TOM Group Limited

TOM集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2383)

FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018

CHAIRMAN'S STATEMENT

In 2018, TOM Group maintained its strategy to focus on high growth potential sectors such as e-commerce, fintech and advanced data analytics, and at the same time continued to restructure its non-performing businesses. Gross revenues from Technology Platform and Investments and Media businesses amounted to HK$103 million and HK$843 million respectively. The Group's consolidated revenue dropped by 2% to HK$944 million. Loss before net finance costs and taxation and loss attributable to shareholders narrowed to HK$89 million and HK$159 million respectively.

Ule (www.ule.com), a joint operation with China Post which focuses on providing e-commerce service for rural areas in Mainland China, has continued to expand its B2B businesses to drive revenue. The B2B GMV recorded RMB7.6 billion for the year under review, and is expected to be materially higher in the coming years as the business is benefiting from renewed focus within China Post.

Pixnet, the Group's Social Network business, continues to be the largest social and networking website in Taiwan according to Alexa, having reached 6.7 million members and an average of around 5.2 million unique visitors per day during the year. Gross revenue of Pixnet was HK$74 million and segment profit was HK$2 million for the year under review.

The Publishing Group continued to be the market leader in the publishing industry in Taiwan, and reported gross revenue of HK$785 million in 2018. Segment profit from the Publishing Group was HK$54 million, representing an increase of 20% compared to HK$45 million in last year. The traditional publishing market in Taiwan remains to be challenging. Accordingly, the Group will remain focused on operational efficiency while pursuing revenue diversification.

Finally, the Group made progress this year in restructuring non-performing Outdoor Media advertising businesses. Although the gross revenue of Outdoor Media business decreased 42%, its loss was narrowed by 86% to HK$4 million.

On behalf of the Group, I would like to thank our shareholders, business partners, the management team and all the staff of the Group for their concerted effort.

Frank John Sixt
Chairman

Hong Kong, 14 March 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

	For the year ended 31 December 2018 HK$'000	2017 HK$'000
Consolidated revenue	944,085	960,513
Loss before deconsolidation/recovery gains and goodwill and other assets impairment(1)	(92,223)	(132,713)
Goodwill and other assets impairment(2)	–	(67,608)
Loss attributable to equity holders of the Company	(158,623)	(242,274)
Loss per share (HK cents)	(4.06)	(6.22)

(1) Being loss before net finance costs and taxation (including share of results of investments accounted for using the equity method)

(2) 2017: Goodwill impairment totalling HK$45,097,000 was related to certain outdoor media operations under the Advertising Group and the C2C marketplace business under the E-Commerce Group. Other assets impairment arose from an available-for-sale financial asset of HK$12,243,000 held by the Mobile Internet Group and certain fixed and intangible assets of an outdoor media operation under the Advertising Group totalling HK$10,268,000

BUSINESS REVIEW

In 2018, TOM Group achieved good progress in streamlining its traditional media operations and focusing on its strategic priorities in technology centric investments. Our Media Business performance was broadly maintained and recorded gross revenue of HK$843 million, whilst operations segment profit surged 1.5 times to HK$49 million with continuous improvements on efficiency. Gross revenue from Technology Platform and Investments was HK$103 million as compared to HK$108 million a year earlier. Segment loss was HK$4 million as the Group continued to invest in its e-commerce business to drive further growth.

Technology Platform and Investments – Diversified investment portfolio with continued growth

The Group is pleased with the robust growth of its investments in fintech and advanced data analytics during the review period.

In 2014, TOM Group invested in WeLab, a leading Asian fintech company, which provides technology enabled consumer lending solutions for individuals and enterprise customers in Hong Kong and China. Using advanced data-powered technologies and risk management knowledge, WeLab has over 35 million users, as of 31 December 2018. In 2018, WeLab extended their presence with their proven business model to Indonesia, forming PT Astra WeLab Digital Arta, through a joint venture with PT Astra International, one of Indonesia's leading diversified holding companies. WeLab was recognised in a KPMG-sponsored report as one of the top 100 FinTech companies in the world – #7 in China and #23 globally. WeLab is the only Hong Kong fintech company that has been named to the list for three consecutive years. As at 31 December 2018, TOM Group owns 6.76% in WeLab on an issued basis.

Rubikloud is a Toronto-based AI platform for retail which TOM Group invested in 2015. During the review period, Rubikloud expanded its operations from Toronto to cover Hong Kong and London. By the end of 2019, Rubikloud is expected to achieve full growth stage as it grows beyond 150 people with new tier one clients in grocery, mass drug, and mass beauty. Additionally, they have concluded significant partnerships with Microsoft and Salesforce. TOM Group owns 4.15% in Rubikloud as at 31 December 2018 on an issued basis.

Ule, the Group's joint operation with China Post, has laid a solid foundation with an established New Retail infrastructure and ecosystem in rural China during the past years. Ule saw continuous expansion of its B2B business especially in key provinces including Zhejiang, Henan, Hebei, Jiangsu and Hunan, etc. and the B2B GMV reached RMB7.6 billion during the year. Going forward, Ule will embark on its next stage of growth with focus on execution of B2B strategic and operational initiatives leveraging on the unique resources and logistics network of China Post at provincial, county and town levels.

Pixnet, the Group's Social Network business in Taiwan, remained on course to deliver steady business growth. Gross revenue was HK$74 million whilst segment profit was HK$2 million during the review period. Pixnet is the largest social and networking website in Taiwan according to Alexa, with 6.7 million members and an average of around 5.2 million unique visitors per day. Pixnet has become the supplier of choice for many advertisers in Taiwan, thanks to its achievements in maintaining top rankings on major categories in comScore – a leading cross-platform measurement on audiences, brands and consumer preferences.

Media Business – Maintain leadership position in Taiwan Publishing

During the review period, the Group's Publishing business "Cite" continued to show resilience against a tough operating environment. As a market leader in the publishing industry in Taiwan, "Cite" has been able to advance its development in the digital publishing arena and diversify its revenue beyond traditional advertising leveraging on the premium "Cite" and "Business Weekly" brand. Gross revenue increased 3% to HK$785 million whilst operations segment profit jumped 20% to HK$54 million during the reporting period.

The Group's Outdoor Media business continued its restructuring efforts and further narrowed its loss by 86%.

Concluding Remarks – Stable revenue with improved gross profit margin

For the year ended 31 December 2018, the Group broadly maintained its revenue level from operations and recorded revenue of HK$944 million, and its gross profit margin increased from 39% to 42%. Including share of loss from associated companies of HK$82 million, and net finance costs and taxation of HK$73 million, the Group's loss attributable to shareholders decreased 35% to HK$159 million. Going forward, the Group will continue to strategically invest in technology-centric businesses, whilst sustaining leadership position in its publishing business.

FINANCIAL REVIEW

TOM Group reports its results in five business segments under two business streams, namely E-Commerce Group, Mobile Internet Group and Social Network Group of Technology Platform and Investments, and Publishing Group and Advertising Group of Media Business.

Consolidated Revenue

Consolidated revenue amounted to HK$944 million, representing a decrease of 2% compared to last year as a result of group restructuring on non-performing operations such as outdoor media business in Mainland China.

Segment Results

The segment profit/loss refers to profit/loss before finance costs and taxation, recovery gains, provision for impairment of goodwill and other assets and share of results of investments accounted for using the equity method.

The Group stays with its strategy to focus on investing in the e-commerce business in Ule, a material associate of the Group in Mainland China providing e-commerce platform for rural areas in China. The segment results of the E-Commerce Group were largely related to the share of result of Ule.

Although the Mobile Internet Group reported a 9% drop in gross revenue to HK$19 million, Mobile Internet Group turned around the segment loss of HK$6 million in last year to segment profit of HK$1 million in this year as a result of improved operational efficiency.

The Social Network Group, represented by Pixnet, continued be the largest social and networking website in Taiwan. Gross revenue was reported at HK$74 million, a 4% decrease from last year. Due to keen competition in the market, more re-investment and marketing expenses were incurred by the Social Network Group to boost the business. As a result, the segment profit dropped from HK$6 million in last year to HK$2 million in this year.

The Publishing Group continued to be the market leader in the publishing industry in Taiwan. Despite the challenging market environment, it outperformed the market by recording gross revenue of HK$785 million and segment profit of HK$54 million in this year, representing 3% and 20% growth respectively.

Gross revenue of the Advertising Group decreased 36% to HK$59 million in this year, which was primarily attributable to the weakened traditional advertising marketing in Mainland China. Nevertheless, the segment loss narrowed by 83% from HK$25 million in last year to HK$4 million in this year. The reduction in loss was largely due to stringent control of operating costs and improvement in operational efficiency. The Group would continue its strategy to seek exit from certain non-performing outdoor media businesses.

Share of Results of Investments Accounted for Using the Equity Method

The share of results is mainly contributed by the Group's share of result of Ule.

Loss before Net Finance Costs and Taxation

The Group's loss before net finance costs and taxation for the year amounted to HK$89 million, narrowed by 52% from last year's HK$186 million. Excluding the effect on one-off events such as gain on deconsolidation of subsidiaries, recovery of investment and provision of impairment on goodwill and other assets, the recurring loss before finance costs and taxation was HK$92 million, narrowed by 31% from that of last year's HK$133 million.

Loss Attributable to Equity Holders of the Company

The Group's loss attributable to equity holders of the Company for the year was HK$159 million, narrowed by 35% from last year's HK$242 million.

Liquidity and Financial Resources

As at 31 December 2018, TOM Group had cash and bank balances, excluding pledged deposits, of approximately HK$386 million. A total of HK$3,431 million financing facilities were available, of which HK$2,937 million, or 86%, had been utilised as at 31 December 2018, to finance the Group's investment, capital expenditures and for working capital purposes.

The principal of the total borrowings of TOM Group amounted to approximately HK$2,937 million as at 31 December 2018, of which HK$2,777 million and HK$160 million equivalent is denominated in Hong Kong dollar and New Taiwan dollar respectively. The borrowings included long-term bank loans of approximately HK$2,899 million (including portion repayable within one year), and short-term bank loans of approximately HK$38 million. All bank loans bore floating interest rates. The gearing ratio (Total principal amount of bank borrowings/(Total principal amount of bank borrowings + Equity) of TOM Group was 100% as at 31 December 2018, compared to 97% as at 31 December 2017.

As at 31 December 2018, the Group had net current assets of approximately HK$357 million, compared to the balance of approximately HK$409 million as at 31 December 2017. The current ratio (Current assets/Current liabilities) of TOM Group was 1.52 as at 31 December 2018, compared to 1.62 as at 31 December 2017.

In 2018, net cash generated from operating activities after interest and taxation paid increased by 140% to HK$61 million. Net cash outflow used in investing activities was HK$122 million, mainly included capital expenditures of HK$126 million and a share subscription in an equity investment of HK$4 million; partially offset by proceeds from disposal of a former subsidiary of HK$4 million and dividends received of HK$4 million. During the year, net cash inflow from financing activities amounted to HK$37 million, mainly from the drawdown of bank loans, net of repayment, of HK$59 million, partially offset by payment of loan arrangement fee of HK$15 million and dividends paid to non-controlling interests of subsidiaries of HK$9 million.

Charges on Group Assets

As at 31 December 2018, the Group had restricted cash amounting to HK$5 million, being bank deposits mainly pledged in favour of certain publishing distributors as retainer fee for potential sales return, and banks as security for credit card and advance receipt in Taiwan, and also the courts for legal proceedings in Mainland China.

Contingent Liabilities

As at 31 December 2018, the Group had no significant contingent liabilities.

Subsequent Events

There is no subsequent event after the reporting period which has material impact to the consolidated financial statements of the Group.

Foreign Exchange Exposure

The Group's operations principally locate in Mainland China and Taiwan, with transactions and related working capital denominated in Renminbi and New Taiwan dollar respectively. In general, it is the Group's policy for each operating entity to borrow in their local currencies, where necessary, to minimise currency risk. Overall, the Group is not exposed to significant foreign exchange risk; however, the Group will monitor this risk on an ongoing basis.

Employee Information

As at 31 December 2018, TOM Group had approximately 1,400 full-time employees (excluding approximately 500 full-time employees of Ule, an associated company of TOM). Employee costs, excluding Directors' emoluments, totalled HK$359 million for the year. All of the TOM Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of TOM Group's salary and bonus system, which is reviewed annually. A wide range of benefits including medical coverage and provident funds are also provided to employees. In addition, training and development programmes are provided on an ongoing basis throughout TOM Group. Social, sporting and recreational activities were arranged during the year for the employees on a Group-wide basis. Further information in relation to our employment and labour practices is set out in the "Environmental, Social and Governance Report" in the Group's 2018 Annual Report.

Disclaimer:

Non-GAAP measures

Certain non-GAAP (generally accepted accounting principles) measures, such as profit/(loss) before net finance costs and taxation including share of results of investments accounted for using the equity method and segment profit/(loss) excluding gain on deconsolidation of subsidiaries or recovery of an investment, provision for impairment of goodwill and other assets, are used for assessing the Group's performance. These non-GAAP measures are not expressly permitted measures under GAAP in Hong Kong and may not be comparable to similarly titled measures for other companies. Accordingly, such non-GAAP measures should not be considered as an alternative to operating income as an indicator of the operating performance of the Group or as an alternative to cash flows from operating activities as a measure of liquidity. The use of non-GAAP measures is provided solely to enhance the overall understanding of the Group's current financial performance. Additionally, since the Group has historically reported certain non-GAAP results to investors, it is considered the inclusion of non-GAAP measures provides consistency in the Group's financial reporting.

AUDITED CONSOLIDATED RESULTS
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	2	944,085	960,513
Cost of sales		(545,989)	(588,122)
Selling and marketing expenses		(160,450)	(154,872)
Administrative expenses		(99,977)	(106,804)
Other operating expenses		(150,354)	(148,764)
Other gains, net		5,778	24,575
		(6,907)	(13,474)
Provision for impairment of goodwill and other assets	3	–	(67,608)
		(6,907)	(81,082)
Share of profits less losses of investments accounted for using the equity method	4	(81,690)	(104,434)
Loss before net finance costs and taxation	5	(88,597)	(185,516)
Finance income		3,383	3,250
Finance costs		(72,098)	(63,573)
Finance costs, net	6	(68,715)	(60,323)
Loss before taxation		(157,312)	(245,839)
Taxation	7	(4,464)	(8,419)
Loss for the year		(161,776)	(254,258)
Attributable to:			
– Non-controlling interests		(3,153)	(11,984)
– Equity holders of the Company		(158,623)	(242,274)
Loss per share attributable to equity holders of the Company during the year			
Basic and diluted	9	HK(4.06) cents	HK(6.22) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 HK$'000	2017 HK$'000
Loss for the year	(161,776)	(254,258)
Other comprehensive (expense)/income for the year, net of tax		
– Items that will not be reclassified subsequently to income statement:		
Remeasurement of defined benefit plans	2,144	6,292
Revaluation surplus of properties	14,625	–
Revaluation deficit of financial assets at fair value through other comprehensive income	(25,687)	–
Share of revaluation surplus through other comprehensive income from an associated company	11,515	–
	2,597	6,292
– Items that may be subsequently reclassified to income statement:		
Revaluation surplus of available-for-sale financial assets	–	301,488
Recycle of available-for-sale financial assets reserve	–	(9,883)
Share of revaluation surplus through other comprehensive income from an associated company	–	103,966
Exchange translation differences	(38,075)	32,574
	(38,075)	428,145
	(35,478)	434,437
Total comprehensive (expense)/income for the year	(197,254)	180,179
Total comprehensive (expense)/income for the year attributable to:		
– Non-controlling interests	(5,267)	42,241
– Equity holders of the Company	(191,987)	137,938

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets		44,297	46,547
Investment properties		21,649	–
Goodwill		578,363	580,556
Other intangible assets		128,120	129,651
Investments accounted for using the equity method	4	1,259,461	1,333,592
Financial assets at fair value through other comprehensive income		446,984	–
Available-for-sale financial assets		–	357,642
Deferred tax assets		48,369	39,999
Pension assets		2,066	–
Other non-current assets		3,428	3,497
		2,532,737	2,491,484
Current assets			
Inventories		103,198	121,490
Trade and other receivables	10	544,610	513,641
Restricted cash		5,282	7,099
Cash and cash equivalents		386,064	423,457
		1,039,154	1,065,687
Current liabilities			
Trade and other payables	11	584,845	559,101
Taxation payable		21,532	19,317
Long-term bank loans – current portion		38,130	39,195
Short-term bank loans		38,130	39,195
		682,637	656,808
Net current assets		356,517	408,879
Total assets less current liabilities		2,889,254	2,900,363

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

	Note	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Deferred tax liabilities		14,326	8,566
Long-term bank loans – non-current portion		2,845,813	2,782,835
Pension obligations		28,606	31,478
		2,888,745	2,822,879
Net assets		509	77,484
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		395,852	389,328
Deficits		(733,307)	(659,796)
Own shares held		(6,244)	(6,244)
		(343,699)	(276,712)
Non-controlling interests		344,208	354,196
Total equity		509	77,484

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to equity holders of the Company														
	Share capital HK$'000	Own shares held HK$'000	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	General reserve HK$'000	Fair value through other comprehensive income reserve HK$'000	Available-for-sale financial assets reserve HK$'000	Properties revaluation reserve HK$'000	Exchange reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total shareholders' deficits HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 31 December 2017	389,328	(6,244)	3,625,981	(75,079)	776	161,668	–	364,355	–	716,197	6,096	(5,459,790)	(276,712)	354,196	77,484
Change in accounting policies	–	–	–	–	–	–	345,963	(364,355)	–	–	–	18,392	–	–	–
Restated balance at 1 January 2018	389,328	(6,244)	3,625,981	(75,079)	776	161,668	345,963	–	–	716,197	6,096	(5,441,398)	(276,712)	354,196	77,484
Comprehensive income:															
Loss for the year	–	–	–	–	–	–	–	–	–	–	–	(158,623)	(158,623)	(3,153)	(161,776)
Other comprehensive income:															
Remeasurement of defined benefit plans	–	–	–	–	–	–	–	–	–	–	–	2,281	2,281	(137)	2,144
Revaluation surplus of properties	–	–	–	–	–	–	–	–	14,625	–	–	–	14,625	–	14,625
Revaluation (deficit)/surplus of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	(28,648)	–	–	–	–	–	(28,648)	2,961	(25,687)
Share of revaluation surplus through other comprehensive income from an associated company	–	–	–	–	–	–	10,364	–	–	–	–	–	10,364	1,151	11,515
Exchange translation differences	–	–	–	–	–	–	–	–	–	(31,986)	–	–	(31,986)	(6,089)	(38,075)
Total comprehensive (expense)/income for the year ended 31 December 2018	–	–	–	–	–	–	(18,284)	–	14,625	(31,986)	–	(156,342)	(191,987)	(5,267)	(197,254)
Issuance of shares	6,524	–	118,476	–	–	–	–	–	–	–	–	–	125,000	–	125,000
Transactions with equity holders:															
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	(9,121)	(9,121)
Deconsolidation of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	4,400	4,400
Transfer to general reserve	–	–	–	–	–	4,179	–	–	–	–	–	(4,179)	–	–	–
Transactions with equity holders	–	–	–	–	–	4,179	–	–	–	–	–	(4,179)	–	(4,721)	(4,721)
Balance at 31 December 2018	395,852	(6,244)	3,744,457	(75,079)	776	165,847	327,679	–	14,625	684,211	6,096	(5,601,919)	(343,699)	344,208	509

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to equity holders of the Company											Non-controlling interests	Total equity/ (deficit)
	Share capital	Own shares held	Share premium	Capital reserve	Capital redemption reserve	General reserve	Available-for-sale financial assets reserve	Exchange reserve	Other reserve	Accumulated losses	Total shareholders' deficits		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2017	389,328	(6,244)	3,625,981	(75,054)	776	158,410	11,017	695,323	6,096	(5,220,258)	(414,625)	314,653	(99,972)
Comprehensive income:													
Loss for the year	–	–	–	–	–	–	–	–	–	(242,274)	(242,274)	(11,984)	(254,258)
Other comprehensive income:													
Remeasurement of defined benefit plans	–	–	–	–	–	–	–	–	–	6,000	6,000	292	6,292
Revaluation surplus on available-for-sale financial assets	–	–	–	–	–	–	269,650	–	–	–	269,650	31,838	301,488
Recycle of available-for-sale financial assets reserve	–	–	–	–	–	–	(9,883)	–	–	–	(9,883)	–	(9,883)
Share of revaluation surplus through other comprehensive income from an associated company	–	–	–	–	–	–	93,571	–	–	–	93,571	10,395	103,966
Exchange translation differences	–	–	–	–	–	–	–	20,874	–	–	20,874	11,700	32,574
Total comprehensive income/(expense) for the year ended 31 December 2017	–	–	–	–	–	–	353,338	20,874	–	(236,274)	137,938	42,241	180,179
Transactions with equity holders:													
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(840)	(840)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(1,883)	(1,883)
Acquisition of additional interests in a subsidiary	–	–	–	(25)	–	–	–	–	–	–	(25)	25	–
Transfer to general reserve	–	–	–	–	–	3,258	–	–	–	(3,258)	–	–	–
Transactions with equity holders	–	–	–	(25)	–	3,258	–	–	–	(3,258)	(25)	(2,698)	(2,723)
Balance at 31 December 2017	389,328	(6,244)	3,625,981	(75,079)	776	161,668	364,355	716,197	6,096	(5,459,790)	(276,712)	354,196	77,484

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation

The financial information is extracted from the Group's audited consolidated financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The consolidated financial statements have been prepared under the historical cost convention except that financial assets at fair value through other comprehensive income ("FVOCI") (2017: Available-for-sale financial assets are stated at fair value unless fair value cannot be reliably measured), defined benefit plan assets, investment properties and investments accounted for using the equity method, of which the retained interests are remeasured to the fair value at the date when the Group lost control in the subsidiaries which became investments accounted for using the equity method of the Group.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

In preparing these consolidated financial statements, the Group has taken into account all information that could reasonably be expected to be available and has ascertained that the Group has obtained adequate financial resources to support the Group to continue in operational existence for the foreseeable future. The Group also has undrawn banking facilities guaranteed by one of its substantial shareholders. Accordingly, the Group has prepared these consolidated financial statements on a going concern basis.

In the current year, the Group has adopted all the new standards, amendments to standards and interpretations issued by the HKICPA that are relevant to the Group's operations and mandatory for annual periods beginning 1 January 2018.

Except as described below, the adoption of these new standards, amendments to standards and interpretations does not have a material impact on the Group's accounting policies.

(a) New standards and amendments to standards

A number of new standards and amendments to standards became applicable for the current reporting period. The Group has changed its accounting policies as a result of adopting the following standards:

- HKFRS 9 Financial Instruments
- HKFRS 15 Revenue from Contracts with Customers

The impact of the adoption of these standards and the new accounting policies are disclosed below.

1 Basis of preparation (Continued)

(b) Effect of the adoption of the new standards and amendments to standards

The following tables show the impact on each individual line item. Line items that were not affected by the changes have not been included.

Consolidated statement of financial position (extract)

	As at 31 December 2017 As originally presented HK$'000	Impact on initial adoption of HKFRS 9 HK$'000	Impact on initial adoption of HKFRS 15 HK$'000	As at 1 January 2018 Restated HK$'000
Non-current assets				
Financial assets at fair value through other comprehensive income ("FVOCI")	–	357,642	–	357,642
Available-for-sale financial assets	357,642	(357,642)	–	–
Current assets				
Inventories	121,490	–	(11,266)	110,224
Trade and other receivables	513,641	–	40,130	553,771
Current liabilities				
Trade and other payables	559,101	–	28,864	587,965

Consolidated income statement (extract)

	Year ended 31 December 2018 without adoption of HKFRS 9 and 15 HK$'000	Impact on adoption of HKFRS 9 HK$'000	Impact on adoption of HKFRS 15 HK$'000	Year ended 31 December 2018 HK$'000
Revenue	961,997	–	(17,912)	944,085
Cost of sales	(560,051)	–	14,062	(545,989)
Selling and marketing expenses	(164,300)	–	3,850	(160,450)

2 Turnover, revenue and segment information

The Group has five reportable operating segments:

- E-Commerce Group – provision of services to users using the mobile and Internet-based marketplace and provision of technical services for e-commerce operations.

- Mobile Internet Group – provision of mobile Internet services, online advertising and commercial enterprise solutions.

- Social Network Group – provision of services of online community and social networking websites and related online advertising.

- Publishing Group – magazine and book publishing and circulation, sales of advertising and other related products.

- Advertising Group – advertising sales of outdoor media assets and provision of outdoor media services; provision of media sales, event production and marketing services.

Sales between segments are carried out at arm's length.

2 Turnover, revenue and segment information (Continued)

The segment results for the year ended 31 December 2018 are as follows:

	Year ended 31 December 2018							
	Technology Platform and Investments				Media Business			
	E-Commerce Group HK$'000	Mobile Internet Group HK$'000	Social Network Group HK$'000	Sub-total HK$'000	Publishing Group HK$'000	Advertising Group HK$'000	Sub-total HK$'000	Total HK$'000
Gross segment revenue	9,299	19,267	74,231	102,797	784,552	58,548	843,100	945,897
Inter-segment revenue	–	–	(1,088)	(1,088)	–	(724)	(724)	(1,812)
Net revenue from external customers	9,299	19,267	73,143	101,709	784,552	57,824	842,376	944,085
Timing of revenue recognition:								
At a point in time	219	14,567	73,143	87,929	714,204	12,038	726,242	814,171
Over time	9,080	4,700	–	13,780	70,348	45,786	116,134	129,914
	9,299	19,267	73,143	101,709	784,552	57,824	842,376	944,085
Segment profit/(loss) before amortisation and depreciation	(7,183)	2,222	4,065	(896)	172,828	(1,880)	170,948	170,052
Amortisation and depreciation	–	(1,067)	(2,213)	(3,280)	(119,122)	(2,467)	(121,589)	(124,869)
Segment profit/(loss)	(7,183)	1,155	1,852	(4,176)	53,706	(4,347)	49,359	45,183
Other material item:								
Share of profits less losses of investments accounted for using the equity method	(83,901)	11	–	(83,890)	2,200	–	2,200	(81,690)
Finance costs:								
Finance income (note a)	4	2,102	10	2,116	4,477	884	5,361	7,477
Finance expenses (note a)	–	–	(88)	(88)	(2,787)	–	(2,787)	(2,875)
	4	2,102	(78)	2,028	1,690	884	2,574	4,602
Segment profit/(loss) before taxation	(91,080)	3,268	1,774	(86,038)	57,596	(3,463)	54,133	(31,905)
Unallocated corporate expenses								(125,407)
Loss before taxation								(157,312)
Expenditure for operating segment non-current assets	–	202	2,694	2,896	125,949	112	126,061	128,957
Unallocated expenditure for non-current assets								16
Total expenditure for non-current assets								128,973

Note (a):

Inter-segment interest income and inter-segment interest expenses amounted to HK$4,109,000 and HK$3,000 were included in the finance income and finance expenses respectively.

2 Turnover, revenue and segment information (Continued)

The segment assets and liabilities at 31 December 2018 are as follows:

	As at 31 December 2018							
	Technology Platform and Investments				Media Business			
	E-Commerce Group	Mobile Internet Group	Social Network Group	Sub-total	Publishing Group	Advertising Group	Sub-total	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	85,985	636,930	46,379	769,294	1,298,605	146,730	1,445,335	2,214,629
Investments accounted for using the equity method	1,249,762	5,386	–	1,255,148	4,313	–	4,313	1,259,461
Unallocated assets								97,801
Total assets								3,571,891
Segment liabilities	22,369	48,175	19,198	89,742	397,879	48,717	446,596	536,338
Unallocated liabilities:								
Corporate liabilities								77,113
Current taxation								21,532
Deferred taxation								14,326
Borrowings								2,922,073
Total liabilities								3,571,382

2 Turnover, revenue and segment information (Continued)

The segment results for the year ended 31 December 2017 are as follows:

	Year ended 31 December 2017							
	Technology Platform and Investments				Media Business			
	E-Commerce Group HK$'000	Mobile Internet Group HK$'000	Social Network Group HK$'000	Sub-total HK$'000	Publishing Group HK$'000	Advertising Group HK$'000	Sub-total HK$'000	Total HK$'000
Gross segment revenue	8,893	21,196	77,550	107,639	763,124	92,028	855,152	962,791
Inter-segment revenue	–	–	(1,555)	(1,555)	(18)	(705)	(723)	(2,278)
Net revenue from external customers	8,893	21,196	75,995	106,084	763,106	91,323	854,429	960,513
Timing of revenue recognition:								
At a point in time	699	17,700	75,995	94,394	685,208	16,498	701,706	796,100
Over time	8,194	3,496	–	11,690	77,898	74,825	152,723	164,413
	8,893	21,196	75,995	106,084	763,106	91,323	854,429	960,513
Segment profit/(loss) before amortisation and depreciation	2,160	(4,710)	8,489	5,939	155,761	(14,352)	141,409	147,348
Amortisation and depreciation	–	(1,295)	(2,060)	(3,355)	(110,905)	(11,128)	(122,033)	(125,388)
Segment profit/(loss)	2,160	(6,005)	6,429	2,584	44,856	(25,480)	19,376	21,960
Other material items:								
Provision for impairment of goodwill and other assets	(20,441)	(12,243)	–	(32,684)	–	(34,924)	(34,924)	(67,608)
Share of profits less losses of investments accounted for using the equity method	(108,040)	1,207	–	(106,833)	2,399	–	2,399	(104,434)
	(128,481)	(11,036)	–	(139,517)	2,399	(34,924)	(32,525)	(172,042)
Finance costs:								
Finance income (note a)	4	1,960	26	1,990	4,974	826	5,800	7,790
Finance expenses (note a)	–	–	(38)	(38)	(3,227)	–	(3,227)	(3,265)
	4	1,960	(12)	1,952	1,747	826	2,573	4,525
Segment profit/(loss) before taxation	(126,317)	(15,081)	6,417	(134,981)	49,002	(59,578)	(10,576)	(145,557)
Unallocated corporate expenses								(100,282)
Loss before taxation								(245,839)
Expenditure for operating segment non-current assets	–	2,691	2,112	4,803	153,049	30	153,079	157,882
Unallocated expenditure for non-current assets								24
Total expenditure for non-current assets								157,906

Note (a):

Inter-segment interest income and inter-segment interest expenses amounted to HK$4,553,000 and HK$38,000 were included in the finance income and finance expenses respectively.

2 Turnover, revenue and segment information (Continued)

The segment assets and liabilities at 31 December 2017 are as follows:

	As at 31 December 2017							
	Technology Platform and Investments				Media Business			
	E-Commerce Group HK$'000	Mobile Internet Group HK$'000	Social Network Group HK$'000	Sub-total HK$'000	Publishing Group HK$'000	Advertising Group HK$'000	Sub-total HK$'000	Total HK$'000
Segment assets	85,181	629,769	45,344	760,294	1,249,684	166,177	1,415,861	2,176,155
Investments accounted for using the equity method	1,322,629	6,063	–	1,328,692	4,900	–	4,900	1,333,592
Unallocated assets								47,424
Total assets								3,557,171
Segment liabilities	23,736	61,342	19,279	104,357	354,443	59,542	413,985	518,342
Unallocated liabilities:								
Corporate liabilities								72,237
Current taxation								19,317
Deferred taxation								8,566
Borrowings								2,861,225
Total liabilities								3,479,687

The unallocated assets represent the corporate assets. The unallocated liabilities represent the corporate liabilities in addition to operating segment taxation payable, deferred tax liabilities and borrowings which are managed on a central basis.

3 Provision for impairment of goodwill and other assets

	2018 HK$'000	2017 HK$'000
Provision for impairment in respect of:		
Goodwill (note a)	–	45,097
An available-for-sale financial asset (note b)	–	12,243
Fixed and intangible assets (note c)	–	10,268
	–	67,608

Notes:

(a) The provision for impairment of goodwill made for the year ended 31 December 2017 was related to certain outdoor media operations under the Advertising Group and the customer-to-customer ("C2C") marketplace business under the E-Commerce Group. The provision for impairment of goodwill was made with reference to the reduced estimated recoverable values of certain cash-generating units in the above-mentioned segments. The estimated recoverable values were determined based on higher of value-in-use calculation according to financial budgets approved by management or fair value less costs of disposal calculation.

(b) The provision for impairment of an available-for-sale financial asset held by the Mobile Internet Group for the year ended 31 December 2017 was made with reference to the reduced estimated recoverable value. The estimated recoverable value was determined based on the fair value less costs of disposal of the relevant asset.

(c) The provision for impairment of certain fixed and intangible assets of an outdoor media operation under the Advertising Group for the year ended 31 December 2017 was made with reference to the reduced estimated recoverable value of the relevant cash-generating unit. The estimated recoverable value was determined based on the fair value less costs of disposal.

4 Investments accounted for using the equity method

The amounts recognised in the consolidated statement of financial position are as follows:

	2018 HK$'000	2017 HK$'000
Associated companies, as at 31 December	1,259,461	1,333,592

The share of net losses recognised in the consolidated income statement are as follows:

	2018 HK$'000	2017 HK$'000
Associated companies, for the year ended 31 December	(81,690)	(104,434)

Note:

In June 2016, the shareholders of Ule Holdings Limited ("Ule Holdings"), a material associated company of the Group, resolved the launch of share incentive options of Ule Holdings ("Ule Share Incentive Options"). Under the Ule Share Incentive Options, a total of 100,000,000 ordinary shares (based on the current par value of US$0.00001 each) were reserved, of which 43.71% of the Ule Share Incentive Options representing 43,711,860 shares ("Ule Major Shareholder Options") were approved to be granted to one of Ule Holdings' major shareholders ("Ule Major Shareholder"), subject to the completion of a deed ("Deed") signed by Ule Holdings and all of its shareholders, and the remaining 56.29% of the Ule Share Incentive Options representing 56,288,140 shares ("Ule Other Options") were approved to be granted to directors, employees and consultants of Ule and such other persons contributing to Ule, subject to determination of the details of Ule Other Options by the Ule remuneration committee ("Ule Committee").

As at 31 December 2018, if the Ule Share Incentive Options were granted, fully vested and exercised, Ule Holdings would be held as to 43.08%, 38.75%, 13.18% and 4.99% by Ule Major Shareholder, a non-wholly owned subsidiary of the Group, certain investors and holders of Ule Other Options respectively on a fully diluted basis.

In June 2016, the Deed was signed by Ule Holdings, the Ule Major Shareholder and remaining shareholders of Ule Holdings, under which it was mutually agreed that Ule Holdings granted Ule Major Shareholder Options to the Ule Major Shareholder for its contributions to Ule's business over the past years. The Ule Major Shareholder Options granted to the Ule Major Shareholder are only exercisable upon the completion of a qualified initial public offering ("Qualified IPO") of Ule Holdings. The exercise price of each Ule Major Shareholder Option is at the par value of each share on the exercise date. The Deed will be terminated if the Qualified IPO of Ule Holdings is not completed within 10 years from the date of the Deed. As at 31 December 2018 and 2017, Ule Major Shareholder Options are not yet exercisable as the Qualified IPO has not occurred.

In October 2017, a total of 4,765,000 options under the Ule Other Options were granted. The options that were granted carried a Qualified IPO performance of Ule Holdings and service condition that affect vesting. As at 31 December 2018, the Qualified IPO performance condition is yet to be satisfied. As the options only vest upon a Qualified IPO, Ule Holdings did not recognise any share-based compensation expense for the year then ended. No outstanding options granted under the Ule Other Options were vested as at 31 December 2018. All the outstanding options will be expired in October 2027.

5 Loss before net finance costs and taxation

Loss before net finance costs and taxation is stated after charging/crediting the following:

	2018 HK$'000	2017 HK$'000
Charging:		
Depreciation	18,879	26,203
Amortisation of other intangible assets	106,959	101,216
Provision for impairment of goodwill (note 3)	–	45,097
Provision for impairment of fixed assets (note 3)	–	10,013
Provision for impairment of other intangible assets (note 3)	–	255
Provision for impairment of an available-for-sale financial asset (notes 3)	–	12,243
Loss on disposal of fixed assets	–	29
Exchange loss, net	6,224	–
Crediting:		
Dividend income from financial assets at FVOCI	815	–
Dividend income from available-for-sale financial assets	–	1,406
Dividend income from a former subsidiary	–	4,789
Gain on disposal of a former subsidiary (note a)	3,660	–
Gain on deconsolidation of subsidiaries	3,626	–
Gain on disposal of subsidiaries (note b)	–	1,895
Gain on disposal of an associated company	1,019	–
Recovery of an investment (note c)	–	14,805
Recovery from a previously fully written off receivable of discontinued operations	2,736	–
Reversal of over-accrued provision for closure costs	–	1,573
Gain on disposal of fixed assets	146	–
Exchange gain, net	–	136

Notes:

(a) In December 2017, a subsidiary of the Advertising Group entered into an agreement to dispose its entire interests in a former subsidiary ("Entity") which engages in outdoor media business at a consideration of RMB3,000,000 (approximately HK$3,660,000). The disposal of the entire equity interest in the Entity was completed in January 2018. Accordingly, a gain on disposal of approximately HK$3,660,000 was recognised in the consolidated income statement for the year ended 31 December 2018.

(b) In March 2017, a subsidiary of the Advertising Group entered into an agreement to dispose its entire interests in two subsidiaries engaging in outdoor media business in Shandong, at a consideration of RMB1,000,000 (approximately HK$1,130,000). Upon the disposal of equity interests in the two subsidiaries, a consideration payable of RMB2,500,000 (approximately HK$2,825,000) was written back. As a result, a gain on disposal amounting to approximately HK$1,186,000 (include the write-back of consideration payable) was recognised in the consolidated income statement for the year ended 31 December 2017.

5 Loss before net finance costs and taxation (Continued)

Notes: (Continued)

(b) (Continued)

In December 2017, a subsidiary of the Publishing Group entered into an agreement to dispose its 80% interest in a subsidiary engaging in online games platform business in Taiwan, at a consideration of NT$15,000,000 (approximately HK$3,920,000). Upon completion of the partial disposal of the subsidiary, that subsidiary became an associated company of the Group. A gain on partial disposal amounting to approximately HK$709,000 was recognised in the consolidated income statement for the year ended 31 December 2017.

(c) The amount represented the cash recovery of an investment in December 2017, net of the carrying value of the investment. After the recovery, the carrying value of that investment became nil.

6 Finance costs, net

	2018 HK$'000	2017 HK$'000
Interest and borrowing costs on bank loans	(72,098)	(63,573)
Bank interest income	3,383	3,250
	(68,715)	(60,323)

7 Taxation

Hong Kong profits tax has been provided for at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

	2018 HK$'000	2017 HK$'000
Overseas taxation	11,596	8,767
Under-provision in prior years	1,125	820
Deferred taxation	(8,257)	(1,168)
Taxation charge	4,464	8,419

8 Dividends

No dividends had been paid or declared by the Company during the year (2017: Nil).

9 Loss per share

(a) Basic

The calculation of basic loss per share is based on consolidated loss attributable to equity holders of the Company of HK$158,623,000 (2017: HK$242,274,000) and the weighted average of 3,904,352,421 (2017: 3,893,270,558) ordinary shares in issue during the year.

(b) Diluted

Diluted loss per share is equal to the basic loss per share for the year ended 31 December 2018 (2017: Same).

10 Trade and other receivables

	2018 HK$'000	2017 HK$'000
Trade receivables	274,998	246,964
Prepayments, deposits and other receivables	269,612	266,677
	544,610	513,641

The Group has established credit policies for customers in each of its businesses. The average credit period granted for trade receivables ranges from 30 to 180 days. The Group's turnover is determined in accordance with terms specified in the contracts governing the relevant transactions. The carrying values of trade and other receivables approximate their fair values.

As at 31 December 2018 and 2017, the ageing analyses of the Group's trade receivables were as follows:

	2018 HK$'000	2017 HK$'000
Current	116,765	82,812
31 – 60 days	70,587	77,891
61 – 90 days	42,009	41,310
Over 90 days	105,280	108,128
	334,641	310,141
Less: Provision for impairment	(59,643)	(63,177)
	274,998	246,964

11 Trade and other payables

	2018 HK$'000	2017 HK$'000
Trade payables	137,971	142,251
Other payables and accruals, and receipt in advance	310,306	416,850
Contract liabilities	136,568	–
	584,845	559,101

The carrying values of trade and other payables approximate their fair values.

As at 31 December 2018 and 2017, the ageing analyses of the Group's trade payables were as follows:

	2018 HK$'000	2017 HK$'000
Current	50,987	45,917
31 – 60 days	14,601	16,745
61 – 90 days	8,627	7,290
Over 90 days	63,756	72,299
	137,971	142,251

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed the consolidated financial statements of the Group for the year ended 31 December 2018. 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 audited 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.

CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions of the Corporate Governance Code throughout the year ended 31 December 2018, save and except Code Provisions A.5 which is with respect to the nomination committee.

The Company has considered the merits of establishing a nomination committee but is of the view that it is in the best interests of the Company that the Board collectively reviews, deliberates on and approves the structure, size and composition of the Board and the appointment of any new Director. The Board is tasked with ensuring that it has a balanced composition of skills, experience and expertise appropriate for the requirements of the businesses of the Group, with due regard to the benefits of diversity on the Board, and that appropriate individuals with the relevant expertise and leadership qualities are appointed to the Board to complement the capabilities of the existing Directors. In addition, the Board as a whole is also responsible for reviewing the succession plan for the Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the Group's code of conduct regarding Directors' securities transactions. In response to specific enquiry made with the Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code during the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares. In addition, the Company has not redeemed any of its listed shares during the year.

PAST PERFORMANCE AND FORWARD-LOOKING STATEMENTS

The performance and the results of operations of the Group contained in this announcement are historical in nature, and past performance is no guarantee of the future results of the Group. Any forward-looking statements and opinions contained in this announcement are based on current plans, estimates and projections, and therefore involve risks and uncertainties. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. The Group, the Directors, employees and agents of the Group assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this announcement; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise or turn out to be incorrect.

DEFINITIONS

"Associates"	has the meaning ascribed to it in the Listing Rules
"Alexa"	means Alexa Internet, Inc., a company incorporated in the United States
"B2B"	means business-to-business
"Board"	means the board of Directors
"China Post"	means China Post Group Limited, a state-owned enterprise of the PRC, and its subsidiaries (its subsidiary Telpo Philatelic Company Limited is the entity that is the shareholder of Ule)
"Company" or "TOM"	means TOM Group Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 2383)
"Corporate Governance Code"	means the Corporate Governance Code sets out in Appendix 14 to the Listing Rules
"Director(s)"	means the director(s) of the Company
"GMV"	means Gross Merchandise Value, the total value of all orders handled or processed through Ule Group's platform which includes multiple websites, mobile applications and PC applications, regardless of whether the orders are consummated, goods and services returned or not
"Group" or "TOM Group"	means the Company and its subsidiaries
"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange
"Mainland China" or "PRC"	means The People's Republic of China, excluding Hong Kong, Macau and Taiwan
"Media Business"	means two reportable operating segments of Publishing Group and Advertising Group
"Model Code"	means Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules

"Rubikloud"	means Rubikloud Technologies Inc., a corporation incorporated in Canada
"SFO"	means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"Technology Platform and Investments"	means three reportable operating segments of E-Commerce Group, Social Network Group and Mobile Internet Group; and investments in Fintech and Advanced data Analytics sectors
"Ule" or "Ule Group"	means Ule Holdings Limited or Ule Holdings Limited and its subsidiaries, a material associate of the Company which undertakes an e-Commerce business in PRC and from time to time raises funds for its growing business
"WeLab"	means WeLab Holdings Limited, a BVI business company incorporated in the British Virgin Islands with limited liability

As at the date hereof, the directors of the Company are:

Executive Director:	*Non-executive Directors:*	*Independent Non-executive Directors:*
Mr. Yeung Kwok Mung	*Mr. Frank Sixt (Chairman)*	*Mr. Henry Cheong*
	Ms. Debbie Chang	*Mr. James Sha*
	Mrs. Angelina Lee	*Mr. Albert Ip*
		Alternate Director:
		Mr. Dominic Lai
		(Alternate to Mr. Frank Sixt)