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## **Television Broadcasts Limited**

### **電視廣播有限公司**

(Incorporated in Hong Kong with limited liability)

Stock Code: 00511

#### **ANNOUNCEMENT OF 2017 ANNUAL RESULTS**

##### **BUSINESS HIGHLIGHTS**

- 2017 was one of the toughest years in the last decade of the Company. Our businesses were challenged on many fronts, including a lackluster advertising market in Hong Kong and the global digital revolution that causes significant disruption to many conventional business models.
- As the retail sales slightly improved, income from advertisers under Hong Kong TV broadcasting stabilised during 2017 at HK\$2,459 million (2016: HK\$2,458 million), after a consecutive two-year decline since 2014.
- Three drama serials were successfully co-produced with Tencent and iQiyi. These drama serials generated significant viewerships in both Hong Kong and Mainland China and provided higher production budgets to the Company.
- Major progress has been made in transformation from a terrestrial TV-based broadcaster to a digital player with substantial online distribution networks in Hong Kong and overseas. The Group now possesses a complete spectrum of media platforms, spanning terrestrial TV, OTT services and online social media in Hong Kong, and is well-positioned to capture digital opportunities.
- The number of users of myTV SUPER OTT service continued its rapid growth during 2017, and had exceeded 5.8 million to-date. TVB Anywhere OTT service is gathering momentum overseas. It is anticipated that these digital platforms will bring positive segmental contributions in 2018.
- Since the launch of social media platform Big Big Channel in July 2017, registered users and followers in and outside Hong Kong had exceeded 10.7 million to-date. Developments in 2018 would include increasing content marketing, advertising and expansion into e-commerce business particularly in collaboration with clients, and also the launch of a new app Mai Dui Dui (埋堆堆) through our Mainland China associate.
- In the last three years, the Company sustained reduction in profits while continued to invest in digital new media for long-term growth and development.

## RESULTS HIGHLIGHTS

For the year ended 31 December 2017:

- Operating profit stabilised at HK\$543 million (2016: HK\$545 million).
- Adjusted EBITDA\* (excluding non-recurring items) improved from HK\$553 million in 2016 to HK\$824 million in 2017, an increase of 49%.
- For the first time, the Company borne the full year interest costs of HK\$140 million relating to US\$500 million 3.625% Guaranteed Notes due 2021 issued by TVB Finance Limited (“TVB Notes”), which increased finance costs from HK\$34 million to HK\$152 million, an increase of 351%.
- In early 2017, the Company announced a share buy-back offer (“Offer”) to purchase 120,000,000 shares of the Company at HK\$35.075 per share. Due to uncertainty in the timeline for obtaining regulatory clearance, the Company announced on 23 January 2018 that it would not proceed with the Offer. The Company’s results for the year ended 31 December 2017 were adversely affected by inter-alia: (i) the opportunity loss for better interest yield as a result of setting aside the cash outlays for the Offer amounting to HK\$4,209 million in a segregated bank account during the one-year period from 24 January 2017 to 23 January 2018; (ii) the write-off of professional fees incurred for this aborted transaction of HK\$29 million in the income statement for the year.
- Profit attributable to equity holders from continuing and discontinued operations decreased from HK\$500 million (which included a non-recurring HK\$280 million disposal gain of a property in Taiwan in 2016) to HK\$244 million, a decrease of 51%. Earnings per share decreased from HK\$1.14 to HK\$0.56.

### Dividends

|  | Note | 2017<br>HK\$ | 2016<br>HK\$ |
|--|------|--------------|--------------|
| First interim dividend paid                | 1    | 0.60         | –            |
| Second interim dividend paid               |      | 0.30         | 0.60         |
| Final dividend recommended                 | 2    | 0.30         | –            |
| Total dividends                            |      | 1.20         | 0.60         |
| Special dividend recommended               | 3    | 0.70         | –            |
| Total dividends including special dividend |      | 1.90         | 0.60         |

Note 1: The first interim dividend of HK\$0.60 per share was largely the result of the Board’s resolution to defer any final dividend proposal for the 2016 annual results until outcome of the share buy-back offer was clarified.

Note 2: For the full year, the Board has recommended a final dividend of HK\$0.30 per share, which would make a total dividend of HK\$1.20 per share (2016: HK\$0.60 per share).

Note 3: In recognising the Company’s steady dividend policy during a period of lower profitability, the Board has in addition recommended a special dividend of HK\$0.70 per share for the year. By doing so, the Board wishes to demonstrate its confidence in the Company’s future.

- HK\$4,209 million of the total restricted cash of HK\$4,307 million at 31 December 2017, representing the cash outlays for the Offer, has been released from restricted cash after the Board announcement dated 23 January 2018 on the decision not to proceed with the Offer.

## OUTLOOK

- The Company remains hopeful that the worst is now behind as the advertising market continues its recovery and growth along with Hong Kong’s overall economy. The Company looks forward to more co-production opportunities for online platforms in Mainland China and increasing contributions from its digital new media businesses.

\* Reconciliation of Profit for the year from continuing operations to Adjusted EBITDA:

|   | <b>2017</b>                 | 2016                        |
|---|-----------------------------|-----------------------------|
|   | <b>HK\$'000</b>             | HK\$'000                    |
| Profit for the year from continuing operations  | <b>263,550</b>              | 447,699                     |
| Finance costs   | <b>152,379</b>              | 33,814                      |
| Interest income   | <b>(117,910)</b>            | (50,260)                    |
| Income tax expense  | <b>94,365</b>               | 105,239                     |
| Depreciation and amortisation   | <b>387,973</b>              | 338,193                     |
| Share of losses of joint ventures   | <b>31,517</b>               | 1,791                       |
| Share of losses of associates   | <b>1,589</b>                | 4,126                       |
| Gain on disposal of investment properties   | <b>(18,483)</b>             | (279,836)                   |
| Professional fees incurred for the aborted share<br>buy-back offer                                  | <b>28,730</b>               | –                           |
| Impairment loss on amounts due from an associate  | –                           | 22,986                      |
| Write-back of impairment loss on amounts due from<br>an associate arising from business combination | –                           | (70,636)                    |
|   | <u>                    </u> | <u>                    </u> |
| Adjusted EBITDA   | <b><u>823,710</u></b>       | <b><u>553,116</u></b>       |

Note:

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.

The Board of Directors (“Board”) of Television Broadcasts Limited (“Company” or “TVB”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, “Group”) for the year ended 31 December 2017 as follows:

**CONSOLIDATED INCOME STATEMENT**  
FOR THE YEAR ENDED 31 DECEMBER 2017

|  | Note | 2017<br>HK\$'000   | 2016<br>HK\$'000   |
|--|------|--------------------|--------------------|
| <b>Continuing operations</b>   |      |                    |                    |
| Revenue  | 2    | 4,335,731          | 4,210,308          |
| Cost of sales  |      | <u>(2,319,299)</u> | <u>(2,299,537)</u> |
| <b>Gross profit</b>  |      | <b>2,016,432</b>   | 1,910,771          |
| Other revenues   | 2    | 142,014            | 68,924             |
| Selling, distribution and transmission costs   |      | (723,704)          | (639,031)          |
| General and administrative expenses  |      | (900,233)          | (949,486)          |
| Other gains/(losses), net  | 4    | 19,138             | (125,995)          |
| Gain on disposal of investment properties  |      | 18,483             | 279,836            |
| Professional fees incurred for the aborted share buy-back offer                                  |      | <u>(28,730)</u>    | <u>–</u>           |
| Operating profit   |      | <b>543,400</b>     | 545,019            |
| Finance costs  | 5    | (152,379)          | (33,814)           |
| Share of losses of joint ventures  |      | (31,517)           | (1,791)            |
| Share of losses of associates  |      | (1,589)            | (4,126)            |
| Impairment loss on amounts due from an associate   |      | –                  | (22,986)           |
| Write-back of impairment loss on amounts due from an associate arising from business combination |      | <u>–</u>           | <u>70,636</u>      |
| <b>Profit before income tax</b>  | 6    | <b>357,915</b>     | 552,938            |
| Income tax expense   | 7    | <u>(94,365)</u>    | <u>(105,239)</u>   |
| <b>Profit for the year from continuing operations</b>  |      | <b>263,550</b>     | 447,699            |

**CONSOLIDATED INCOME STATEMENT** (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2017

|  | Note  | 2017<br>HK\$'000       | 2016<br>HK\$'000       |
|--|-------|------------------------|------------------------|
| <b>Discontinued operations</b>   |       |                        |                        |
| Gain on disposal of discontinued operations  | 14(b) | –                      | 78,028                 |
| Deferred tax in relation to gain from disposal   |       | –                      | (7,076)                |
|  |       | <u>–</u>               | <u>70,952</u>          |
| <b>Profit for the year</b>   |       | <b><u>263,550</u></b>  | <b><u>518,651</u></b>  |
| <b>Profit attributable to:</b>   |       |                        |                        |
| Equity holders of the Company  |       |                        |                        |
| – Continuing operations  |       | <b>243,621</b>         | 428,993                |
| – Discontinued operations  |       | –                      | 70,952                 |
|  |       | <b><u>243,621</u></b>  | <u>499,945</u>         |
| Non-controlling interests  |       |                        |                        |
| – Continuing operations  |       | <b>19,929</b>          | 18,706                 |
|  |       | <b><u>19,929</u></b>   | <u>18,706</u>          |
|  |       | <b><u>263,550</u></b>  | <b><u>518,651</u></b>  |
| <b>Earnings per share (basic and diluted) for profit attributable to equity holders of the Company during the year</b> |       |                        |                        |
| – Continuing operations  | 8     | <b>HK\$0.56</b>        | HK\$0.98               |
| – Discontinued operations  | 8     | –                      | HK\$0.16               |
|  |       | <b><u>HK\$0.56</u></b> | <b><u>HK\$1.14</u></b> |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

|   | <b>2017</b>     | 2016     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| <b>Profit for the year</b>  | <b>263,550</b>  | 518,651  |
| Other comprehensive income:   |                 |          |
| Item that may be reclassified to profit or loss:                            |                 |          |
| Currency translation differences  |                 |          |
| – Group   | <b>86,667</b>   | 21,647   |
| – Joint ventures  | <b>(1,307)</b>  | 1,060    |
| Share of other comprehensive income of an associate                         | <b>11,152</b>   | (9,951)  |
| Reclassification adjustment to profit or loss on disposal of joint ventures | –               | 1,311    |
| <b>Other comprehensive income for the year, net of tax</b>                  | <b>96,512</b>   | 14,067   |
| <b>Total comprehensive income for the year</b>                              | <b>360,062</b>  | 532,718  |
| Total comprehensive income attributable to:                                 |                 |          |
| Equity holders of the Company   |                 |          |
| – Continuing operations   | <b>328,088</b>  | 450,793  |
| – Discontinued operations   | –               | 72,263   |
|   | <b>328,088</b>  | 523,056  |
| Non-controlling interests   |                 |          |
| – Continuing operations   | <b>31,974</b>   | 9,662    |
| <b>Total comprehensive income for the year</b>                              | <b>360,062</b>  | 532,718  |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
AS AT 31 DECEMBER 2017

|  | Note  | 2017<br>HK\$'000         | 2016<br>HK\$'000         |
|--|-------|--------------------------|--------------------------|
| <b>ASSETS</b>  |       |                          |                          |
| <b>Non-current assets</b>                                |       |                          |                          |
| Property, plant and equipment                            |       | 1,874,535                | 1,797,307                |
| Investment properties                                    |       | 31,106                   | 100,972                  |
| Land use rights  |       | 54,301                   | 54,550                   |
| Intangible assets  |       | 85,587                   | 59,303                   |
| Interests in joint ventures                              | 10    | 769,138                  | 20,193                   |
| Interests in associates                                  | 11    | 169,486                  | 159,923                  |
| Available-for-sale financial assets                      |       | 47,436                   | 47,436                   |
| Held-to-maturity financial assets                        |       | 711,829                  | 523,509                  |
| Deferred income tax assets                               |       | 26,488                   | 36,633                   |
| Prepayments  | 12    | 93,429                   | 86,354                   |
| Total non-current assets                                 |       | <u>3,863,335</u>         | <u>2,886,180</u>         |
| <b>Current assets</b>                                    |       |                          |                          |
| Programmes and film rights                               |       | 874,448                  | 744,585                  |
| Stocks   |       | 40,774                   | 19,826                   |
| Trade and other receivables,<br>prepayments and deposits | 12    | 1,901,981                | 1,671,320                |
| Interests in joint ventures                              | 10    | 27,068                   | –                        |
| Tax recoverable  |       | 3,597                    | 55,451                   |
| Held-to-maturity financial assets                        |       | 62,737                   | 775,400                  |
| Restricted cash  | 13    | 4,306,886                | 6,113                    |
| Bank deposits maturing after three months                |       | 61,227                   | 676,993                  |
| Cash and cash equivalents                                |       | 831,301                  | 5,520,962                |
| Non-current asset held for sale                          | 14(a) | 42,555                   | –                        |
| Total current assets                                     |       | <u>8,152,574</u>         | <u>9,470,650</u>         |
| <b>Total assets</b>                                      |       | <u><u>12,015,909</u></u> | <u><u>12,356,830</u></u> |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** (continued)  
AS AT 31 DECEMBER 2017

|   | Note | 2017<br>HK\$'000  | 2016<br>HK\$'000  |
|---|------|-------------------|-------------------|
| <b>EQUITY</b>   |      |                   |                   |
| <b>Equity attributable to equity holders of the Company</b> |      |                   |                   |
| Share capital   |      | 664,044           | 664,044           |
| Other reserves  | 17   | 148,277           | 3,053             |
| Retained earnings   |      | 6,182,512         | 6,397,589         |
|   |      | <u>6,994,833</u>  | <u>7,064,686</u>  |
| <b>Non-controlling interests</b>                            |      | <u>162,214</u>    | <u>165,405</u>    |
| <b>Total equity</b>   |      | <u>7,157,047</u>  | <u>7,230,091</u>  |
| <b>LIABILITIES</b>  |      |                   |                   |
| <b>Non-current liabilities</b>                              |      |                   |                   |
| Borrowings  | 15   | 3,814,406         | 3,842,493         |
| Deferred income tax liabilities                             |      | 157,248           | 346,819           |
|   |      | <u>3,971,654</u>  | <u>4,189,312</u>  |
| <b>Total non-current liabilities</b>                        |      | <u>3,971,654</u>  | <u>4,189,312</u>  |
| <b>Current liabilities</b>                                  |      |                   |                   |
| Trade and other payables and accruals                       | 16   | 871,667           | 920,679           |
| Current income tax liabilities                              |      | 15,541            | 16,748            |
|   |      | <u>887,208</u>    | <u>937,427</u>    |
| <b>Total current liabilities</b>                            |      | <u>887,208</u>    | <u>937,427</u>    |
| <b>Total liabilities</b>                                    |      | <u>4,858,862</u>  | <u>5,126,739</u>  |
| <b>Total equity and liabilities</b>                         |      | <u>12,015,909</u> | <u>12,356,830</u> |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”). They have been prepared under the historical cost convention, except that some financial assets are stated at their fair values.

The financial information relating to the years ended 31 December 2017 and 2016 included in this preliminary announcement of annual results 2017 do not constitute the Company’s statutory annual consolidated financial statements for those years 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 Companies Ordinance is as follows:

The Company will deliver the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance in due course.

The Company’s auditor has reported on the financial statements of the Group for both years. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

#### **New and amended standards adopted by the Group**

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

|  |  |
|--|--|
| Amendments to Hong Kong Accounting Standard (“HKAS”) 7 | Statement of cash flows                  |
| Amendments to HKAS 12                                  | Income taxes                             |
| Amendments to HKFRS 12                                 | Disclosure of interest in other entities |

The adoption of these amendments did not have any impact on the amounts in prior periods. Most of the amendments will also not affect the current or future periods. However, the amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities.

## 2. Revenue and other revenues

Revenue comprises income from advertisers net of agency deductions, licensing income, subscription income, co-production income, as well as other income from sales of magazines, management fee income, movie income, facility rental income and other service fee income.

Other revenues comprise mainly interest income.

The amount of each significant category of revenue recognised during the year is as follows:

|  | 2017<br>HK\$'000        | 2016<br>HK\$'000        |
|--|-------------------------|-------------------------|
| Revenue  |                         |                         |
| Income from advertisers, net of agency deductions (note) | 2,659,979               | 2,671,113               |
| Licensing income   | 875,256                 | 919,084                 |
| Subscription income                                      | 255,861                 | 201,015                 |
| Co-production income                                     | 185,338                 | –                       |
| Others   | 415,070                 | 476,658                 |
|  | <u>4,391,504</u>        | <u>4,267,870</u>        |
| Less: withholding tax                                    | (55,773)                | (57,562)                |
|  | <u>4,335,731</u>        | <u>4,210,308</u>        |
| Other revenues   |                         |                         |
| Interest income  | 117,910                 | 50,260                  |
| Others   | 24,104                  | 18,664                  |
|  | <u>142,014</u>          | <u>68,924</u>           |
|  | <u><u>4,477,745</u></u> | <u><u>4,279,232</u></u> |

Note:

The Group determined to report the sponsorship income and commercial production income from advertisers together with advertising income collectively as “income from advertisers” as such income are increasingly important. The comparative figures have been adjusted to conform with the reclassification.

### 3. Segment information

The Group is principally engaged in terrestrial television broadcasting with programme production, Hong Kong digital new media business, Big Big Channel business, programme licensing and distribution, overseas pay TV operations, channel operations, 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 Group has determined to separately report "Big Big Channel business" as a reportable segment due to its increasing importance as the third platform and the directors of the Company consider that such information would be useful to users of the consolidated financial statements. As such, the comparative figures have been adjusted to conform with the reclassification.

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

|  | Hong Kong<br>TV<br>broadcasting<br>HK\$'000 | Hong Kong<br>digital new<br>media<br>business<br>HK\$'000 | Big Big<br>Channel<br>business<br>HK\$'000 | Programme<br>licensing<br>and<br>distribution<br>HK\$'000 | Overseas<br>pay TV<br>operations<br>HK\$'000 | Channel<br>operations<br>HK\$'000 | Other<br>activities<br>HK\$'000 | Corporate<br>support<br>HK\$'000 | Elimination<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|---|--|---|--|-----------------------------------|---------------------------------|----------------------------------|-------------------------|-------------------|
| Continuing operations  |   |   |  |   |  |                                   |                                 |                                  |                         |                   |
| For the year ended 31 December 2017  |   |   |  |   |  |                                   |                                 |                                  |                         |                   |
| Revenue  |   |   |  |   |  |                                   |                                 |                                  |                         |                   |
| External customers   | 2,817,857                                   | 280,295   | 44,008                                     | 875,297   | 151,257                                      | 79,357                            | 87,660                          | -                                | -                       | 4,335,731         |
| Inter-segment  | 52,058                                      | 25,649  | 24,674                                     | 106,410   | -  | 5,864                             | 5,654                           | -                                | (220,309)               | -                 |
| Total  | <u>2,869,915</u>                            | <u>305,944</u>  | <u>68,682</u>                              | <u>981,707</u>  | <u>151,257</u>                               | <u>85,221</u>                     | <u>93,314</u>                   | <u>-</u>                         | <u>(220,309)</u>        | <u>4,335,731</u>  |
| Reportable segment profit before<br>gain on disposal of investment<br>properties | 164,978                                     | (84,875)  | (10,915)                                   | 493,289   | (52,960)                                     | 10,934                            | 33,196                          | (152,379)                        | -                       | 401,268           |
| Gain on disposal of investment<br>properties                                     | -   | -   | -  | -   | -  | -                                 | 18,483                          | -                                | -                       | 18,483            |
| Reportable segment profit  | <u>164,978</u>                              | <u>(84,875)</u>   | <u>(10,915)</u>                            | <u>493,289</u>  | <u>(52,960)</u>                              | <u>10,934</u>                     | <u>51,679</u>                   | <u>(152,379)</u>                 | <u>-</u>                | <u>419,751</u>    |
| Interest income  | 81,775                                      | 75  | 414  | 4,729   | 166  | -                                 | 30,751                          | -                                | -                       | 117,910           |
| Finance costs  | -   | -   | -  | -   | -  | -                                 | -                               | (152,379)                        | -                       | (152,379)         |
| Depreciation and amortisation  | (286,732)                                   | (72,006)  | (6,662)                                    | (11,130)  | (5,506)                                      | (892)                             | (5,045)                         | -                                | -                       | (387,973)         |
| Additions to non-current assets*   | <u>269,973</u>                              | <u>161,201</u>  | <u>23,373</u>                              | <u>13,666</u>   | <u>13,643</u>                                | <u>540</u>                        | <u>749</u>                      | <u>-</u>                         | <u>-</u>                | <u>483,145</u>    |

### 3. Segment information (continued)

|  | Hong Kong<br>TV<br>broadcasting<br>HK\$'000 | Hong Kong<br>digital new<br>media<br>business<br>HK\$'000 | Big Big<br>Channel<br>business<br>HK\$'000 | Programme<br>licensing<br>and<br>distribution<br>HK\$'000 | Overseas<br>pay TV<br>operations<br>HK\$'000 | Channel<br>operations<br>HK\$'000 | Other<br>activities<br>HK\$'000 | Corporate<br>support<br>HK\$'000 | Elimination<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|---|--|---|--|-----------------------------------|---------------------------------|----------------------------------|-------------------------|-------------------|
| For the year ended 31 December 2016 (restated)   |   |   |  |   |  |                                   |                                 |                                  |                         |                   |
| Revenue  |   |   |  |   |  |                                   |                                 |                                  |                         |                   |
| External customers   | 2,661,486                                   | 224,250   | 27,169                                     | 899,179   | 168,807                                      | 84,423                            | 144,994                         | -                                | -                       | 4,210,308         |
| Inter-segment  | 45,713                                      | 5,267   | 8,174                                      | 119,997   | -  | 5,938                             | 10,963                          | -                                | (196,052)               | -                 |
| <b>Total</b>   | <b>2,707,199</b>                            | <b>229,517</b>  | <b>35,343</b>                              | <b>1,019,176</b>  | <b>168,807</b>                               | <b>90,361</b>                     | <b>155,957</b>                  | <b>-</b>                         | <b>(196,052)</b>        | <b>4,210,308</b>  |
| Reportable segment profit before the following items   | (71,080)                                    | (29,301)  | 583  | 443,857   | (40,237)                                     | 2,264                             | 27,138                          | (32,855)                         | 1,000                   | 301,369           |
| Gain on disposal of investment properties  | -   | -   | -  | -   | -  | -                                 | 279,836                         | -                                | -                       | 279,836           |
| Impairment loss on amounts due from an associate   | (22,986)                                    | -   | -  | -   | -  | -                                 | -                               | -                                | -                       | (22,986)          |
| Settlement loss  | (70,000)                                    | -   | -  | -   | -  | -                                 | -                               | -                                | -                       | (70,000)          |
| Write-back of impairment loss on amounts due from an associate arising from business combination | 70,636                                      | -   | -  | -   | -  | -                                 | -                               | -                                | -                       | 70,636            |
| <b>Reportable segment profit</b>   | <b>(93,430)</b>                             | <b>(29,301)</b>   | <b>583</b>                                 | <b>443,857</b>  | <b>(40,237)</b>                              | <b>2,264</b>                      | <b>306,974</b>                  | <b>(32,855)</b>                  | <b>1,000</b>            | <b>558,855</b>    |
| Interest income  | 40,317                                      | 155   | 115  | 4,819   | 63   | -                                 | 4,791                           | -                                | -                       | 50,260            |
| Finance costs  | -   | -   | -  | -   | -  | -                                 | (959)                           | (32,855)                         | -                       | (33,814)          |
| Depreciation and amortisation  | (266,153)                                   | (35,607)  | (8,247)                                    | (8,164)   | (4,011)                                      | (820)                             | (15,191)                        | -                                | -                       | (338,193)         |
| <b>Additions to non-current assets*</b>  | <b>221,637</b>                              | <b>226,774</b>  | <b>121</b>                                 | <b>25,897</b>   | <b>7,711</b>                                 | <b>84</b>                         | <b>1,469</b>                    | <b>-</b>                         | <b>-</b>                | <b>483,693</b>    |

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

### 3. Segment information (continued)

A reconciliation of reportable segment profit to profit before income tax is provided as follows:

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| Reportable segment profit                                       | 419,751          | 558,855          |
| Professional fees incurred for the aborted share buy-back offer | (28,730)         | –                |
| Share of losses of joint ventures                               | (31,517)         | (1,791)          |
| Share of losses of associates                                   | (1,589)          | (4,126)          |
|   | <u>357,915</u>   | <u>552,938</u>   |
| Profit before income tax and discontinued operations            | <u>357,915</u>   | <u>552,938</u>   |

No single customer accounted for 10% or more of the total revenue for the years ended 31 December 2017 and 2016.

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

|                        | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|------------------------|------------------|------------------|
| Hong Kong              | 3,039,503        | 3,039,285        |
| Malaysia and Singapore | 512,517          | 527,894          |
| Mainland China         | 529,592          | 350,837          |
| USA and Canada         | 123,232          | 130,845          |
| Vietnam                | 47,844           | 48,602           |
| Australia              | 42,809           | 55,454           |
| Europe                 | 9,039            | 10,050           |
| Other countries        | 31,195           | 47,341           |
|                        | <u>4,335,731</u> | <u>4,210,308</u> |

### 4. Other gains/(losses), net

|                               | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|-------------------------------|------------------|------------------|
| Settlement loss               | –                | (70,000)         |
| Net exchange gains/(losses)   | 19,138           | (25,995)         |
| Write-off of movie investment | –                | (30,000)         |
|                               | <u>19,138</u>    | <u>(125,995)</u> |

## 5. Finance costs

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| Interest on bank loans and overdraft                  | 5,151            | 959              |
| Interest on 3.625% notes (Note 15)                    | 140,002          | 31,232           |
| Amortised amount of transaction costs on 3.625% notes | 7,226            | 1,623            |
|   | <u>152,379</u>   | <u>33,814</u>    |

## 6. Profit before income tax

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

|  | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--|------------------|------------------|
| <b>Continuing operations</b>                                 |                  |                  |
| Net exchange (gains)/losses                                  | (19,138)         | 25,995           |
| Gross rental income from investment properties               | (6,121)          | (22,431)         |
| Direct operating expenses arising from investment properties | 882              | 3,099            |
| Loss on disposals of property, plant and equipment           | 792              | 490              |
| Auditors' remuneration                                       |                  |                  |
| – Audit services   | 5,311            | 4,644            |
| – Non-audit services   | 2,891            | 4,093            |
| Cost of programmes and film rights                           | 1,748,388        | 1,758,531        |
| Cost of movies   | 7,408            | 20,956           |
| Cost of other stocks   | 33,410           | 25,609           |
| Depreciation   | 379,818          | 335,032          |
| Amortisation of land use rights                              | 3,029            | 3,046            |
| Amortisation of intangible assets                            | 5,126            | 115              |
| Operating leases   |                  |                  |
| – Equipment and transponders                                 | 36,822           | 15,525           |
| – Land and buildings   | 38,945           | 37,905           |
| Employee benefit expense (excluding directors' emoluments)   | <u>1,657,447</u> | <u>1,550,086</u> |

## 7. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of income tax charged to the consolidated income statement represents:

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| Current income tax:                                 |                  |                  |
| – Hong Kong   | 44,787           | 42,941           |
| – Overseas  | 229,812          | 44,492           |
| – Over provisions in prior years                    | <u>(1,573)</u>   | <u>(371)</u>     |
| Total current income tax                            | <u>273,026</u>   | <u>87,062</u>    |
| Deferred income tax:                                |                  |                  |
| – Origination and reversal of temporary differences | (182,203)        | 18,177           |
| – Resulting from decrease in tax rate               | <u>3,542</u>     | <u>–</u>         |
|   | <u>(178,661)</u> | <u>18,177</u>    |
|   | <u>94,365</u>    | <u>105,239</u>   |

## 8. Earnings per share

Earnings per share is calculated based on the Group's profit attributable to equity holders of HK\$243,621,000 (2016: HK\$499,945,000) and 438,000,000 shares in issue throughout the years ended 31 December 2017 and 2016. No fully diluted earnings per share is presented as there were no potentially dilutive shares outstanding.

|  | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--|------------------|------------------|
| Profit attributable to equity holders of the Company |                  |                  |
| – Continuing operations                              | 243,621          | 428,993          |
| – Discontinued operations                            | <u>–</u>         | <u>70,952</u>    |
|  | <u>243,621</u>   | <u>499,945</u>   |

## 9. Dividends

|   | 2017<br>HK\$'000      | 2016<br>HK\$'000      |
|---|-----------------------|-----------------------|
| First interim dividend paid of HK\$0.60<br>(2016: nil) per ordinary share                           | 262,800               | –                     |
| Second interim dividend paid of HK\$0.30<br>(2016: interim dividend of HK\$0.60) per ordinary share | 131,400               | 262,800               |
| Proposed final dividend of HK\$0.30 (2016: nil)<br>per ordinary share                               | 131,400               | –                     |
| Proposed special dividend of HK\$0.70 (2016: nil)<br>per ordinary share                             | <u>306,600</u>        | <u>–</u>              |
|   | <u><b>832,200</b></u> | <u><b>262,800</b></u> |

At a meeting held on 21 March 2018, the Directors recommended a final dividend of HK\$0.30 per ordinary share and a special dividend of HK\$0.70 per ordinary share. The proposed dividends for 2017 are not reflected as dividend payables in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2018.

## 10. Interests in joint ventures

|   | 2017<br>HK\$'000      | 2016<br>HK\$'000     |
|---|-----------------------|----------------------|
| Non-current   |                       |                      |
| Investment cost (note)                              | 273,163               | 5,569                |
| Less: accumulated share of losses                   | <u>(38,971)</u>       | <u>(5,569)</u>       |
|   | 234,192               | –                    |
| Funds advanced to joint ventures                    | 42,431                | 49,340               |
| Loan to a joint venture (note)                      | <u>521,083</u>        | <u>–</u>             |
|   | 797,706               | 49,340               |
| Less: share of losses in excess of investment costs | <u>(28,568)</u>       | <u>(29,147)</u>      |
|   | <u><b>769,138</b></u> | <u><b>20,193</b></u> |
| Current   |                       |                      |
| Interest receivable from a joint venture (note)     | <u><b>27,068</b></u>  | <u><b>–</b></u>      |
|   | <u><b>796,206</b></u> | <u><b>20,193</b></u> |



## 10. Interests in joint ventures (continued)

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\$33,333,333 as to 50% of the equity interests in ITT and has provided a loan to ITT in an amount of US\$66,666,667 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.

## 11. Interests in associates

|   | 2017                  | 2016                  |
|---|-----------------------|-----------------------|
|   | HK\$’000              | HK\$’000              |
| Investment costs  | 174,000               | 174,000               |
| Less: accumulated share of losses                           | (5,715)               | (4,126)               |
| Add/(less): accumulated share of other comprehensive income | <u>1,201</u>          | <u>(9,951)</u>        |
|   | <u><u>169,486</u></u> | <u><u>159,923</u></u> |

## 12. Trade and other receivables, prepayments and deposits

|  | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--|------------------|------------------|
| <b>Non-current</b>                                       |                  |                  |
| Prepayments related to capital expenditure               | 93,429           | 86,354           |
| <b>Current</b>   |                  |                  |
| Trade receivables from:                                  |                  |                  |
| Associates   | 4,322            | 30,743           |
| Related parties  | –                | 40,679           |
| Third parties (note)                                     | 1,587,909        | 1,278,735        |
|  | 1,592,231        | 1,350,157        |
| Less: provision for impairment loss on receivables from: |                  |                  |
| Associates   | (1,455)          | (1,443)          |
| Third parties  | (171,613)        | (180,911)        |
| Other receivables, prepayments and deposits              | 482,818          | 503,517          |
|  | 1,901,981        | 1,671,320        |
|  | 1,995,410        | 1,757,674        |

Note:

The Group operates a controlled credit policy and allows an average credit period of forty to sixty days to the majority of the Group's customers who satisfy the credit evaluation of the Group. Cash on delivery, advance payments or bank guarantees are required from other customers of the Group.

At 31 December 2017, the ageing of trade receivables based on invoice date including trading balances due from associates and related parties was as follows:

|               | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---------------|------------------|------------------|
| Current       | 542,528          | 446,273          |
| 1-2 months    | 237,924          | 219,035          |
| 2-3 months    | 154,833          | 194,608          |
| 3-4 months    | 151,347          | 122,788          |
| 4-5 months    | 124,564          | 100,275          |
| Over 5 months | 381,035          | 267,178          |
|               | 1,592,231        | 1,350,157        |

## 13. Restricted cash

At 31 December 2017, restricted cash mainly included cash set aside for the share buy-back offer, as detailed in the Company's announcement dated 24 January 2017.

#### 14. Non-current asset held for sale and discontinued operations

(a) Non-current asset held for sale

In 2017, the Group had an intention to sell certain investment properties located in Taiwan, as such, the carrying value of such properties amounting to HK\$58,716,000 was reclassified as “Non-current asset held for sale”. Part of these investment properties sold with a disposal gain of HK\$18,483,000 was recognised in April 2017. The remaining held for sale properties with carrying value of HK\$42,555,000 have been disposed of subsequent to the year end, as detailed in note 18.

(b) Discontinued operations

On 10 March 2016, upon the completion of disposal of the remaining 47% equity interest in Liann Yee Production Co., Ltd and its subsidiaries (“Liann Yee Group”), a disposal gain of HK\$78,028,000 was recorded based on the consideration received of HK\$1,020,503,000 less the carrying value of Liann Yee Group and transaction costs related to the disposal.

#### 15. Borrowings

|                         | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|-------------------------|------------------|------------------|
| <b>Non-current</b>      |                  |                  |
| Notes, unsecured (note) | <u>3,814,406</u> | <u>3,842,493</u> |

Note:

On 11 October 2016, the Group issued US\$500,000,000 3.625% five-year notes due 2021 (“Notes”). During the year, the Company purchased US\$8,500,000 nominal amount of the Notes issued by TVB Finance Limited at a price of US\$8,469,000.

## 16. Trade and other payables and accruals

|  | 2017<br>HK\$'000      | 2016<br>HK\$'000      |
|--|-----------------------|-----------------------|
| Trade payables to:   |                       |                       |
| Related parties  | –                     | 4,404                 |
| Third parties  | <u>134,264</u>        | <u>119,193</u>        |
|  | <b>134,264</b>        | 123,597               |
| Receipts in advance, deferred income and customers' deposits | <b>283,029</b>        | 221,657               |
| Provision for employee benefits and other expenses           | <b>155,825</b>        | 207,741               |
| Accruals and other payables                                  | <u>298,549</u>        | <u>367,684</u>        |
|  | <b><u>871,667</u></b> | <b><u>920,679</u></b> |

At 31 December 2017, the ageing of trade payables based on invoice date including trading balances due to related parties was as follows:

|               | 2017<br>HK\$'000      | 2016<br>HK\$'000      |
|---------------|-----------------------|-----------------------|
| Current       | <b>78,050</b>         | 61,422                |
| 1-2 months    | <b>26,978</b>         | 36,778                |
| 2-3 months    | <b>8,805</b>          | 19,376                |
| 3-4 months    | <b>3,443</b>          | 4,109                 |
| 4-5 months    | <b>921</b>            | 333                   |
| Over 5 months | <u>16,067</u>         | <u>1,579</u>          |
|               | <b><u>134,264</u></b> | <b><u>123,597</u></b> |

## 17. Other reserves

|   | General<br>reserve<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Legal<br>reserve<br>HK\$'000 | Translation<br>reserve<br>HK\$'000 | Total<br>HK\$'000 |
|---|--------------------------------|--------------------------------|------------------------------|------------------------------------|-------------------|
| Balance at 1 January 2016   | 70,000                         | –                              | 36,666                       | (129,571)                          | (22,905)          |
| Transferred from retained earnings  | –                              | –                              | 2,847                        | –                                  | 2,847             |
| Currency translation differences:   |                                |                                |                              |                                    |                   |
| – Group   | –                              | –                              | –                            | 30,691                             | 30,691            |
| – Joint ventures  | –                              | –                              | –                            | 1,060                              | 1,060             |
| Share of other comprehensive<br>income of an associate                          | –                              | –                              | –                            | (9,951)                            | (9,951)           |
| Reclassification adjustment to profit or loss<br>on disposal of a joint venture | –                              | –                              | –                            | 1,311                              | 1,311             |
|   | <u>70,000</u>                  | <u>–</u>                       | <u>39,513</u>                | <u>(106,460)</u>                   | <u>3,053</u>      |
| Balance at 31 December 2016   | <u>70,000</u>                  | <u>–</u>                       | <u>39,513</u>                | <u>(106,460)</u>                   | <u>3,053</u>      |
| Balance at 1 January 2017   | 70,000                         | –                              | 39,513                       | (106,460)                          | 3,053             |
| Transferred from retained earnings  | –                              | –                              | 64,498                       | –                                  | 64,498            |
| Currency translation differences:   |                                |                                |                              |                                    |                   |
| – Group   | –                              | –                              | –                            | 74,622                             | 74,622            |
| – Joint ventures  | –                              | –                              | –                            | (1,307)                            | (1,307)           |
| Share of other comprehensive<br>income of an associate                          | –                              | –                              | –                            | 11,152                             | 11,152            |
| Change in ownership interests in subsidiaries<br>without change of control      | –                              | (3,741)                        | –                            | –                                  | (3,741)           |
|   | <u>70,000</u>                  | <u>(3,741)</u>                 | <u>104,011</u>               | <u>(21,993)</u>                    | <u>148,277</u>    |
| Balance at 31 December 2017   | <u>70,000</u>                  | <u>(3,741)</u>                 | <u>104,011</u>               | <u>(21,993)</u>                    | <u>148,277</u>    |

## 18. Event subsequent to the year end

On 13 February 2017, a revised offer was made to buy-back, subject to conditions, up to 120,000,000 shares, representing 27.40% of the share capital of the Company, at the price of HK\$35.075 per share. The Company had applied to the High Court for a judicial review on certain decisions of the Takeovers and Mergers Panel of the Securities and Futures Commission. A court hearing took place on 26 and 27 September 2017. On 4 October 2017, the High Court gave its determination which affirmed the Company's position to proceed with the revised offer in its original form. Following the High Court decision, the revised offer was pending the conclusion of the Communications Authority's assessment of the two shareholding change applications submitted by the Company in January 2015 and February 2016 ("2015 and 2016 Applications"). Subsequent to the year end, on 23 January 2018, the Company announced the revised offer will not proceed due to the timeline for the conclusion of the Communications Authority's assessment of the 2015 and 2016 Applications was not certain. Accordingly, the related professional fees were charged to the 2017 consolidated income statement.

Subsequent to the year end, on 7 March 2018, the Group entered into an agreement, pursuant to which the Group agreed to dispose of certain properties in Taiwan at a consideration of NT\$275,176,000. The properties have been classified as "Non-current asset held for sale" in the 2017 consolidated statement of financial position.

## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Television Broadcasts Limited ("Board"), I would like to report on the Company's results and developments for the financial year ended 31 December 2017.

### PERFORMANCE AND DIVIDENDS

The Group's revenue increased by 3% from HK\$4,210 million to HK\$4,336 million. Cost of sales rose by 1% from HK\$2,299 million to HK\$2,319 million, while total selling and general administrative expenses went up by 2% from HK\$1,589 million to HK\$1,624 million. Operating profit stabilised at HK\$543 million (2016: HK\$545 million).

The Group's finance costs increased from HK\$34 million to HK\$152 million as the full year interest cost of TVB Notes was taken up. In addition, the Group shared losses of HK\$33 million from joint ventures and associates (2016: losses of HK\$6 million). As a result, the profit attributable to equity holders for the year amounted to HK\$244 million (2016: HK\$500 million which included a non-recurring disposal gain of HK\$280 million). Earnings per share was HK\$0.56 (2016: HK\$1.14).

The Board declared interim dividends of HK\$0.60 and HK\$0.30 per share on 24 May 2017 as first interim dividend, and on 23 August 2017 as second interim dividend, respectively.

For the year, the Board has recommended a final dividend and a special dividend as follows:

|  | Note | 2017<br>HK\$ | 2016<br>HK\$ |
|--|------|--------------|--------------|
| First interim dividend paid                | 1    | <b>0.60</b>  | –            |
| Second interim dividend paid               |      | <b>0.30</b>  | 0.60         |
| Final dividend recommended                 | 2    | <b>0.30</b>  | –            |
| Total dividends                            |      | <b>1.20</b>  | 0.60         |
| Special dividend recommended               | 3    | <b>0.70</b>  | –            |
| Total dividends including special dividend |      | <b>1.90</b>  | 0.60         |

Note 1: The first interim dividend of HK\$0.60 per share was largely the result of the Board's resolution to defer any final dividend proposal for the 2016 annual results until outcome of the share buy-back offer was clarified.

Note 2: For the full year, the Board has recommended a final dividend of HK\$0.30 per share, which would make a total dividend of HK\$1.20 per share (2016: HK\$0.60 per share).

Note 3: In recognising the Company's steady dividend policy during a period of lower profitability, the Board has in addition recommended a special dividend of HK\$0.70 per share for the year. By doing so, the Board wishes to demonstrate its confidence in the Company's future.

## CLEAR STRATEGIC DIRECTIONS

The Group operated against a disruptive market as a result of rapid advancements in technology. Drastic changes in lifestyle, work modalities and means of communication are taking place. Business operators need to react rapidly in order to survive and to reduce the risks of being displaced. For TVB, linear television technology had served us well in the past, but this is rapidly being disrupted by digital, namely the Internet. Proliferation of content on the Internet and popularity of the social media have made profound impacts on TV consumption behaviour as digital platforms can provide any content, anywhere, anytime and on any types of devices, which accord with lifestyle nowadays.

Against this background, the Board has adopted three important strategic directions:

- **Raising content standard** to drive our business;
- **Developing markets** by producing platform-exclusive content for online platform partners in Mainland China; and
- **Investing in digital** and launching new OTT and social media platforms.

Major progress has been made in transformation from a terrestrial TV-based broadcaster to a digital player with substantial online distribution networks in Hong Kong and overseas. The Group now possesses a complete spectrum of media platforms spanning terrestrial TV, myTV SUPER OTT services and Big Big Channel online social media and is well-positioned to capture digital opportunities.

## INVESTMENTS IN MOVIES AND TV SLATE

Beyond television, we have also invested in movie production platforms and in a TV programme slate. Since 2015, we have invested in two major movie platforms, Flagship Entertainment Group and Hong Kong-listed Shaw Brothers Holdings. These platforms naturally extend our expertise in programme production into the international movie arena and help capture the growth of box office revenue globally. In 2017, we formed a joint venture with Imagine Entertainment, a leading Hollywood production company, to finance the production of a slate of TV drama serials for US and international markets. We are eagerly anticipating further business cooperation with our US partner.

## 50<sup>TH</sup> ANNIVERSARY

On 19 November 2017, TVB celebrated its 50<sup>th</sup> anniversary, a major milestone in the history of the Company. Founded in 1967, TVB has been providing Hong Kong audience with quality free TV entertainment, news and information. The Company has grown together with Hong Kong and has become part of its people's lives. Beyond Hong Kong, TVB is one of the most popular content providers to millions of Chinese abroad and has significantly contributed to the development of the Chinese entertainment industry. We are extremely thankful to the continued support received from our many stakeholders throughout these years.

## **RECOGNITION OF SIGNIFICANT CONTRIBUTIONS**

Ms. Mona Fong, a non-executive Director of the Company, passed away on 22 November 2017. Ms. Fong, the wife of TVB's Chairman Emeritus, the late Sir Run Run Shaw, was instrumental in leading the Company through some of the difficult periods in TVB's history. Ms. Fong will be fondly remembered for her dedication, diligence and vision.

I would also like to thank my fellow Directors for their wise counsel and guidance, and our business partners and staff members for their unwavering support.

## **OUTLOOK**

2017 will be remembered as one of the toughest years in the last decade of the Company. We remain hopeful that the worst is now behind us as the advertising market continues its recovery and growth along with Hong Kong's overall economy. With our three media platforms firmly in place, TVB has successfully transformed into a major digital player.

Entering our 51<sup>st</sup> year, we set our sights for new developments and business opportunities. We will continue to build on our past in creating an even brighter future for our stakeholders.

**Charles Chan Kwok Keung**  
Chairman

Hong Kong, 21 March 2018



## **GROUP CEO'S REPORT**

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

### **HONG KONG TV BROADCASTING**

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

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

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

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

### **HONG KONG DIGITAL NEW MEDIA**

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

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

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

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

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

## **PRODUCTION FOR MAINLAND CHINA**

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

## **OVERSEAS BUSINESSES**

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

## **SHARE BUY-BACK**

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

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

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

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

## **OUTLOOK**

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

**Mark Lee Po On**  
Group Chief Executive Officer

Hong Kong, 21 March 2018

## **REVIEW OF OPERATIONS**

### **HONG KONG TV BROADCASTING**

Hong Kong TV broadcasting business continued to be our core business, accounting for approximately 65% of the Group's revenue in 2017.

### **TV ADVERTISING**

After a prolonged cyclical downturn, the Hong Kong economy experienced a mild recovery in 2017 as retail sales index which suffered from year-on-year declines in the last 24 months finally exhibited a 3.0% growth in March 2017. The retail sales index reported an overall growth of 2.2% in 2017.

The advertising market, however, has yet to recover, as total advertising spending in Hong Kong was estimated to have fallen by 4% year-on-year in 2017. Throughout the year, most of the advertisers were very cautious in spending the budgeted dollars, as the choice of media platforms has increased, and the airtime investments and returns need to be rightly justified. In order to drive advertising sales, TVB provided various incentives to customers in order to secure long-term business growth. Benefited from the marginally improved economic climate against an overall difficult retail sector, income from advertisers for the year ended 31 December 2017 under Hong Kong TV broadcasting levelled closely with last year at HK\$2,459 million (2016: HK\$2,458 million), representing a very marginal increase of 0.1%. However, this provides some comfort for signs of stabilisation, after a 13% year-on-year decline in segment revenue experienced in 2016 over 2015.

The milk powder category remained at the top position in the ad spend table, even though there was a 14% year-on-year drop on sales. This is a key advertising category as visiting Mainland China's tourists continue to spend on consumer products. The loan and mortgage category, largely due to more aggressive activities by finance companies, recorded strong growth of more than 30% and secured the second position. Other performing categories included banking and local properties, both of which reported encouraging increases of 36% and 64% respectively. Revenue from government/quasi government category recorded a more than 60% growth which was boosted by income related to events celebrating the 20<sup>th</sup> anniversary of the establishment of the Hong Kong SAR on 1 July 2017. However, revenue from skin care continued to drop in 2017 recording a fall of 9% year-on-year, and similarly, the spending from dental care dropped 35%, compared with last year.

Against these tough and difficult market conditions, the Company introduced multiple advertising packages to stimulate demands which generated positive responses. "Perfect Match Package" was launched, offering a complete solution for small and medium sized advertisers which were much neglected in the past. In addition, special tailor-made spot packages, "Good Choice Package" and "Better Choice Package", were introduced to further stimulate spending.

2018 remains a challenging year for all media operators due mainly to the ever-changing media landscape brought about by new entrants and global competition. TVB will endeavour to grow by targeting new advertisers and introducing innovative packages.

Internally, the first phase of the re-write of our market and advertising sales systems to better service our advertisers and agencies went live in January 2017. Following this, additional features were deployed incrementally and the systems became fully operational from May 2017. With the enhancements, we are in a better position to provide an efficient ad-sales service which is important for this market.

## TV CHANNELS

TVB uses the spectrum to broadcast five terrestrial TV channels, each with clear demographic targets.

Jade (channel 81), TVB's flagship service and the most popular channel in Hong Kong in terms of average audience share, has strengthened its programming line up to cater to local tastes and preferences. J2 (channel 82), targeting the adolescent viewing population, offers trendy and innovative programmes. TVB News Channel (channel 83), with its round-the-clock local and international news service and documentaries, is the most watched news channel in Hong Kong. Pearl (channel 84), with its international and upmarket appeal, addresses the entertainment needs of the English speaking and affluent audience. Successfully rebranded from J5 last year, TVB Finance & Information Channel (channel 85) is the station's latest response offering up-to-the-minute stories and expert analyses on capital markets, property investments, technology innovation, medical development and education related subjects.

TVB continues to invest in high quality self-produced and acquired programmes. Around 23,700 hours of programmes (including drama, non-drama programmes, and news and documentaries) were produced alone in 2017. This total has been increasing over the years to meet the growing demand of the newer channels such as J2 and TVB Finance & Information Channel.

On average, our five terrestrial TV channels engage with 5.4 million viewers every week. During the year, the average audience share<sup>1</sup> of TVB's terrestrial channels against all of the free and the pay TV channels in Hong Kong during weekday prime time was 83% (2016: 84%). In addition, TVB programmes also attract substantial viewerships from neighbouring markets, such as Macau and the Guangdong province.

The average prime time TV ratings of the five TVB terrestrial TV channels (which contained viewing via spectrum, live, as-live viewing and same day catch-up through myTV SUPER OTT Box) and the average percentage audience share against total TV channels in Hong Kong during prime time are as follows:

|                           | 2017 |               |
|---------------------------|------|---------------|
|                           | TVR  | % of Total TV |
| Jade                      | 20.0 | 67            |
| J2                        | 1.9  | 7             |
| TVB News                  | 1.7  | 6             |
| Pearl                     | 1.2  | 5             |
| TVB Finance & Information | 0.7  | 3             |

<sup>1</sup> Audience share (%) is the percentage of ratings of particular channel(s) over the total ratings of the base channels for a specific period. The base channels comprise all of the TV channels (Total TV channels) in Hong Kong. Total TV channels include all free TV channels, pay TV channels, and other TV channels capable of being received in Hong Kong, such as satellite and OTT channels.

## **Jade**

### **Drama**

Self-produced drama serials have consistently secured the position of the flagship channel's prime time blockbuster. To mark the special occasion of TVB's 50<sup>th</sup> anniversary on 19 November 2017, a stronger than ever selection of drama titles were aired to build viewership during the run-up to the celebrations around November.

The top-rated title of 2017 was *The Unholy Alliance*, which attained an average TV rating<sup>2</sup> of 28.7 TVRs (of which 4.6 TVRs were delivered via myTV SUPER). This action crime-thriller series featured modern martial arts and shooting scenes was supervised by executive producer Jazz Boon Wai Hung and acclaimed Hollywood fight choreographer Philip Kwok Chui. Movie awardee veteran actress Nina Paw Hee Chin, who was filming for TVB for the first time, played the role of a godmother protecting her syndicates from enemies' revenge plans. She was joined by other protagonists, Ruco Chan Chin Pang, Nancy Wu Ting Yan, Joel Chan Shan Chung and Elaine Yiu Tse Ling. These distinctive characters and the action scenes gained wide applauses, which helped Joel Chan and Elaine Yiu win the best supporting role awards at the 2017 TVB Star Awards Malaysia. Joel's supporting role was also recognised at the *TV Awards Presentation 2017*.

Jade strives to offer greater and an even-better enjoyment to audience by making persistent efforts to enhance drama quality. *My Unfair Lady* was TVB's first 4K resolution drama series, and was primarily filmed on locations. This modern romance story attracted the second highest viewership for drama serials in 2017, scoring an average TV rating of 28.5 TVRs (of which 4.7 TVRs from myTV SUPER). The story revolves around two career-minded cousins, played by Jessica Hester Hsuan and Natalie Tong Sze Wing, winning the hearts of their Mr. Right. With much audience resonance and acclaims, Jessica and Natalie won major acting awards in the 2017 Starhubs TVB Awards in Singapore and TVB Star Awards Malaysia. Natalie was also awarded the Best Actress in a Leading Role at the *TV Awards Presentation 2017*.

This year, innovative storyline successfully aroused the audience interest with a time-travel comedy-fiction *A General, A Scholar and A Eunuch* which reported an average rating of 28.0 TVRs (of which 3.8 TVRs from myTV SUPER), and was ranked the third highest viewership for drama serials in 2017. This comedy precluded with three courtiers accidentally travelled from the late Ming dynasty to modern day in China for a royal mission but ended up helping troubled restaurant owner with their extraordinary culinary skills. This unusual story line and the tacit performance of the courtiers (played by Raymond Cho Wing Lim, Edwin Siu Ching Nam and Matthew Ho Kwong Pui) brought them the prize of Most Popular On-Screen Partners at the *TV Awards Presentation 2017*. Rebecca Zhu Chenli also received her first ever TVB award for supporting actress for her role in this drama, paving her way for more acting roles in future.

<sup>2</sup> An average TV rating is calculated based on a consolidated TV rating of a programme summing spectrum rating, live and as-live viewing on myTV SUPER, as well as VOD consumption of that programme within a seven-day period after being aired on terrestrial TV. It represents the size of the audience expressed as a percentage of the total TV population. For 2017, the total TV population comprises 6,499,000 viewers, and therefore, 1 TVR represents 64,990 viewers (1% of the total TV population).

A new series of weekend only prime time drama kicked off in June 2017 with *Legal Mavericks*, our first co-produced title with iQiyi from Mainland China. This drama curated an unusual storyboard depicting encounters of a blind barrister and his team members, and was assisted by a fresh approach to on-location shootings. This drama had accumulated a total stream view of over 500 million in Mainland China. This title was awarded my favourite TVB drama at the 2017 TVB Star Awards Malaysia. The stupendous performance by a number of main casts, such as Vincent Wong Ho Shun, Sisley Choi Sea Pui, Ali Lee Kai Sum, Owen Cheung Chun Long were praised at various awards presentations in 2017.

Another co-production drama, *Line Walker: The Prelude*, a crime-thriller drama serials recorded a total stream view of over 2 billion on Tencent's platform in Mainland China. This TVB series was a prequel to the successful 2014's *Line Walker*, which saw the return of Michael Miu Kiu Wai as CIB Senior Inspector who attempted to tie up loose ends after a failed secret mission in Thailand. In the meantime, former undercover agent portrayed by Benz Hui Shiu Hung avenged for the death of his wife and became the underworld figure head's biggest rival. This drama staged a densely layered, constantly-looping pattern of trust and betrayal.

*Heart And Greed* serial is another iconic story developed by TVB. This highly-anticipated third sequel marked the return of veteran artistes like Louise Lee Si Kei, Ha Yu, Michelle Yim and Susanna Kwan Kuk Ying, who are well-known as the *Heart And Greed* icons. This time, Ha Yu, played a successful entrepreneur running a Hong Kong tea restaurant chain, led his family to offer financial assistance to his former benefactor. However, the social inequality between the two families and the romance between their second generations turned the situation problematic. The happy finale attracted an average rating of 30.8 TVRs. Overall, this co-production drama captured a total of 1.5 billion stream views on Tencent's platform.

Anniversary drama, *My Ages Apart* had a star-studded cast and ran for a total of 50 episodes. Starring Bobby Au Yeung Chun Wah, Moses Chan Ho, Maggie Shiu Mei Kei, Kristal Tin Yui Lee and Ali Lee Kai Sum, the drama brought audiences on a roller-coaster ride with its varying themes of time-travel, fantasy and comedy. This creative drama was named the Best Drama in the *TV Awards Presentation 2017*.

Developed from a winning storyline written by a TVB's staff through an internal competition, *The Exorcist's Meter*, centered on a story of a nightshift taxi driver played by Kenneth Ma Kwok Ming who had the ability to see supernatural beings. His extraordinary journey to conquer demons alongside the hundred-year old spirit, played by Hubert Wu Hung Kwan attracted widespread discussion from social media, making this serial the netizen's favourite TVB Drama in the *TV Awards Presentation 2017*. To further arouse audience interest, an anecdotal biography *The Taxorcist Sidequel – Chapter 1* was created and released on Big Big Channel with even more sci-fi supernatural elements. This first attempt of complementing the drama with a spin-off web series was well-received by audience.

## Non-drama

2017 was a memorable year for the non-drama production team and for our audience.

TVB produced an extravagant star-studded gala show the *Grand Variety Show In Celebration Of The 20<sup>th</sup> Anniversary Of Hong Kong's Return To The Motherland* with songs, dances and acrobatic performances on 30 June 2017. Chinese President Xi Jinping and HKSAR's principal government officials attended the event at the Hong Kong Convention and Exhibition Center. This spectacular live show was also aired on CCTV's channels.

To mark the broadcaster's Golden Jubilee, *TVB 50<sup>th</sup> Anniversary Gala* was aired live on 19 November 2017. It was a night of glitz and glamour, presenting the most impressive array of acting talents with display of splendour and magnificent performances of more than 240 artistes. The appearance of many classic TVB drama theme songs and iconic characters touched the heart of audience making the gala the top-rated variety programme in 2017 with an average rating of 29.3 TVRs (of which 3.5 TVRs from myTV SUPER).

The launch of a new social media platform Big Big Channel on 23 July 2017 was another important key milestone. A prologue programme, *Big Big Kids Awards 2017* showcased talent contest of kids from all ages. A gala celebrating the official launch of this new platform *The big big channel Nite* previewed upcoming content of TVB artistes and KOLs. These galas successfully aroused the audience's interest and boosted sign-up rates for the new platform.

Leveraging the popularity of TVB drama characters, a number of spin-off programmes were created in variety format. An innovative game show, *Line Walker: The Hunting Game* was produced. This time, Michael Miu Kiu Wai from *Line Walker: The Prelude* became the programme host, while the other key protagonists from the drama joined him in an investigation mode.

Furthermore, certain popular drama partners were brought back in the form of food and travelogue programmes, such as the lovable Ma family from the long-running sitcom, *Come Home Love* to reunion at travelogues like *Dinner Ma's* and *X'mas With The Mas*. On the other hand, leading actors of a popular comedy, *Short End Of The Stick* filmed a new travelogue *Dickies On Tour* in Phuket.

Self-produced cooking programmes and travelogues featuring veteran hosts continued to attract high viewership on terrestrial channels. Hosts Maria Cordero and Steve Lee Ka Ding dazzled the audience with their superb culinary skills in their respective programmes, *Good Cheap Eats (Sr.6)* and *The Ahistoric Grandpa Cooking Show (Sr.2)*. The recent hottest travel partners, Do Do Cheng Yue Ling and FAMA brought audience light-hearted jokes in their travelogue, *DoDo Goes Shopping (Sr.2)*. *Faraway Brides*, a reality show which unveiled the stories of Hong Kong brides with cross-cultural marriages in pursuit of happiness won high applauds. Music programme *50 Golden Classics*, bringing together top-notch composer Michael Lai Siu Tin and his handpicked classic songs performed by veteran singers delighted the audience at its weekly Sunday night prime time slots.



## J2

J2 has strengthened its image as a trendy and innovative channel, with self-produced programmes targeting the young audience.

Following the launch of Big Big Channel, J2 has rolled out a new series of self-produced talk show *Young And Restless*, which aimed to deploy J2's featured host and Big Big Channel's KOLs to cultivate a young community. J2 aired the *Big Big Channel Concert in Taiwan* to mark the expansion of TVB's digital media service into Taiwan. Popular in-house produced travel programmes like *Fun Abroad*, *Thai Rogered* and *Helen TO-KYO* continued to engage well with young audience.

Acquired programmes play an important role to maintain J2's young appeal. In 2017, popular Asian dramas like *Doctor-X (IV and V)*, *Chef ~ Three Star School Lunch ~*, *Legend Of The Blue Sea*, *Saimdang*, *Memoir Of Colors*, *Wu Xin The Monster Killer (II)* and variety shows like *The Law of the Jungle* and *Running Man* drew good viewership. J2 also brought *The 11th Asian Film Awards* the world's most influential regional award to audience.

### **TVB News Channel and News Programmes**

TVB News remains Hong Kong's most watched 24-hour news channel. This service is also the audience's "go-to" place for breaking news and major events. On the day when signal no.10 was hoisted for Typhoon Hato, the channel recorded its highest daily reach of over 3 million viewers. Live telecast of the 2017 Chief Executive Election was another record event with ratings averaged at 5.0 TVRs. In addition to in-home viewership, TVB News also engages with more than 1.5 million audience-times daily through out-of-home screens and TV sets in Hong Kong.

The channel endeavours to deliver the most up-to-date, accurate and comprehensive information local and international news. In addition to having our reporters based in Beijing, Guangzhou, and Taipei, a new bureau was set up in Macau.

In March 2017, TVB News offered in-depth live reports on the 2017 Chief Executive Election across terrestrial channels and online platforms, keeping viewers abreast with developments. During the three-day official visit of President Xi Jinping to Hong Kong for the 20<sup>th</sup> anniversary of Hong Kong's return to Mainland China, Jade and TVB News captured closely the public engagements of President Xi.

To celebrate the station's 50<sup>th</sup> Anniversary, TVB News presented a special documentary *Hong Kong 50 Years* to portray stories of Hong Kong over the past half-century by narrating significant old days and lifestyles, interviewing eminent individuals from many sectors, and reiterating precious content from the archive.

## **Pearl**

First-rated documentaries, movies, drama, lifestyle programmes, and global events helped solidify Pearl's status as an up-market, stylish and international channel.

To celebrate the station's 50<sup>th</sup> Anniversary, Pearl presented the BBC's landmark natural history documentary *Planet Earth II*. In a total of seven episodes, the series brought audience to experience new filming technology and a better understanding of the natural world through amazing stories from islands, mountains, jungles, deserts, grasslands, and cities.

Pearl has been carrying the world's most glamorous Hollywood event, *The Oscars*<sup>®</sup> since the launch of the channel and the 89<sup>th</sup> edition was broadcast live in February 2017. Pearl proudly became the official broadcast partner of *The Masters of Hong Kong 2017* which is now an established prestigious event in the equestrian field.

Weekend blockbuster movies have remained the most appealing category on Pearl. Fairy tale-themed movies are always welcomed by Pearl audience, *Beauty and the Beast* and *Frozen* secured the first and second places respectively in the ratings chart. Pearl also excited audience with the TV premiere of *Prison Break*.

Other iconic genres of Pearl were the signature documentary timeslots – *Pearl Spectacular* showcasing the natural wonders, and *Well Being* provided latest health information.

## **TVB Finance & Information Channel**

TVB Finance & Information Channel is the only free 24-hour finance related free TV channel in Hong Kong. In less than a year since its rebranding, TVB Finance & Information has successfully built its image of a high quality wealth and knowledge channel and accumulated an audience pool of investment savvy fans.

Apart from latest coverage and expert analyses on the stock market during trading hours, TVB Finance & Information offers a series of self-produced financial and investment programmes during prime time, such as *Finance at 10*, *A Property A Day* and *Closer Look At Property*. Other knowledge-based programmes such as *Academia Without Borders*, *Vital Lifeline*, *A Dream Home Planning* and *Innovation GPS* offer audience with multiple choices.

## **Other TVB-Produced Channels**

TVB produced an array of 15 thematic channels for myTV SUPER. The channels include Japanese Drama, Korean Drama, Chinese Drama, Asian Select, TVB Classic, Classic Movies, Asian Variety, Food, Travel, Sports, Jade Catch Up, Entertainment News, TVBN2, TVB Radio and the newly introduced Chinese Opera Channel.

To promote the legacy of traditional Chinese theatre, Chinese Opera Channel was launched in June 2017. This channel engages avid fans of this unique art form by assembling renowned excerpt performances and stage plays performed by Chinese opera virtuosos, prominent artistes and rising stars of the field. Huge efforts were made to uncover and compile more than 250 excerpt performances from the archive. These invaluable performances extracted from charity shows and EYT include *Love in the Red Chamber*, *Lust is the Worst Vice*, *Romance of the Phoenix Chamber*, *Emperor Kwong Sui's Nocturnal Sacrifice to Concubine Zhen*, and *Reunion of Sword and Hairpin*. Also, distinguished stage plays were featured as weekend highlights like *The Purple Hairpin*, *Princess Chang Ping* and *Lam Kar Sing Series*.

Entertainment News allocated much resources to deliver real-time coverage of both local and global entertainment events including *The 36<sup>th</sup> Hong Kong Film Awards Special*, *The Oscars® Red Carpet Live* and *53<sup>rd</sup> PaekSang Arts Awards*. Various break-in news were arranged to cover first-hand local showbiz buzz such as the red carpet of *TVB 50<sup>th</sup> Anniversary Gala* and the *TV Awards Presentation 2017* nominations announcement.

TVB Classic lined up trademark gag shows that were ground-breaking and hugely popular in the 1990's such as *The Funny Half Show*, *Peculiar DJs Peculiar Show* and *Singing with Fun*. Moreover, *Stardust Memories...Liza Wang* series was assembled to celebrate a TVB long-standing icon, Liza Wang Ming Chuen's accomplishments over a span of 50 years.

TVB's drama channels, Japanese Drama, Korean Drama and Chinese Drama, strived to air Cantonese-dubbed versions of premium titles from Japan, Korea, Taiwan and Mainland China shortly after their local telecast.

Asian Variety, Food and Travel channels were showing an uptrend in viewership performance in 2017. The channels served as an excellent leisure and entertainment platform by providing signature variety shows, acclaimed food documentaries and global travelogues such as *The Return of Superman*, *Keep Running*, *A Bite of Shunde* and *Battle Trip*.

## **PROGRAMME PRODUCTION**

"Content is king". TVB is committed to producing an immense selection of high quality original content for audiences. The total local production hours in 2017 was nearly 23,700 hours, of which 4,320 hours were attributed to Jade. Of these, approximately 700 hours of dramas were produced to meet the demand of Jade during prime time. Since 2016, we have been building an additional production pipeline to meet the demand of a new series of drama serials for our Chinese partners for their online platforms. During 2017, three drama serials under this arrangement were broadcast concurrently in Hong Kong and on the Chinese online platforms. For 2018, more new titles will be ready for delivery.

At the end of December 2017, TVB had contracted with over 700 artistes. These pools of artistes provide the Company with a stable and large pool of talents for production of programmes, covering drama serials and non-drama programmes. From time to time, the Company seeks to expand this pool by contracting with young talents through our own beauty pageants and talent contests as well as hiring from performing art schools.

In Hong Kong, TVB is also supported by a series of 23 production studios and the strongest television production team in Hong Kong, including experienced production team in shooting, make-up, costume design, creative teams which comprise of executive producers, directors, script writers. In addition, the hardware supporting the production comprises two outdoor shooting sites located within the compound of TVB City and outdoor shooting vehicles. These facilities are regularly subject to upgrades and improvements in order to meet the demand of today's production needs.

## **HONG KONG DIGITAL NEW MEDIA BUSINESS**

### **myTV SUPER**

myTV SUPER OTT service has become our key digital new media asset. During the year, segment revenue increased 33% from HK\$230 million to HK\$306 million. Investment in capital and operating expenditure for this OTT platform had resulted in a net segment loss of HK\$85 million (2016: loss of HK\$29 million). However with promising growth in both subscription and advertising income, myTV SUPER had reached breakeven in the month of December 2017. We expect this business to further yield positive contribution in 2018.

myTV SUPER continues to track a rapid uptake on subscribers. Up to 18 March 2018, this OTT service has accumulated 5,834,542 registered users in Hong Kong, with 1,010,993 users consuming contents through STB, 4,094,662 accounts operating via mobile apps, and 728,887 accounts through the portal. The hard-bundled packages offered by our ISP and telco partners, Hong Kong Broadband Network, HGC Broadband and 3HK, provide strong momentum to further broaden subscriber base.

As TV consumption shifts towards OTT, the consumption hours of myTV SUPER is growing healthily in tandem with its subscriber number. The weekly unique stream viewers for the last week of December 2017 was 1,190,722 (2016: 793,043), an increase of 50%.

The weekly time spent per unique stream viewer in the last week of December 2017 reported a total of 18,443,140 hours (2016: 9,115,345 hours), an increase of 102%. On a per viewer basis, the weekly time spent was 15.5 hours (2016: 11.5 hours), an increase of 35%.

With an all-day-all-time average TV ratings of 1.68 TVRs<sup>5</sup> (2016: 0.84), myTV SUPER is now the second most-watched TV platform after flagship Jade<sup>6</sup>. In addition, programmes broadcast during prime time on myTV SUPER generated an average TV rating of 2.91 (2016: 1.27), further contributing to the viewership of terrestrial channels.

|  | <b>Last week of<br/>2017</b> | Last week of<br>2016 |
|--|------------------------------|----------------------|
| <b>Active user</b>   |                              |                      |
| Weekly Unique Viewers <sup>3</sup>                         | <b>1,484,423</b>             | 1,047,015            |
| Weekly Unique Stream Viewers <sup>4</sup> (USV)            | <b>1,190,722</b>             | 793,043              |
| <b>Consumption (Hours)</b>                                 |                              |                      |
| Weekly Time Spent  | <b>18,443,140</b>            | 9,115,345            |
| Weekly Time Spent per USV                                  | <b>15.5</b>                  | 11.5                 |
| <b>Rating performance of myTV SUPER (TVRs<sup>5</sup>)</b> |                              |                      |
| All-day-all time ratings                                   | <b>1.68</b>                  | 0.84                 |
| Prime time ratings   | <b>2.91</b>                  | 1.27                 |

myTV SUPER has further enriched its offerings by adding content such as Supreme Pack, Chinese Opera Channel, myTV SUPER Movie Pack, Mezzo Live HD, as well as BBC Entertainment and Information Pack. myTV SUPER service now carries more than 53 live channels (including 21 TVB-branded channels) and over 48,000 hours of video-on-demand (VOD) which comprise mainly of TVB archival content.

<sup>3</sup> Weekly Unique Viewers refer to the total number of unique viewers visiting myTV SUPER during a week.

<sup>4</sup> Weekly Unique Stream Viewers refer to the total number of unique viewers visiting myTV SUPER and watched at least one video during a week.

<sup>5</sup> Data of myTV SUPER is sourced from Nielsen SiteCensus. The conversion of myTV SUPER online data to individual rating is supported by a certified document and endorsed by Nielsen.

<sup>6</sup> Jade commanded an all-day-all-time average TV ratings of 4.8 TVRs during the week 25-31 December 2017.

Enhancement of users' experience is a key business priority and an important service differentiator. We have introduced two user-friendly features to myTV SUPER, namely "myTV SUPER Remote App" which facilitates remote control of in-home STB functions using personal mobile phones, and "Smart Download" which enables programme download via myTV SUPER app onto mobile phones for viewing over a seven day window. We are noting an increase in usage as a result.

The increasing eyeballs on myTV SUPER are helping our advertising sales growth and negotiations with advertisers who are looking for an effective solution. To improve monetisation, we have introduced pop-up banner ads and U-shaped display ads, both new formats on myTV SUPER channels, for advertisers. In addition, new slots for advertisement during commercial breaks have been created for additional revenue.

In order to offer users with seamless viewing experience for current events of their interest, myTV SUPER rolled out dedicated programme pages – "DFB-German Cup Event zone", "FINA Zone", "Liza Wang Special Zone", "TVB 50<sup>th</sup> Anniversary Special Zone", "Christmas and New Year Greetings Zone", to attract viewership.

In view of global trend on programmatic advertising, myTV SUPER launched Hong Kong's first programmatic TV advertising, which encompasses target segments across demographics such as age, gender, geographical locations. This enables advertisers to deliver their messages effectively to the right consumer group on a timely basis. In 2018, myTV SUPER will be engaging with Nielsen to deploy data management platform (DMP), a technology tool for digital precision advertising targeting. This tool helps identify the right targets in a more efficient and effective way across myriad consumer traits like purchase consideration and shopping behaviour, making the reach to these targeted audiences feasible at scale, and adding values to advertisers' investments.

## **BIG BIG CHANNEL BUSINESS**

Big Big Channel business comprises the newly launched online social media platform – Big Big Channel, and music entertainment – Voice Entertainment.

The total segment revenue for the year was HK\$69 million (2016: HK\$35 million). Due to upfront investments in capital and operations required for this new business, the segment reported a net segment loss of HK\$11 million (2016: profit of HK\$0.6 million).

### **Big Big Channel**

With Big Big Channel's launch in July 2017, TVB has successfully completed its development of the three-media platform strategy spanning terrestrial TV, OTT services and online social media. Big Big Channel rides on the global trend of social media and engages with users via a free app and its portal ([www.bigbigchannel.com.hk](http://www.bigbigchannel.com.hk)). This platform delivers self-produced short-formatted video content featuring TVB's artistes and KOLs covering chic topics like home-cooking, dining-out, beauty advice, child-caring, music, young lifestyles and online games. Through this innovative platform, artistes, KOLs and fans can engage with each other through interactive activities, message exchanges, and virtual gifts.

In addition to many promotional events in Hong Kong, a special artiste event was organised in Taipei for the launch of a Taiwanese variant of Big Big Channel. Similar events followed in Malaysia and Singapore in order to boost sign-up rates for this new platform. The responses to date represents a good head start for Big Big Channel. We attribute the encouraging growth to Big Big Channel's ability to leverage on TVB's leading audience share in terrestrial TV and the fast growing subscriber base of our two popular OTT platforms, myTV SUPER and TVB Anywhere.

Big Big Channel exhibits strong ability to build viewerships across major social media platforms.

As of 18 March 2018, Big Big Channel app itself, together with TVB's social media footprint on Facebook, Youtube, Instagram, Twitter, Tencent Weibo, Sina Weibo and Youku, attracted followers aggregating to over 10.7 million which included Hong Kong, Mainland China, Taiwan, Malaysia, Singapore and many other overseas countries. Thanks to the attractiveness of its content and strong user engagement, stream views totalled to more than 12 million in the last week of 2017.

The expanding user base is helping Big Big Channel to monetise through providing content marketing for advertisers, using spun-off content from TVB programmes and interactive online games. This content marketing strategy enriches our online solution offering to advertisers. Riding on effective online promotion power, the soon-to-be launched e-commerce platform is to collaborate with advertisers and clients to create value-added services.

### **Music Entertainment**

The Voice Entertainment Group Limited ("Voice Entertainment"), a subsidiary of the Company, engages in artistes' sound recordings, music productions, music copyrights management, music publishing, concerts and artistes' management. This music production is primarily developed for TVB drama serials and programmes.

To further strengthen our singer base, Chau Pakho and Hana Kuk have joined Voice Entertainment in 2017. After appearing in TVB's co-production drama *Line Walker: The Prelude*, Chau's popularity has grown, which helped Voice Entertainment to organise more than 10 Pakho concerts in Mainland China and Hong Kong. Another new rising star of Voice Entertainment, Hana Kuk produced her debut album which became one of the fastest selling albums in 2017, and topped all of the female singers in terms of local CD sales and hits streaming. Voice Entertainment will continue to produce quality title and ending theme songs for TVB dramas, which help promote both the programmes and the singers.

### **PUBLICATIONS**

TVB Weekly marked its 20<sup>th</sup> anniversary in 2017. Amid the rapid growth of new media, TVB Weekly managed to stay afloat due to loyal readership of TVB fans, and the informative content relating to many of the station's activities and events. TVB Weekly is diversifying its services to advertisers by way of event production and other related activities.

## **STRATEGIC INVESTMENTS**

### **Imagine Tiger Television**

Partnering with Imagine Entertainment, a leading Hollywood TV and film production company founded by renowned Hollywood producers Brian Grazer and Ron Howard, TVB has invested a total of US\$100 million in a 50:50 joint venture named Imagine Tiger Television (“ITT”). ITT is an investment platform for development and production of a slate of TV drama serials on a co-production basis with networks in the US targeting domestic and international markets.

Since inception in July 2017, ITT has been filling its development pipeline with a number of TV projects to take to co-production partners, including CBS Corporation which has been granted the right of first-look of all outputs from ITT. Imagine Entertainment will continue to build upon the momentum of its strong connections with top-tier scriptwriters and producers, and to assemble quality TV projects in the first half of 2018, further adding more titles to ITT’s production slate.

### **Shaw Brothers Holdings**

TVB is co-investing with China Media Capital (“CMC”) in a 29.94% equity interest of Shaw Brothers Holdings (stock code: 00953), which is listed on the Main Board of The Stock Exchange of Hong Kong Limited and is principally engaged in movie and entertainment-related businesses. During the year, the production of a drama serial *Flytiger* was completed and delivered to Youku, and this drama will begin its broadcast in the first quarter of 2018. In addition, Shaw Brothers Holdings has entered into an arrangement with iQiyi for production of another drama serial *The Guard*.

### **Flagship Entertainment Group**

Together with CMC, TVB has co-invested in Flagship Entertainment Group with an effective 5.1% interest. Flagship Entertainment Group is headquartered in Beijing and has Warner Brothers Entertainment and CMC among its shareholders. In 2017, a number of movie titles, *The Adventurers*, *Paradox* and *Thousand Faces of Dunjia* invested by Flagship Entertainment Group were released.

## **INTERNATIONAL OPERATIONS**

### **PROGRAMME LICENSING AND DISTRIBUTION**

Operations in this business segment, comprising mainly the distribution of TVB’s programmes outside Hong Kong through telecast, video and new media distribution, which accounted for 20% of the Group’s revenue in the year. Total segment revenue decreased 4% from HK\$1,019 million to HK\$982 million mainly due to lower telecast licensing income from Mainland China and Malaysia, which was partially offset by the increased digital new media income from major PRC online operators.

Infringing sites and illegal boxes offering pirated TV programmes have taken their toll on the subscription TV businesses of our licensees in traditional markets like Malaysia and Singapore. Moreover, it has become a growing trend for the younger generation to download viewing material from sources online.

Free TV operators are now shifting their resources to explore and develop new media platforms, at the same time reducing their investment in the conventional TV business. Evidently, more telecommunications operators are embarking on new media ventures so as to strengthen their competitiveness in the market.



With changes in the media landscape, audiences are able to access a variety of viewing material via different platforms. Although contents from Korea and Mainland China seem to be popular in our markets, investments in local productions adopting TVB programme format have proven to be a success. Overseas counter-parts such as *All things Girl* and *Maria's Auspicious Menu* produced in Malaysia; *Chef Minor – Singapore* and *Wellness on the Go – Singapore* received good feedbacks from both markets. Such business ventures have helped publicise and heighten awareness of the TVB brand. This is crucially important to us especially in the face of challenges arising from new media consumption patterns.

We look forward to launching an OTT service in Malaysia by mid-2018 in collaboration with local network operators. In Singapore, we are working on a similar plan to expand traditional pay TV to OTT services. Our vision is to diversify and gain market share capitalising on contents specifically designed for the new media platforms and catering to the needs of the changing behaviour of consumers.

Digitisation in the TV industry has facilitated the growth of content licensing business. The increase in digital TV channels is driving a long-term need for programme content. This will become a golden opportunity for us to license our library materials.

### **Mainland China Operations**

Our operations in Mainland China included programme production and traditional licensing of content produced by TVB.

During 2017, we developed strategic cooperation with online operators on production of platform-exclusive drama serials. The first three drama titles were completed and broadcast concurrently in Mainland China and Hong Kong with notable successes, which included *Legal Mavericks* co-produced with iQiyi online platform; *Line Walker: The Prelude* and *Heart And Greed* co-produced with Tencent online platform. We believe that, through working with these major online platforms in Mainland China, we can target this prominent and rapidly growing segment by showcasing a distinctive Hong Kong-originated drama genre.

Under this co-production arrangement, TVB, as the production house, would execute the entire drama production for a production fee. Exploitation of the associated rights are allocated between the respective online partners (taking the PRC rights) and TVB (taking all of the non-PRC rights including Hong Kong and Macau). A number of new productions are currently in various stages of preparation which included *Deep In the Realm of Conscience*, *Another Era*. We anticipate that at least two new titles, subject to governmental vetting, can be released in 2018.

Licensing of TVB home-produced titles to traditional media platforms in Mainland China remains a tough business. Difficult operational environment faced by the national satellite television platforms; stricter controls imposed by the State Administration of Press, Publication, Radio, Film and Television over imported programme titles; and prolonged delays in improving the licensing arrangements in the Guangdong Province, are restricting TVB's ability to license TVB content to the traditional media.

In line with the shift from the traditional platforms to digital, our licensing of TVB content to Youku Tudou platforms have benefited from this shift. With the strong funding backing the digital new media sector, we are directing our efforts into digital and will commit more efforts and resources on exploring new media business in the coming years.

## **OVERSEAS PAY TV OPERATIONS**

Infringing sites and illegal boxes offering pirated TV programmes continued to adversely affect our overseas pay TV business. The segment revenue declined 10% from HK\$169 million to HK\$151 million in 2017. Migration from our traditional satellite TV service to the enhanced OTT platform was completed.

### **TVB Anywhere**

Leveraging on technological advancements and the high speed internet service, we have resorted to the development of TVB Anywhere around the globe. Excepting a tiny number of territories, TVB Anywhere is accessible everywhere through the Internet. Macau, Canada, Australia, New Zealand, UK and Europe are the key markets for the first phase of launch of our service. An upgraded service of TVB Anywhere was launched in June 2017, offering an extraordinary viewing experience and more diversified contents to our overseas audience.

On 11 December 2017, we launched a premier TVB Anywhere service with the cooperation of Companhia de Telecomunicações de Macau S.A.R.L., the largest telecommunication company in Macau. Remarkable sales performance was achieved during the first month after launch. This proves the effectiveness in recruiting subscribers by bundling our service with telecommunications companies. The extended exposure of TVB to Macau is perceived as significant in consolidating subscription and advertising revenue.

Further to the launch of premier service in Macau, localisation of TVB Anywhere services in the Southeast Asian markets will be our focus in 2018. While the Chinese-speaking communities are targeted as our key audiences, we saw a breakthrough in the tradition in 2017. Vietnamese-dubbed versions of our programmes were offered to non-Chinese local subscribers in Ho Chi Minh City. We are planning to take this concept further, via the TVB Anywhere platform, offering the local communities TVB programmes dubbed or subtitled in different Southeast Asian languages. We shall venture into the future with full commitment. Not only shall we expand our foreign language service concept, but will also seek improvement in enhancing the programme choice and mix. We foresee improvements, in terms of subscription and advertising revenue, as we gain popularity and recognition around the world, especially in Thailand, Cambodia and Laos.

Advancements in technology have made transmission of TV programmes borderless. Alongside with TVB Anywhere service operated via the STB and mobile applications, we have been exploring business opportunities with overseas manufacturers of electronic devices, through Android Package Kit (APK) installation on tablet, smart TV, desktop PC, etc. The branding of TVB Anywhere service will be further strengthened with this move.

In December 2017, we collaborated with Alisports in the coverage of eSports on TVB Anywhere. During the period from 11 to 14 January 2018, we provided live streaming of the World Electronic Sports Games 2017 APAC Finals held in Jiaozhou, Qingdao, coupled with Mandarin and Cantonese commentaries. eSports will be a major project of TVB Anywhere, in terms of content acquisition and revenue generation. There will be new business opportunities as our target audience will be expanded to the younger generation.

### **North America (USA)**

Our new media services managed to recapture some market share back from the otherwise the free and illegal market. Both viewership and advertising revenue are showing promising results. We are more than ready to tackle problems arising from infringers by the use of specialised sales and marketing techniques.

Last year, we won a court case against an illegal OTT syndication. This was an encouraging achievement in the long-drawn battle.

### **CHANNEL OPERATIONS**

In 2017, we adopted an aggressive strategy of producing more original local productions on cooking, health & wellness and travelogue in Malaysia and Singapore. The programmes of *Wellness-on-the-go*, *Chef Minor Singapore* and *Experience Singapore* attracted our targeted young generation in the audience groups. These developments provided added value services to new and existing subscribers and affiliated platforms, all of which made us more competitive in these markets.

We have strengthened publicity and promotional activities in the social media platforms in Malaysia and Singapore, whereby we extended the involvement of our targeted young generation viewers.

However, advertising sales revenue was hard hit by the stagnant economy, the depreciation of the Ringgit and the political situation in Malaysia. In order to overcome these challenges, our sales team will explore new business opportunities with customers in Malaysia and Singapore by offering tailor-made sales packages and proposals of local production projects.

### **COMBATING PIRACY**

In 2017, the problem of illicit streaming devices (ISDs), including TV boxes and apps, remained to be a major threat to TVB's businesses, especially on overseas pay TV and licensing of programmes.

Governments in different countries have stepped up their efforts in combating the problem. Industry coalitions have been formed to share intelligence, take legal actions and lobby governments to improve national legislation or implement administrative measures to halt the problem.

In the US, TVB succeeded in shutting down the operation of an ISD "TV Pad" through a legal action in 2016-17. A similar legal action against another ISD is due to conclude soon and a favourable outcome is expected.

In Australia, TVB filed an application with the court in mid-November 2017 for seeking a site-blocking order to require internet service providers to block foreign infringing streams on TVB programmes from reaching ISDs in Australia. We are positive about the outcome which is expected before mid-2018.

Similar site-blocking actions are being planned for other markets, including the UK and Canada.

Successful criminal investigations against piracy syndicates and ISD retail shops were reported in different countries. Criminal convictions with jail sentences were also seen in different jurisdictions, including the UK and Hong Kong. On 28 December 2017, three individuals were given jail sentences in Hong Kong for infringement offences running an ISD operation.

Effective legislation to tackle ISD activities is generally lacking in most countries. Lobbying efforts were made in the past few years with governments in the US, the UK, Canada, Australia, Singapore, Malaysia and Hong Kong for improving their domestic copyright legislation, and such efforts will continue. TVB has joined separate anti-piracy industry coalitions in the US, the UK, Canada and APAC region, and is actively involved in joint actions to suppress ISD activities in these jurisdictions.

To support TVB's business development in new overseas markets such as Vietnam and Thailand, initial contacts have been established with senior government officials on anti-piracy work in these countries. Positive responses have been received. Further efforts will continue to be made to combat piracy activities in these markets.

## **FINANCIAL REVIEW**

### **Continuing operations**

For the year ended 31 December 2017, the Group's continuing operations comprised Hong Kong TV broadcasting, Hong Kong digital new media, Big Big Channel business, programme licensing and distribution, overseas pay TV operations, channel operations and other activities, including publications and movie production.

Business expansion and new businesses gave rise to inevitable increases in costs during the year. These included (i) myTV SUPER service (introduced in April 2016 and fully operational during the year); (ii) co-production of drama serials with iQiyi and Tencent; and (iii) Big Big Channel (introduced in July 2017).

The Group recorded revenue under continuing operations of HK\$4,336 million (2016: HK\$4,210 million), an increase of 3%. Cost of sales increased from HK\$2,299 million to HK\$2,319 million, an increase of 1%. As a result, gross profit amounted to HK\$2,017 million (2016: HK\$1,911 million), an increase of 6%. Gross profit percentage stood at 47% (2016: 45%).

During the year, revenue from Hong Kong TV broadcasting increased by 6%, which was mainly contributed by new production income from co-produced drama of HK\$185 million. Licensing revenue from Singapore remained steady but revenue from Malaysia and Mainland China dropped due to unfavourable market conditions. More revenue was earned by Hong Kong digital new media business reflecting a full year's operation of myTV SUPER.

Cost of sales increased from HK\$2,299 million to HK\$2,319 million, an increase of 1%. Included in cost of sales were the cost of programmes and film rights which amounted to HK\$1,748 million (2016: HK\$1,759 million). Production costs associated with the three co-produced drama serials and full year of operation of myTV SUPER services, in particular expenditure relating to the strengthening of its programme offerings, resulted in increase in costs during the year. Such additional costs was offset by the absence of costs relating Rio 2016 Olympic Games, which was non-recurring.

Selling, distribution and transmission costs for the year amounted to HK\$724 million (2016: HK\$639 million), an increase of 13%. This increase was mainly attributed to business expansion of myTV SUPER service and the launch of Big Big Channel platform from July 2017.

General and administrative expenses for the year amounted to HK\$900 million (2016: HK\$949 million), a decrease of 5%. Despite increases of costs relating to business operations in 2017, a lesser provision for impairment losses on trade receivables was required when compared with 2016.

The Group had a net exchange gain of HK\$19 million during the year (2016: net exchange losses of HK\$26 million). Such exchange gains were related to the re-translation of various foreign currencies such as Malaysian Ringgit and Renminbi into Hong Kong Dollars and were recorded as other gains. Last year, other losses comprised a HK\$70 million settlement loss on acquisition of a further 9.99% interest in a company and a write-off of a movie investment of HK\$30 million.

Gain on disposal of investment properties arose from the sale of a property on Bade Road, Taipei, during the year. Last year, the Group realised a disposal gain of HK\$280 million for disposal of the property in Neihu, Taipei.

On 23 January 2018, the Company announced that it will not proceed with a share buy-back offer announced on 24 January 2017. As a result, professional fees in relation to the offer of HK\$29 million were written off during the year.

Finance costs for the year amounted to HK\$152 million (2016: HK\$34 million) which were mainly attributed to the full year impact of interest costs of TVB Notes.

During the year, the Group shared losses of joint ventures of HK\$32 million in total. This mainly comprised the share of the loss of Imagine Tiger Television LLC ("ITT"), which was formed as a joint venture in July 2017. Such loss was mainly attributed to the start-up costs and the interest expense amounting to HK\$27 million on a promissory note payable to the Group which was recorded under other revenues.

Profit before income tax for the year amounted to HK\$358 million (2016: HK\$553 million), a decrease of 35% over 2016.

The Group's income tax expense amounted to HK\$94 million (2016: HK\$105 million), a decrease of 10%. Whilst the profits tax rate for Hong Kong remains at 16.5%, the Group's major subsidiaries operate in overseas countries whose effective rates vary from 0% to 40%.

### **Discontinued operations**

Last year, the Group disposed of its remaining 47% equity interest in a joint venture, Liann Yee Production Co., Ltd and its subsidiaries ("Liann Yee Group"), and generated a net gain on disposal of HK\$71 million. Such a gain did not recur in the year.

### **Earnings per share**

Overall, the Group's profit attributable to equity holders for continuing and discontinued operations for the year totalled HK\$244 million (2016: HK\$500 million), a decrease of 51%, giving a basic and diluted earnings per share from continuing and discontinued operations of HK\$0.56 (2016: HK\$1.14).

### **SEGMENT RESULTS**

Revenue under Hong Kong TV broadcasting which mainly comprised income from advertisers from the Group's free TV channels and the production income from co-produced drama serials increased from HK\$2,707 million to HK\$2,870 million, an increase of 6%. The above increase in revenue of HK\$163 million and the absence of non-recurring costs relating to Rio 2016 Olympic Games were the key reasons for the change from the segment loss before non-recurring items of HK\$71 million to a segment gain of HK\$165 million.

Revenue from Hong Kong digital new media which comprised subscription and advertising income increased from HK\$230 million to HK\$306 million, an increase of 33% due to the full year of operation of myTV SUPER. Increase in content costs due to the better programme offering, resulted in a segment loss of HK\$85 million (2016: a loss of HK\$29 million).

Revenue from Big Big Channel business which comprised advertising income from online social media platform, Big Big Channel, and music entertainment income. The online social media business is undertaken by Big Big Channel Limited, which became a subsidiary in November 2016 and was previously engaged in Hong Kong pay TV business prior to the surrender of the pay TV licence in June 2017. As a result of the start-up overhead costs incurred for the launch of Big Big Channel in the second half of the year, this segment recorded a loss of HK\$11 million (2016: a gain of HK\$0.6 million).

Revenue from programme licensing and distribution which comprised licensing income from distribution of our programmes through telecast, video and new media licensing, decreased from HK\$1,019 million to HK\$982 million, a decrease of 4%. The decrease in revenue was mainly attributable to the lower telecast licensing income in Mainland China and lower license fee from MEASAT in Malaysia. The licensing income from Singapore remained relatively steady. Lower programme costs and bad debt provision were incurred. In addition, a net gain in exchange arising from stronger Renminbi and Malaysian Ringgits was also booked during the year. As a result, this segment recorded a profit of HK\$493 million (2016: HK\$444 million), an increase of 11%.

Revenue from overseas pay TV operations which comprised revenue from our pay TV platforms in North America (USA), Australia and TVB Anywhere business, decreased from HK\$169 million to HK\$151 million, a decrease of 10%. The increase in loss was mainly due to the adverse impact on subscription revenue caused by the proliferation of pirated TV contents overseas and higher costs incurred for the TVB Anywhere platform upgrade during the year which were partially offset by lower programme costs. As a result, this segment recorded a loss of HK\$53 million (2016: a loss of HK\$40 million).

Revenue from channel operations which comprised revenue from TVB8 and Xing He, the Group's satellite TV channel operations, decreased from HK\$90 million to HK\$85 million, a decrease of 6%, which was due to lower advertising income in Malaysia. More cost savings resulting from the completion of satellite migration for TVB8 and Xing He channels and a higher exchange gain arising from stronger Malaysian Ringgits were recorded during the year. The segmental profit increased from HK\$2 million to HK\$11 million, an increase of 383%.

Revenue from other activities which mainly comprised revenue from magazine publishing and movie production recorded a decrease from HK\$156 million to HK\$93 million, a decrease of 40%. Decrease in revenue was mainly due to box office income from a movie was taken up last year. This segment recorded a profit before non-recurring income of HK\$33 million (2016: HK\$27 million).

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

The Group continued to maintain a strong financial position as at 31 December 2017. Total equity stood at HK\$7,157 million (2016: HK\$7,230 million), a decrease of 1%. There has been no change in the share capital of the Company, namely 438,000,000 shares in issue.

During the year, the Group had invested in a joint venture of ITT by capital contribution for 50% of its equity interest of US\$33 million and provision of a Promissory Note of US\$67 million. The purpose of ITT is to finance the development and production of a slate of television projects.

At 31 December 2017, the Group had restricted cash of HK\$4,307 million (31 December 2016: HK\$6 million). Increase was mainly due to setting aside cash for the share buy-back offer of HK\$4,209 million. Subsequently, the amount of HK\$4,209 million has been released from restricted cash after the Board announcement dated 23 January 2018 on the decision not to proceed with the share buy-back offer. At 31 December 2017, the Group had unrestricted bank and cash balances of HK\$893 million (2016: HK\$6,198 million). The decrease of 86% was mainly due to the restricted cash for the share buy-back offer and US\$100 million investment in ITT. Out of total bank deposits and cash balances held by the Group, 56% in US dollars, 34% were in Hong Kong dollars, 7% in Renminbi and 3% in New Taiwan dollars. About 14% of the total bank deposits and cash balances (approximately HK\$709 million) were maintained in overseas subsidiaries for their daily operations. Cash not immediately required for operations was placed as time deposits and certificates of deposit.

The certificates of deposit amounting to HK\$775 million held at 31 December 2016 (as held-to-maturity financial assets under current assets) had matured on 23 January 2017. As at 31 December 2017, the Group had held-to-maturity bond securities amounting to HK\$775 million (2016: HK\$524 million) which comprises a portfolio of fixed income securities issued by a number of issuers which are listed or unlisted in Hong Kong or overseas carrying a weighted average yield-to-maturity of 6.03% per annum (2016: 4.79%) and with maturity dates ranging from 18 January 2018 to 19 February 2027. This portfolio has been set up for treasury management purpose with the view to enhance the overall yield of the Company's cash reserves, under an established treasury policy endorsed by the Executive Committee of the Board.

Trade receivables from third parties amounted to HK\$1,588 million (2016: HK\$1,279 million) increased by 24% over the last year end. Balances from one major licensee, MEASAT Broadcast Network Systems Sdn. Bhd., which ceased to be a related party during the year was re-classified as trade receivables from third parties as at the end of the year. Receivables from co-production of drama and advertising and subscription receivables resulted from the growth of myTV SUPER business also contributed to the increase. Special provision had been made to cover any potential bad and doubtful debts.

Subsequent to the year end, the Group executed a sales and purchase agreement to sell certain remaining property assets in Taiwan, with a carrying value amounting to HK\$43 million, which was presented as "Non-current asset held for sale" in the consolidated statement of financial position at the end of the year.

Trade and other payables and accruals decreased from HK\$921 million to HK\$872 million mainly due to the settlement of the provision for taxes in relation to the disposals of equity interest in the Liann Yee Group and the Neihu property, which was offset by advanced payments from co-producers of drama.

In 2016, the Group issued TVB Notes which are guaranteed by the Company and listed on The Stock Exchange of Hong Kong Limited. The TVB Notes proceeds has been deployed to fund the expansion of digital new media business and other capital expenditures, to make strategic investments and for general corporate purposes. At 31 December 2017, the gearing ratio, expressed as a ratio of gross debts to total equity, was 53.3% (2016: 53.1%).

At 31 December 2017, the Group's net current assets amounted to HK\$7,265 million (2016: HK\$8,533 million), a decrease of 15%. The current ratio, expressed as the ratio of current assets to current liabilities, was 9.2 at 31 December 2017 (2016: 10.1).

At the year end, the Group had capital commitments totalling HK\$227 million (2016: HK\$300 million), a decrease of 24%.



## **FINANCIAL GUARANTEES**

At 31 December 2017, there were guarantees given to banks amounting to HK\$8 million (2016: HK\$8 million) for banking facilities granted to an investee company.

## **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 the 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 year.

## **SHARE OPTION SCHEME**

The Company and a non wholly-owned subsidiary, Big Big Channel Holdings Limited ("Big Big Channel Holdings") adopted the Share Option Scheme and the Subsidiary Share Option Scheme respectively on 29 June 2017. These share option schemes will be valid and effective for a period of ten years from the date of adoption. No share options were granted by the Company and Big Big Channel Holdings under the Share Option Scheme and the Subsidiary Share Option Scheme during the year.

Details of the share option schemes were set out in the Company's circular dated 29 May 2017.

## **HUMAN RESOURCES**

At the year end, the Group employed a total of 4,436 full-time employees (2016: 4,249), 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. Non-sales personnel are remunerated on a monthly salaries basis. About 3% of the Group's manpower was employed in overseas subsidiaries and paid on scales and systems relevant to the respective localities and legislations.

For Hong Kong employees, discretionary bonuses may be awarded as incentive for better performance. For the year, all qualified personnel received discretionary bonuses averaging one month's basic salaries. Under the share option schemes of the Group, options may be granted to certain directors and employees of the Group to subscribe for shares in the Company or Big Big Channel Holdings.

From time to time, the Group organizes, 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 year 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.

## **TREASURY MANAGEMENT**

Under a set of guidelines laid down by the Executive Committee, the Company maintains a portfolio of fixed income securities which are held to maturity for overall enhancement of the interest yield of the Company's fund. Such fixed income securities are selected from bonds issued by listed companies or stated-owned companies, with or without credit ratings, taking into account the business sector; the coupon rate and the yield-to-maturity; the currency; and the maturity dates. The Executive Committee reviews the portfolio at each meeting to ensure that the guidelines are adhered to, and the investment objectives are fulfilled.

## **DIVIDENDS**

The Board declared interim dividends of HK\$0.60 and HK\$0.30 per share on 24 May 2017 as first interim dividend, and on 23 August 2017 as second interim dividend, respectively. The first interim dividend of HK\$0.60 per share was largely the result of the Board's resolution to defer any final dividend proposal for the 2016 annual results until outcome of the share buy-back offer was clarified. For the full year, the Board has recommended a final dividend of HK\$0.30 per share, which would make a total dividend of HK\$1.20 per share (2016: HK\$0.60 per share).

In recognising the Company's steady dividend policy during a period of lower profitability, the Board has in addition recommended a special dividend of HK\$0.70 per share for the year. By doing so, the Board wishes to demonstrate its confidence in the Company's future.

Subject to shareholders' approval at the forthcoming annual general meeting of the Company to be held on Wednesday, 23 May 2018 ("2018 AGM"), the final dividend and the special dividend shall be paid in cash to shareholders whose names are recorded on the Register of Members of the Company on 31 May 2018. Dividend warrants for the final dividend and the special dividend will be despatched to shareholders on 12 June 2018.

## **CLOSURE OF REGISTER OF MEMBERS**

### **FIRST BOOK CLOSE**

The Register of Members of the Company will be closed from Wednesday, 2 May 2018 to Wednesday, 23 May 2018, both dates inclusive, ("First Book Close Period") for the purpose of determining shareholders' entitlement to attend and vote at the 2018 AGM. During the First Book Close Period, no transfer of shares will be registered.

In order to be entitled to attend and vote at the 2018 AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 30 April 2018.

## **SECOND BOOK CLOSE**

The Register of Members of the Company will be re-opened on Thursday, 24 May 2018 and then will be closed again from Tuesday, 29 May 2018 to Thursday, 31 May 2018, both dates inclusive, ("Second Book Close Period") for the purpose of determining shareholders' entitlement to the final dividend and the special dividend. During the Second Book Close Period, no transfer of shares will be registered.

In order to be entitled to the final dividend and the special dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 28 May 2018.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

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 Codes under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout 2017.

## **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 Listing Issuers ("Model Code") 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 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 2017.

## **AUDIT COMMITTEE**

The Audit Committee has four members, namely Dr. William Lo Wing Yan (Chairman), Mr. Anthony Lee Hsien Pin, Dr. Raymond Or Ching Fai and Professor Caroline Wang Chia-Ling, the majority of whom are Independent Non-executive Directors of the Company, and is chaired by an Independent Non-executive Director. Most of the members are experienced in reviewing and analysing financial information and possess appropriate accounting and related financial management expertise.

The Audit Committee has reviewed with Management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the annual consolidated financial statements for the year ended 31 December 2017, before such statements were presented to the Board for approval.

#### **SCOPE OF WORK OF PRICEWATERHOUSECOOPERS**

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and consequently, no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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

During the year, the Company purchased US\$8,500,000 nominal amount of TVB Notes issued by TVB Finance Limited at the total price of US\$8,469,000 through open market. As at 31 December 2017, US\$500,000,000 nominal amount of TVB Notes remained outstanding. Details of TVB Notes and the purchase are set out in note 15 to the consolidated financial statements.

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

#### **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

This annual results announcement is published on the website of the Company at [www.corporate.tvb.com](http://www.corporate.tvb.com) and the designated issuer website of The Stock Exchange of Hong Kong Limited at [www.hkexnews.hk](http://www.hkexnews.hk). The Company's 2017 Annual Report containing all the information required by the Listing Rules will be despatched to shareholders and made available on the above websites in April 2018.

#### **ANNUAL GENERAL MEETING**

The 2018 AGM of the Company will be held at TVB City, 77 Chun Choi Street, Tseung Kwan O Industrial Estate, Kowloon, Hong Kong on Wednesday, 23 May 2018.

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

Hong Kong, 21 March 2018

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

**Chairman and Non-executive Director**

Dr. Charles CHAN Kwok Keung

**Vice Chairman and Non-executive Director**

LI Ruigang

**Executive Directors**

Mark LEE Po On Group Chief Executive Officer

CHEONG Shin Keong General Manager

Thomas HUI To

**Non-executive Directors**

Anthony LEE Hsien Pin

CHEN Wen Chi

**Independent Non-executive Directors**

Dr. Raymond OR Ching Fai SBS, JP

Dr. William LO Wing Yan JP

Professor Caroline WANG Chia-Ling

Dr. Allan ZEMAN GBM, GBS, JP