Television Broadcasts Limited
電視廣播有限公司

(Incorporated in Hong Kong with limited liability)
Stock Code: 00511

ANNOUNCEMENT OF 2018 ANNUAL RESULTS

RESULTS HIGHLIGHTS

For the year ended 31 December 2018:

- Revenue increased from HK$4,336 million to HK$4,477 million, an increase of 3%.
- Gross profit increased from HK$2,016 million to HK$2,141 million, an increase of 6%.
- An impairment charge/loss in the amount of HK$500 million was recognised in the profit and loss account, against bonds issued by SMI Holdings Group ("SMI") in the nominal amounts of HK$830 million. A special task force of the Board has been formed to consider all available options in recovering the amounts invested in these bonds. The market will be kept informed of major developments.
- Adjusted EBITDA* (excluding non-recurring items) decreased from HK$821 million in 2017 to HK$809 million in 2018, a decrease of 2%.
- Loss attributable to equity holders of the Company amounted to HK$199 million (2017: Profit attributable to equity holders of HK$243 million). Loss per share was HK$0.45 (2017: Earnings per share of HK$0.56).
- In the absence of the impairment charge/loss of HK$500 million against SMI, the Company would have reported a profit attributable to equity holders of HK$301 million for the full year.
- Based on the results before the impairment charge/loss which is a non-operating cash item, the Board has recommended a final dividend of HK$0.70 per share, making a total dividend of HK$1.00 per share for the full year.

BUSINESS HIGHLIGHTS

- Income from advertisers under Hong Kong TV broadcasting stabilised at HK$2,440 million, a marginal 1% decline from 2017 (2017: HK$2,459 million).

- Revenue from Mainland China increased by 38% to HK$733 million (2017: HK$530 million) which was driven by robust growth from co-production of drama serials and online video licensing.

- myTV SUPER is the leading OTT TV service provider in Hong Kong. As at 3 March 2019, it had a registered user base in Hong Kong of over 7.3 million, an increase of 26% from 5.8 million recorded a year ago. Weekly time spent on myTV SUPER had exceeded 20.1 million hours. This business turned around to give a segment profit of HK$16 million (2017: a segment loss of HK$85 million).

OUTLOOK

- The business under Hong Kong TV broadcasting will remain challenging in 2019. However the recent relaxation in indirect advertising regulations is expected to provide the much needed impetus for growth.

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

- myTV SUPER's business in 2019 will be extended into the premium subscription market by offering, under myTV Gold, premium sports; documentary; mega movie channels. myTV SUPER will collaborate with Google Ad Manager on Addressable TV advertising solution.

- Big Big Channel's global followers have exceeded 12.2 million to-date. This media platform is being transformed into a new business segment comprising marketing event service, social media advertising and promotion, e-commerce adopting the model of "showing on TV, selling in Big Big Shop", and the creation of short video content for licensing.

* Reconciliation of (Loss)/profit for the year to Adjusted EBITDA:

	2018	2017
	HK$'000	HK$'000
(Loss)/profit for the year	**(176,988)**	263,550
Finance costs	**128,495**	152,379
Interest income	**(255,179)**	(117,910)
Income tax expense	**52,948**	94,365
Depreciation and amortisation	**420,766**	387,973
Share of losses of joint ventures	**113,968**	31,517
Share of (profits)/losses of associates	**(809)**	1,589
Gain on disposal of investment properties	**(27,058)**	(18,483)
Impairment loss/(reversal of impairment loss) on trade receivables	**26,420**	(2,512)
Impairment loss on bond securities at amortised cost	**206,125**	–
Fair value loss on financial assets at fair value through profit or loss	**320,000**	–
Professional fees incurred for the aborted share buy-back offer	**–**	28,730
Adjusted EBITDA	**808,688**	821,198

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 2018 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	**2018** **HK$'000**	2017 HK$'000
Revenue	2	**4,477,306**	4,335,731
Cost of sales		**(2,336,635)**	(2,319,299)
Gross profit		**2,140,671**	2,016,432
Other revenues	2	**17,477**	24,104
Interest income	2	**255,179**	117,910
Selling, distribution and transmission costs		**(757,726)**	(723,704)
General and administrative expenses		**(967,243)**	(902,745)
Other (losses)/gains, net	4	**(45,257)**	19,138
(Impairment loss)/reversal of impairment loss on trade receivables		**(26,420)**	2,512
Impairment loss on bond securities at amortised cost	12	**(206,125)**	–
Fair value loss on financial assets at fair value through profit or loss	14	**(320,000)**	–
Gain on disposal of investment properties		**27,058**	18,483
Professional fees incurred for the aborted share buy-back offer		**–**	(28,730)
Finance costs	5	**(128,495)**	(152,379)
Share of losses of joint ventures		**(113,968)**	(31,517)
Share of profits/(losses) of associates		**809**	(1,589)
(Loss)/profit before income tax	6	**(124,040)**	357,915
Income tax expense	7	**(52,948)**	(94,365)
(Loss)/profit for the year		**(176,988)**	263,550
(Loss)/profit attributable to:			
Equity holders of the Company		**(199,080)**	243,621
Non-controlling interests		**22,092**	19,929
		(176,988)	263,550
(Loss)/earnings per share (basic and diluted) for (loss)/profit attributable to equity holders of the Company during the year	8	**HK$(0.45)**	HK$0.56

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 HK$'000	2017 HK$'000
(Loss)/profit for the year	**(176,988)**	263,550
Other comprehensive (loss)/income:		
Items that may be reclassified to profit or loss:		
Currency translation differences		
– Group	**(27,718)**	86,667
– Joint ventures	**848**	(1,307)
Share of other comprehensive (loss)/income of an associate	**(8,166)**	11,152
Reclassification adjustments of exchange to profit or loss on liquidation of a subsidiary	**(671)**	–
	(35,707)	96,512
Items that will not be reclassified to profit or loss:		
Changes in the fair value of financial assets at fair value through other comprehensive income	**(7,661)**	–
Other comprehensive (loss)/income for the year, net of tax	**(43,368)**	96,512
Total comprehensive (loss)/income for the year	**(220,356)**	360,062
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	**(232,379)**	328,088
Non-controlling interests	**12,023**	31,974
Total comprehensive (loss)/income for the year	**(220,356)**	360,062

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**1,811,070**	1,874,535
Investment properties		**29,367**	31,106
Land use rights		**49,486**	54,301
Intangible assets		**140,160**	85,587
Interests in joint ventures	10	**707,242**	769,138
Interests in associates	11	**162,129**	169,486
Financial assets at fair value through other comprehensive income		**39,775**	–
Financial assets at amortised cost	12	**2,241,328**	–
Financial assets at fair value through profit or loss	14	**330,015**	–
Deferred income tax assets		**16,060**	26,488
Prepayments	13	**83,982**	93,429
Available-for-sale financial assets		**–**	47,436
Held-to-maturity financial assets	12	**–**	711,829
Total non-current assets		**5,610,614**	3,863,335
Current assets			
Programmes and film rights		**969,842**	874,448
Stocks		**40,912**	40,774
Trade and other receivables, prepayments and deposits	13	**2,297,450**	1,901,981
Interests in joint ventures	10	**30,375**	27,068
Tax recoverable		**21,296**	3,597
Financial assets at amortised cost	12	**15,652**	–
Restricted cash	15	**1,406**	4,306,886
Bank deposits maturing after three months		**56,928**	61,227
Cash and cash equivalents		**1,211,892**	831,301
Non-current asset held for sale		**–**	42,555
Held-to-maturity financial assets	12	**–**	62,737
Total current assets		**4,645,753**	8,152,574
Total assets		**10,256,367**	12,015,909

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
AS AT 31 DECEMBER 2018

	Note	**2018**	2017
		HK$'000	HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**664,044**	664,044
Other reserves	18	**125,241**	148,277
Retained earnings		**5,393,453**	6,182,512
		6,182,738	6,994,833
Non-controlling interests		**124,293**	162,214
Total equity		**6,307,031**	7,157,047
LIABILITIES			
Non-current liabilities			
Borrowings	16	**3,016,923**	3,814,406
Deferred income tax liabilities		**141,560**	157,248
Total non-current liabilities		**3,158,483**	3,971,654
Current liabilities			
Trade and other payables and accruals	17	**740,081**	871,667
Current income tax liabilities		**23,390**	15,541
Borrowings	16	**27,382**	–
Total current liabilities		**790,853**	887,208
Total liabilities		**3,949,336**	4,858,862
Total equity and liabilities		**10,256,367**	12,015,909

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and requirements of the Hong Kong Companies Ordinance Cap. 622. 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 2018 and 2017 included in this preliminary announcement of annual results 2018 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 2018 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. For the year ended 31 December 2017, the auditor's report was 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. For the year ended 31 December 2018, the auditor's report was qualified and contain a statement under section 407(2) and 407(3) of the Companies Ordinace. The auditor's report did not contain a statement under section 406(2) of the Companies Ordinance. For details, please refer to sub-section under "EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT".

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

– HKFRS 9, "Financial instruments" and

– HKFRS 15, "Revenue from contracts with customers".

The impact of the adoption of these standards and the new accounting policies are disclosed as below. The other standards effective for the financial year ended 31 December 2018 do not have a material impact on the Group.

1. Basis of preparation and accounting policies (continued)

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

HKFRS 9 – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 1(a)(iii) below.

The Group has applied the transition exemptions, which means that the cumulative impact of the adoption has been recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The impact on the Group's retained earnings as at 1 January 2018 is as follows:

	HK$'000
Balance at 31 December 2017 as originally presented	6,182,512
Increase in provision for trade receivables	(12,397)
Opening retained earnings at 1 January 2018	6,170,115

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

	Available-for-sale HK$'000	Held-to-maturity HK$'000	Fair value through other comprehensive income ("FVOCI") HK$'000	Amortised cost HK$'000
Closing balance at 31 December 2017 – HKAS 39	47,436	774,566	–	–
Reclassify investments from available-for-sale to FVOCI	(47,436)	–	47,436	–
Reclassify bond securities from held-to-maturity to amortised cost	–	(774,566)	–	774,566
Opening balance at 1 January 2018 – HKFRS 9	–	–	47,436	774,566

1. Basis of preparation and accounting policies (continued)

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

(i) Classification and measurement (continued)

The main effects resulting from this reclassification are as follows:

Reclassification from available-for-sale to FVOCI

The Group elected to present in other comprehensive income ("OCI") for changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. There was no difference between the previous carrying amount and the revised carrying amount of the other financial assets at 1 January 2018 to be recognised in opening retained earnings.

Reclassification from held-to-maturity to amortised cost

Bond securities that would have previously been classified as held-to-maturity are now classified at amortised cost. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount of the other financial assets at 1 January 2018 to be recognised in opening retained earnings.

(ii) Impairment of financial assets

The Group's trade receivables are subject to HKFRS 9's new expected credit loss model. The Group was required to revise its impairment methodology under HKFRS 9. The impact of the change in impairment methodology on the Group's retained earnings is disclosed as follows:

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

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

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

(ii) Impairment of financial assets (continued)

Trade receivables (continued)

The loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	Provision for impairment loss on trade receivables HK$'000
Balance at 31 December 2017	
– calculated under HKAS 39	173,068
Amounts restated through opening retained earnings	12,397
Opening loss allowance at 1 January 2018	
– calculated under HKFRS 9	185,465

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Debt investments

Except SMI Holdings Group Limited ("SMI") Bonds and China Energy Reserve and Chemicals Group ("CERC") Bonds as detailed in Note 12(b) and Note 12(c) respectively, all of the Group's other debt investments at amortised cost are considered to have low credit risk, and the loss allowance recognised during the period would be therefore limited to 12 months expected losses. Management considers the credit risk for bonds is low as they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term, resulted in immaterial impact on the loss allowance for these financial assets.

1. Basis of preparation and accounting policies (continued)

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

(iii) HKFRS 9 – Accounting policies applied from 1 January 2018

Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

– those to be measured subsequently at fair value (either through OCI, or through profit or loss), and

– those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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

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

(iii) HKFRS 9 – Accounting policies applied from 1 January 2018 (continued)
Investments and other financial assets (continued)
Debt investments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

– Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), net, together with foreign exchange gains and losses.

– FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses), net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), net.

– FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses), net in the period in which it arises.

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

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

(iii) HKFRS 9 – Accounting policies applied from 1 January 2018 (continued)

Investments and other financial assets (continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other revenues when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses), net in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For financial assets at amortised cost and FVOCI at 1 January 2018, the Group applies 12 months expected credit losses permitted by HKFRS 9, no resulted loss allowance were recognised on 1 January 2018.

(iv) HKFRS 15 – Accounting policies applied from 1 January 2018

The Group has used the modified retrospective approach for transition to the new revenue standard, which means that the cumulative impact of the adoption has been recognised in retained earnings as of 1 January 2018 and that comparatives have not been restated.

1. Basis of preparation and accounting policies (continued)

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

(iv) HKFRS 15 – Accounting policies applied from 1 January 2018 (continued)

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to be recognised through a 5-step approach: (i) identify the contract(s) with customer; (ii) identify separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognise revenue when a performance obligation is satisfied. The core principle is that a company should recognise revenue when control of a good or service is transferred to a customer.

Revenues are recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

Control of the good or service is transferred over time if the Group's performance:

– provides all of the benefits received and consumed simultaneously by the customer;

– creates or enhances an asset that the customer controls as the Group performs; or

– does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs, which best depict the Group's performance in satisfying the performance obligation.

The timing of revenue recognition and accounting policies under HKFRS 15 for the Group is not materially different from the prior reporting periods.

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

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

(iv) HKFRS 15 – Accounting policies applied from 1 January 2018 (continued)

Incremental costs incurred to obtain a contract or the costs incurred to generate/enhance resources of the Group that will be used in satisfying performance obligations of a specifically identified contract in the future, if recoverable, are capitalised as contract acquisition and fulfilment costs and subsequently amortised when the related revenue is recognised. To reflect this change in presentation, contract acquisition and fulfilment costs with amount of HK$16,871,000 and HK$13,633,000 are now separately presented under trade and other receivables, prepayments and deposits as at 1 January 2018 and 31 December 2018 respectively, as a result of the adoption of HKFRS 15.

A contract liability is recognised when a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, preceding the Group's performance. To reflect this change in presentation, contract liabilities, including certain receipts in advance, deferred revenue and customers' deposits, with amount of HK$273,170,000 and HK$158,663,000 are now separately presented under trade and other payables and accruals as at 1 January 2018 and 31 December 2018 respectively, as a result of the adoption of HKFRS 15.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 16 "Leases"

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Date of adoption by Group

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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

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

HKFRS 16 "Leases" (continued)

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$104,237,000. The Group preliminarily estimates that approximately 16% of these relate to payments for short-term and low value leases under HKFRS 16 can be exempted from inclusion of the statement of financial position and which will be recognised on a straight-line basis as an expense in profit or loss. Upon adoption of HKFRS 16, the remaining operating lease commitments will be recognised in the consolidated financial statements as right-of-use assets, with corresponding lease liabilities. However, the Group assessed that there would not be a significant effect on the Group's profit and classification of cash flows.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2. **Revenue, interest income 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 e-commerce income, sales of magazines, management fee income, movie income, facility rental income and other service fee income.

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

	2018	2017
	HK$'000	HK$'000
Revenue		
Income from advertisers, net of agency deductions	**2,714,248**	2,659,979
Licensing income	**842,489**	875,256
Subscription income	**281,962**	255,861
Co-production income	**298,919**	185,338
Others	**385,848**	415,070
	4,523,466	4,391,504
Less: withholding tax	**(46,160)**	(55,773)
	4,477,306	4,335,731
Interest income	**255,179**	117,910
Other revenues	**17,477**	24,104
	4,749,962	4,477,745

3. Segment information

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

The Group Chief Executive Officer is the Group's chief operating decision maker. The Group reports its operating segments based on the internal reports reviewed by the Group Chief Executive Officer for the purposes of allocating resources to the segments and assessing their performance. During the year, the Group has determined to merge "Channel operations" into "Programme licensing and distribution" in view of similar business to distribute television channels operated by these two segments. In addition, the Group has renamed the segments "Hong Kong digital new media business" and "Overseas pay TV operations" to "myTV SUPER" and "Overseas pay TV and TVB Anywhere" respectively. The directors of the Company consider that the changes in the reportable segments would be useful to users of the consolidated financial statements. As such, the comparative figures have been adjusted to conform with the reclassification.

3. Segment information (continued)

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

	Hong Kong TV broadcasting HK$'000	myTV SUPER HK$'000	Big Big Channel business HK$'000	Programme licensing and distribution HK$'000	Overseas pay TV and TVB Anywhere HK$'000	Other activities HK$'000	Corporate support HK$'000	Elimination HK$'000	Total HK$'000
For the year ended 31 December 2018									
Revenue									
External customers	2,923,441	402,050	87,274	869,867	140,239	54,435	–	–	4,477,306
Inter-segment	49,721	42,847	15,296	60,588	–	7,905	66,555	(242,912)	–
Total	2,973,162	444,897	102,570	930,455	140,239	62,340	66,555	(242,912)	4,477,306
Timing of revenue recognition									
At a point in time	24,183	1,488	3,153	205,039	70	13,831	–	–	247,764
Over time	2,899,258	400,562	84,121	664,828	140,169	40,604	–	–	4,229,542
Total revenue from external customers	2,923,441	402,050	87,274	869,867	140,239	54,435	–	–	4,477,306
Reportable segment profit before the following items	172,676	15,625	(19,437)	414,340	(15,506)	(16,751)	(128,728)	–	422,219
Impairment loss on bond securities at amortised cost	(206,125)	–	–	–	–	–	–	–	(206,125)
Fair value loss on financial assets at fair value through profit or loss	(320,000)	–	–	–	–	–	–	–	(320,000)
Gain on disposal of investment properties	–	–	–	–	–	27,058	–	–	27,058
Reportable segment loss	(353,449)	15,625	(19,437)	414,340	(15,506)	10,307	(128,728)	–	(76,848)
Interest income#	177,269	29	6	10,407	56	1,445	–	–	189,212
Finance costs	–	–	–	–	–	–	(128,495)	–	(128,495)
Depreciation and amortisation	(295,622)	(90,970)	(5,221)	(12,013)	(5,872)	(5,003)	(6,065)	–	(420,766)
Additions to non-current assets*	249,582	76,148	3,262	8,346	7,332	139	57,728	–	402,537

3. **Segment information** (continued)

	Hong Kong TV broadcasting HK$'000	myTV SUPER HK$'000	Big Big Channel business HK$'000	Programme licensing and distribution HK$'000	Overseas pay TV and TVB Anywhere HK$'000	Other activities HK$'000	Corporate support HK$'000	Elimination HK$'000	Total HK$'000
For the year ended 31 December 2017 (restated)									
Revenue									
External customers	2,817,857	280,295	44,008	954,654	151,257	87,660	–	–	4,335,731
Inter-segment	52,058	25,649	24,674	61,974	–	5,654	–	(170,009)	–
Total	2,869,915	305,944	68,682	1,016,628	151,257	93,314	–	(170,009)	4,335,731
Timing of revenue recognition									
At a point in time	7,136	1,538	4,240	15,838	64	21,896	–	–	50,712
Over time	2,810,721	278,757	39,768	938,816	151,193	65,764	–	–	4,285,019
Total revenue from external customers	2,817,857	280,295	44,008	954,654	151,257	87,660	–	–	4,335,731
Reportable segment profit before gain on disposal of investment properties	164,978	(84,875)	(10,915)	504,223	(52,960)	6,203	(152,379)	–	374,275
Gain on disposal of investment properties	–	–	–	–	–	18,483	–	–	18,483
Reportable segment profit	164,978	(84,875)	(10,915)	504,223	(52,960)	24,686	(152,379)	–	392,758
Interest income#	81,775	75	414	4,729	166	3,758	–	–	90,917
Finance costs	–	–	–	–	–	–	(152,379)	–	(152,379)
Depreciation and amortisation	(286,732)	(72,006)	(6,662)	(12,022)	(5,506)	(5,045)	–	–	(387,973)
Additions to non-current assets*	269,973	161,201	23,373	14,206	13,643	749	–	–	483,145

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

\# excluding interest income from a joint venture

3. **Segment information** (continued)

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

	2018 **HK$'000**	2017 HK$'000
Reportable segment (loss)/profit	**(76,848)**	392,758
Professional fees incurred for the aborted share buy-back offer	**–**	(28,730)
Interest income from a joint venture	**65,967**	26,993
Share of losses of joint ventures	**(113,968)**	(31,517)
Share of profits/(losses) of associates	**809**	(1,589)
(Loss)/profit before income tax	**(124,040)**	357,915

No single customer accounted for 10% or more of the total revenue for the years ended 31 December 2018 and 2017.

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

	2018 **HK$'000**	2017 HK$'000
Hong Kong	**3,153,141**	3,039,503
Mainland China	**732,874**	529,592
Malaysia and Singapore	**371,768**	512,517
USA and Canada	**121,583**	123,232
Vietnam	**25,719**	47,844
Australia	**22,543**	42,809
Europe	**11,165**	9,039
Other countries	**38,513**	31,195
	4,477,306	4,335,731

4. Other (losses)/gains, net

	2018 **HK$'000**	2017 HK$'000
Net exchange (losses)/gains	**(24,513)**	19,138
Losses on movie and drama investments	**(27,647)**	–
Gain on purchase of Notes	**6,903**	–
	(45,257)	19,138

5. Finance costs

	2018 **HK$'000**	2017 HK$'000
Interest on bank loans and overdraft	**989**	5,151
Interest on Notes	**120,280**	140,002
Amortised amount of transaction costs on Notes	**7,226**	7,226
	128,495	152,379

6. (Loss)/profit before income tax

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

	2018 **HK$'000**	2017 HK$'000
Net exchange losses/(gains)	**24,513**	(19,138)
Gross rental income from investment properties	**(4,465)**	(6,121)
Direct operating expenses arising from investment properties	**699**	882
Loss on disposals of property, plant and equipment	**1,227**	792
Auditors' remuneration		
– Audit services	**5,748**	5,311
– Non-audit services	**2,701**	2,891
Cost of programmes and film rights	**1,810,229**	1,748,388
Cost of movies	**9,812**	7,408
Cost of other stocks	**27,700**	33,410
Depreciation	**406,332**	379,818
Amortisation of land use rights	**3,087**	3,029
Amortisation of intangible assets	**11,347**	5,126
Operating leases		
– Equipment and transponders	**31,857**	36,822
– Land and buildings	**49,127**	38,945
Employee benefit expense (excluding directors' emoluments)	**1,695,466**	1,657,447

7. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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:

	2018	2017
	HK$'000	HK$'000
Current income tax:		
– Hong Kong	**28,531**	44,787
– Overseas	**29,299**	229,812
– Under/(over) provisions in prior years	**557**	(1,573)
Total current income tax	**58,387**	273,026
Deferred income tax:		
– Origination and reversal of temporary differences	**12,928**	(182,203)
– Resulting from decrease in tax rate	**(67)**	3,542
– Over provisions in prior years	**(18,300)**	–
Total deferred income tax	**(5,439)**	(178,661)
	52,948	94,365

8. (Loss)/earnings per share

(Loss)/earnings per share is calculated based on the Group's loss attributable to equity holders of the Company of HK$199,080,000 (2017: profit of HK$243,621,000) and 438,000,000 shares in issue throughout the years ended 31 December 2018 and 2017.

During the year ended 31 December 2018, no fully diluted loss per share is presented as the assumed exercise of the share options would result in a decrease in loss per share.

During the year ended 31 December 2017, no fully diluted earnings per share was presented as there were no potentially dilutive shares outstanding.

9. Dividends

	2018 HK$'000	2017 HK$'000
2017 first interim dividend paid of HK$0.60 per ordinary share	–	262,800
Interim dividend paid of HK$0.30 (2017: second interim dividend of HK$0.30) per ordinary share	**131,400**	131,400
Proposed final dividend of HK$0.70 (2017: HK$0.30) per ordinary share	**306,600**	131,400
2017 special dividend paid of HK$0.70 per ordinary share	–	306,600
	438,000	832,200

At a meeting held on 20 March 2019, the Directors recommended a final dividend of HK$0.70 per ordinary share. The proposed dividends for 2018 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 2019.

10. Interests in joint ventures

	2018 HK$'000	2017 HK$'000
Non-current		
Investment costs	**273,394**	273,163
Less: accumulated share of losses	**(153,506)**	(38,971)
	119,888	234,192
Funds advanced to joint ventures	**29,755**	42,431
Loan to a joint venture	**522,100**	521,083
Interest receivable from a joint venture	**62,652**	–
	734,395	797,706
Less: share of losses in excess of investment costs	**(27,153)**	(28,568)
	707,242	769,138
Current		
Interest receivable from a joint venture	**30,375**	27,068
	737,617	796,206

11. Interests in associates

	2018 HK$'000	2017 HK$'000
Investment costs	**174,000**	174,000
Less: accumulated share of losses	**(4,906)**	(5,715)
(Less)/add: accumulated share of other comprehensive (loss)/income	**(6,965)**	1,201
	162,129	169,486

12. Financial assets at amortised cost/held-to-maturity financial assets

	2018 HK$'000	2017 HK$'000
Non-current		
Bond securities at amortised cost:		
Unlisted	**447,936**	220,987
Listed in Hong Kong	**814,280**	279,328
Listed in other countries	**1,185,237**	211,514
Less: provision for impairment loss on bond securities (notes b and c)	**(206,125)**	–
	2,241,328	711,829
Current		
Bond securities at amortised cost:		
Listed in Hong Kong	**15,652**	62,737
	2,256,980	774,566
Presentation in the consolidated statement of financial position:		
Financial assets at amortised cost	**2,256,980**	–
Held-to-maturity financial assets	**–**	774,566
	2,256,980	774,566

Notes:

(a) The bond securities carry a weighted average yield to maturity of 5.67% (2017: 6.03%) per annum and the maturity dates are ranging from 28 July 2019 to 1 October 2027. The largest fixed income securities from the same issuer within the portfolio, which is made up by a total of 45 (2017: 18) issuers of fixed income securities, represented approximately 2.7% (2017: 1.7%) of the total assets of the Group as at 31 December 2018. They are denominated in Hong Kong dollars and US dollars. The interest received during the year from the bond securities at amortised cost amounted to HK$108,636,000 (2017: HK$39,822,000).

12. Financial assets at amortised cost/held-to-maturity financial assets (continued)

(b) SMI Fixed Coupon Bonds

On 23 April 2018, the Group subscribed a US$23,000,000 9.5% unsecured redeemable fixed coupon bonds due 2020 (extendable to 2021) ("Fixed Coupon Bonds") issued by SMI. Trading in SMI's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended with effect from 3 September 2018. The suspension of trading of SMI's shares for a period of more than ten consecutive trading days has triggered an event of default for Fixed Coupon Bonds in accordance with the subscription agreement. SMI has made announcements that since its trading suspension, SMI and certain of its subsidiaries have defaulted in certain borrowings. Pursuant to SMI's announcement dated 12 March 2019, SMI was in progress of its debt restructuring by way of prospective conversion of certain outstanding debts into equity of SMI, and the raising of capital by way of prospective subscription of new shares of SMI. However, the letters of intent and the memorandum of understanding in relation to the above-mentioned debt restructuring activities are not legally binding, and may or may not materialise.

In view of the above background, management performed an impairment assessment of the Fixed Coupon Bonds using a lifetime expected credit loss model, which estimated the eventual shortfall of cash recoverable from the Fixed Coupon Bonds. Based on management's impairment assessment, a full impairment charge of the Fixed Coupon Bonds of HK$180,125,000 was recognised for the year ended 31 December 2018. The impairment assessment used key inputs based on financial information extracted from the 2017 audited financial statements and 2018 interim financial information of SMI Group and other forward looking factors in view of SMI's recent announcements.

(c) CERC Bonds

The Group had purchased the CERC Bonds totalling US$12 million nominal amount (2018 Bond US$6 million and 2019 Bond US$6 million). On 11 May 2018, CERC had defaulted the principal payment of the 2018 CERC Bond due in May 2018 and as a result, this triggered a cross default for the 2019 CERC Bond. CERC is a state-owned oil and gas trading, logistics and distribution and supply services provider in China. According to CERC's announcement dated 25 May 2018, CERC plans to divest certain of its assets in order to resolve its current cash flow difficulties. Management has reviewed a report ("Report") dated 17 August 2018 and prepared by FTI Consulting (Hong Kong) Limited, the financial advisor appointed by CERC, in relation to, among other things, a review of the financial condition of CERC. CERC has prepared a plan for the repayment of the principal and the interest over an eight-year period. On 24 December 2018, the Group had received coupon interests from CERC Bonds. Based on the review of the Report and the receipt of the bond interests, management believes that CERC has both the intention and ability to settle the outstanding balances in an extended schedule. The Group has approached the impairment assessment by way of discounting of the cashflow over an eight-year period and has adopted a discount rate of 14% as the basis for calculation of the net present value of the CERC Bonds. On this basis, an impairment loss of HK$26,000,000 was made during the year.

13. Trade and other receivables, prepayments and deposits

	2018	2017
	HK$'000	HK$'000
Non-current		
Prepayments related to capital expenditure	**83,982**	93,429
Current		
Trade receivables from:		
Associates	**1,703**	4,322
Third parties (note a)	**1,895,348**	1,587,909
	1,897,051	1,592,231
Less: provision for impairment loss on receivables from:		
Associates	**(1,458)**	(1,455)
Third parties	**(183,363)**	(171,613)
Other receivables, prepayments and deposits	**571,587**	482,818
Contract acquisition and fulfilment costs (note b)	**13,633**	–
	2,297,450	1,901,981
	2,381,432	1,995,410

Notes:

(a) 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

(b) As a result of initial application of HKFRS 15, contract acquisition and fulfilment costs as at 31 December 2018 are separately presented (see Note 1(a)(iv)).

At 31 December 2018, the ageing of trade receivables based on invoice date including trading balances due from associates was as follows:

	2018	2017
	HK$'000	HK$'000
Current	**505,936**	542,528
1-2 months	**368,750**	237,924
2-3 months	**199,636**	154,833
3-4 months	**150,217**	151,347
4-5 months	**115,525**	124,564
Over 5 months	**556,987**	381,035
	1,897,051	1,592,231

14. Financial assets at fair value through profit or loss

	2018	2017
	HK$'000	HK$'000
At 1 January	**–**	–
Subscription of convertible bonds	**651,509**	–
Change in fair value	**(320,000)**	–
Exchange differences	**(1,494)**	–
At 31 December	**330,015**	–

In addition to the Fixed Coupon Bonds described in Note 12(b), the Group subscribed a US$83,000,000 7.5% secured redeemable convertible bonds due 2020 (extendable to 2021 by mutual agreement) ("Convertible Bonds") issued by SMI on 7 May 2018. The Company may exercise its right to convert all or any part of the principal amount of the Convertible Bonds into new shares of SMI at any time during the period from and including the date falling six months from 7 May 2018 up to the close of the business on the maturity date of the Convertible Bonds at the initial conversion price of HK$3.85 per conversion share. None of them was converted up to 31 December 2018.

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

As at 31 December 2018, management performed a fair value assessment of the Convertible Bonds in respect of the debt and equity conversion features, together with the Collateral pledged against the Convertible Bonds. As a result of the assessment performed on the Fixed Coupon Bonds as described in Note 12(b) and the suspension of trading of SMI's shares which triggered an event of default for Convertible Bonds, management considered the debt and equity conversion features of the Convertible Bonds would have a minimal value. Therefore, management has determined to perform a fair value assessment on the Collateral. Management has engaged an independent firm of professionally qualified valuers to perform a valuation of the Chengdu Runyun group using the discounted cash flow model under the income approach. Based on the fair value assessment, the Group recognised a fair value loss of HK$320,000,000 on the Convertible Bonds for the year ended 31 December 2018.

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

The fair value assessment of the collateral is determined based on a financial forecast of Collateral business covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated rate stated below. The key assumptions adopted in the model calculation are as follows:

Gross margin:	46%
Growth rate of number of cinemas:	25-33%
Long-term growth rate:	1.8%
Discount rate:	19.5%

15. 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. During the year, such amount was released from restricted cash after the Company's announcement dated 23 January 2018 on the decision not to proceed with the share buy-back offer.

16. Borrowings

	2018	2017
	HK$'000	HK$'000
Non-current		
Notes, unsecured (note)	**3,016,923**	3,814,406
Current		
Bank overdraft	**27,382**	–
	3,044,305	3,814,406

Note:

On 11 October 2016, the Group issued US$500,000,000 3.625% five-year notes due 2021 ("Notes"). As at 31 December 2018, the Company purchased US$112,210,000 (2017: US$8,500,000) nominal amount of the Notes issued by TVB Finance Limited.

17. Trade and other payables and accruals

	2018	2017
	HK$'000	HK$'000
Trade payables to:		
Associates	**9,087**	–
Third parties	**103,215**	134,264
	112,302	134,264
Contract liabilities (note)	**158,663**	–
Receipts in advance, deferred income and customers' deposits	**–**	283,029
Provision for employee benefits and other expenses	**143,633**	155,825
Accruals and other payables	**325,483**	298,549
	740,081	871,667

Note:

As a result of initial application of HKFRS 15, contract liabilities as at 31 December 2018 are separately presented (see Note 1(a)(iv)).

At 31 December 2018, the ageing of trade payables based on invoice date including trading balances due to associates was as follows:

	2018	2017
	HK$'000	HK$'000
Current	**81,501**	78,050
1-2 months	**22,847**	26,978
2-3 months	**4,039**	8,805
3-4 months	**965**	3,443
4-5 months	**85**	921
Over 5 months	**2,865**	16,067
	112,302	134,264

18. Other reserves

	General reserve HK$'000	Capital reserve HK$'000	Legal reserve HK$'000	Share-based payment reserve HK$'000	Financial assets at FVOCI reserve HK$'000	Translation reserve HK$'000	Total HK$'000
Balance at 1 January 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 income of an associate	–	–	–	–	–	11,152	11,152
Change in ownership interests in subsidiaries without change of control	–	(3,741)	–	–	–	–	(3,741)
Balance at 31 December 2017	70,000	(3,741)	104,011	–	–	(21,993)	148,277
Balance at 1 January 2018	70,000	(3,741)	104,011	–	–	(21,993)	148,277
Transferred from retained earnings	–	–	8,182	–	–	–	8,182
Currency translation differences:							
– Group	–	–	–	–	–	(17,649)	(17,649)
– Joint ventures	–	–	–	–	–	848	848
Share of other comprehensive income of an associate	–	–	–	–	–	(8,166)	(8,166)
Reclassification adjustments of exchange to profit or loss on liquidation of a subsidiary	–	–	–	–	–	(671)	(671)
Share-based payments	–	–	–	24,125	–	–	24,125
Change in ownership interests in subsidiaries without change of control	–	(16,958)	–	–	–	(5,086)	(22,044)
Revaluation	–	–	–	–	(7,661)	–	(7,661)
Balance at 31 December 2018	**70,000**	**(20,699)**	**112,193**	**24,125**	**(7,661)**	**(52,717)**	**125,241**

19. Comparative figures

Certain comparative figures have been reclassified to conform with current year's presentation. These reclassifications have no impact on the Group's total equity as at 31 December 2018 and 2017, or on the Group's (loss)/profit for the years ended 31 December 2018 and 2017.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Television Broadcasts Limited ("Board"), I would like to present the Company's financial results and the major developments for the financial year ended 31 December 2018.

FINANCIAL PERFORMANCE AND DIVIDENDS

During the year, the Group's revenue grew by 3% to HK$4,477 million. Gross profit increased by 6% to HK$2,141 million. An impairment charge/loss in the amount of HK$500 million was recognised in the profit or loss account against bonds issued by SMI Holdings Group ("SMI") in the nominal amounts of HK$830 million. Loss per share was HK$0.45 (2017: earnings per share: HK$0.56). In the absence of the impairment charge/loss of HK$500 million against SMI, the Company would have reported a profit attributable to equity holders of HK$301 million for the full year, compared with a profit attributable to shareholders of HK$243 million for the year ended 31 December 2017.

The Company's policy for dividend is to maintain as far as possible a steady dividend stream to shareholders. The level of such dividend payments is a reflection of the Board's view of the long term profitability of the Company's business.

The Board declared an interim dividend of HK$0.30 per share on 22 August 2018. Based on the result before the impairment charge/loss which is a non-operating cash item, the Board has recommended a final dividend of HK$0.70 per share, making a total dividend of HK$1.00 per share for the full year.

BOARD STRATEGIES AND KEY ACHIEVEMENTS

The internet has had a profound impact on the way we live and work. Often described as the "third" industrial revolution, the internet brings positive changes to improve our lifestyle and the way we receive information and content, but severely disrupts the old economy companies with conventional business models. Many companies are urged to adapt new models, in order to sustain in business and to grow.

The year of 2018 was a year full of challenges for us. The ongoing US-China trade disputes and the reality of an economic slowdown in Mainland China gave rise to headwind and increased uncertainties. Despite of these challenges, the Board is committed to transformation and staying ahead of the curve.

To confront these disruptive changes, the Board has adopted three clear strategies for long-term development: investing in digital platforms, raising content standard; and developing new markets, all of which are crucial to our future successes.

We have made a number of clear strides in building new digital platforms to complement our terrestrial TV business. Within a period of three years, we successfully launched two substantial digital platforms – over-the-top ("OTT") platform (via myTV SUPER and TVB Anywhere), and social media platform (via Big Big Channel) which have gained wide market acceptances. With its unrivalled track record, Jade channel is well-positioned to help develop viewers' base for the new digital platforms. In 2018, closer integrations between platforms remained our key business priority. With content propositions in both long and short formats designed for TV broadcasting and mobile devices, we are endeavoring to address the needs of a wide range of audience including those digitally savvy young viewers.

In April 2019, myTV SUPER will be turning three. With more than 7.3 million registered users, myTV SUPER is the second most-watched platform after Jade and is the leader of OTT TV service in Hong Kong. We are continuing to attract new subscribers through our own channel and our ISP partners. To further develop advertising sales, we are strengthening our library content to drive consumption and broaden the demographics. As a new extension to our Big Big Channel business, I am pleased to note that Big Big Shop, an e-shop platform, began service in mid-2018 and has delivered notable sales records to date.

Mainland China is our key market for growth. In the online world, we are witnessing an explosive growth in online video businesses with mega online players competing heavily for content and audiences. Strategically partnering with Tencent and iQiyi to develop high quality content, TVB continued during 2018 with the co-production model to create drama content with a "Hong Kong-produced" label, serving both Mainland China and our domestic market. Three co-production titles (*Deep in The Realm of Conscience*; *Another Era* and the soon-to-be-released *The Defected*) were delivered to our partners, which resulted in an encouraging jump in co-production revenue. Whilst the growth in co-production revenue was promising, we are mindful of the changing landscape for content production in Mainland China which could be subject to regulatory measures at short notice. In the long run, we aim to further scale up the ratio of co-production drama against TVB's overall outputs.

Our licensing business in Mainland China made good progress. Under TVBC, our subsidiary and sole distributor agent, we continued to license TVB drama content to national networks and online video partners including Youku Tudou. To position for growth in this important market, we increased our stake in TVBC from 55% to 70% during the year.

We are fine-tuning our programme licensing and distribution business to adapt to market changes. Technology disruption is equally impacting our platform customers in Singapore, Malaysia and Vietnam, as their steady subscription revenue is increasingly under pressure. We are working together with our customers to resolve these business interruptions in a partnership manner.

ENFORCEMENT PROGRESS

TVB is committed to protecting our intellectual property rights by engaging in proactive anti-piracy and enforcement programmes in all of our major overseas markets. During the year, we have made significant progress in Australia and Singapore in combating piracy by way of site-blocking orders. We are also starting similar site-blocking actions in other overseas markets, including the UK and Malaysia.

GOVERNANCE

I am most thankful to my fellow Board members for their guidance and support. The Board is supported by a total of eleven members, and its membership remained stable. With this sizable Board, I believe that we have a strong mix of skillset and depth of knowledge for our business.

OUTLOOK

2019 will continue to be full of challenges for the Board and the Management. We are confident that with the timely rollout of myTV SUPER and Big Big Channel, we have gained an important footing in the digital marketplace during a period of transformation. We foresee that Big Big Shop will be a beneficiary of the strong promotional power of our terrestrial TV channels. The recent relaxation in indirect advertising regulations is expected to provide the much needed impetus for growth.

Charles Chan Kwok Keung
Chairman

Hong Kong, 20 March 2019

GROUP CEO'S REPORT

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

STRATEGIES AND KEY ACHIEVEMENTS

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

TV Broadcasting

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

Supported by our consistent prime time TV ratings, we have become a trusted partner of many advertiser clients. By structuring the five digital channels with separate demographic targets, we have built over the years a well-diversified client base ranging from international conglomerates to local shops, which helped mitigate the concentration risk and minimise the impact of fluctuating market cycles. In the 2018 interim report, we reported a 2% year-on-year increase in income from advertisers on terrestrial TV channels and were expecting a recovery of the advertising market. However, our business in the second half of the year was disrupted by many factors including tensions arising from the US-China trade disputes; slower China economy; and cautious consumers' sentiment which dampened the growth momentum. For the full year, income from advertisers reported a marginal 1% decline. With the market uncertainties still lingering on, we anticipate that the advertising sales under Hong Kong terrestrial TV broadcasting will remain challenging in 2019.

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

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

myTV SUPER Business

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

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

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

Big Big Channel Business

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

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

Mainland China Businesses

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

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

International Distribution

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

Resource Re-allocation

We made a number of changes to our internal structure to align with the new business direction. Over the past years, we added a number of new headcounts to strengthen our digital team for expediting the developments of OTT businesses and social media platform. At the same time, we expanded the production team for TVB Finance & Information Channel (Channel 85) which caters to a growing group of local and overseas investment-savvy viewers. To adapt to a new production workflow, we rationalised the production line by closing one of our studios as more shootings are done on location, and the resources supporting the international licensing business as the old system of programme play-out is being replaced by server-driven OTT operations. During the year, we migrated our magazine publication business on line, and closed down the printed magazine publication. We are confident that these changes will facilitate the Company’s long term development.

SMI Bonds

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

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

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

Mark Lee Po On
Group Chief Executive Officer

Hong Kong, 20 March 2019

REVIEW OF OPERATIONS

HONG KONG TV BROADCASTING

Hong Kong TV broadcasting business continued to be the largest revenue contributor, accounting for 65% of the Group's revenue. This segment includes Hong Kong terrestrial TV broadcasting and the co-production of drama serials partnering with leading Chinese online video platforms. During the year, segment revenue from external customers increased by HK$105 million or 4% year-on-year from HK$2,818 million to HK$2,923 million mainly due to higher co-production income earned during the year.

ADVERTISING REVENUE

The year of 2018 started on a fairly optimistic tone. However, tensions arising from US-China trade disputes intensified since mid-year, bringing volatilities to the stock markets around the world and dampening market sentiments. In Hong Kong, Gross Domestic Product (GDP) growth and retail sales index exhibited a notable slowdown in the third quarter and slackened further in the last quarter of the year. In this climate, advertisers are acting cautiously before making air-time investments. As recorded in the interim report for the period ended 30 June 2018, income from advertisers registered a mild 2% year-on-year growth, which supported momentarily a recovery after a prolonged decline since 2015. However, this growth did not further in the second half of the year as the slowing Mainland China economy dampened consumers' sentiment. The influx of cross-border tourists brought by the opening of two transport links: the high-speed rail connection with Mainland China and the Hong Kong Zhuhai Macau Bridge, failed to translate into an immediate spending bump, given the depreciation of Renminbi and Mainland China's crackdown on grey-market imports of luxury goods.

The weaker economy and cautious consumption sentiment had taken a toll on our income from advertisers, resulting in a 3% year-on-year decline in the second half of the year. Overall for the full year, the income from advertisers on terrestrial TV channels sustained a marginal decline of 1% from HK$2,459 million to HK$2,440 million.

As the most watched platform in Hong Kong, TVB channels continue to attract a diversified advertiser base. The fast moving consumer goods ("FMCG") category continued to dominate our client base. Overall, the rankings of the key advertisers in the spending league table were maintained stable with the five top spending categories mirroring those of last year. Milk powder secured the top spending position but witnessed a further decline this year as the retail sales had persistently been affected by enforcement of the hand-carry limit for infant formula across border, a law introduced back in 2013. The second largest category, loan and mortgage companies continued to use TV commercials for their image-building campaigns and had increased spending from last year. Skincare category, secured the third position with an ad-spend growth reversing the downward trend since 2014. But it is still too early to conclude a turnaround for this category. The fourth and fifth largest spenders – travel agents, and pharmaceutical and healthcare supplements, had both recorded promising growth. However, advertising revenue from the Government and related organisations weakened, as there were no special events and campaigns in 2018. Local properties and mobile phones advertisers reported a shrinking trend with fewer product promotions.

We continue to offer air-time packages and tailor-made packages to coincide with key local events and the seasonal festivities which were successful in bringing in advertisers looking for campaigns to coincide with their product promotions. We will continue to tap into new advertising categories, and to further enlarge our client base into nearby cities in the Greater Bay Area.

With the recent relaxation in regulations governing indirect advertising in TV programmes, we are seizing this opportunity to work on product sponsorship in dramas and variety shows. We are directing our efforts to provide ample scope for display of products and incorporation of products into the theme of programmes.

TERRESTRIAL TV CHANNELS

As one of the world's largest Chinese content producer, we create annually over 23,000 hours of news, variety, drama, travelogue and current affairs programmes. Thanks to the popularity of original TVB content, our terrestrial TV platforms maintained a dominating audience share in Hong Kong. On average, our five terrestrial TV channels reach 5.6 million viewers in homes and 1.6 million viewers out-of-home in Hong Kong every week[1]. During the year, the average audience share[2] of TVB's terrestrial channels against all of the free and the pay TV channels in Hong Kong during weekday prime time was maintained steady at 82%.

Our five terrestrial TV channels, each with clear demographic targets, complement one another well. Jade, the flagship channel, is well-liked by the mass market. J2, targeting the adolescent audience, offers chic and creative content, using self-produced and acquired programmes. TVB News has established as one of the most trusted sources of news content and is the most watched news channel in Hong Kong. Pearl is our only English channel and keeps the mass English speaking audience entertained. TVB Finance & Information, in its revamped form, presents insightful stories and analyses relating to the financial, property and topics of general interests. These circumspective arrangements have rewarded us with an impressive viewership.

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1 Average reach is the average number of viewers contacted for a specific period. Data source: CSM Media Research and Nielson OOH Study.

2 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. Data source: CSM Media Research.

TVRs serve as important KPIs for our advertising business and are collected programme by programme and minute-by-minute in order for us to measure the programme's performance. The average prime time in-home live rating[3] and the average percentage audience share by channels for 2018 are as follows:

	2018	
	TVRs	% of Total TV
Jade	20.1	68
J2	1.6	6
TVB News	1.5	5
Pearl	1.0	4
TVB Finance & Information	0.6	2

TVB programmes attract substantial viewership from neighboring cities in the Greater Bay Area. Jade is one of the top three most watched channels in Guangzhou, Foshan, Zhongshan and Zhuhui during weekday prime time, reporting an average rating of 2-3 TVRs[4] in each city. In Macau, Jade's average prime time TV rating was 15.3 TVRs[5].

myTV SUPER

myTV SUPER OTT service has become our key growth driver. This three years old engine leads the OTT TV service serving audiences in Hong Kong. In line with our expectations, myTV SUPER business had begun to contribute positively to the Group. During the year, revenue from external customers increased 43% from HK$280 million to HK$402 million. Of which, advertising revenue grew 56% from HK$122 million to HK$190 million. The promising growth in digital advertising sales has largely contributed to the segment's turnaround, recording an overall segment profit of HK$16 million in 2018.

myTV SUPER team includes business development; content acquisition; and advertising sales which is backed by a competent team of data analytics researchers and technology professionals.

The business model of myTV SUPER is built on a combination of subscription and advertising. This OTT service leverages on a strong content library which is largely supported by the TVB signature drama programmes built up over the past decades, as well as the most up-to-date programmes offered by the terrestrial TV channels. The service is tiered and structured such that a free zone offers the latest programmes for catch-up viewing over a limited period; a basic zone namely Alpha pack offers over 30 linear channels and over 56,000 hours of VOD Cantonese language library for subscription; and a premium zone called Supreme pack offers a selection of international content for additional subscription. In 2019, we are going to execute new plans to attract subscription and gain share from traditional pay TV market by introducing a new service myTV Gold with premium sports, mega movies and documentaries.

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3 Live rating represents the size of the audience expressed as a percentage of the total TV population. For 2018, the total TV population comprises 6,554,000 viewers, and 1 TVR represents 65,540 viewers (1% of the total TV population). Data source: CSM Media Research.

4 Data source: CSM Media Research

5 Data source: Nielsen Macau Study

myTV SUPER continues to track a steady uptake on subscribers. Up to 3 March 2019, this OTT service has further expanded its subscriber base to 7,352,096 registered users, representing an increase of 26% from 5,834,542 registered users reported a year ago. Among the 7,352,096 registered users, 1,269,046 users consume contents through STB, 5,106,413 accounts operate via mobile apps, and 976,637 accounts through the portal. The hard-bundled packages offered by our Internet Service Providers (ISPs) and telco partners, HKBN, HGC Broadband and 3HK, provide strong momentum to further broaden the subscriber base. The combined offerings of broadband service and local content on an OTT service, under an affordable package to subscribers, created this win-win solution.

To date, we have successfully penetrated 51%[6] households in Hong Kong with our STB, and 78%[7] of TV audience with mobile app. myTV SUPER has successfully reached out to a young affluent group of audience, broadening the demographics of our viewing population.

	Last week of 2018	Last week of 2017	Change
Active user			
Weekly unique viewers	**1,507,065**	1,484,423	+2%
Weekly unique stream viewers (USV)	**1,266,233**	1,190,722	+6%
Consumption (Hours)			
Weekly time spent	**20,121,747**	18,443,140	+9%
Weekly time spent per USV	**15.9**	15.5	+3%
Rating performance of myTV SUPER (TVRs)			
All-day-all-time ratings	**1.83**	1.68	+9%
Prime time ratings	**3.35**	2.91	+15%

The continual growth of myTV SUPER subscriber base has boosted consumption as reflected in the overall TV ratings, which further add to the TV ratings of the terrestrial TV channels to give a consolidated TV ratings for precise measurement. With an all-day-all-time average rating of 1.83 TVRs, myTV SUPER maintains as the second most watched platform in Hong Kong after flagship Jade. In addition, programmes viewed during prime time on myTV SUPER have generated an average rating of 3.35 TVRs.

6 Based on total number of TV households of 2,497,000 as of July 2018, according to Office of the Communications Authority and CSM Media Research

7 Based on total number of TV audience of 6,530,000 as of July 2018, according to Office of the Communications Authority and CSM Media Research

In the second half of 2018, Nielsen has been commissioned to conduct a survey to collect quantitative data on video consumption across all digital platforms and to measure respective engagements with digital audience. According to this survey, among the top ten digital video players available in Hong Kong, myTV SUPER OTT service was ranked at the third position with a 59%[8] reach. Thanks to the compelling qualities of our long-form content, we are ranked at the top position in terms of consumption. With an average daily time spent of 129 minutes from digital audience participating in this survey, myTV SUPER surpasses the average consumption on YouTube and Facebook videos[9]. This puts us in a very favourable position in competing for digital advertising orders locally.

To service our advertisers in this digital space, we are delivering digital and data-driven capabilities through targeting technology and an increasing emphasis on measurement, attribution and analytics capabilities.

- We began since April 2018 the deployment of Data Management Platform ("DMP"), an advertising tool to identify consumer targets across different age groups, gender and geolocation and viewing behaviours. The launch of DMP has greatly benefited the advertisers and agencies to improve their return-on-investments.

- In June 2018, myTV SUPER further expanded advertising inventory beyond in-stream videos with 2-D display slots including clickable U-shaped wallpaper, which offers viewers with further product information by prompting banners and QR code to direct viewers to the merchant's landing page. This online to offline e-commerce structure, together with targeted commercials, is adding value to our one-stop solution.

- In September 2018, we introduced a brand lift survey to help advertisers measure the effectiveness of digital advertising campaigns placed on myTV SUPER. By closely monitoring the viewers' responses throughout the marketing funnel spanning from brand awareness, perceptions and behaviours, initial impression to final conversion, this survey programme provides useful data to gauge the impact of campaigns and allow advertisers to have a better understanding of changing consumer perception pre and post campaign. These advanced targeting and analytics are helping TVB attract new clientele, such as automobile and airlines.

On the content side, myTV SUPER is launching "verticals" targeting audience interested in particular infortainment segments featuring topics such as cars, health, parenthood and wellness and beauty (beauty programme *Get it Beauty on the Road* collaborating with renowned Korean broadcaster CJ E&M and tvN Asia). These programmes are helping myTV SUPER to connect advertisers with the right audience.

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8 According to the survey conducted by Nielsen in 2018, the reach of Youtube and Facebook were 71% and 69%, respectively

9 According to the survey conducted by Nielsen in 2018, daily time spent on YouTube videos and Facebook videos were 66 minutes and 50 minutes, respectively

We aim to unlock the ad-spend potential of small medium size enterprises ("SMEs"). In September 2018, myTV SUPER launched the Ad Booking Manager. This fully automated and user friendly interface platform allows fast and efficient advertisement booking and processing, which enables SMEs to make bookings and place orders expediently. With this Ad Booking Manager system, we are well-prepared to expand our SME clientele by deepening our collaboration with HKBN. By bundling HKBN's enterprise broadband services with TVB's digital advertising solutions on myTV SUPER, we hope that this will allow us to tap into a new enterprise market.

Moreover, we have solid plans to further grow our STB penetration in Hong Kong. In 2019, we will be partnering with more international content suppliers to offer subscribers with premium sports, mega movies and documentaries. With a highly competitive price point, we are confident about converting traditional TV subscribers to our OTT platform.

BIG BIG CHANNEL BUSINESS

Big Big Channel business segment comprises social media and e-shop; events management, music production, distribution and publishing. This segment serves to monetise, both online and offline, TVB's extensive content creation capability and marketing power of the long-established terrestrial TV channels.

For the year, Big Big Channel business generated revenue from external customers which totalled HK$87 million (2017: HK$44 million). Owing to upfront investment in capital and operations required for the new social media platform and e-shop platform, a segment loss of HK$19 million (2017: HK$11 million deficit) was incurred.

Big Big Channel

Big Big Channel was launched in July 2017 under the Group's strategy to develop a social media platform to complement the two existing platforms – terrestrial TV and OTT. Characterised by TVB's programme related content, this new platform has secured a premier position in the social media space. It targets the young demographics and cultivate viewerships and monetises through content marketing and e-commerce opportunities.

With the growing demand for short-form video content, we leverage the strong affinity between audience and artistes/KOLs, to deliver content marketing using TVB's strong branding on a social media platform. Big Big Channel's self-produced video content covers a wide range of chic topics like spin-off content from TVB programmes and entertainment news, travelogue, home-cooking, dining-out, beauty and health, child-caring, music, lifestyles and online games.

Apart from dissemination of self-produced short video content on our own Big Big Channel app, we also made them widely available on TVB, See See TVB, Big Big Channel accounts with major international social media platforms to maximise viewerships, and hence, revenue opportunities. As of 31 December 2018, Big Big Channel app itself, together with TVB's social media footprints on Facebook, YouTube, Instagram, Twitter, Tencent Weibo, Sina Weibo and Youku, attracted followers aggregating over 12.2 million (2017: 10.6 million) on a worldwide basis.

	2018	2017	Change
All platforms carrying Big Big Channel's content			
Total number of followers[10]	**12,242,976**	10,586,858	+16%
Weekly stream views (average of December)	**11,508,780**	10,391,093	+11%
Big Big Channel platform only			
Number of registered users[11]	**3,139,095**	3,043,428	+3%

The expanding user base is helping Big Big Channel to monetise through content marketing for advertisers, spun-off content from TVB programmes and interactive online games. This content marketing strategy enriches online solution offering to advertisers by offering them a highly effective one-stop service.

Big Big Shop

TVB inaugurated a new e-shop business on the first anniversary celebration of Big Big Channel in July 2018. Synergising with TVB's effective promotional power, this new e-commerce arm adopts a "showing on TV, selling in Big Big Shop" model to capture consumers' impulsive desire to buy online by marketing heavily advertiser-sponsored products on TVB's prime time shows. TVB earns a commission for advertiser products sold through Big Big Shop, and also has direct merchandising for selected TVB programme and artiste related premium products. We pioneered this direct sales format by impressing the audience with veteran host Maria Cordero's brilliant culinary skills on her signature programme *Good Cheap Eats* during a late prime time slot on Jade channel. Detailed recipes and short tutorials were streamed on Big Big Channel to interact with the fans on a more personalised level to arouse purchase interest and cultivate customer loyalty. The promising sales record attained from this in-programme promotions of kitchen appliances provided us confidence to strengthen sales execution capacity and increase the return from content investment. With this initial success, we then developed more celebrity-anchored shows, such as *The Ahistoric Grandpa Cooking Show*, *Homegrown Flavours* and *Big Big Beauty* to broaden our advertiser-sponsored product offerings to food consumables and beauty products. We also worked with many reputable vendors during major festivals to promote seasonal premium curated products. In 2019, Big Big Shop will continue to expand its customer base and work closely with new and existing business partners to further exploit e-commerce potentials for

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10 Including Big Big Channel app, Facebook, Instagram, Twitter, YouTube, Sina Weibo, etc. as at 31 December 2018

11 Data as of 31 December 2018

the Hong Kong market as well as neigbouring cities. We believe our recently announced cooperation with Circle K Convenient Stores (HK) ("Circle K"), which owns more than 330 convenient stores in Hong Kong will deliver a better O2O shopping experience to our customers.

Events management

Promotion campaigns in this O2O era are evolving between online and offline. With this in mind, we are strategically extending services, beyond traditional TV commercials, to include events management, by utilising TVB's power to set promotional events using resources in talent and stage management, and to further promote these events on our own platforms.

In 2018, our events management team helped a number of clients in banking, property management sectors and retailers to organise events. Together with pre and post event promotions on terrestrial and digital platforms, this combined strategy deliver high-effectiveness and help clients generate more business.

Music entertainment

TVB's music entertainment business is operated by The Voice Entertainment Group Limited, which produces, publishes and licenses musical works, sells and distribute sound recordings, as well as organising live concerts and artistes' management. Music business accounts for a significant income source within the Big Big Channel business segment. New media income derived from various digital music platforms provides us with steady income.

Since joining us in 2017, Chau Pakho has been performing concert tours in Mainland China, Hong Kong and Malaysia, and has completed 8 solo concerts during the year. Chau, as one of Voice Entertainment's leading singers, has become more well-liked with leading roles in TVB dramas.

Another leading singer Hana delivered a number of hit TVB drama theme songs during this year. Hana is one of the top Cantonese song top-hit rate female singers on YouTube viewership in 2018. With her successes in Hong Kong, Hana received the recognition of the most popular female singer at the Jade Solid Gold Annual Music Awards 2018, one of the most sought after awards in the local musical industry.

In December 2018, we announced another major artiste acquisition as part of our strategy to strengthen the singer-artiste base. Shiga Lin joined the Voice Entertainment to further enhance our line-up of vocalists and to contribute to our theme song productions.

STRATEGIC INVESTMENTS

Imagine Tiger Television

TVB formed a joint venture with Imagine Entertainment in the US and holds a 50% equity interest in the joint venture entity, Imagine Tiger Television LLC ("ITT"). During 2018, ITT's project pipeline has gained significant momentum, securing production greenlights and development commitments for 12 projects. Of the production greenlights, two are slated to begin production in 2019. *WuTang: An American Saga* is centered around the Wu Tang Clan, an iconic American hip-hop group who have released four gold and platinum albums over their 25-year career. Produced by WuTang member RZA and written by Alex Tse, the show received a 10-episode order from streaming platform, Hulu.

ITT has also partnered with Marc Cherry, creator of the successful, 8 season run show *Desperate Housewives*, to produce a new drama *Why Women Kill*, which centered around the lives of three women, living in different decades with the common thread of their desire to take revenge on lovers and husbands who have done them wrong. The show received an order from streaming platform, CBS All Access.

ITT is also in active negotiations for a network show, hoping to be released in the fall of 2019. With the ramp up of production in 2019, as well as the continuous fill of the development pipeline and partnership with top-tier talent, ITT in confident that their projects will see success and will continue to secure production greenlights throughout 2019.

Shaw Brothers Holdings

TVB is co-investing with China Media Capital ("CMC") in Hong Kong listed Shaw Brothers Holdings Limited. TVB has an effective interest of 11.98%. Shaw Brothers Holdings is principally engaged in movie and entertainment-related businesses.

During the year, Shaw Brothers Holdings released two drama titles co-produced with leading Mainland China online platforms, namely, *Flying Tiger* with Youku Tudou, and *Guardian Angel* with iQiyi. These drama serials were also shown on TVB platforms and achieved good responses. A lunar new year musical comedy movie *I Love You, You're Perfect, Now Change!* was released in February 2019. Several movies and drama series, including *Line Walker 2* and *Flying Tiger II*, are in production stages and targeted for release in 2019.

Flagship Entertainment Group

Together with CMC, TVB is co-investing 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. Two major movie titles *Hidden Man* and *MEG* were released during the year.

INTERNATIONAL OPERATIONS

Our international businesses comprise programme licensing and distribution and overseas pay TV operations. To respond to the technological disruptions brought by the internet, we continued to transform our business models during the year. Increasing efforts are being devoted to marketing OTT services under TVB Anywhere brand for viewers as we began to diversify from the old B2B licensing model to B2C.

Programme licensing and distribution

Programme licensing and distribution business, which comprises the distribution of TVB's programmes outside of Hong Kong through telecast and new media licensing, accounted for 19% of the Group's revenue. During the year, revenue from external customers under this business segment decreased by 9% from HK$955 million to HK$870 million. The decrease was mainly due to lower licensing income from Singapore and Vietnam, which was partially aided by the higher new media licensing income from Mainland China.

Affordability and convenience of high-speed internet have changed how viewers discover, access and consume media these days. Younger generation, in particular, opt for digital platforms for entertainment which gives them access to an abundant supply of global content any time and anywhere. This change in viewers' behavior, consuming contents from whether authorised or pirated digital sources, has disrupted the conventional high-APRU pay TV model of our overseas pay TV partners, causing high-churn rates and ultimately hurting TVB as a content provider. Confronting the evolving competitive landscape, we are proactively embarking on the new media ventures and playing to our strengths such as our strong bond with fans, brand trust and our dominance in home-grown content. TVB drama serials are always among the blockbuster online videos in our key traditional markets. Diversifying from the limited-reach traditional licensing to a wide-open OTT distribution will help broaden the viewer's base and revenue potential in the long-run. Inevitably, this shift from traditional licensing arrangement to distribution proposition with multiple new media platforms brought an immediate impact to licensing income from overseas but an opportunity to develop our B2C platform. In Singapore, we confirmed a programme supply agreement with StarHub Cable Vision Limited ("StarHub") for a period of two years expiring in August 2020. With a set of relaxed supply terms, we are now free to work with any other networks operators, pursuing an expansion from subscription and advertising sources.

In Malaysia, our licensing income in 2018 remained steady as the existing programme supply agreement with MEASAT Broadcast Network Systems Sdn Bhd ("MEASAT") stays valid till January 2020. During the year, pay TV operators in Malaysia continued to face economic downtrend and vigorous competitions from online platforms. Following the footsteps we took in Singapore, we are preparing ourselves to diversify from a B2B licensing model to a B2C distribution model via OTT. Our goal is to build a more resilient business model by broadening our distribution channel and capitalising on content specifically designed for the new media platforms and catering to the needs of the changing consumer behaviours.

In Vietnam, a three-year programme supply agreement with Saigontourist Cable Television Company Limited ("Saigontourist") was renewed at a lower rate in January 2018. TVB will continue to proactively collaborate with local partners on making choice content for our viewers in order to sustain our position in traditional markets.

Mainland China operations

Operations from Mainland China mainly comprised co-production of dramas and licensing of TVB content to TV stations and online platforms. Total revenue from Mainland China rose by 38% from HK$530 million to HK$733 million (Note 3: geographical analysis), accounting for 16% of the Group's turnover (2017: 12%). This income growth was mainly fueled by robust growth in online video business in Mainland China as mega online players competing heavily for content and audiences. During the year, our income from co-production (booked under Hong Kong TV Broadcasting segment) and new media licensing (booked under programme licensing and distribution segment) had increased notably.

Co-production

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

Programme licensing

With the continued growth in the digital new media sector, players in this market are aggressively aggregating more platform-exclusive content under licensing arrangements. Youku Tudou and TVB entered into licensing arrangements to release a selection of new TVB drama titles concurrently in Mainland China and Hong Kong. This in sync arrangement enables TVB to earn a higher licensing fee than the old model. Four new drama titles, namely *The Learning Curve Of A Warlord*, *Life On The Line*, *OMG Your Honour* and *Fist Fight* were licensed to Youku Tudou under this new arrangement during the year. Together with licensing income earned from other digital sources, total new media licensing revenue grew by 44% from HK$244 million to HK$352 million in 2018.

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

Overseas operations – OTT and pay TV

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

TVB Anywhere OTT Service

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

We introduced a tailor-made TVB Anywhere Singapore mobile app in September 2018. Through partnering with the leading telcos in Singapore, namely StarHub, M1 and MyRepublic to resell our OTT app as value-added service and bundling service, we have potentially covered a very substantial size of mobile users in this market. To realign business resources with digital transformation goals, a local sales and marketing team has been built in Singapore to accelerate the development plan, growing revenue from both subscription and advertising sources.

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

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

North America (USA)

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

Combating piracy

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

In Australia, TVB made the first site-blocking application on illicit streaming devices ("ISDs") in the world and obtained a site-blocking order against 7 ISDs in September 2018. A Variation Application is being made to the Court to block the new domain names created by ISD syndicates to circumvent the blocks under the original court order. In December 2018, TVB and 8 other content owners successfully obtained a site-blocking order in Australia against 77 infringing websites. Similar site-blocking applications will continue in future.

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

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

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

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

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

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

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

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

FINANCIAL REVIEW

Since 2015, the Group has been undergoing transformation from a conventional TV station to one incorporating multiple digital platforms, and enhancing production quality of drama programmes. To achieve these objectives, the Group had increased headcount under new businesses, including myTV SUPER, Big Big Channel, Big Big Shop and the revamped TVB Finance & Information Channel (Channel 85) which created some pressure on operating costs. To re-align with business direction, we examined the operations of certain areas of operation during the year, which included broadcasting; international licensing; and publications, and as a result, rationalised headcount and operating costs.

For the year ended 31 December 2018, revenue of the Group increased from HK$4,336 million to HK$4,477 million, an increase of 3%. Cost of sales increased from HK$2,320 million to HK$2,336 million, an increase of 1%. As a result, gross profit amounted to HK$2,141 million (2017: HK$2,016 million), an increase of 6%, and the gross profit percentage was 48% (2017: 47%).

Cost of sales increased from HK$2,320 million to HK$2,336 million, an increase of 1%. Included in cost of sales were the cost of programmes and film rights which amounted to HK$1,810 million (2017: HK$1,748 million). Higher costs of self-produced dramas (partly to support the production costs of the three co-production drama titles), increased content costs for myTV SUPER and a full year of operation of the Big Big Channel business resulted in increase in costs during the year. Such additional costs was partially offset by costs reduction after operations streamline.

Selling, distribution and transmission costs for the year amounted to HK$758 million (2017: HK$724 million), an increase of 5%. This increase was mainly attributed to business expansion of myTV SUPER service and Big Big Channel platform, the launch of e-commerce business, Big Big Shop, and movements in some cost provisions.

General and administrative expenses for the year amounted to HK$967 million (2017: HK$903 million), an increase of 7%, which was mainly attributable to the business development of the new digital platforms.

Due to the absence of write-back of provision for impairment losses on certain trade receivables, an impairment loss provision of HK$26 million was made during the year according to the Group's past history, existing market conditions as well as forward looking estimates at year end.

Gain on disposal of investment properties in 2018 were relating to the sale of two floors of an investment property in Taipei which were considered as non-core asset. After the last disposal in 2018, the Group is retaining the remaining two floors in the same block for operation of Big Big Channel in Taiwan and for property investment.

Interest income is generated from financial assets of the Group which comprised (i) an investment portfolio for treasury management purposes[12] totalling HK$3,113 million (2017: HK$775 million), and (ii) a promissory note to a joint venture company, Imagine Tiger Television LLC ("ITT"), in the amount of US$66.7 million (2017: US$66.7 million) at the interest rate of 12% per annum ("Promissory Note"). During the year, the Group recorded an increase in interest income from HK$118 million to HK$255 million, an increase of 116%, which was driven by the increase in the size of the investment portfolio since the beginning of 2018 and the full year interest effect of the Promissory Note. The interest income mainly comprises of interest from investment portfolio of HK$140 million (2017: HK$40 million) and interest from the promissory note to ITT of HK$66 million (2017: HK$27 million).

[12] classified as Financial assets at amortised cost and Financial assets at fair value through profit or loss in the Consolidated Statement of Financial Position at 31 December 2018

The Group suffered a net exchange loss of HK$25 million during the year (2017: net exchange gain of HK$19 million). Such exchange losses 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 losses in the Consolidated Income Statement. In addition, the Group incurred losses on movie and drama investments of HK$28 million during the year.

On 23 January 2018, the Company announced that it will not proceed with the share buy-back offer which was previously announced on 24 January 2017. As a result of this decision to abort the transaction, professional fees in relation to the offer totalling HK$29 million were written off in the Consolidated Income Statement account in 2017.

Finance costs for the year amounted to HK$128 million (2017: HK$152 million) which were mainly attributed to the net interest costs of the US$500 million 3.625% notes due 2021 ("TVB Notes"). The presentation of finance costs on a net basis was made to mirror the netting off of the amount of TVB Notes issued less the amount held by the Company as a single item on the Consolidated Statement of Financial Position.

The Group absorbed losses of the joint venture, ITT, of HK$115 million during the year (2017: HK$32 million, since the commencement of operation in July 2017). During the initial years of development, ITT was at the preparatory stage for production of its TV slate for US networks, and as a result, reported losses of HK$115 million for the year. These losses of ITT included interest expenses of HK$66 million on the promissory note (US$66.7 million at 12% per annum) paid to the Group during the year. This interest income earned by the Group was booked under interest income in the Consolidated Income Statement for the year.

Loss before income tax for the year amounted to HK$124 million (2017: profit before income tax of HK$358 million), which was mainly due to the impairment charge and fair value loss of SMI bonds of HK$500 million during the year.

The Group's taxation charge amounted to HK$53 million (2017: HK$94 million), a decrease of 44%, which arose from an over-provision of income tax expense from Hong Kong TV broadcasting relating to prior year after confirming the tax deductibility of certain finance costs. 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 30%.

Adjusted EBITDA[13] (excluding non-recurring items) decreased from HK$821 million in 2017 to HK$809 million in 2018, a decrease of 2%.

(Loss)/earnings per share

Overall, the Group's loss attributable to equity holders for the year totalled HK$199 million (2017: profit of HK$243 million), giving a basic and diluted loss per share of HK$0.45 (2017: earnings per share of HK$0.56).

[13] Adjusted EBITDA means profit/loss for the year before finance costs, income tax expense, depreciation and amortisation, share of results of joint ventures/associates; interest income, impairment loss/reversal of impairment loss on bond securities at amortised cost and trade receivables, fair value adjustments on financial assets at fair value through profit or loss, gain on disposal of investment properties and professional fees incurred for the aborted share buy-back offer. 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.

SEGMENT RESULTS

Segment	Hong Kong TV broadcasting	myTV SUPER	Big Big Channel business	Programme licensing and distribution	Overseas pay TV and TVB Anywhere	Other activities
Nature of revenue	Advertising revenue and production income from co-production drama serials	Subscription and advertising revenue	Advertising revenue; sales commission; fees for event management; music royalties and licensing income	Licensing income from telecast, video and new media distribution	Subscription and advertising revenue	Revenue from magazine publication and movie investments

Segment revenue from Hong Kong TV broadcasting's external customers increased from HK$2,818 million to HK$2,923 million, an increase of 4%, which was fuelled by the increase in production income relating to the three co-production drama serials from HK$185 million to HK$299 million. However, advertising income from terrestrial TV channels in Hong Kong alone reported a slight decrease from HK$2,459 million to HK$2,440 million, a decrease of 1%. Overall, this segment reported a gain before non-recurring impairment charge/loss of HK$173 million (2017: HK$165 million).

Segment revenue from myTV SUPER's external customers increased from HK$280 million to HK$402 million, an increase of 43%, due to the increase in advertising revenue through the growth in consumption of content on this platform. This segment reported a gain of HK$16 million which turnaround from a loss of HK$85 million last year.

Segment revenue from Big Big Channel business's external customers increased from HK$44 million to HK$87 million, an increase of 98%. More advertising income was generated from the online social media platform, Big Big Channel during the year. However, owing to upfront costs required for the development of Big Big Channel and the launch of Big Big Shop, this segment recorded a net loss of HK$19 million (2017: a net loss of HK$11 million).

Segment revenue from programme licensing and distribution's external customers decreased from HK$955 million to HK$870 million, a decrease of 9%. The decrease in revenue was mainly attributable to the lower license fee from Singapore and Vietnam in the amount of HK$147 million, as a result of changes in the terms of the new supply contracts, which partially offset the growth of new media licensing revenue from Mainland China of HK$107 million. The licensing income from Malaysia remained relatively steady during the year. As a result, the segment profit decreased from HK$504 million to HK$414 million, a decrease of 18%.

Segment revenue from overseas pay TV and TVB Anywhere's external customers decreased from HK$151 million to HK$140 million, a decrease of 7%. As the transition from the old pay TV model to OTT is in progress and impact of piracy is still on-going, revenue for this segment has not yet stablised. In adopting this OTT model, the business structure was changed such that the main operation of the overseas OTT service is now performed in Hong Kong as opposed to overseas under the pay TV model. The cost base is now lowered. As a result, the segment loss was narrowed from HK$53 million to HK$16 million during the year, a decrease of 71%.

External revenue from other activities recorded a decrease from HK$88 million to HK$54 million, a decrease of 38%, due to the cessation of circulation of TVB Weekly in October 2018. As a result, this segment recorded a loss before non-recurring income of HK$17 million (2017: profit of HK$6 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continued to maintain a strong financial position as at 31 December 2018. Total equity stood at HK$6,307 million (2017: HK$7,157 million). There has been no change in the share capital of the Company, i.e. 438,000,000 ordinary shares were in issue at the year end.

Cash and Treasury Management

At 31 December 2018, the Group had restricted cash of HK$1 million (2017: HK$4,307 million). Following the decision to abort the share buy-back offer in January 2018, the cash previously earmarked for the transaction was released.

At 31 December 2018, the Group had unrestricted bank and cash balances of HK$1,269 million (2017: HK$893 million). Out of total bank deposits and cash balances held by the Group, 39% were in US dollars, 17% in Hong Kong dollars, 24% in Renminbi and 16% in New Taiwan dollars. About 58% of the unrestricted bank and cash balances (approximately HK$730 million) were maintained in overseas subsidiaries for their daily operations. Cash not immediately required for operations was placed as time deposits.

Under an approved Investment Guidelines, the Company maintains a portfolio of fixed income securities which are held-to-maturity for yield enhancement. Such fixed income securities are selected from bonds issued by listed companies or PRC stated owned companies, taking into account business sector; coupon rate and yield-to-maturity; currency; and maturity dates. This investment portfolio is monitored by the Investment Committee on a continuous basis for the credit quality which can make recommendation for changes, if and considered necessary, to the Executive Committee. The Investment Committee would ensure that the investment objectives as laid down are fulfilled.

As at 31 December 2018, the Company's portfolio of fixed income securities which were held to maturity amounting to HK$2,463 million (2017: HK$775 million). These fixed income securities (classified under "Financial assets at amortised cost") were issued by issuers which are listed or unlisted in Hong Kong or overseas, and in aggregate, carry a weighted average yield-to-maturity of 5.67% per annum (2017: 6.03%) and have maturity dates ranging from 28 July 2019 to 1 October 2027. The investment portfolio is made up by a total of 45 (2017: 18) issuers of fixed income securities. The largest investment in fixed income securities within the portfolio represented approximately 2.7% (2017: 1.7%) of the total assets of the Group as at 31 December 2018. The interest received during the year from the financial assets at amortised cost amounted to HK$109 million (2017: HK$40 million).

As set out in Note 12 to the consolidated financial statements, China Energy Reserve & Chemicals ("CERC") had defaulted the payment of the principal of a bond ("2018 CERC Bond") due in May 2018 and as a result, this triggered a cross default for another bond held by the Group ("2019 CERC Bond") due in January 2019. The aggregated nominal amount of the 2018 CERC Bond and the 2019 CERC Bond amounted to US$12 million. CERC is a state-owned oil and gas trading, logistics and distribution and supply services provider in China. During the year, the coupon payment was received from CERC accruing up to 20 December 2018. Based on the review report of the financial condition prepared by FTI Consulting (Hong Kong) Limited, the financial advisor appointed by CERC, management believes that CERC has both the intention and ability to settle the outstanding balances. However, as the repayment schedule of CERC Bond would be extended in accordance with the debt restructuring plan of CERC, an impairment loss of HK$26 million was made to reflect the delayed repayment of 2018 and 2019 Bonds' principals.

SMI Bonds

The Group had entered into subscription agreement for US$23 million 9.5% unsecured redeemable fixed coupon bonds due 2020 (extendable to 2021) ("Fixed Coupon Bonds") and US$83 million 7.5% secured redeemable convertible coupon bonds due 2020 (extendable to 2021) ("Convertible Bonds"), both issued by SMI, a company listed in Hong Kong. The Fixed Coupon Bonds and the Convertible Bonds were classified under "Financial assets at amortised cost" and "Financial assets at fair value through profit or loss" respectively as at 31 December 2018.

Management noted that trading in the shares of SMI has been suspended on the Stock Exchange since 3 September 2018. Pursuant to SMI's announcement dated 12 March 2019, SMI was in progress of its debt restructuring by way of prospective conversion of certain outstanding debts into equity of SMI, and the raising of capital by way of prospective subscription of new shares of SMI. However, the letters of intent and the memorandum of understanding in relation to the above-mentioned debt restructuring activities are not legally binding, and may or may not materialise. In view of the above background and based on a valuation report prepared by an independent valuer on the collateral value provided, an impairment charge and fair value loss has been made in the amount of HK$500 million in relation to the SMI Bonds.

TVB Finance Limited

As at 31 December 2018, the Company held US$112 million in nominal value of US$500 million 3.625% Notes due 2021 issued by TVB Finance Limited. This holding in TVB Notes was presented and netted off against the liabilities of TVB Notes under "Non-current borrowings" on the Consolidated Statement of Financial Position.

Other items in the Consolidated Statement of Financial Position

Trade receivables from third parties amounted to HK$1,895 million (2017: HK$1,588 million), an increase of 19% over the last year end. Receivables from new media licensing revenue from Mainland China and subscription revenue from myTV SUPER business contributed to the increase. Impairment loss provision are calculated based on the Group's past history, existing market conditions and forward looking estimates at 31 December 2018.

Other receivables, prepayments and deposits amounted to HK$572 million (2017: HK$483 million). The increase was mainly due to increase in advance payments made for drama production and accrued interests from the investment portfolio further contributed to the increase.

Trade and other payables and accruals decreased from HK$872 million to HK$740 million, which was mainly due to decrease in advanced payments from co-producers of drama.

At 31 December 2018, the Group's net current assets amounted to HK$3,855 million (2017: HK$7,265 million), a decrease of 47%. The decrease in net current assets was due to the decrease in cash as a result of the purchase of securities for the investment portfolio, classified under Non-current assets. The current ratio, expressed as the ratio of current assets to current liabilities, was 5.9 at 31 December 2018 (2017: 9.2).

Borrowings at 31 December 2018 totalled HK$3,044 million (2017: HK$3,814 million) which were made up mainly by the TVB Notes and a small bank overdraft. During the year, the Company purchased US$104 million nominal amount of the TVB Notes at a price of US$103 million through open market to form part of the investment portfolio. At 31 December 2018, the gearing ratio, expressed as a ratio of net debt to total equity, was 29.1% (2017: 41.7%).

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

At 31 December 2018, the Group had capital commitments totalling HK$171 million (2017: HK$227 million), a decrease of 25%.

FINANCIAL GUARANTEES

At 31 December 2018, there were guarantees given to banks amounting to HK$7 million (2017: 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 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 SCHEMES

The Company and a wholly-owned subsidiary, Big Big Channel Holdings Limited ("Big Big Channel Holdings"), adopted the Share Option Scheme and the Subsidiary Share Option Scheme on 29 June 2017 respectively. These share option schemes will be valid and effective for a period of ten years from the date of adoption. 17,000,000 share options were granted by the Company under the Share Option Scheme during the year. No share options had been granted by Big Big Channel Holdings under the Subsidiary Share Option Scheme during the year.

HUMAN RESOURCES

At the year end, the Group employed a total of 4,041 full-time employees (2017: 4,436), including contract artistes and staff in overseas subsidiaries. This figure excluded directors and freelance workers.

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

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

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

To sustain the long term steady supply of human resources for production, the Group has implemented a number of new initiatives during the 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.

SHARE BUY-BACK

On 23 January 2018, the Securities and Futures Commission granted its consent for the Company not to proceed with the share buy-back offer, as the timeline for the conclusion of the Communications Authority ("CA")'s assessment relating to the Company's previous shareholding change applications in 2015 and 2016 (the "Assessment") could not be ascertained. Since then, the Company has responded to the queries of the CA and provided information requested by the CA.

The Company will continue to assist the CA with its Assessment with the view to bringing the matter to a prompt conclusion.

DIVIDENDS

Based on the full year results, the Directors have recommended a final dividend of HK$0.70 per share in cash to its shareholders. Together with the interim dividend of HK$0.30 per share paid in cash on 4 October 2018, this will give a total of HK$1.00 per share for the full year ended 31 December 2018.

Subject to shareholders' approval at the forthcoming annual general meeting of the Company to be held on Wednesday, 22 May 2019 ("2019 AGM"), the final dividend shall be paid in cash to shareholders whose names are recorded on the Register of Members of the Company on 30 May 2019. Dividend warrants for the final dividend will be despatched to shareholders on 11 June 2019.

CLOSURE OF REGISTER OF MEMBERS

First Book Close

The Register of Members of the Company will be closed from Wednesday, 24 April 2019 to Wednesday, 22 May 2019, both dates inclusive, ("First Book Close Period") for the purpose of determining shareholders' entitlement to attend and vote at the 2019 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 2019 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 Tuesday, 23 April 2019.

Second Book Close

The Register of Members of the Company will be re-opened on Thursday, 23 May 2019 and then will be closed again from Tuesday, 28 May 2019 to Thursday, 30 May 2019, both dates inclusive, ("Second Book Close Period") for the purpose of determining shareholders' entitlement to the final dividend. During the Second Book Close Period, no transfer of shares will be registered.

In order to be entitled to the final 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, 27 May 2019.

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 Code under Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout 2018.

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 2018.

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 risk management and internal controls and financial reporting matters, including a review of the annual consolidated financial statements for the year ended 31 December 2018, before such statements were presented to the Board for approval. As chairman and executive director of SMI, Dr. William Lo voluntarily abstained on the resolution of the Audit Committee on 20 March 2019 which recommended the report and accounts of the Group for the year ended 31 December 2018 to the Board.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2018 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.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

Our qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

As further disclosed in Notes 12(b) and 14 to the consolidated financial statements, as at 31 December 2018, the Group held a US$23 million (approximately HK$180 million) principal amount 9.5% unsecured redeemable fixed coupon bonds due in April 2020 (the "Fixed Coupon Bonds") and a US$83 million (approximately HK$650 million) principal amount 7.5% secured redeemable convertible bonds due in May 2020 (the "Convertible Bonds") (or collectively "Bonds"), both were issued by SMI Holdings Group Limited ("SMI", and together with SMI's subsidiaries hereinafter referred to as "SMI Group"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Fixed Coupon Bonds are recognised as financial assets at amortised cost while the Convertible Bonds are recognised as financial assets at fair value through profit or loss, both of which are classified as non-current assets in the consolidated statement of financial position. Under the subscription agreement of the Convertible Bonds and a related share charge agreement with SMI dated 7 May 2018, the Convertible Bonds are secured by way of a priority charge against 100% of the issued share capital of SMI International Cinemas Limited ("SMI International", an indirect wholly owned subsidiary of SMI) (the "Collateral"). Based on the 2017 annual report of SMI, SMI International is an investment holding company that owns 41.34% of the registered capital of Chengdu Runyun Culture Broadcasting Limited ("Chengdu Runyun"). Chengdu Runyun and its subsidiaries (together, the "Chengdu Runyun group") operates SMI's principal business as cinema operators in a number of cities in the People's Republic of China ("PRC").

Trading of SMI's shares has been suspended by the Stock Exchange since 3 September 2018 and has not been resumed as at the date of this report. The suspension of trading of SMI's shares for a period of more than ten consecutive trading days has triggered an event of default for both Bonds in accordance with the respective subscription agreements. SMI has made announcements that since its trading suspension, SMI and certain of its subsidiaries have defaulted in certain borrowings. SMI has also announced that it is in negotiations with its lenders and creditors in relation to debt restructuring including conversion of debt to equity.

As further described in Note 12(b), management performed an impairment assessment of the Fixed Coupon Bonds using lifetime expected credit loss model, which estimated the eventual shortfall of cash recoverable from the Fixed Coupon Bonds. Based on management's impairment assessment, a full impairment charge of the Fixed Coupon Bonds of HK$180 million was recognised for the year ended 31 December 2018. The impairment assessment used key inputs based on financial information extracted from the 2017 audited financial statements and 2018 interim financial information of SMI Group and other forward looking factors in view of SMI's recent announcements.

In addition, management performed a fair value assessment of the Convertible Bonds in respect of the debt and equity conversion features, together with the Collateral pledged against the Convertible Bonds. As a result of the assessment performed on the Fixed Coupon Bonds as described in Note 12(b) and the suspension of trading of SMI's shares, management considered the debt and equity conversion features of the Convertible Bonds would have a minimal value. Therefore, management has determined to perform a fair value assessment on the Collateral. Management has engaged an independent external valuer to perform a valuation of the Chengdu Runyun group using the discounted cash flow model under the income approach, which is further described in Note 14. The fair value assessment has adopted certain key operating assumptions provided by SMI, including number of cinemas, cinema attendance rates, ticket price, market discount rate and terminal growth rates. Based on the fair value assessment, the Group recognised a fair value loss of HK$320 million on the Convertible Bonds for the year ended 31 December 2018.

Management considered that the information used in the above assessments represented the best available estimates despite the lack of latest financial and other information of SMI Group and Chengdu Runyun group. Management expects the Bonds are to be realised more than 12 months after 31 December 2018.

As of the date of this report, SMI has not announced its audited results for the year ended 31 December 2018 nor provided more details in its announcements about the extent of its liabilities and pledge of its assets against borrowings or its current status of operations. Management was not able to provide other sources of information nor were we able to have access to SMI, SMI International and Chengdu Runyun group to obtain collaborative evidence. We were therefore unable to obtain sufficient appropriate audit evidence we considered necessary to assess or corroborate the appropriateness of the key inputs and key assumptions adopted by management in their assessments, which included but not limited to (i) the latest audited financial information of SMI, SMI International and Chengdu Runyun group as at and for the year ended 31 December 2018; (ii) the latest equity interest of SMI International in Chengdu Runyun; (iii) other evidence to assess the current status and extent of SMI Group's pledge of assets, extent of its borrowings and the status of its debt restructuring; and (iv) other key operating assumptions about SMI Group and Chengdu Runyun group, which would impact the results of the impairment assessment of the Fixed Coupon Bonds and the fair value assessment of the Convertible Bonds.

Given the above scope limitation, there were no other satisfactory procedures that we could perform to determine whether the classification of financial assets at amortised cost of the Fixed Coupon Bonds and the financial assets at fair value through profit or loss of the Convertible Bonds as non-current assets were appropriate; and whether any adjustments to the carrying values of the Fixed Coupon Bonds carried at nil balance and the Convertible Bonds of HK$330 million and the corresponding impairment charge of HK$180 million and fair value loss of HK$320 million recognised respectively for the year then ended were necessary.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Report on Other Matters under Sections 407(2) and 407(3) of the Hong Kong Companies Ordinance

In respect alone of the inability to obtain sufficient appropriate audit evidence regarding the classification and carrying values of the investments in the Fixed Coupon Bonds and Convertible Bonds as at 31 December 2018 and the corresponding impairment charge and fair value loss recognised in the year as described in the Basis for Qualified Opinion section of our report above:

- we were unable to determine whether adequate accounting records had been kept; and
- we have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

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

During the year, the Company purchased US$103,710,000 nominal amount of TVB Notes issued by TVB Finance Limited through open market. As at 31 December 2018, US$500,000,000 nominal amount of TVB Notes remained outstanding. Details of TVB Notes and the purchase are set out in Note 16 to the consolidated financial statements.

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

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the website of the Company at www.corporate.tvb.com and the designated issuer website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. The Company's 2018 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 2019.

ANNUAL GENERAL MEETING

The 2019 AGM of the Company will be held at TVB City, 77 Chun Choi Street, Tseung Kwan O Industrial Estate, Kowloon, Hong Kong on Wednesday, 22 May 2019.

By Order of the Board
Adrian MAK Yau Kee
Company Secretary

Hong Kong, 20 March 2019

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