



TVB ANNUAL REPORT

Television Broadcasts Limited
(Stock code: 0511)

2018 Annual Results Announcement
20 March 2019



2018

Disclaimer



The information contained in this presentation is intended solely for your information. Such information comprises extracts of operational data and unaudited financial information of the TVB Group for the year ended 31 December 2018 and of certain comparative financial information of the TVB Group. The information included is solely for the use in this presentation and certain information has not been independently verified. Such information is subject to change without notice and no representation or warranty, express or implied, is made as to, and no reliance, should be placed on, the fairness, accuracy, timeliness, completeness, fitness or correctness of the information or opinions presented or contained in this presentation. This presentation does not intend to provide, and you may not rely on this presentation as providing, a complete or comprehensive analysis of the TVB Group's financial or trading position or prospects. You may refer to the 2018 Annual Result Announcement for the audited results of the TVB Group which are published in accordance with the Listing Rules of the Stock Exchange of Hong Kong Limited. None of TVB Group nor any of its respective affiliates, advisors or representatives shall have any liability (in negligence or otherwise) whatsoever for any loss or damage howsoever arising from any use of this presentation or its contents or otherwise arising in connection with this presentation.

The information set out in this presentation does not constitute an offer or invitation to purchase or subscribe for any securities or financial instruments or the provision of any investment advice, and no part of it shall form the basis of or be relied upon in connection with any contract, commitment or investment decision in relation thereto, nor does this presentation constitute a recommendation regarding the securities or financial instruments of TVB Group.

Statements in this presentation that refer to business outlook, forecast, future plans and expectations, or are based on projections, uncertain events or assumptions are forward-looking statements. Any forward-looking statements and opinions contained within this presentation are based on current plans, estimates and projections, and therefore involve risks and uncertainties. Such statements are based on management's beliefs, expectations and opinions as of the date of this presentation. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. The TVB Group, the directors, employees and agents of the TVB Group assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this presentation; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise or turn out to be incorrect.

Readers are cautioned not to place undue reliance on any of these forward-looking statements, as they may involve significant assumptions and subjective judgments which may or may not prove to be correct and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of TVB Group. There can be no assurance that any of the matters set out in any of the forward-looking statements are attainable, will actually occur or will be realised or are complete or accurate. Moreover, past performance cannot be relied on as a guide to future performance. Nothing in this presentation should be considered as a profit forecast. All charts and the associated remarks and comments contained herein are integrally related, and are intended to be presented and understood together. Potential investors and shareholders should exercise caution when investing in or dealing in the securities of TVB.

FY18 Business Highlights



Business highlights of our three media platforms (Terrestrial broadcasting, OTT and Social media)

Total income from advertisers increased by 2% to HK\$2,714 million.

Income from Mainland China increased by 38%, fueled by robust growth from co-production of drama serials and online video licensing.

myTV SUPER (OTT in HK) turned around, recording profit of HK\$16 million.

TVB Anywhere (OTT abroad) narrowed losses by 71% to HK\$16 million deficit.

Big Big Channel's (social media platform) secured a premier position with global followers exceeded 12 million to-date. Transforming platform into a business comprising marketing event service, social media promotion, e-shop.

Launched Big Big Shop (e-shop) in July 2018, with notable sales records.

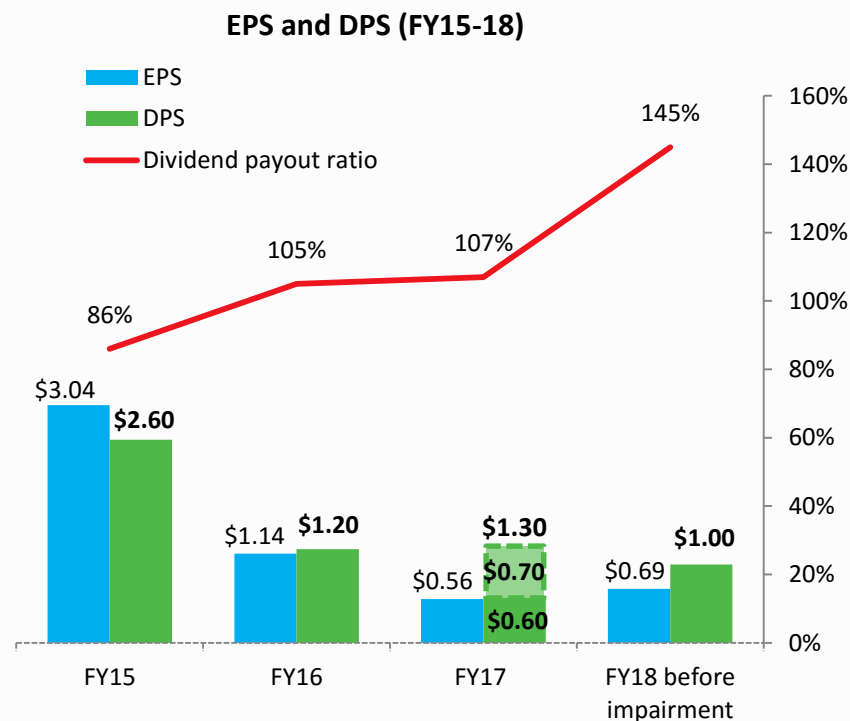
FY18 Financial Highlights



- Revenue increased by 3% to HK\$4,477 million.
- Gross profit up by 6% to HK\$2,141 million.
- An impairment charge/loss of HK\$500 million was booked against SMI bonds in nominal amounts of HK\$830 million.
- Loss attributable to equity holders was HK\$199 million. Loss per share HK\$0.45.
- In the absence of the impairment charge/loss of HK\$500 million, TVB would have reported a profit attributable to equity holders of HK\$301 million (adjusted EPS: HK\$0.69).
- Recommended a final dividend of HK\$0.70, making full year dividend HK\$1.00, equivalent to a payout of 145% based on an adjusted EPS of HK\$0.69.

Dividends

	FY18	FY17
	HK\$	HK\$
First interim dividend paid re:FY16	<u>N/A</u>	<u>0.60</u>
Second interim dividend paid	0.30	0.30
Final dividend recommended	0.70	0.30
Subtotal	1.00	0.60
Special dividend recommended	-	0.70
Total dividends including special	<u>1.00</u>	<u>1.30</u>



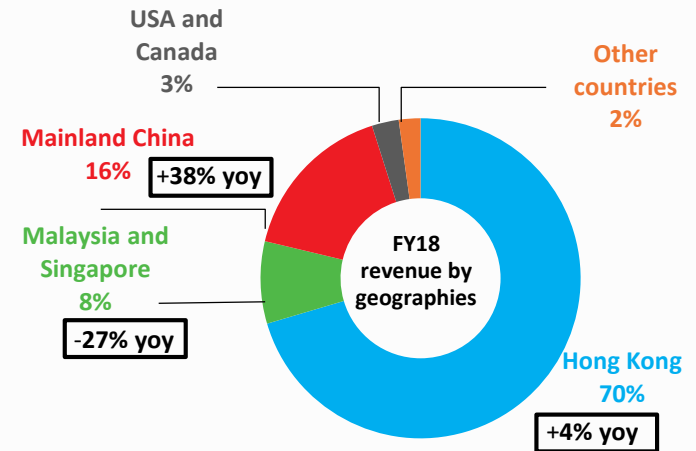
FY18 Consolidated Income Statement



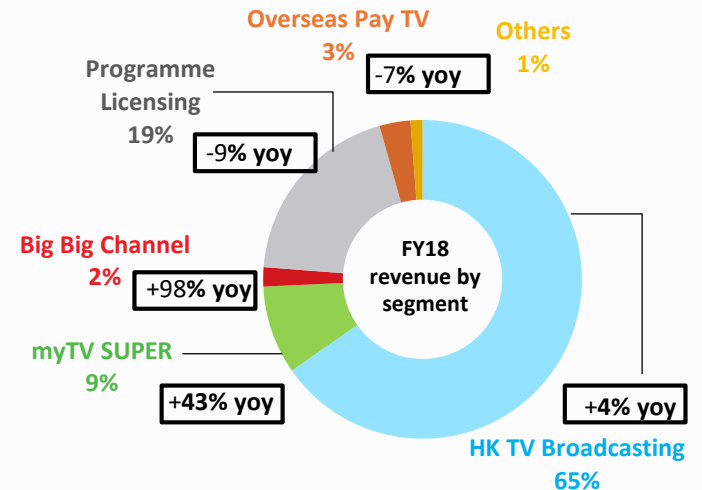
HK\$ million	FY17	FY18	yoy chg
Revenue	4,336	4,477	3%
Cost of sales	(2,319)	(2,337)	1%
Gross profit	2,017	2,140	6%
Other revenues & other gains/(losses), net	43	(28)	NM
Interest income	118	255	116%
SG&A expenses	(1,626)	(1,725)	6%
Reversal of impairment/(impairment) on trade receivables	2	(26)	NM
Impairment/fair value loss on bonds (SMI & CERC)	-	(526)	NM
Gain on disposal of investment properties	18	27	46%
Professional fees incurred for the share buyback offer	(29)	-	NM
Finance costs	(152)	(128)	-16%
Share of losses of JV & associates	(33)	(113)	NM
Profit/(loss) before income tax	358	(124)	NM
Income tax expense	(94)	(53)	-44%
Profit/(loss) for the year	264	(177)	NM
Profit/(loss) attributable to equity holders	243	(199)	NM
Earnings/(loss) per share (HK\$)	0.56	(0.45)	NM

Note: NM – not meaningful

Mainland China Revenue up 38%, contributing 16%



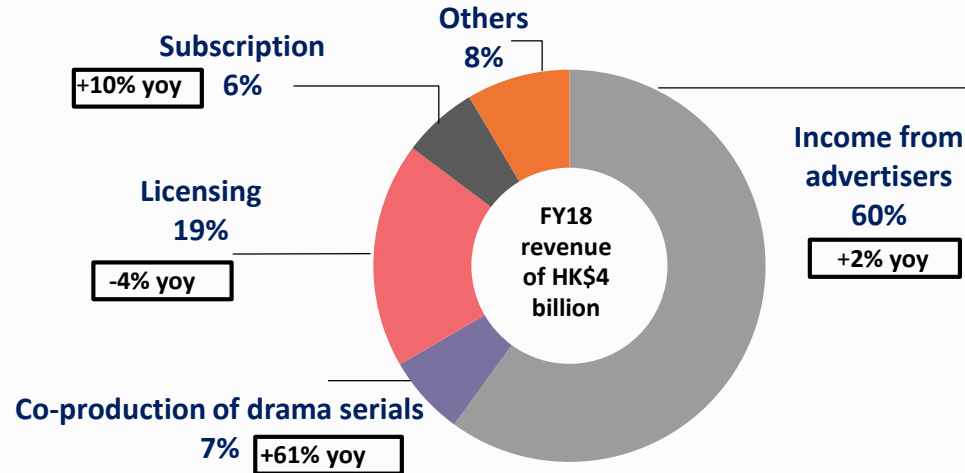
myTV SUPER, Big Big Channel are growth engines



Growth Drivers: myTV SUPER and co-production of programmes



FY18 Revenue by category



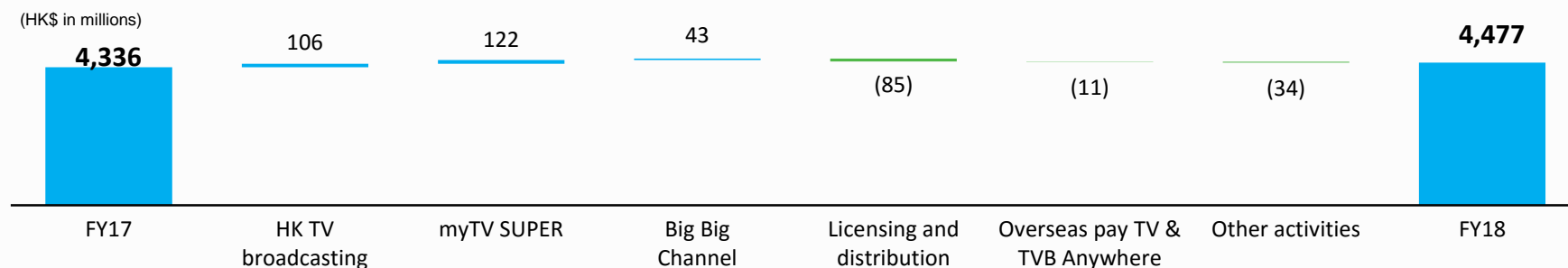
- Income from advertisers grew by 2% to HK\$2,714 million, thanks to robust growth in myTV SUPER advertising income.
- Subscription income was up by 10% to HK\$282 million as myTV SUPER's pay subscriber number increased.
- Co-production income jumped by 61% to HK\$299 million as higher production fees were earned for co-production of platform-exclusive programmes.

Segment Analysis

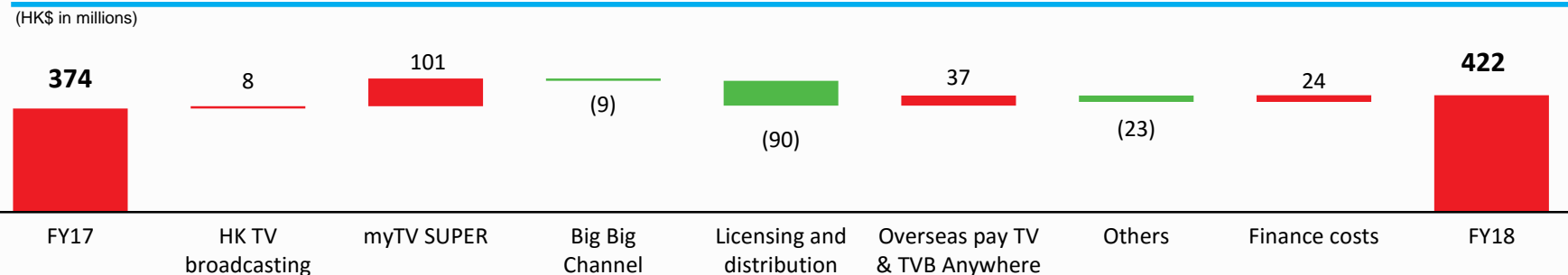


HK\$ million	FY18 Revenue	yoy change	FY18 Profit	yoy change	Explanation
HK TV broadcasting	2,923	4%	173	5%	Increase in co-production income
MyTV SUPER	402	43%	16	NM	Turned profitable with robust growth in revenue
Big Big Channel business	87	98%	(19)	78%	Upfront investment and OPEX required for new platform
Programme licensing and distribution	870	-9%	414	-18%	Lower licensing income from Singapore and Vietnam
Overseas pay TV & TVB Anywhere	140	-7%	(16)	-71%	Narrowed losses by rationalization of resources
Other activities	55	-38%	(17)	NM	
Finance costs	-	NM	(129)	-16%	Interest cost of TVB Notes 3.625% due 2021
Subtotal before impairment charge/loss	4,477	3%	422	13%	

Changes in revenue (by segment analysis)



Changes in profit before impairment charge/loss (by segment analysis)



Hong Kong TV Broadcasting (65% of revenue): Co-production income increased; product placement will grow

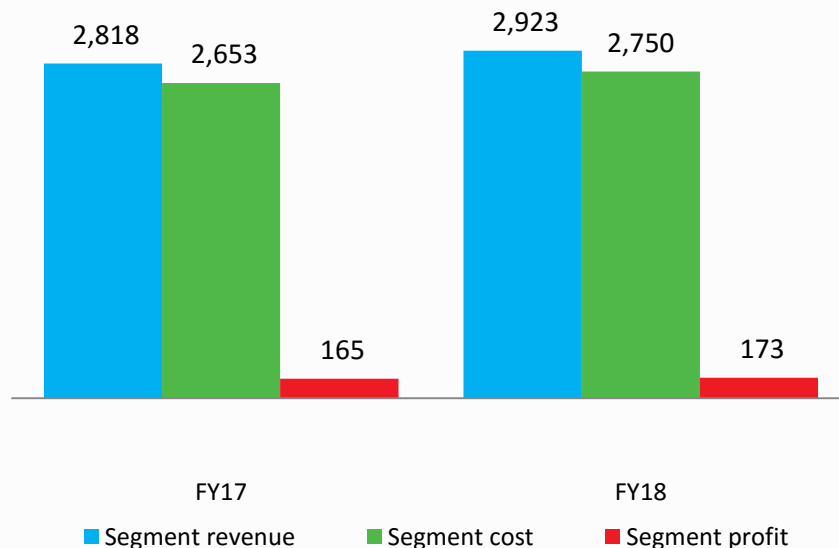


With an audience share of 82% in FY18, TVB's five terrestrial TV channels engage with **5.6** million viewers in-homes and **1.6** million viewers out-of-homes in Hong Kong every week.

Business model: Free-to-air broadcasting of 5 terrestrial TV channels (Jade, J2, TVB News, Pearl, TVB Finance & Information), each with clear audience targets in return for advertising and production revenue.

Hong Kong TV Broadcasting

(HK\$ in millions)



- Revenue up by 4% or HK\$105m, mainly due to:
 - Co-production income of drama series from Tencent and iQiyi increased by HK\$114m or 61% to HK\$299m
 - Income from advertisers dropped by HK\$19m or 1% to HK\$2,440m
- Cost up by 4% to HK\$2,750m, partly to support high production requirements of co-production dramas and general cost increases for programme production
- Segment profit margin of 5.9% (FY17: 5.9%)
- Future developments:
 - ✓ Will increase product placements in programmes
 - ✓ Will collaborate with Guangdong cable operators to develop advertising business in the region using Jade and Pearl channels

Raising Content Standard : continued to invest in content creation

Investing in Digital : myTV SUPER contributes to significant TV ratings



Consolidated TV ratings ⁽¹⁾ of Jade Channel's Top 3 Self-produced Drama Series



1st

Life on the Line

Average rating

29.3 TVRs (4.8 TVRs via myTV SUPER)

Finale on 9 November 2018

33.5 TVRs (6.5 TVRs via my TV SUPER)



Deep in the Realm of Conscience

Average rating

28.6 TVRs (5.0 TVRs via myTV SUPER)

Finale on 8 July 2018

35.6 TVRs (6.1 TVRs via my TV SUPER)



Who Wants a Baby

Average rating

28.1 TVRs (4.4 TVRs via myTV SUPER)

Finale on 3 August 2018

30.2 TVRs (5.5 TVRs via my TV SUPER)

As TV consumption shift towards OTT, myTV SUPER (with as live viewing and VOD functions) makes important contribution to TV ratings

Recent Relaxation in Regulations Governing Indirect Advertising in local programmes: **Seize opportunity to grow product placement revenue**



Title Sponsorship



Spin-off marketing campaign

Product Sponsorship



Products naturally integrated in the setting and storyline

Reverse Product Placement



TV commercial featuring the lead actor

Notable initial success of two popular prime time shows on flagship Jade



Scoop: (7:30pm daily infotainment programme) featuring the latest happenings, TV ratings increased to **21.6 TVRs** in FY18 (FY17: 19.3 TVRs).



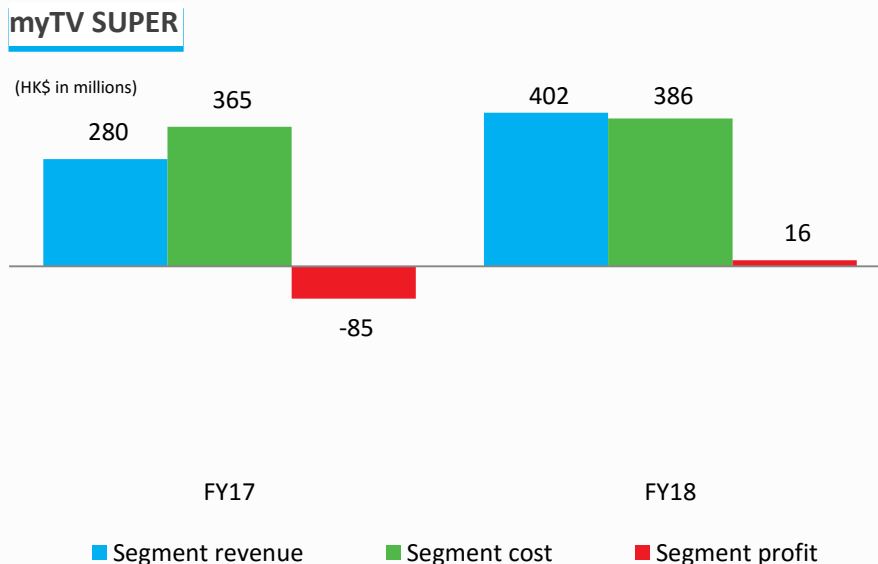
Come Home Love: Lo and Behold (8pm weekday sitcom) With an extended cast and popular guest appearance, TV ratings increased to **25.8 TVRs** in FY18 (FY17: 22.8 TVRs). Well received characters enabled us to create more reverse product placements.

myTV SUPER (9% of revenue): Segment turned profitable

Increasing eyeballs are driving revenue growth, advertising sales up 56%



Business model: Combination of advertising and subscription model. Bundling arrangements with trusted network partners continued. Introduced Data Management Platform (DMP) to distribute targeted ad, added new ad features (i.e.: clickable U-shape wallpaper) to improve monetization.



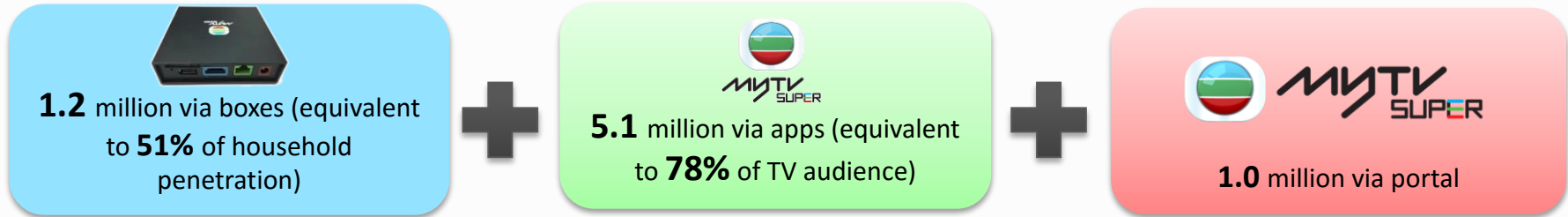
- Revenue up by 43% to HK\$402m
- **Segment turned around, delivered a HK\$16m profit**
- Introduced new features, i.e.: Ad Booking Manager, in-video advertisement placements
- Future developments:
 - ✓ **Grow our STB penetration further by introducing myTV Gold with premium sports; documentary; mega movie channels. Confident about converting traditional TV subscribers to our OTT service**
 - ✓ **Collaborate with Google Ad Manager on Addressable TV advertising solution**
 - ✓ **Unlock the ad-spend potential of SMEs by bundling HKBN's enterprise broadband service with TVB's digital advertising solutions**

myTV SUPER's popularity is growing rapidly amongst viewers and advertisers

Turned profitable in FY18, expect further positive contribution in FY19

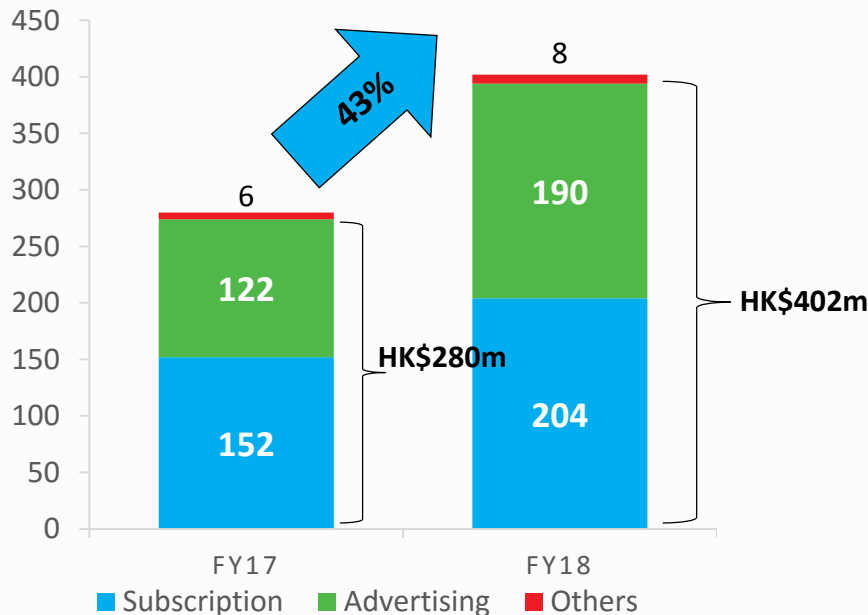


As of 3 March 2019, registered users exceeded **7.3 million (up 26% yoy)**



myTV SUPER Revenue Mix

HK\$ in millions



Consumption translated into good progress in monetization

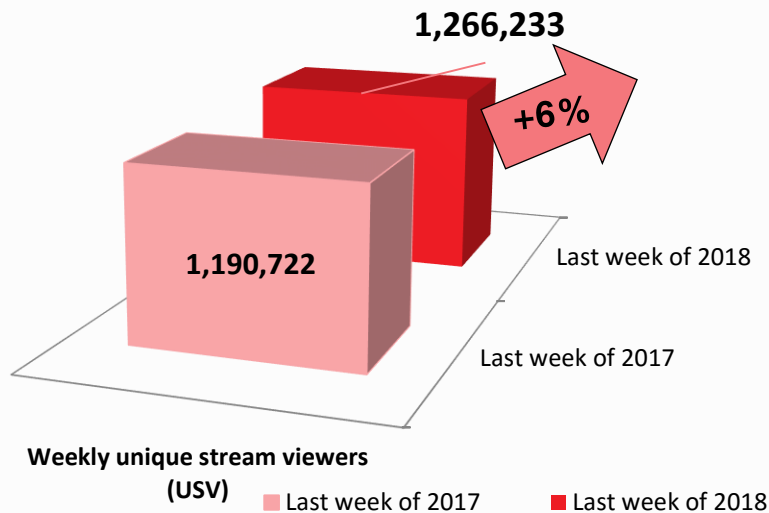
- Revenue up by 43% or HK\$122m to HK\$402m, fueled by:
 - Promising growth in advertising income (56% yoy) and subscription income (34% yoy)
- Segment turned around, delivered a HK\$16m profit

myTV SUPER: The leading OTT platform in HK

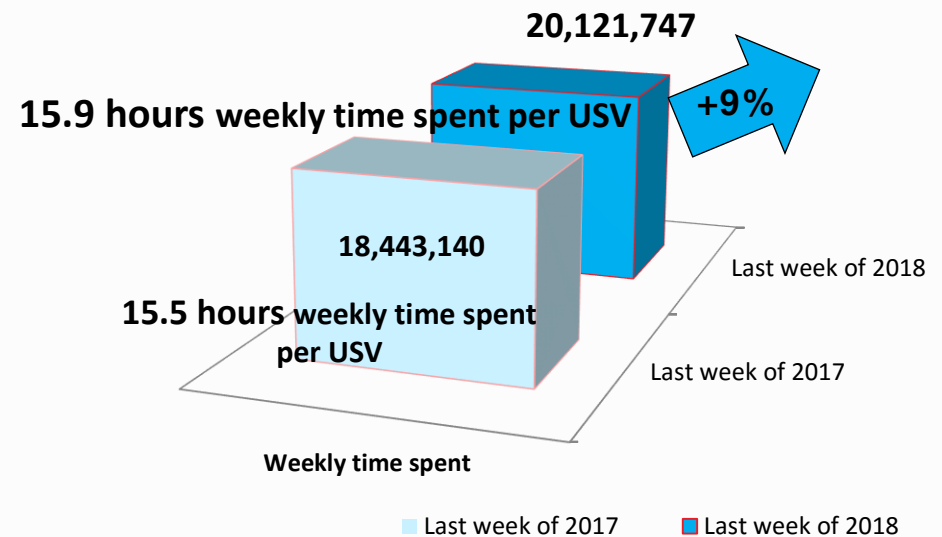
Continual growth of subscriber base & consumption hours boosted overall TV ratings



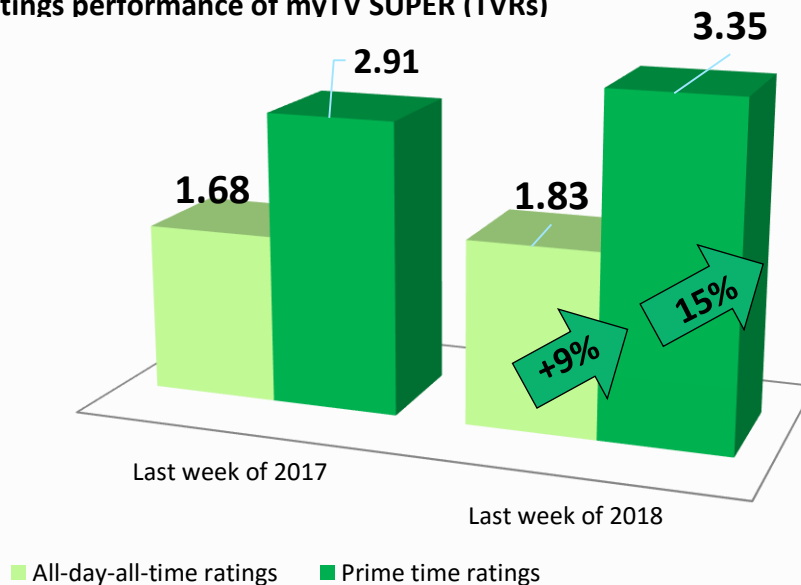
Number of active users



Consumption (Hours)



Ratings performance of myTV SUPER (TVRs)



All-day-all-time average rating was **1.83 TVRs** in the last week of 2018. Prime-time rating was **3.35 TVRs**, further contributing to the viewership of terrestrial channels.

Big Big Channel Business: Launched e-shop in July 2018

Focus on content marketing and e-commerce to capture value from digital world



Business models: Monetize both online and offline

Big Big Channel: This social media platform does content marketing via self-produced short videos.

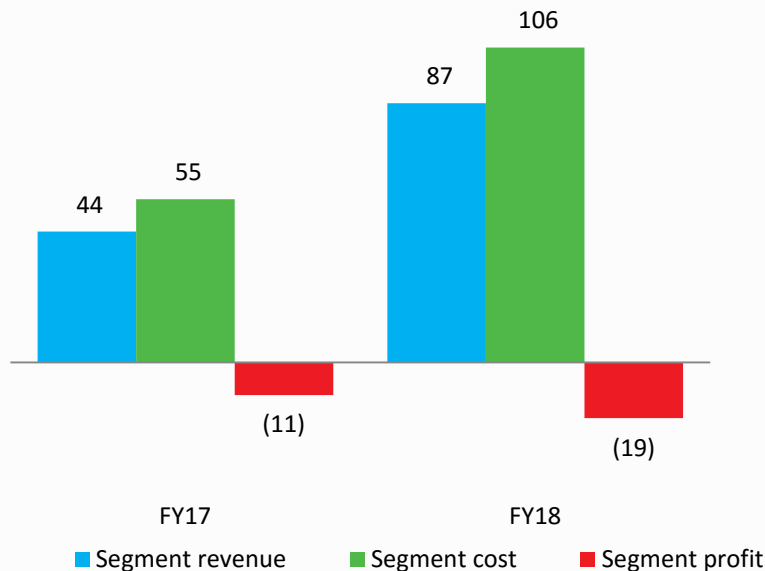
Big Big Shop: Earns commission income, adopting a “showing on TV, selling in e-shop” model to capture consumers’ impulsive desire to buy online by marketing advertiser-sponsored products on TVB’s prime time shows.

Live Events: Organize events for clients and promote them on TVB platforms

Voice Music Entertainment: Engages in music productions and publishing, concerts and artistes’ management.

Big Big Channel Business

HK\$ in millions



- Since the inauguration of Big Big Channel in July 2017, more ad income was generated from this online social media platform.
- New e-commerce arm and live events business contributed to topline growth
- Owing to upfront investment in capital and operations required for this new platform, a segment loss of HK\$19 million was incurred.
- Future developments:
 - ✓ Expand client base of Big Big Shop and further exploit e-commerce potential
 - ✓ Cooperate with Circle K to deliver an improved O2O shopping experience

Big Big Channel: Global followers exceeding 12 million



New social media platform secured a premier position

Targets young demographics, monetizes through content marketing and e-commerce

Marketing capabilities of Big Big Channel



Big Big Channel App Key features

Content Marketing (launched Big Big Channel app in July 2017)

- ✓ Leverage strong affinity between audience and TVB artistes/KOLs to deliver content marketing
- ✓ TVB-produced short-format content, streaming of live events, spin off TVB programmes, e-sports
- ✓ Exclusive content on a wide range of chic topics (i.e.: home-cooking, dining-out, beauty and health, child-caring, music, lifestyles, online games, entertainment news etc.)

E-commerce (launched Big Big Shop in July 2018)

- ✓ Create synergies with terrestrial TV broadcasting (**“Showing on TV, selling in Big Big Shop”**), this unique model has delivered notable sales records
- ✓ Will expand customer base and exploit opportunities with business partners
- ✓ Will partner with Circle K Group to leverage their 330 stores in HK to deliver better O2O shopping experience to customers

Big Big Channel exhibits TVB online power, offering a strong online advertising solution in HK

Big Big Shop: “Showing on TV, selling in Big Big Shop”

Stimulate consumers’ impulse to buy through showing on terrestrial TV



Benefit : Increase the economic value of our TV programmes

Business model: Collaborating with advertiser clients to sell products in Big Big Shop.

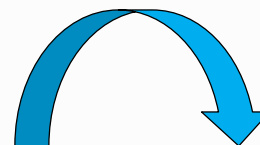
A popular cooking programme on Jade, “Good Cheap Eats 7”



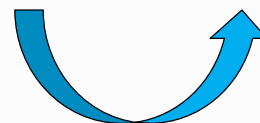
+ Exclusive offerings (i.e.: new product launch, free gifts)



Purchase order is processed through Big Big Shop
Recipes and spin-off content are available on Big Big Channel app to attract user engagement



**“Showing on TV,
selling in Big
Big Shop”**



Programme Licensing and Distribution (19% of revenue):

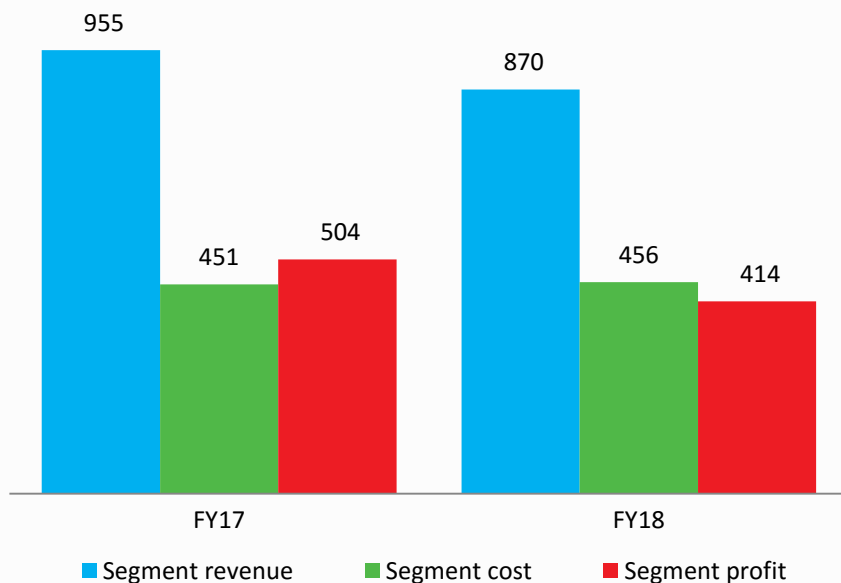
Strong growth in digital licensing to Mainland China online platforms



Business model: **B2B**. Licensing of TVB produced programmes to operators of pay TV, online videos for exhibition on their traditional and digital platforms.

Programme Licensing and Distribution

(HK\$ in millions)



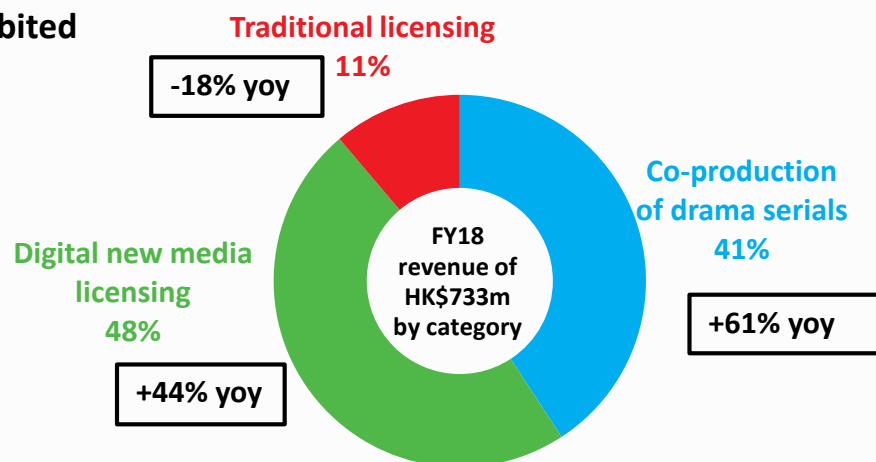
- Revenue decreased 9% or HK\$85m
 - Lower traditional licensing revenue from Singapore and Vietnam as a result of change in the terms of new supply contracts.
 - Better new media licensing income from Mainland China, mainly from Youku.
- Segment profit margin of 48% (FY17: 53%)
- Future developments:
 - ✓ Overseas content distribution will gradually be replaced by OTT operation (i.e.: switching from limited-reach traditional licensing to a wide-open OTT distribution to expand customer base and revenue potential)

Develop Markets: Promising Growth in Mainland China Operations

Increase in co-production & licensing revenues from leading Chinese online video platforms



Mainland China Revenue exhibited robust growth; accounted for 16% of Group's turnover



- Mainland China Revenue increased by 38% from HK\$530 million to HK\$733 million
 - Co-production income from Tencent and iQiyi for platform-exclusive drama series increased by 61% from HK\$185 million to HK\$299 million.
 - Higher licensing income from Youku Tudou, total new media licensing revenue grew by 44% from HK\$244 million to HK\$352 million.
- Future developments:
 - ✓ Continue to pursue growth opportunities in programme production and licensing

Develop Markets : Notable successes on co-production of platform-exclusive drama serials with Tencent and iQiyi



Production budget and profit increased given robust track record

Benefit : Fund TVB with bigger budgets to raise content standard and strengthen its brand in Mainland China

Business model: B2B, cost plus model. TVB, executes the entire production for a fee. Exploitation of the associated rights are allocated between the respective online partners. Titles are released concurrently in Mainland China and HK. Production budgets were allowed to increase in tandem with increased production fees.

Future development: We are mindful of the changing landscape of online drama content which could be subject to regulatory measures at short notice. In the long-run, we aim to scale up the ratio of co-production drama.

Titles delivered to platform owners in 2018, generated HK\$299 million of co-production income



Deep in the Realm of Conscience
Released in 1H18

Tencent 腾讯



Another Era
Released in 2H18

iQIYI 爱奇艺



The Defected
Coming soon

Tencent 腾讯

International Distribution: Diversifying from limited-reach traditional B2B licensing to OTT distribution (telco-supported B2B2C, B2C)



B2B licensing business

StarHub (Singapore)
MEASAT (Malaysia)
Saigontourist (Vietnam)
Fairchild (Canada)
Youku, cable & online operators
(Mainland China)

- FY18: Programme supply contacts renewed in Singapore and Vietnam at reduced rates. Licensing income to online video platforms in Mainland China increased.
- FY19 plans: Diversify to B2B2C, B2C models via OTT distribution.



Telco-supported B2B2C

CTM (Macau)
StarHub, MyRepublic, M1
(Singapore)
M.V. TV (Thailand)
Vietnamobile (Vietnam)

- FY18: Launched TVB Singapore App and partner with leading telcos in Singapore to resell our OTT app as value-added/bundling service.
- FY19 plans: Extend service coverage from Chinese-speaking audience residing overseas to mainstream audience in selected markets (i.e.: Thailand, Vietnam) by offering foreign language sound track.

B2C

North America
Europe
Australia
New Zealand
Rest of the world

- FY18: Migrated satellite TV subscribers to OTT service.
- FY19 plans: Global version of TVB Anywhere app, offering multi-languages, multi-screen experience, will be released internationally.

Overseas Pay TV and TVB Anywhere: Narrowed loss by 71%

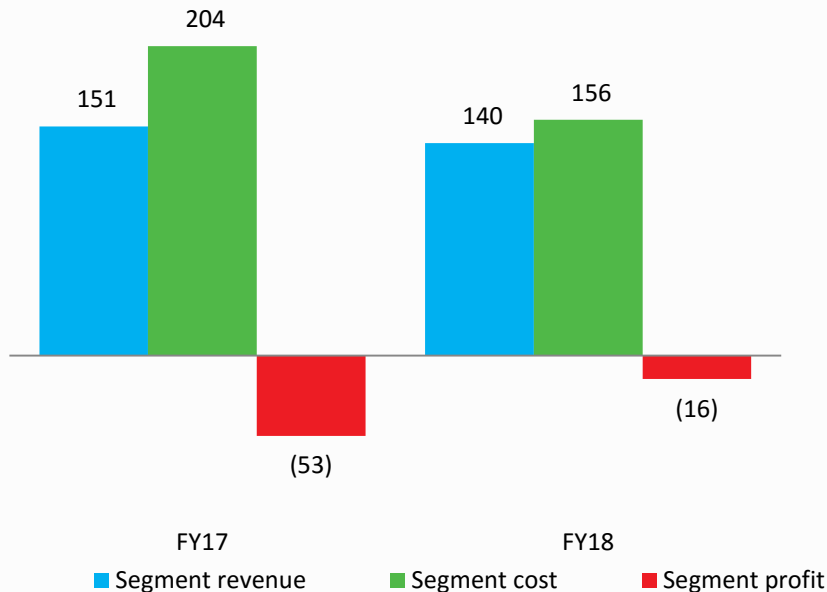
Extend TVB's reach in overseas markets by way of digital services with TVB Anywhere OTT



Business model of TVB Anywhere: TVB's overseas OTT service currently covers territories outside of Hong Kong but excluding Mainland China, USA, Taiwan and Malaysia. In the USA, TVB licenses mainly to DISH Network for distribution through satellite (this arrangement will end in November 2019).

Overseas Pay TV and TVB Anywhere

(HK\$ in millions)



- Revenue decreased 7% or HK\$11m
 - Subscriber base continued to grow with expanded territories (i.e.: Macau, bundled arrangement with CTM started in December 2017), but low ARPU has impacted overall revenue as business migrated to OTT model.
- Narrowed loss by 71% from HK\$53million to HK\$16m deficit, as a result of rationalization of resources
- Future developments:
 - ✓ **Extend our service coverage from Chinese speaking audience residing overseas to mainstream audience in key markets in Southeast Asia (i.e.: Thailand, Vietnam) by working with local OTT operator and telco**
 - ✓ **Launch a global app for TVB Anywhere**

Financial Position



HK\$ million	31 Dec 2017	31 Dec 2018
Property, plant and equipment	1,874	1,811
Financial assets at amortized cost (non-current) (net of provision for impairment loss on CERC* and SMI bonds**)	-	2,241
Financial assets at fair value (non-current) (net of fair value loss on SMI bonds**)	-	330
Financial assets at amortized cost (current)	-	16
Trade and other receivables, prepayment and deposits	1,902	2,297
Cash and bank deposits	5,199	1,270
Other assets	3,041	2,291
Total assets	12,016	10,256
Total equity	7,157	6,307
5-year Notes due 2021	3,814	3,017
Other liabilities	1,045	932
Total liabilities	4,859	3,949
Total equity and liabilities	12,016	10,256

* An impairment loss of HK\$26m has been made against CERC bonds with nominal amount of US\$12m.

** An impairment loss of HK\$180m has been made against SMI unsecured fixed coupon bonds with nominal amount of US\$23m.
A fair value loss of HK\$320m has been made against SMI secured convertible bonds with nominal amount of US\$83m.

As of 31 December 2018, gearing ratio was 29.1% (2017: 41.7%).



Advertising sales under HK TV broadcasting will remain challenging in 2019.

Following the recent relaxation in indirect advertising regulations, TVB will develop more product sponsorships with advertisers.

Mainland China is our key market for expansion. We will continue to pursue growth opportunities in programme production and licensing.

Collaboration with Guangdong cable TV operators on advertising business using Jade and Pearl channels throughout the Guangdong province

Growth momentum of our digital new media platforms, myTV SUPER, TVB Anywhere, Big Big Channel, Big Big Shop are anticipated to accelerate

