$488 million to HK$391 million, a decrease of 20%. The decrease was attributable to lower salaries and wages under the Hong Kong terrestrial TV broadcasting segment after rationalisation in manpower relating to production supportive services made in December 2019 and certain reductions in overheads.

During the Period, the Group was able to continue its operation uninterrupted. In the meantime, the Group is continuously exercising stringent cost control and improving operational efficiency. Overall, total costs (comprising cost of sales, selling, distribution and transmission costs and general and administrative expenses) together with income tax decreased from HK$1,770 million to HK$1,572 million, a reduction of 11%.

A review of the investment portfolio was performed to cover the credit quality of the bond securities and to re-balance the size of the portfolio since a large part of the portfolio now comprised TVB Notes. Certain bond securities with a total carrying amount of HK$423 million (out of a total carrying value of the portfolio of HK$1,376 million at 31 December 2019) were disposed of during the Period which generated a gain of HK$14 million (2019: Nil), negating an impairment loss of HK$20 million (2019: HK$20 million) on bond securities at amortised cost.

In addition, the Group disposed of its remaining properties in Taiwan, which were considered non-core assets and resulted in a gain on disposal of HK$27 million.

Other net losses of HK$21 million (2019: net gain of HK$16 million) were recognised which mainly comprised a combination of net exchange losses of HK$5 million and losses on movie investments of HK$17 million during the Period.

Interest income totalled HK$62 million for the Period (2019: HK$97 million). The lower interest income reflected the gradual reduction in the investment portfolio made as a result of the review noted above.

Finance costs totalled HK$40 million for the Period (2019: HK$57 million), which mainly comprised the net interest costs of the US$500 million 3.625% notes issued by TVB Finance Limited due 2021 ("TVB Notes"). During the Period, the Company purchased TVB Notes through the open market amounting to HK$45 million. The purchase of TVB Notes previously made by way of an open offer during second half of 2019 and the on-market purchases made in the Period had resulted in a reduction of interest costs by HK$17 million. The presentation of finance costs on a net basis in the profit and loss account has been consistently made to mirror the netting off of the amount of TVB Notes issued less the amount purchased by the Group on the balance sheet.

Imagine Tiger Television ("ITT"), the joint venture between Imagine Entertainment and TVB, made a net operating loss (before interest expense to TVB) of HK$3 million during the Period. No profit or loss sharing from ITT, was recognised during the Period (2019: shared a loss of HK$53 million) as the equity portion of the investment had been fully written down.

The Group recorded an income tax credit of HK$74 million (2019: tax charge of HK$46 million), which was mainly arisen from tax losses recognised from Hong Kong TV broadcasting segment during the Period. Whilst TVB's main business in Hong Kong is subject to a profits tax rate at 16.5%, the Group's major subsidiaries operate in overseas territories whose effective rates vary from 0% to 30%.

Overall, the Group's loss attributable to equity holders for the Period totalled HK$293 million (2019: profit of HK$213 million), giving a basic and diluted loss per share of HK$0.67 (2019: earnings per share of HK$0.49).

Adjusted EBITDA[3] decreased from HK$546 million in the first half of 2019 to a negative adjusted EBITDA of HK$210 million during the Period, which was mainly due to the decrease in cashflow from advertising revenue during the Period.

[3] Adjusted EBITDA means the result for the Period before financial costs, income tax credit/expense, depreciation and amortisation, share of results of joint ventures/associates, interest income, impairment loss net of gain on disposal on bond securities at amortised cost and gain on disposal of properties. Adjusted EBITDA is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards. The computation of the Adjusted EBITDA may not be comparable to similarly titled measures of other companies.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

### Cash and Treasury Management

The Group continued to maintain a strong financial position as at 30 June 2020 despite a loss recorded during the Period. Total equity stood at HK$5,204 million (31 December 2019: HK$5,589 million). There had been no change in the share capital of the Company, with 438,000,000 ordinary shares in issue. The Group maintained a net cash position (defined as the total of cash and bank deposits and the bond portfolio less liabilities for TVB Notes and bank borrowings) of HK$162 million as of 30 June 2020 (31 December 2019: HK$352 million).

The Group had unrestricted bank and cash balances of HK$1,050 million (31 December 2019: HK$1,185 million). About 44% of the unrestricted bank and cash balances (approximately HK$463 million) were maintained in overseas subsidiaries for their daily operations. Unrestricted bank deposits and cash balances held by the Group were denominated mainly in Hong Kong dollars, Renminbi and US dollars.

The Company maintains a portfolio of fixed income securities classified under held-to-maturity investments for overall enhancement of the interest yield of the Company's fund (the "Investment Portfolio"). Unless approved by the Board of Directors, investments in equity or quasi-equity securities for treasury management purposes are not permitted. Such fixed income securities are selected from bonds issued by companies with transparent and sound financial conditions, with credit ratings from Moody's Services of at least Baa3, taking into account business sector; coupon rate and yield-to-maturity; currency; and maturity dates. The Investment Portfolio is primarily set up to minimise negative carry of coupon on the funds of the Company. In selecting securities for the Investment Portfolio, the Company will take into account the coupon of the TVB Notes as an investment return reference with the view to minimise risks. This investment portfolio is governed under a set of treasury management guidelines laid down by the Board. The Executive Committee has the approval authority for purchase or disposal of securities in the Investment Portfolio. The Investment Committee of the Board is charged with the duties to review the credit quality of the securities making up the Investment Portfolio and to ensure that the investment objectives are fulfilled. The Investment Committee is advised by an external investment bank.

As at 30 June 2020, the Company's portfolio of fixed income securities (excluding the bonds issued by China Energy Reserve & Chemicals ("CERC") and SMI Holdings Group Limited ("SMI")) amounted to HK$859 million (31 December 2019: HK$1,308 million). These fixed income securities (classified under "Bond securities at amortised cost") were issued by issuers which are listed or unlisted in Hong Kong or overseas, and in aggregate, carry a weighted average yield-to-maturity of 4.2% per annum (31 December 2019: 4.7%) and have ranges of maturity dates with the last maturity date of 1 October 2027. As at 30 June 2020, the investment portfolio is made up by a total of 19 (31 December 2019: 26) issuers of fixed income securities. The largest investment in fixed income securities within the portfolio represented approximately 1.4% (31 December 2019: 2.5%) of the total assets of the Group. The interest income recognised during the Period from the bond securities at amortised cost amounted to HK$25 million (2019: HK$52 million). A performance analysis of fixed income bonds by bond issuers' industry is detailed as below:

| **Bond issuers by industry** | **Carrying value (note) HK$ million** | **Carrying value over total assets** | **Interest income during the Period HK$ million** |
|---|---|---|---|
| Property developers/property management companies | 468 | 6% | 12 |
| Financial institutions (banking and insurance) | 245 | 3% | 9 |
| Others | 146 | 2% | 4 |
| | 859 | | 25 |

Note: Net carrying value is stated after amortisation of costs and impairment.

*SMI Bonds*

The Company subscribed a US$23 million 9.5% unsecured redeemable fixed coupon bonds due 2020 (extendable to 2021) ("Fixed Coupon Bonds") and US$83 million 7.5% secured redeemable convertible bonds due 2020 (extendable to 2021) ("Convertible Bonds" and together with the Fixed Coupon Bonds, the "SMI Bonds") both issued by SMI. Trading in the shares of SMI has been suspended on the Stock Exchange of Hong Kong Limited ("Stock Exchange") since 3 September 2018 and has not been resumed as of the date herein.

Following serving statutory demands by the Company to SMI in relation to SMI Bonds and a petition for winding up of SMI filed in the High Court by the Company during the year ended 31 December 2019, SMI was ordered to be wound up on 7 May 2020 and joint and several liquidators of SMI were appointed on 12 May 2020. On 8 May 2020, the Listing Committee of the Stock Exchange decided to cancel the listing of SMI's shares.

During the year ended 31 December 2019, due to the fact that SMI is under liquidation petition from its creditors, and also given the outbreak of COVID-19 that halted its main cinema operating businesses in mainland China, management is of the view that any recovery of the remaining carrying value of the SMI Bonds through the winding up petition of SMI, is not likely. As such, the Company reduced the carrying amounts to zero at 31 December 2019.

As at 30 June 2020, after considering the latest development of SMI, management is of the same view that any recovery from the SMI Bonds is not likely, resulting in the carrying amounts of the SMI Bonds to remain at nil.

During the Audit Committee's review of the Company's condensed financial information for the six months ended 30 June 2020, the Audit Committee and the Directors are in agreement with the Auditor on their expression of the audit qualification due to the possible effects on the comparability of the current period's figures and the corresponding figures for the six months ended 30 June 2019 in the interim condensed consolidated income statement and the interim condensed consolidated statement of changes in equity and the related notes disclosures.

Future modification of the auditor's report in relation to the SMI Bonds would depend on future events or any new information in relation to SMI as such new factors may affect the valuation methodology, inputs, key assumptions and evidence available in arriving at the carrying value assessment of the SMI Bonds at the next balance sheet date. However, the comparability of the 2020 and the 2019 figures in the consolidated income statements for the year ending 31 December 2020 may nevertheless be qualified in the auditor's report for the year ending 31 December 2020, unless the impairment charge on Fixed Coupon Bonds and the fair value loss of Convertible Bonds for the year ended 31 December 2019 could be restated after obtaining such information necessary for the removal of qualifications regarding limitation on scope of the audit for the years 2018 and 2019. The Audit Committee and the Directors are closely monitoring the latest development of SMI. Nevertheless, due to uncertainty on the future development of SMI, it would not be possible to definitively conclude now on the extent of any audit qualification of the SMI Bonds in respect of the year ending 31 December 2020.

*CERC bonds*

CERC had defaulted the principal payment of the 2018 CERC Bond due in May 2018 and as a result, this triggered a cross default for the 2019 CERC Bond held by the Group due in January 2019. The aggregated nominal amounts of 2018 and 2019 CERC Bonds amounted to US$12 million. CERC is a state-owned oil and gas trading, logistics and distribution and supply services provider in China. During the year ended 31 December 2018, coupon payments were received from CERC accruing up to 20 December 2018. Based on the review report of the financial condition prepared by the financial adviser appointed by CERC, management believes that CERC has both the intention and ability to settle the outstanding balances and provided an impairment loss of HK$26 million during the year ended 31 December 2018 to reflect the reduction in expected cash inflow from the CERC bonds.

Based on the revised proposal dated 8 November 2019 and 25 March 2020 with the key elements of (i) increasing the installment percentage of principal repayments in earlier years and (ii) suspending all interest payments on the outstanding CERC bonds, management believes that CERC still has both the intention and ability to settle the outstanding balances under the revised repayment schedule. After performing impairment assessment to estimate any loss allowance on the investment in CERC Bonds, no further impairment losses were made during the year ended 31 December 2019 and the Period.

At 30 June 2020, the Group's net current assets amounted to HK$3,357 million (31 December 2019: HK$3,265 million), an increase of 3%. The increase in net current assets was due to the disposals of certain non-current fixed income securities during the Period. The current ratio, expressed as the ratio of current assets to current liabilities, was 5.3 at 30 June 2020 (31 December 2019: 4.2).

Borrowings at 30 June 2020 totalled HK$1,814 million (31 December 2019: HK$2,208 million) which were made up mainly by the TVB Notes. During the Period, the Company purchased US$6 million nominal amount of TVB Notes issued by TVB Finance Limited through open market to form part of the investment portfolio, which the Company's holding as at 30 June 2020 has accumulated up to US$265 million (31 December 2019: US$259 million). This holding in TVB Notes was presented and netted off against the liabilities of TVB Notes under "Non-current borrowings" on the Condensed Consolidated Statement of Financial Position.

At 30 June 2020, the gearing ratio, expressed as a ratio of net debt to total equity, was 15.7% (31 December 2019: 19.6%). A 3-year unsecured term loan facility from a bank amounting to US$250 million was granted in June 2020 and the entire amount was drawn down subsequent to the Period end.

TVB Notes, issued by TVB Finance Limited, are guaranteed by the Company and are listed in Hong Kong. The proceeds from TVB Notes had been deployed to fund the development of the digital new media business and other capital expenditures, investment in ITT and for general corporate purposes.

## OTHER ITEMS IN THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Trade receivables from third parties amounted to HK$1,116 million (2019: HK$1,240 million), a decrease of 10%, which was mainly due to the decrease in sales as affected by the COVID-19 pandemic during the Period. Impairment loss provisions are calculated based on the Group's past history, existing market conditions and forward looking estimates at 30 June 2020.

Other receivables, prepayments and deposits remained at a stable level of HK$533 million (31 December 2019: HK$514 million).

Trade and other payables and accruals increased from HK$650 million to HK$739 million, which was mainly due to receipt of the Government's Employment Support Scheme for July and August 2020. The portion granted for June of HK$34 million was recognised as "Other income" in the Condensed Consolidated Income Statement during the Period.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group's foreign currency exposures comprise trading and non-trading foreign currency translation exposures. Foreign exchange trading exposures mainly arise from trade receipts from overseas customers.

The Group is also exposed to currency fluctuation on translation of the accounts of overseas subsidiaries and also on the repatriation of earnings and loans, and TVB Notes. In order to mitigate the potential impact of currency movement, the Group closely monitors its foreign exchange exposures and uses suitable hedging arrangements against significant foreign currency exposures, where necessary. No forward exchange or hedging contract was entered into by the Group during the Period.

## SHARE OPTION SCHEME

The Company and a wholly-owned subsidiary, Big Big Channel Holdings Limited, adopted the Share Option Scheme and the Subsidiary Share Option Scheme (collectively "Share Option Schemes") respectively on 29 June 2017. These Share Option Schemes are valid and effective for a period of ten years from the date of adoption. 17,000,000 share options were granted by the Company under the Share Option Scheme in 2018. During the Period, no share options had been granted by the Company under the Share Option Scheme or by Big Big Channel Holdings Limited under the Subsidiary Share Option Scheme respectively.

## HUMAN RESOURCES

At of 30 June 2020, the Group employed a total of 3,659 full-time employees (31 December 2019: 3,785), including contract artistes and staff in overseas subsidiaries. This figure excluded directors and freelance workers.

For employees in Hong Kong, different pay schemes apply to contract artistes, sales, and non-sales personnel. Contract artistes are paid either per show or per package of shows. Sales personnel are remunerated on commission-based schemes, while non-sales personnel receive monthly salaries. Discretionary bonuses may be awarded as an incentive for better performance. About 2% of the Group's manpower was employed in overseas subsidiaries and paid on scales and systems relevant to the respective localities and legislations.

Under the Share Option Schemes of the Group, options may be granted to directors and employees of the Group to subscribe for shares in the Company and in Big Big Channel Holdings.

From time to time, the Group organises, either in-house or with other vocational institutions, seminars, courses, and workshops on subjects of technical interests, such as industrial safety, management skills and other related studies, apart from sponsorship of training programmes that employees may enrol on their own initiatives.

To sustain the long term steady supply of human resources for production, the Group has implemented a number of new initiatives during the Period targeting training and development of internal staff for TV production in the areas of design and construction of settings for production, make-up and costume design, with a view to ensure that the necessary skills sets are appropriately retained and developed within our business.

## EXTRACT OF REVIEW REPORT

The below sections set out an extract of the report by PricewaterhouseCoopers, the auditor of the Company, regarding the interim financial information of the Group for the six months ended 30 June 2020.

### Basis for Qualified Conclusion

*Comparability of the current period's figures and the corresponding figures for the period ended 30 June 2019 in the interim condensed consolidated income statement and the interim condensed consolidated statement of changes in equity*

The Group holds certain unsecured fixed coupon bonds ("fixed coupon bonds") and secured convertible bonds ("convertible bonds") issued by SMI Holdings Group Limited ("SMI") which are further described in notes 9 and 10. We have previously qualified our audit opinion in respect of the Group's consolidated financial statements for the year ended 31 December 2018 as we were unable to obtain sufficient audit evidence or perform alternative procedures to assess or corroborate the key inputs and key assumptions adopted by management in their assessment of impairment of the fixed coupon bonds and the valuation of the convertible bonds as at 31 December 2018. We also qualified our review conclusion for this matter in respect of the Group's condensed interim financial information for the six months ended 30 June 2019 as we were unable to obtain sufficient evidence or perform alternative procedures to assess or corroborate the key inputs and key assumptions adopted by management in their assessment of impairment of fixed coupon bonds and the valuation of the convertible bonds as at 30 June 2019; and to determine whether any adjustments to the carrying values of the fixed coupon bonds carried at nil balance and the convertible bonds of HK$330 million as at 30 June 2019 and the corresponding adjustments on the interim condensed consolidated income statement were necessary.

During the second half of the year ended 31 December 2019, as further set out in note 10, the Group has made full provision for the remaining portion of the convertible bonds. Our audit opinion on the consolidated financial statements for the year ended 31 December 2019 was qualified because of the limitation in scope on the opening balances of the fixed coupon bonds and convertible bonds as at 1 January 2019, which could have a consequential impact to the impairment charge on the fixed coupon bonds and fair value losses of the convertible bonds included in the Group's consolidated losses for the year ended 31 December 2019.

Because of the possible effects of this matter on the comparability of the current period's figures and the corresponding figures for the six months ended 30 June 2019 in the interim condensed consolidated income statement and the interim condensed consolidated statement of changes in equity and the related notes disclosures, our review conclusion on the interim financial information for the six months ended 30 June 2020 is therefore qualified.

### Qualified Conclusion

Based on our review, except for the possible effects on the comparability of the current period's figures and the corresponding figures of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the interim financial information of the Group for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

## VIEWS OF THE AUDIT COMMITTEE ON THE QUALIFIED REVIEW CONCLUSION

At the meeting of the Audit Committee of the Board held on 19 August 2020, the Audit Committee reviewed the Auditor's Report on Review of Interim Financial Information to the Board of Directors of Television Broadcasts Limited covering the period ended 30 June 2020. The Audit Committee noted that the Auditor is giving a qualified conclusion because of the possible effects on the comparability of the current period's figures and the corresponding figures for the six months ended 30 June 2019 in the interim condensed consolidated income statement and the interim condensed consolidated statement of changes in equity and the related notes disclosures. Please refer to "Extract of review report" on page 43 of this announcement for more details. The Audit Committee understood that except for the basis of the qualification as mentioned above, nothing has come to the auditor's attention that causes the auditor to believe that the interim financial information of the Group for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". On this basis, the Audit Committee has accepted the Report.

## COMPLIANCE OF CORPORATE GOVERNANCE

Maintaining high standards of business ethics and corporate governance practices has always been one of the Company's core objectives. The Company believes that conducting business in an open and a responsible manner serves its long-term interests and those of the stakeholders.

The Company was in compliance with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") during the Period.

## COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules, as amended from time-to-time, as the code for Directors and members of Senior Management in their dealings in the securities of the Company.

All Directors (including the Director resigned during the Period) and members of Senior Management were subject to specific enquiries by the Company as part of their bi-annual confirmations of compliance and have confirmed that they had complied with the Model Code during the Period.

## REVIEW OF INTERIM RESULTS

The condensed consolidated financial information for the Period has not been audited, but has been reviewed by PricewaterhouseCoopers, the external auditor of the Company. The Audit Committee of the Company has reviewed with Management the accounting principles and practices adopted by the Group and discussed financial reporting matters, including a review of the unaudited condensed consolidated financial information and the interim report for the Period. PricewaterhouseCoopers has issued a qualified conclusion on the condensed consolidated financial information for the Period. An extract of the auditor's review report is set out on page 43 of this announcement.

## INTERIM DIVIDEND

No interim dividend was declared by the Board. However, the Board will review payment of any final dividend at the year-end taking into account the full year's results and the business prospect.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Period, the Company purchased US$5,992,000 nominal amount of TVB Notes issued by TVB Finance Limited at the total price of US$5,846,000 through the open market. As at 30 June 2020, US$500 million nominal amount of TVB Notes remained outstanding.

Except for the above, the Company had not redeemed, and neither had the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the Period.

## PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the website of the Company (www.corporate.tvb.com) and the designated issuer website of the Stock Exchange (www.hkexnews.hk). The Company's 2020 Interim Report containing all the information required by the Listing Rules will be despatched to Shareholders and made available on the above websites in mid-September 2020.

By Order of the Board
**Adrian MAK Yau Kee**
Company Secretary

Hong Kong, 26 August 2020

As at the date of this announcement, the Board comprises:

**Chairman and Non-executive Director**
Thomas HUI To

**Vice Chairman and Executive Director**
Mark LEE Po On Group Chief Executive Officer

**Non-executive Directors**
LI Ruigang
Anthony LEE Hsien Pin
CHEN Wen Chi

**Independent Non-executive Directors**
Dr. William LO Wing Yan JP
Professor Caroline WANG Chia-Ling
Dr. Allan ZEMAN GBM, GBS, JP
Felix FONG Wo BBS, JP
Belinda WONG Ching Ying