Hong Kong Television Network Limited
香港電視網絡有限公司
(Incorporated in Hong Kong with limited liability under the Companies Ordinance)
(Stock Code: 1137)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

OPERATIONAL HIGHLIGHT

1. In 24 months' time, we achieved almost 5 times growth in average daily orders from 2,500 orders per day in January 2017 to 12,200 orders per day in December 2018, and even reached 12,900 orders per day in the month of October 2018;

2. With substantial growth in average daily orders while maintaining the average order value at around HK$500 in 2018, our Gross Merchandise Value ("GMV") on order intake[1] also had a 4 times growth from HK$49 million in January 2017 to HK$195 million in December 2018, representing an annualised GMV on order intake of HK$2.3 billion;

3. GMV on order intake during 2018 of HK$1,891.3 million, represented a growth of 77% relative to 2017 of HK$1,070.4 million;

4. During 2018, collectively, we had 680,000 unique customers made purchase at HKTVmall and/or HoKoBuy, a growth from 477,000 in 2017; and

5. Upon the launch of first phase (in March 2018) and second phase (in March 2019) of the automated picking and storage system, we now have a daily capacity to handle about 20,000 orders. Given prolonged time is required to obtain regulatory clearance on building plan, we estimate the third phase of the robotic system would be launched by end of 2020. By then, our daily order capacity will further increase to about 35,000 orders subject to different system settings and operational flow design.

[1] Gross Merchandise Value ("GMV") on order intake represents the total gross sales dollar value for merchandise sold through a particular marketplace over a certain timeframe, before deduction of any discounts offered by the marketplace, rebate used, cancellation and returns of merchandise sold.

FINANCIAL HIGHLIGHT

1. 84% growth on turnover reaching HK$896.4 million in 2018 versus HK$487.3 million in 2017;

2. Turnover is composed of:

   i. Direct merchandise sales of HK$685.9 million (2017: HK$346.2 million) with gross margin[2] at 24.7% (2017: 22.6%);

   ii. Income from concessionaire sales and other service income of HK$197.4 million (2017: HK$139.1 million) with blended commission rate[2] at 17.9% (2017: 20.4%); and

   iii. Licensing of programme rights and net advertising income of HK$13.1 million (2017: HK$2.0 million).

3. Managed Adjusted EBITDA loss[3] at HK$271.4 million in 2018 versus loss at HK$265.6 million in 2017;

4. Net loss of HK$133.1 million in 2018 versus loss of HK$204.9 million in 2017; and

5. Maintained strong financial position with investment in other financial assets, cash at bank and in hand, pledged deposit, net of bank loans, totalling HK$712.3 million (31 December 2017: HK$760.6 million)

[2] Gross margin and blended commission rate is calculated before deduction of HKTVmall Dollars and use of promotional coupon (if any), which is considered as advertising and marketing expenses under management reporting purpose.

[3] Adjusted EBITDA loss means loss for the year plus interest on bank loans, income tax expenses, depreciation of property, plant and equipment and amortisation of intangible assets and less investment returns, gain on disposal of a subsidiary, and adjusted by major non-cash items. Adjusted EBITDA loss is not a measure of performance under Hong Kong Financial Reporting Standards ("HKFRSs"). This measure does not represent, and should not be used as a substitute for, net loss or cash flows from operations as determined in accordance with HKFRSs. This measure is not necessarily an indication of whether cash flow will be sufficient to fund our cash requirements. In addition, our definition of this measure may not be comparable to other similarly titled measures used by other companies.

CHAIRMAN'S STATEMENT

Our team embraces innovative spirit, and "Always Something New" is indeed one of our core values.

Established in 1992, City Telecom was only supported by HK$2.3 million funding and 10 talents. Later in 1999, Hong Kong Broadband Network Limited was established to provide up to 1Gbps high speed fibre-to-the-home residential broadband services, that was indeed a breakthrough to the market. In February 2015, HKTVmall was officially launched. Aiming to become the largest online shopping mall in terms of product variety, number of suppliers and merchants, we hope that HKTVmall can contribute to sustain Hong Kong's position as a Shoppers' Paradise.

In fact, HKTVmall is not just an online marketplace. We aim to build a digital ecosystem encompassing business operations, trading, retailing, financial services and all aspects of daily lives. This digital ecosystem is also a new retailing model, which is supported by 3 core pillars.

The first core pillar is an all-rounded marketplace. The 2 online portals in our Group, namely "HKTVmall" and "HoKoBuy", work with over 2,800 retailers and suppliers to provide over 270,000 product and service choices. Among all, supermarket and grocery products are catalysts for repeated purchase and stable traffic, as well as getting our customers acquainted to our mall with cross-selling. In 2018, supermarket products accounting for 34%, which ranked highest in our GMV on order intake, with another 18% coming from electrical appliances and 17% from personal care and skincare products.

In additional to this, this marketplace is connected with our existing O2O store network, joining efforts from online and offline on marketing promotions, customer services and brand awareness. While online platform is the main channel for product display and customer orders which are the core for business and profits, offline O2O stores serve as complementary role to reach new customers from different segments, offering customer and self-pickup services.

The second core pillar for new retailing is the robotic and automated warehousing and pick/pack system installed in our 280,000 sq. ft. warehouse space. Among all, installation works for phases 1 and 2 have been completed while the installation work for phase 3 will soon begin. Traditional retailing adopts the flow of "Man to Goods" that customers shop at physical stores and bring the product items back home by themselves, while new retailing model reverts the flow into "Goods to Man" that the robotic system will pick the product items according to customer orders, pack and deliver the orders directly to customers.

As mentioned, this robotic system was introduced from Germany and consists of 3 phases. The first phase was launched in first quarter of 2018 in our Tsing Yi logistics centre, handling 10,000 orders daily; The installation work for phase 2 at the logistics centre located at our Tseung Kwan O headquarter was also completed and started its operation since this month to handle customer orders. Upon the full operation of the system for phase 2, we will be able to handle 20,000 orders daily together with phase 1. Finally, we will install phase 3 of the system at the new warehouse space at Tseung Kwan O headquarter, that will increase our capacity to handle up to 35,000 orders daily. By that time, our logistics, warehousing, pick & pack as well as delivery will become more scalable, cost-effective and accurate.

Apart from the logistics centres located at Tsing Yi and Tseung Kwan O, our 280,000 sq. ft. warehousing space also includes a warehouse with cold storage facilities at Kwai Chung that handles frozen and chilled food, including frozen meat, seafood, packaged food, fruits and vegetables. In future, the Group will extend its logistics centres to various areas to cater for growing demand.

The third core pillar for new retailing is an extensive residential distribution network. We built our fleet from scratch. Currently, we have 250 trucks in operation daily, including outsourced trucks. One thing that worthy for attention is, our trucks were specially designed with multi-compartments: the one at the back of driving compartment sets at -18ºC that is ideal for storage of frozen & chilled food, and the more spacious compartment at the back was designed for storage of items at ambient temperature. Upon arrival of the delivery address, our delivery assistants will deliver the items at different temperature levels directly to customers.

Our residential distribution network does not only consist of delivery fleet, but also our existing 46 O2O stores. Different from traditional physical stores, our stores size on average, less than 400 sq. ft., that regularly display different product categories. Most importantly, these stores serve as education centres to reach existing and potential customers to enhance interactivity and connection. In addition, our O2O stores offer self-pickup services, that some stores such as Mei Foo Sun Chuen recorded more self-pickup orders than delivery orders. From this, we observed that delivery team and O2O stores are serving different customer segments and they combine to form an extensive residential distribution network.

As there is no precedented case to follow in Hong Kong, the road to new retailing has never been easy for us. Learning from our 4 years' operation experiences, we derived some thoughts and tactics for this business:

1. This is a new game to everyone including the retailers in Hong Kong and even the public, which is comparatively a level-playing field.

2. As mentioned before, we are a team that is always looking for innovation. We selected a difficult path to build our own logistics team and warehousing system first to set high entry barrier as well as capturing first and fast mover advantage.

3. We understand that this is a volume game to increase gross margin and to lower fulfilment costs with increasing order density.

4. We put more emphasis on senior market for 2 reasons. First, they are loyal and very "social" group that are willing to learn new things and catch up with their peers. Second, they are high spending groups relative to the youth.

Hong Kong is renowned for being a Shoppers' Paradise, and we should not be complacent for this. With 4 years' trial and error experience, we believe that we have found an ideal way for eCommerce in Hong Kong. In coming years, we will continue our investments and to boost order volume in order to achieve breakeven. Combining with technology and innovation, we hope to match the development of eCommerce in Hong Kong with our neighborhood areas.

Wong Wai Kay, Ricky
Chairman

Hong Kong, 27 March 2019

RESULTS

The Board of Directors (the "Board" or the "Directors") of Hong Kong Television Network Limited ("HKTV" or the "Company") hereby announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	**Year ended 31 December 2018** ***HK$'000***	Year ended 31 December 2017 *HK$'000*
Turnover	*3*	**896,374**	487,257
Direct merchandise sales	*3*	**685,889**	346,173
Cost of inventories		**(538,752)**	(295,178)
		147,137	50,995
Income from concessionaire sales and other service income	*3*	**197,358**	139,056
Licensing of programme rights and net advertising income	*3*	**13,127**	2,028
Valuation gains on investment properties		**43,550**	80,500
Other operating expenses	*5(a)*	**(737,567)**	(568,555)
Gain on disposal of a subsidiary	*13*	**161,645**	–
Other income, net	*4*	**46,913**	94,230
Finance costs	*5(b)*	**(4,921)**	(2,011)
Loss before taxation		**(132,758)**	(203,757)
Income tax expense	*6*	**(337)**	(1,163)
Loss for the year		**(133,095)**	(204,920)
Basic and diluted loss per ordinary share	*9*	**HK$ (0.16)**	HK$ (0.25)

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	**Year ended 31 December 2018** **HK$'000**	Year ended 31 December 2017 HK$'000
Loss for the year		**(133,095)**	(204,920)
Other comprehensive income for the year	*8*		
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of an overseas subsidiary		**(43)**	(42)
Available-for-sale securities: net movement in fair value reserve (ii)		**–**	18,547
Debt securities measured at fair value through other comprehensive income — net movement in fair value reserve (recycling)		**(26,445)**	–
		(26,488)	18,505
Items that will not be reclassified to profit or loss:			
Equity instruments designated at fair value through other comprehensive income — net movement in fair value reserve (non-recycling)		**(9,403)**	–
Gain on revaluation upon transfer of previously self-occupied property to investment property		**–**	23,579
		(9,403)	23,579
Other comprehensive income for the year		**(35,891)**	42,084
Total comprehensive income for the year		**(168,986)**	(162,836)

Notes:

(i) The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

(ii) This amount arose under the accounting policies applicable prior to 1 January 2018, part of the balance of this reserve has been reclassified to fair value reserve (non-recycling) and will not be reclassified to profit or loss in any future periods. See note 2(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(Expressed in Hong Kong dollars)

	Note	**31 December 2018** **HK$'000**	31 December 2017 *HK$'000*
Non-current assets			
Property, plant and equipment		**1,115,347**	1,152,387
Intangible assets		**87,653**	99,828
Goodwill		**897**	897
Long term receivables, deposits and prepayments		**5,444**	11,912
Other financial assets	*10*	**656,634**	675,161
		1,865,975	1,940,185
Current assets			
Other receivables, deposits and prepayments		**71,449**	63,276
Tax recoverable		**–**	1,007
Inventories		**54,322**	26,912
Other current financial assets	*10*	**25,295**	201,004
Pledged bank deposit		**3,905**	3,905
Cash at bank and in hand		**105,901**	100,199
		260,872	396,303
Current liabilities			
Accounts payable	*11*	**146,493**	92,951
Other payables and accrued charges	*11*	**185,337**	154,840
Deposits received		**5,757**	4,286
Bank loans		**79,392**	219,623
		416,979	471,700
Net current liabilities		**(156,107)**	(75,397)
Total assets less current liabilities		**1,709,868**	1,864,788

	Note	**31 December 2018** *HK$'000*	31 December 2017 *HK$'000*
Non-current liabilities			
Deferred tax liabilities		**1,479**	2,156
		1,479	2,156
NET ASSETS		**1,708,389**	1,862,632
CAPITAL AND RESERVES	*12*		
Share capital		**1,280,191**	1,268,914
Reserves		**428,198**	593,718
TOTAL EQUITY		**1,708,389**	1,862,632

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

Notes:

1 BASIS OF PREPARATION

The financial information relating to the year ended 31 December 2018 and 31 December 2017 included in this preliminary announcement does 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 Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and will deliver the financial statements for the year ended 31 December 2018 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The annual results set out in the announcement are extracted from the Group's consolidated financial statements for such year which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The Group's consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investment properties and investments in other financial assets are stated at their fair values.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company.

Note 2 provides information on any changes in accounting policies resulting from initial application of those developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses and impacted by HKFRS 15 in relation to presentation of contract liabilities. Details of the changes in accounting policies are discussed in 2(b) for HKFRS 9 and note 2(c) for HKFRS 15.

(b) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained profits and reserves at 1 January 2018.

	HK$'000
Retained profits	
Transferred from available-for-sale investment fair value reserve relating to units in investment funds now measured at fair value through profit or loss ("FVPL")	(18,706)
Recognition of additional expected credit losses on debt securities measured at fair value through other comprehensive income ("FVOCI")	(1,552)
Net decrease in retained profits at 1 January 2018	(20,258)
Available-for-sale investment fair value reserve	
Transferred to retained profits relating to units in investment funds now measured at FVPL	18,706
Transferred to fair value reserve (recycling) relating to debt securities now measured at FVOCI	(11,003)
Transferred to fair value reserve (non-recycling) relating to equity instruments now designated at FVOCI	(7,840)
Net decrease in available-for-sale investment fair value reserve at 1 January 2018	(137)
Fair value reserve (recycling)	
Transferred from available-for-sale investment fair value reserve relating to debt securities now measured at FVOCI	11,003
Recognition of additional expected credit losses on debt securities measured at FVOCI	1,552
Net increase in fair value reserve (recycling) at 1 January 2018	12,555
Fair value reserve (non-recycling)	
Transferred from available-for-sale investment fair value reserve relating to equity instruments now designated at FVOCI	7,840
Net increase in fair value reserve (non-recycling) at 1 January 2018	7,840

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification and measurement of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at FVOCI and at FVPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount at 1 January 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets designated at FVOCI (non-recycling)				
Equity securities *(note (i))*	–	29,293	–	29,293
Perpetual bonds *(note (ii))*	–	59,970	–	59,970
	–	89,263	–	89,263
Financial assets measured at FVOCI (recycling)				
Debt securities *(note (iii))*	–	634,554	–	634,554
Financial assets measured at FVPL				
Units in investment funds *(note (iv))*	–	152,348	–	152,348
Financial assets classified as available-for-sale under HKAS 39	876,165	(876,165)	–	–

Notes:

(i) Equity securities not held for trading were classified as available-for-sale financial assets under HKAS 39. These assets are designated at FVOCI (non-recycling) under HKFRS 9.

(ii) Perpetual bonds not held for trading were classified as available-for-sale financial assets under HKAS 39. These assets are designated at FVOCI (non-recycling) under HKFRS 9.

(iii) Debt securities not held for trading were classified as available-for-sale financial assets under HKAS 39. These assets continue to be measured at FVOCI (recycling) under HKFRS 9.

(iv) Units in investment funds not held for trading were classified as available-for-sale financial assets under HKAS 39. They are measured at FVPL under HKFRS 9.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit losses ("ECL")" model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

— financial assets measured at amortised cost (including cash at bank and in hand and other receivables);

— debt securities measured at FVOCI (recycling); and

— lease receivables.

Financial assets measured at fair value, including perpetual bonds and equity securities designated at FVOCI (non-recycling) as well as units in investment funds measured at FVPL, are not subject to the ECL assessment.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	HK$'000
Loss allowance at 31 December 2017 under HKAS 39	–
Additional credit loss recognised at 1 January 2018 on:	
— Debt securities measured at FVOCI (recycling)	1,552
Loss allowance at 1 January 2018 under HKFRS 9	1,552

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

— Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

— The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  — The determination of the business model within which a financial asset is held; and

  — The designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(c) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Under the requirement of HKFRS 15, revenue from sale of goods and provision of services by the Group is recognised when the customer obtains control of the promised goods and services in the contract. Transfer of significant risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs. The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue.

(ii) Presentation of contract liabilities

Under HKFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

As at 31 December 2018, the Group has contract liabilities of HK$31,188,000 (31 December 2017: HK$45,176,000 as receipt in advance from customers), which represents the obligation to transfer goods to customers for which the consideration has been received, and is included in "other payables and accrued charges" in the consolidated statement of financial position. Except that, the adoption of HKFRS 15 has no significant financial impact on the Group's financial information.

3 TURNOVER AND SEGMENT INFORMATION

Turnover

The Group is principally engaged in the provision of multimedia business, including but not limited to the end to end online shopping mall operation, multimedia production and other related services ("Multimedia Business").

Disaggregation of revenue from contracts with customers by nature and by timing of revenue recognition are as follows:

	Year ended 31 December 2018	Year ended 31 December 2017 *(Note)*
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by nature		
— Direct merchandise sales	**685,889**	346,173
— Income from concessionaire sales and other service income	**197,358**	139,056
— Licensing of programme rights and net advertising income	**13,127**	2,028
	896,374	487,257
Disaggregated by timing of revenue recognition		
— Point in time	**893,658**	485,589
— Over time	**2,716**	1,668
	896,374	487,257

Note: The Group has initially applied HKFRS 15 at 1 January 2018. Under the transition method chosen, comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 2(c)). The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15, such that it does not disclose the information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the unsatisfied (or partially satisfied) contracts outstanding as at the end of the reporting period, as such unsatisfied performance obligations have an original expected duration of one year or less.

Segment information

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resources allocation and performance assessment, the Group has only identified one business segment i.e. Multimedia Business. In addition, the majority of the Group's operations are conducted in Hong Kong and majority of the assets are located in Hong Kong. Accordingly, no operating or geographical segment information is presented.

4 OTHER INCOME, NET

	Year ended 31 December 2018 *HK$'000*	Year ended 31 December 2017 *HK$'000*
Bank interest income	**457**	44
Dividend income from other financial assets	**6,440**	2,240
Interest income from other financial assets	**35,079**	50,537
Gain on disposal of other financial assets	**11**	2,201
Unrealised fair value loss on units in investment funds measured at FVPL	**(12,573)**	–
Reversal of expected credit losses on debt securities measured at FVOCI	**224**	–
Rentals from investment properties	**18,455**	18,264
Net exchange (loss)/gain	**(2,932)**	18,701
Others	**1,752**	2,243
	46,913	94,230

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

	Year ended 31 December 2018 *HK$'000*	Year ended 31 December 2017 *HK$'000*
(a) Other operating expenses		
Depreciation of property, plant and equipment	**67,464**	46,775
Advertising and marketing expenses (excluding HK$32,234,000 (2017: HK$28,745,000) being deducted in turnover)	**75,416**	40,209
Auditor's remuneration	**2,342**	2,276
Operating lease charges in respect of land and buildings	**44,511**	41,800
(Gain)/loss on disposal of property, plant and equipment	**(997)**	3,436
Write down of inventories	**2,601**	1,609
Talent costs *(note 5(c))*	**293,709**	259,453
Amortisation of intangible assets	**24,016**	15,060
Acquisition-related costs incurred in business combination	**–**	1,068
(Utilisation of)/provision for onerous contract	**(3,156)**	3,300
Total outgoings of investment properties	**1,492**	1,349
Others	**230,169**	152,220
	737,567	568,555
(b) Finance costs		
Interest on bank loans	**4,718**	1,778
Bank charges	**203**	233
	4,921	2,011
(c) Talent costs		
Wages and salaries	**274,449**	221,576
Retirement benefit costs — defined contribution plans	**12,071**	9,072
Equity-settled share-based payment expenses	**7,189**	28,805
Talent costs included in other operating expenses	**293,709**	259,453

Talent costs include all compensation and benefits paid to and accrued for all individuals employed by the Group, including Directors.

6 INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements in current and prior years as the Group sustained a loss for taxation purpose during the year. The provision for Hong Kong Profits Tax for the year is calculated at 16.5% (16.5% for the year ended 31 December 2017) of the estimated assessable profits for the year.

The amount of income tax expense in the consolidated income statement represents:

	Year ended 31 December 2018 *HK$'000*	Year ended 31 December 2017 *HK$'000*
Current taxation		
Hong Kong		
— Provision for the year	**–**	–
Deferred taxation		
Origination and reversal of temporary differences	**(337)**	(1,163)
	(337)	(1,163)

7 DIVIDEND

The Board of Directors has resolved not to declare any final dividend for the year ended 31 December 2018 (31 December 2017: nil).

8 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	Year ended 31 December 2018			Year ended 31 December 2017		
	Before-tax amount	**Tax expense**	**Net-of-tax amount**	Before-tax amount	Tax expense	Net-of-tax amount
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Equity instruments designated at FVOCI — net movement in fair value reserve (non-recycling)	**(9,403)**	**–**	**(9,403)**	–	–	–
Debt securities measured at FVOCI — net movement in fair value reserve (recycling)	**(26,445)**	**–**	**(26,445)**	–	–	–
Available-for-sale securities: net movement in fair value reserve	**–**	**–**	**–**	18,547	–	18,547
Exchange difference on translation of financial statements of an overseas subsidiary	**(43)**	**–**	**(43)**	(42)	–	(42)
Gain on revaluation upon transfer of previously self-occupied property to investment property	**–**	**–**	**–**	23,579	–	23,579
Other comprehensive income	**(35,891)**	**–**	**(35,891)**	42,084	–	42,084

(b) Components of other comprehensive income, including reclassification adjustments

	Year ended 31 December 2018	Year ended 31 December 2017
	HK$'000	*HK$'000*
Equity instruments designated at FVOCI — net movement in fair value reserve (non-recycling):		
— Changes in fair value recognised during the year	**(9,403)**	–
Debt securities measured at FVOCI — net movement in fair value reserve (recycling):		
— Changes in fair value recognised during the year	**(26,210)**	–
— Reclassified to profit or loss upon disposal	**(11)**	–
— Reclassified to profit or loss for reversal of expected credit losses	**(224)**	–
	(26,445)	–
Available-for-sale securities:		
— Changes in fair value recognised during the year	**–**	20,748
— Reclassified to profit or loss upon disposal	**–**	(2,201)
	–	18,547

9 LOSS PER SHARE

	Year ended 31 December 2018 *HK$'000*	Year ended 31 December 2017 *HK$'000*
Loss attributable to equity shareholders	**133,095**	204,920

The calculation of basic loss per share for the year ended 31 December 2018 and 31 December 2017 are based on the loss for the respective year and the weighted average of 812,165,000 ordinary shares (31 December 2017: 809,017,000 ordinary shares) in issue during the year.

Weighted average number of ordinary shares

	Year ended 31 December 2018 *'000*	Year ended 31 December 2017 *'000*
Issued ordinary shares at 1 January	**809,017**	809,017
Effect of share options exercised	**3,148**	–
Weighted average number of ordinary shares at 31 December	**812,165**	809,017

The diluted loss per share for the year ended 31 December 2018 and 2017 is the same as the basic loss per share, as the Group's share options would result in an anti-dilutive effect on loss per share.

10 OTHER FINANCIAL ASSETS

	31 December 2018 *HK$'000*	1 January 2018 *HK$'000*	31 December 2017 *HK$'000*
Equity instruments designated at FVOCI (non-recycling)			
— Equity securities	**25,864**	29,293	–
— Perpetual bonds	**57,820**	59,970	–
	83,684	89,263	–
Debt securities measured at FVOCI (recycling)			
— Maturity dates within 1 year	**25,295**	201,004	–
— Maturity dates over 1 year	**436,686**	433,550	–
	461,981	634,554	–
Units in investment funds measured at FVPL	**136,264**	152,348	–
Available-for-sale debt securities			
— Maturity dates within 1 year	**–**	–	201,004
— Maturity dates over 1 year	**–**	–	624,828
	–	–	825,832
Available-for-sale equity securities			
— Listed	**–**	–	35,794
— Unlisted	**–**	–	14,539
	–	–	50,333
	681,929	876,165	876,165

All of these financial assets were carried at fair value as at 31 December 2018 and 31 December 2017.

11 ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUED CHARGES

	31 December 2018 *HK$'000*	1 January 2018 *HK$'000*	31 December 2017 *HK$'000*
Accounts payable	**146,493**	92,951	92,951
Contract liabilities	**31,188**	45,176	–
Other payables and accrued charges	**154,149**	109,664	154,840
	185,337	154,840	154,840
	331,830	247,791	247,791

Note: As a result of the adoption of HKFRS 15 at 1 January 2018, receipt in advance from customers of HK$45,176,000 which was included in other payables and accrued charges is recognised as contract liabilities (see note 2(c)).

The aging analysis of the accounts payable is as follows:

	31 December 2018 *HK$'000*	31 December 2017 *HK$'000*
Current–30 days	**136,734**	87,591
31–60 days	**4,288**	882
61–90 days	**1,785**	882
Over 90 days	**3,686**	3,596
	146,493	92,951

12 CAPITAL AND RESERVES

	Note	Share capital HK$'000	Retained profits HK$'000	Revaluation reserve HK$'000	Available-for-sale investment fair value reserve HK$'000	Fair value reserve (recycling) HK$'000	Fair value reserve (non-recycling) HK$'000	Exchange reserve HK$'000	Capital reserve HK$'000	Other reserve HK$'000	Total equity HK$'000
		Attributable to equity shareholders of the Company									
Balance at 1 January 2017		1,268,914	588,207	159,759	(18,410)	–	–	19	–	(1,826)	1,996,663
Changes in equity for 2017:											
Loss for the year		–	(204,920)	–	–	–	–	–	–	–	(204,920)
Other comprehensive income	8	–	–	23,579	18,547	–	–	(42)	–	–	42,084
Total comprehensive income		–	(204,920)	23,579	18,547	–	–	(42)	–	–	(162,836)
Equity-settled share-based transactions		–	–	–	–	–	–	–	28,805	–	28,805
Balance at 31 December 2017 *(note)*		1,268,914	383,287	183,338	137	–	–	(23)	28,805	(1,826)	1,862,632
Impact on initial application of HKFRS 9	*2(b)*	–	(20,258)	–	(137)	12,555	7,840	–	–	–	–
Adjusted balance at 1 January 2018		**1,268,914**	**363,029**	**183,338**	**–**	**12,555**	**7,840**	**(23)**	**28,805**	**(1,826)**	**1,862,632**
Changes in equity for 2018:											
Loss for the year		**–**	**(133,095)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(133,095)**
Other comprehensive income	8	**–**	**–**	**–**	**–**	**(26,445)**	**(9,403)**	**(43)**	**–**	**–**	**(35,891)**
Total comprehensive income		**–**	**(133,095)**	**–**	**–**	**(26,445)**	**(9,403)**	**(43)**	**–**	**–**	**(168,986)**
Transfer of loss on disposal of an equity security designated at FVOCI to retained profits		**–**	**(100)**	**–**	**–**	**–**	**100**	**–**	**–**	**–**	**–**
Shares issued under share option scheme		**11,277**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,723)**	**–**	**7,554**
Equity-settled share-based transactions		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,189**	**–**	**7,189**
Balance at 31 December 2018		**1,280,191**	**229,834**	**183,338**	**–**	**(13,890)**	**(1,463)**	**(66)**	**32,271**	**(1,826)**	**1,708,389**

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

13 DISPOSAL OF A SUBSIDIARY

Year ended 31 December 2018

During 2018, the Company entered into a sale and purchase agreement ("SPA") with HKBN Group Limited (a wholly-owned subsidiary of Hong Kong Broadband Network Limited) to transfer the entire issued share capital of Cosmo True Limited, a wholly-owned subsidiary of the Company, which is principally engaged in property investment in Hong Kong, at a cash consideration of HK$329,219,000. Completion has taken place on 26 September 2018.

Details of the net assets of Cosmo True Limited and the financial impacts are summarised as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment — investment properties	167,650
Prepayments, deposits and other receivables	439
Trade receivables	631
Other payables and accruals	(132)
Deferred tax liabilities	(1,014)
	167,574
Satisfied by:	
Cash consideration	329,219
Gain on disposal of a subsidiary	161,645

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of Cosmo True Limited is as follows:

	HK$'000
Cash consideration received	329,219
Net cash inflow in respect of the disposal of a subsidiary	**329,219**

BUSINESS REVIEW

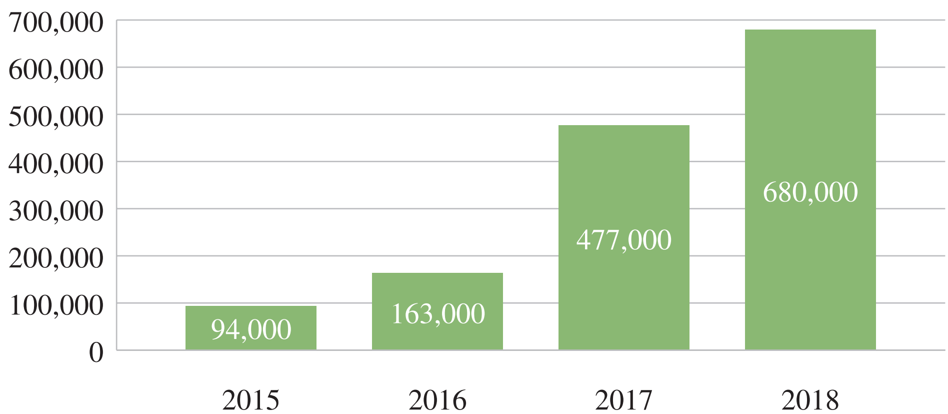
2018 is another year of breakthrough at HKTV — while once there was an argument that Hong Kong does not "Need" eCommerce, in 24 months' time, we proved this "Need" in the Hong Kong consumer market:

Growing Digital Consumer Base

— On the road to becoming the largest online marketplace in Hong Kong, with velocity of about 1.5 million unique devices[4] landing on the product detail pages ("PDP") or performing product searches on HKTVmall and HoKoBuy collectively in December 2018, growing from about 1.1 million in December 2017. This forms a solid digital consumer base for future value conversion when the opportunity arrives.

— During 2018, collectively, we had 680,000 combined unique customers making online purchases on HKTVmall and/or HoKoBuy, a substantial growth by 1.4x relative to 2017, and proportionally, for every 10 people in Hong Kong aged over 18, 1 made purchases on our platforms.

Combined Unique Customers
(rounded to the nearest thousand)



[4] Data on unique device is extracted from our internal system and rounded to the nearest thousand. The data is collected based on the tracking cookies for web browser and the device advertising ID for app, which could be overlapping if (a) same device is used to browse the online shopping web-page through different browsers; (b) same device is used to open online shopping app and to browse online shopping web-page; and (c) the user amends the advertising ID of its device. These data are unaudited and are not indicative of the Company's business performance, financial condition or growth prospect. Readers should not place reliance on these data.

Rising Popularity in Hong Kong

According to surveys conducted by various international bodies during the year, "visiting" HKTVmall is gradually becoming a regular habit for the Hong Kong consumers or even on top of their mind when there is a shopping impulse, no matter on supermarket and grocery products, electronic appliances, skin care and beauty, household products, apparels or others. In terms of velocity, as at 15 March 2019, according to Alexa[5] — among the Top Sites in Hong Kong, HKTVmall ranked 76 versus 110 as at 19 September 2017. From the rankings set out below, it can be seen that HKTVmall is the number 1 Hong Kong based online shopping platform in terms of traffic.

Top Sites in Hong Kong - as at 15 March 2019

Ranking in Hong Kong	Sites
1	www.google.com
2	www.youtube.com
3	www.facebook.com
4	www.google.com.hk
6	Yahoo.com
9	Taobao.com
15	www.amazon.com
17	www.price.com.hk
20	www.tmall.com
76	**www.hktvmall.com**
374	www.fortress.com.hk
433	Zalora.com.hk
458	www.parknshop.com
517	www.ztore.com
993	https://www.broadwaylifestyle.com/
1,154	www.watsons.com.hk
1,355	www.wellcome.com.hk
1,702	www.fingershopping.com
1,900	www.sasa.com
2,887	https//www.mannings.com.hk
5,668	https://www.yata.hk
8,310	marketplacebyjasons.com

In terms of word of mouth, as published by YouGov BrandIndex[6], HKTVmall is the top 8 "2018 Millennial Word of Mouth" in Hong Kong out of 310 brands as revealed by a research performed among adults aged 18–34 on the "Most Positively Talked About" brand in Hong Kong.

[5] Source: https://www.alexa.com/topsites/countries;0/HK, Alexa is an amazon.com company. The sites in the top sites lists are ordered by their 3-month Alexa traffic rank. A site's ranking is based on a combined measure of Unique Visitors and Pageviews. The site with the highest combination of unique visitors and page views is ranked #1. The site's metrics are estimated and based on traffic patterns across the web as a whole and using data normalization to correct for any biases that may occur in the data.

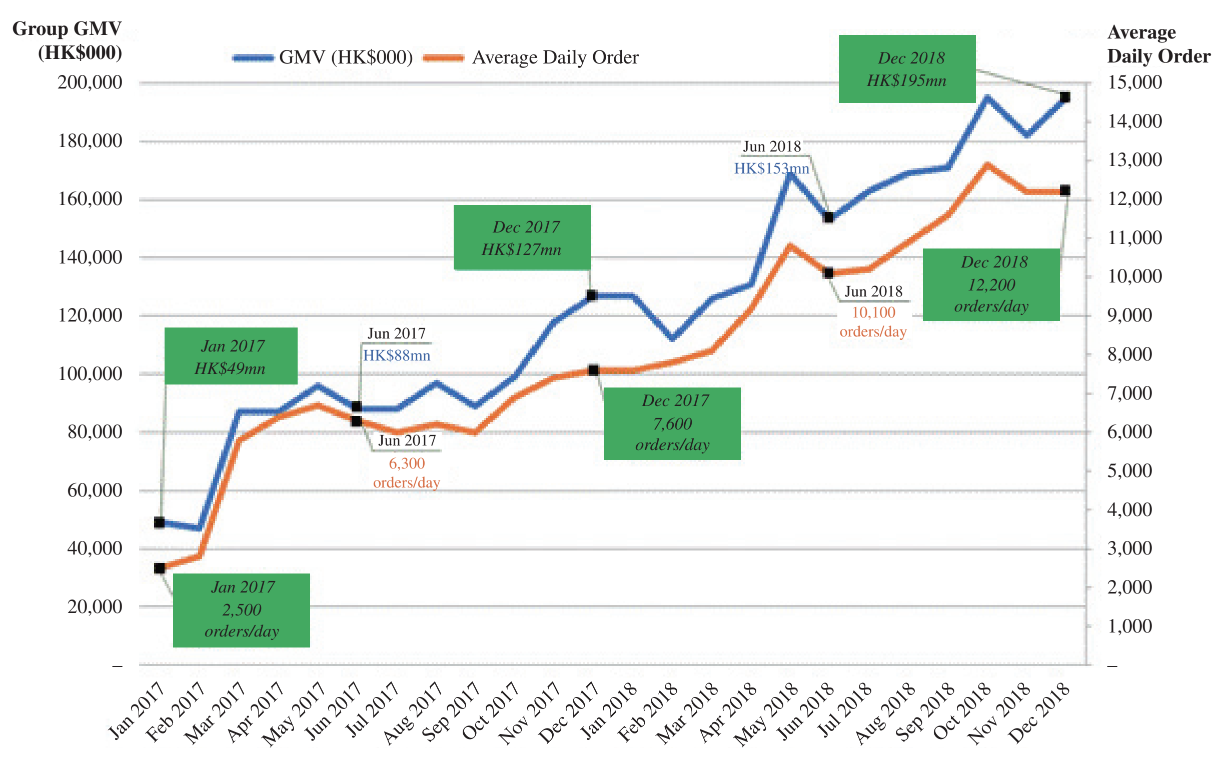
[6] Source: https://www.brandindex.com/ranking/hong-kong/2018-wom

Apart than velocity and word of mouth, we also see encouraging findings on "real purchase" among different shopping platforms in the Greater Bay Area. According to a survey "Tapping into Smart Retail, A Survey of CEOs and Consumers in the Greater Bay Area" published by KPMG and GS1 Hong Kong in November 2018, in the local Hong Kong online market, HKTVmall leads the way as the most commonly used eCommerce platform to buy food and beverages (used by 40% of the respondents), and beauty and wellness products (used by 27% of the respondents) which are ranked the top on both categories, and coming second only to Taobao for apparel and fashion (used by 35% of the respondents).

All these survey results have proven that over the past few years, we have successfully established "HKTVmall" as a leading brand in Hong Kong's online market by the growing confidence and trust level on consumers' minds. This surging traffic and real purchases essentially formed one of the key pillars of our road towards becoming the absolute leader in the eCommerce landscape in Hong Kong.

Exponential business growth

In 24 months' time, we achieved almost 5 times growth in average daily orders from 2,500 orders per day in January 2017 to 12,200 orders per day in December 2018. With the push from the Thanksgiving Festival, our average daily orders even reached 12,900 orders per day in the month of October 2018. With substantial growth in average daily order plus average order value in 2018 maintained at around HK$500, our GMV on order intake also had a 4 times growth from HK$49 million in January 2017 to HK$195 million in December 2018, representing an annualised GMV on order intake of HK$2.3 billion. Below is the performance of the key business parameters for the period from January 2017 to December 2018, including all online and offline performance of HKTVmall and HoKoBuy, which clearly demonstrate the strong growth momentum over the period.



In 2018, we achieved a total GMV on order intake of about HK$1.89 billion (2017: HK$1.07 billion), a growth of 77%. Our achievement was led by the 4 years' experiment and evolution since the launch of HKTVmall in February 2015, which has built us the core "Infrastructure" for the New Retailing model and has also formed the entry barrier for new entrants:

1. *Full Service Marketplace*

   We continue to widen the product category spectrum and to expand the horizon within different product categories so as to "Serve Every Aspect of Life". We now carry more than 270,000 products at HKTVmall, a substantial growth from 174,000 products as disclosed in 2017 annual report, with newly added product categories, such as fresh flowers, insurance products, etc.. We first launched the "Insurance and Finance" street in December 2018 and travel insurance is the first product that reached the market. Other general insurance products, including home, personal accident, medical, critical illness, overseas study, domestic helper and life insurance products (including term life) are also under the pipeline for development and launch in the next 12–18 months.

   While there may be a general perception that we are an online supermarket, we are in fact changing this perception with grooming contribution from non-supermarket products. Supermarket and Groceries products are the "Repeated Purchase Catalyst" to bring regular recurring purchases but two-third of our business were from other categories. In 2018, Supermarket and Groceries products continued to rank at the top contributed to 34% GMV on order intake, with Electrical Appliances being the second at 18%, and Personal Care & Skincare taken the third place at 17%. The remaining 31% came from housewares, mother and baby, pets, fashion, dining and lifestyle, toys, sports and travel, etc..

2. *"Goods to Man" Automated Warehousing Capacity*

   We always mention, "eCommerce" is nothing more than "Logistics". While we have a comprehensive product offering, growing visitor traffic and real orders, we are also preparing for the warehousing capacity for sustainable growth. The first phase of the robotic system for automated picking and storage functions has been fully launched in March 2018 at the Tsing Yi Distribution Centre, and we already saw the benefit on stability, accuracy and cost efficiency. The second phase of the robotic system at the Tseung Kwan O headquarter is just launched in March 2019 which has brought us a total daily capacity to around 20,000 orders. Given prolonged time is required to obtain regulatory clearance on building plan, we estimate the third phase of the robotic system would be launched by end of 2020. By then, our daily order capacity will further increase to about 35,000 orders subject to different system settings and operational flow design. Hence, we are not only preparing resources for growth in 2019 but also for afterward. Sooner or later, we shall start to evaluate the next phase of development for an even longer-term of business growth.

3. *Largest Residential Distribution Network*

For service quality control and effectiveness benchmarking, we chose to set up self-managed last mile truck fleet from day one and to design a multi-temperature truck compartment capable of carrying -18°C degree, 0-4 °C degree and room temperature products in one-go. Including outsourced car fleet under our management, we had around 250 trucks in operation during 2018 allowing flexibility to cope with order growth and seasonality need. For residential distribution, we believe we are running the largest last mile delivery fleet for end-to-end fulfilment.

Apart from door-to-door delivery to customer designated address, "Click and Collect" is another fulfilment channel with high value to customers. Supported by the track record of having about 2x to 5x GMV growth from the shop nearby geographic area in two months' time after particular shop opening versus the month before the opening, during 2018, we aggressively expanded the Offline-to-Online ("O2O") convergence from 15 O2O shops in December 2017 to 39 O2O shops in December 2018 for customer visibility and trust so as to capture the untapped "Online Display", "In-store Pick-up" business. In certain shops, we even experienced a higher proportion of shop pick up than delivery, such as shops at Mei Foo Sun Chuen, Tai Wai, Tai Po, etc. which essentially help to drive down the fulfilment costs.

Apart from the top line and order growth, as shown at the below table, we also managed to have a decent growth by 72.2% on the total gross profit and income from concessionaire sales and other service income (before the deduction of certain HKTVmall dollars and promotional coupon which is considered as advertising and promotional expenses under management reporting purpose) though there was a slight decrease in the total gross profit margin and blended commission rate due to shift of product mix in GMV during the year. On direct merchandise sales, its gross margin was increased from 22.6% in 2017 to 24.7% in 2018 benefited from the increasing volume discount or rebates due to growing purchasing power on inventory. On income from concessionaire sales and other service income, the blended commission rate for 2018 is 17.9%, decreased from 20.4% in 2017 mainly due to the higher proportion of GMV on completed orders from Electrical Appliances (increased by 172.7% from 2017) which in general has a lower commission rate than other product categories.

On completed orders and on adjusted basis[7]	2018 HK$'000	2017 HK$'000
Direct merchandise sales		
GMV on completed orders[7,8]	**715,093**	381,126
Cost of inventories	**(538,752)**	(295,178)
Gross profit	**176,341**	85,948
Gross profit margin	**24.7%**	22.6%

Income from concessionaire sales and other service income		
GMV on completed orders[7]	**1,118,970**	649,766
Merchant payments (net off by other service income)	**(918,582)**	(516,918)
Income from concessionaire sales and other service income[9]	**200,388**	132,848
Blended commission rate	**17.9%**	20.4%

Total GMV on completed order [7]	**1,834,063**	1,030,892
Total gross profit and income from concessionaire sales and other service income [8, 9]	**376,729**	218,795
Total gross profit margin and blended commission rate	**20.5%**	21.2%

Overall in 2018, we continued our growth momentum in GMV, number of orders and customer base. While we still need time to reach breakeven status, riding on our developed infrastructure, we shall keep on solidifying our foundation for coming monetisation.

Apart from operating online shopping business under HKTVmall and HoKoBuy, during the year under review, the Company continues its business including content distribution and independent content production. We continue to act as digital solution partner to our suppliers and merchant partners, including content creation, multimedia and digital production and marketing functions. Together with our Big Data capabilities and expertise in digital marketing, we are providing an unrivalled end-to-end "Future Retail" solution to our partners.

7 GMV on completed orders represents the total gross sales dollar value for merchandise sold through a particular marketplace and the customer has obtained control of the promised goods and services ordered over a certain time frame, after deduction of any discounts offered by the marketplace, cancellation and returns of merchandise, and is before the deduction of certain HKTVmall Dollars and promotional coupon which is considered as advertising and marketing expenses under management reporting purpose.

8 For Direct merchandise sales, the GMV on completed order is before the deduction of HKTVmall Dollars and use of promotional coupon of HK$29,204,000 (2017: HK$34,953,000).

9 For Income from concessionaire sales and other service income, it is before the deduction of net HKTVmall Dollars of HK$3,030,000 (2017: addition of HK$6,208,000).

On 27 March 2018, the Company informed the Communication Authority ("the Authority") that the Company would not continue to pursue the application for a domestic free television programme service licence, and that its application submitted to the Authority on 11 April 2014 has been withdrawn. The Group has also surrendered the Unified Carrier Licence (No. 041) together with the radio spectrum of 678–686 MHz to the Authority and ceased the provision of the broadcast-type mobile TV service. The Company continues to focus on its development on the eCommerce business.

FINANCIAL REVIEW

By leveraging on the strong growth momentum on GMV and also rising bargaining power on cost of sales, the Group managed to have a growing financial performance on its eCommerce business.

During 2018, the Group recorded a remarkable growth in turnover of HK$896.4 million (2017: HK$487.3 million) representing a growth of 84.0%. Turnover mainly composed of HK$685.9 million from direct merchandise sales (2017: HK$346.2 million), HK$197.4 million from income from concessionaire sales and other service income (2017: HK$139.1 million), HK$13.1 million from licensing of programme rights and net advertising income (2017: HK$2.0 million).

In line with the 98.1% growth in direct merchandise sales in 2018, the cost of inventories increased from HK$295.2 million in 2017 to HK$538.8 million in 2018, an increase only by 82.5%. Given the growing purchasing power of the Group, the volume discount benefit continued to result into a higher margin on direct merchandise sales during the year under review.

Other operating expenses increased by HK$169.0 million to HK$737.6 million in 2018 relative to HK$568.6 million incurred in 2017:

1. Fulfilment costs of HK$332.5 million versus HK$230.2 million in 2017. Though there was an increase of HK$102.3 million relative to last year, it only attributed to 18% of GMV on completed orders in 2018 vs 22% in 2017. The efficiency was gained from the launch of the first phase automated picking and storage system since March 2018 at Tsing Yi fulfilment centre, the volume gain from the growth in number of orders and O2O shop pick-up efficiency which drove down the logistics costs.

2. Marketing, promotional and O2O shop operating expenses of HK$119.1 million in 2018 (excluding HKTVmall Dollars and promotional coupon of HK$32.2 million being deducted in turnover) mainly included the customer acquisition costs, advertising expenses on terrestrial TV commercials, digital advertising, product catalogues, O2O shop operating costs, etc. and all related talent costs. Relative to 2017, there was an increase of HK$55.3 million mainly due to aggressive new customer acquisition programmes including new member promo codes, member-get-member programme, etc., the use of terrestrial TV commercials to reach the non-digital households, distribution and utilisation of promo codes for different seasonal or event campaign, etc. to boost order and GMV growth. Moreover, the expansion of O2O shops from 15 in December 2017 to 39 in December 2018 was another major reason for the increase in expenses.

3. eCommerce operation and supporting costs of HK$188.6 million including merchant relations and acquisition, customer service, information technology, other supporting functions. Relative to 2017, there was an increase of HK$9.7 million mainly due to acquisition of HoKoBuy in March 2017 which full year talent costs was accounted for in 2018, increase in payment processing charge for growth in GMV, expansion of customer service and technical functions for quality of service.

4. Non-cash items of HK$97.4 million in 2018 mainly include depreciation on property, plant and equipment, amortisation of intangible assets and equity settled share based payment, versus HK$95.7 million in 2017. There was an HK$20.7 million increase in depreciation mainly due to the first phase of the robotic system for automated picking and storage functions fully launched in March 2018, plus the effect of the full year depreciation of HKTV Multimedia and ECommerce Centre, and the renovation, furniture and equipment cost for additional O2O shops. Amortisation of intangible assets also increased by HK$9.0 million mainly due to the amortisation of the exchange value on the TV advertising and sponsorship spots in 2018. This was partially net off by the decrease in share based transaction expenses by HK$21.6 million as all share options are vested in March 2018.

During 2018, the Group has disposed one of an investment property holding subsidiary and recognised a gain on disposal of HK$161.6 million. Moreover, a valuation gain on investment properties of HK$43.6 million is recognised based on the valuation carried out by an independent firm of surveyors, represented a decrease of HK$36.9 million relative to HK$80.5 million in 2017.

Other income, net, of HK$46.9 million was earned in 2018 (2017: HK$94.2 million), mainly composed of investment income generated from other financial assets, bank interest income, rental income from investment properties, and net exchange gain. The decrease of HK$47.3 million was mainly caused by the decrease in bank interest income and returns from investment in other financial assets of HK$13.0 million due to the realisation of a portion of the investment portfolio to support the capital expenditures and operating activities of the Group, increase in exchange loss by HK$21.6 million, from net exchange gain of HK$18.7 million in 2017 to net exchange loss of HK$2.9 million in 2018 mainly due to the depreciation of RMB during the year, and a unrealised fair value loss of HK$12.6 million on units in investment funds measured at FVPL upon the adoption of HKFRS 9 in 2018 (2017: Nil).

Finance costs, net increased by HK$2.9 million mainly due to the sentiment in market interest rates increase during 2018 relative to 2017.

Overall, the Group incurred a loss of HK$133.1 million for the year ended 31 December 2018, improved by HK$71.8 million from the loss of HK$204.9 million incurred for the year ended 31 December 2017. If excluding interest on bank loans, income tax expenses, depreciation of property, plant and equipment, amortisation of intangible assets, investment returns, gain on disposal of a subsidiary and major non-cash items ("Adjusted EBITDA"), the Group incurred an Adjusted EBITDA loss of HK$271.4 million in 2018 versus loss of HK$265.6 million in 2017.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2018, the Group had total cash position of HK$105.9 million represented cash at bank and in hand (31 December 2017: HK$100.2 million) and outstanding borrowings of HK$79.4 million (31 December 2017: HK$219.6 million) drawn mainly for investment yield enhancement purpose. The increase in total cash position was mainly due to proceeds from disposal of a subsidiary of HK$329.2 million, proceeds from disposal of plant and equipment of HK$1.2 million, net realisation from investment portfolio of HK$142.6 million, net investment income received of HK$45.4 million and proceeds from issuance of new shares of HK$7.6 million from the exercise of share options, partially net off by the resources utilised for operating activities of HK$234.8 million, purchases of property, plant and equipment of HK$140.1 million, net repayment on bank loan borrowing of HK$140.2 million and interest paid on bank loans of HK$5.0 million.

On investment in other financial assets, the Group has invested, at fair value, of HK681.9 million as at 31 December 2018 (as at 31 December 2017: HK$876.2 million). The decrease in investment in other financial assets was mainly due to the use of certain matured debt securities to fund the capital expenditure and operating activities. As at 31 December 2018, there was a net deficit of HK$15.4 million being recorded in fair value reserve (non-recycling and recycling) (31 December 2017: a revaluation surplus of HK$0.1 million) after reclassification of HK$20.3 million to retained profits due to the adoption of HKFRS 9 on 1 January 2018 and the total fair value change during the year. During the year under review, the total fair value change on other financial assets amounted to HK$48.4 million, in which HK$12.6 million, HK$26.4 million and HK$9.4 million was recorded in profit or loss, fair value reserve (recycling) and fair value reserve (non-recycling) respectively.

Consistent with the overall treasury objectives and policy, the Group undertakes treasury management activities with respect to its surplus cash assets. The criteria for selection of investments include the relative risk profile involved, the liquidity of an investment, the after tax equivalent yield of an investment and, not speculative in nature. In line with its liquidity objectives, the Group invests mostly in liquid instruments, products or equities, such as investment grade products, constituent stocks of defined world indices or state owned or controlled companies. Investment in fixed income products are structured in different maturity profile to cope with ongoing business development and expansion need. Moreover, as and when additional cash is expected to be required to fund the business, the investments can be realised as appropriate.

As at 31 December 2018, the Group has utilised HK$79.4 million (31 December 2017: HK$219.6 million) uncommitted banking facilities mainly for investment purpose, leaving HK$1,022.0 million (31 December 2017: HK$957.4 million) uncommitted banking facilities available for future utilisation.

Our total cash and cash equivalents consisted of cash at bank and in hand and term deposits within three months of maturity, if any. There is a pledged bank deposit of US$0.5 million (equivalent to HK$3.9 million) as at 31 December 2018 and 31 December 2017 being security for a banking facility of an equivalent amount granted by a bank for certain short term credit facility arrangement.

The debt maturity profiles of the Group as of 31 December 2018 and 31 December 2017 were as follows:

	31 December 2018 *HK$'000*	31 December 2017 *HK$'000*
Repayable within one year	**79,392**	219,623

As at 31 December 2018, our outstanding borrowings bore fixed interest rate and denominated in Hong Kong dollars. After considering the cash at bank and in hand and term deposits, if any, held by the Group, the Group was in net cash position as of 31 December 2018 and hence no gearing ratio is presented (31 December 2017: 0.06 times). The Group is of the opinion that, after taking into consideration of the internal available financial resources and the current banking facilities, the Group has sufficient funds to finance its operations and to meet the financial obligations of its business when they fall due.

	31 December 2018 *HK$'000*	31 December 2017 *HK$'000*
Net Debt *(note (a))*	**–**	(119,424)
Net Asset	**1,708,389**	1,862,632
Gearing (times)	**–**	0.06

Note (a): Total bank borrowing net of cash and cash equivalents and term deposits, if any.

During 2018, the Group invested HK$154.8 million on capital expenditure included deposits paid, versus HK$182.1 million in 2017. The capital expenditure for 2018 was mainly incurred for robotic system, new shops opening, expansion of truck fleet, renovation of fulfilment centre and IT system capacity expansion. For the upcoming capital expenditure requirements, we will remain cautious and it is expected to be funded by internal resources within the Group and the available banking facilities. Overall, the Group's financial position remains sound for continued business expansion.

Charge on Group Assets

As of 31 December 2018, the Group's bank loans of HK$79.4 million (31 December 2017: HK$219.6 million) were secured by an equivalent amount of other financial assets held by various banks. Moreover, as of 31 December 2018 and 31 December 2017, there is a banking facility of US$0.5 million (equivalent to HK$3.9 million) granted by a bank for certain short term credit facility arrangement which is pledged by an equivalent amount of bank deposit.

Exchange Rates

All the Group's monetary assets and liabilities are primarily denominated in Hong Kong dollars, United States dollars, Renminbi and Euro. Given the exchange rate of the Hong Kong dollar to the United States dollar has remained close to the current pegged rate of HKD7.80 = USD1.00 since 1983, management does not expect significant foreign exchange gains or losses between these two currencies.

The Group is also exposed to a certain amount of exchange rate risk due to the fluctuations between the Hong Kong dollars and the Renminbi arising from its investments mainly in Renminbi fixed income products or term deposits, and between the Hong Kong dollars and Euro arising from Euro bank deposits. In order to limit this exchange rate risk, the Group closely monitors Renminbi and Euro exposure to an acceptable level by buying or selling foreign currencies at spot rates where necessary.

Contingent Liabilities

As of 31 December 2018 and 31 December 2017, the Group had no material contingent liabilities or off-balance-sheet obligations.

PROSPECTS

After 4 years' experience in running an online marketplace in Hong Kong, we found the key strategy for a successful eCommerce business and we are executing on this direction — a level playing field, first and fast mover advantage, adopting mass market approach and a group of loyal, sociable and high spending customers. Evolving from 4 years' ago after putting tremendous effort by the whole Talent team, we believe today we are already the largest online marketplace in Hong Kong running in a large scale with more than 12,000 average daily orders, 1.5 million active digital consumer base, and 680,000 unique real customers.

Being the first mover, we established an infrastructure with end-to-end ownership which is difficult to replicate in a short period of time or with the legacy burden. Looking ahead, an important agenda for the coming year is to drive down the fulfilment costs per order. This can be achieved by:

1. Continued expansion of the automated warehousing system — Phase 3 at our Tseung Kwan O headquarter shall bring our daily capacity to about 35,000 orders;

2. A natural efficiency gain is expected when the order number continues to grow. For example, if on average, we have one order per active building, when we increase to three orders per active building, there will be a nature efficiency in terms of delivery time and costs;

3. Expansion of O2O shops — as at the date of this announcement, we already opened 46 O2O shops in Hong Kong, with a target to expand to around 120 by end of 2019. The O2O shops not only have brand presence and marketing purpose to bring in additional sales from nearby geographic location, it can also serve as new pick up points and walking distance distribution hub to reduce last mile door-to-door delivery costs.

Another objectives are on new customer acquisition and to increase stickiness to our web and apps by conquering a group of loyal, sociable and high spending customers which we believe they are the elders, not the youth, in the consumer market. This can also be achieved by making use of the social and group purchasing power and creating content beyond "shopping" by brand owners, users or Key Opinion Leader, etc..

In short, 2019 and afterward are the years for us to pursue cost efficiency and monetisation of digital consumer base, so as to bring in long term return to our shareholders. For 2019, our key business targets on the eCommerce business are as follows:

1. Achieve an annual GMV on order intake of HK$3.2 billion

2. Expand the O2O shops to around 120 by December 2019

TALENT REMUNERATION

Including the Directors, as at 31 December 2018, the Company had 1,036 permanent full-time employees versus 825 as of 31 December 2017. The Company provides remuneration package consisting of basic salary, bonus and other benefits. Bonus payments are discretionary and dependent on both the Company's and individual performances. The Company also provides comprehensive medical insurance coverage, competitive retirement benefits schemes, staff training programs and operates share option schemes.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2018, the Company has complied with the applicable code provisions as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by Directors of the Company (the "Company Code").

Having made specific enquiry with the Directors, all of them have confirmed that they have fully complied with the required standard set out in the Model Code and the Company Code throughout the year ended 31 December 2018.

REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed and discussed with the management of the Company the audited financial results for the year ended 31 December 2018.

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Lee Hon Ying, John (the Chairman of the Audit Committee), Mr. Peh Jefferson Tun Lu and Mr. Mak Wing Sum, Alvin.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

ANNUAL GENERAL MEETING (THE "AGM")

The AGM will be held on Tuesday, 4 June 2019. Notice of the AGM together with the Company's Annual Report will be published and dispatched in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 30 May 2019 to Tuesday, 4 June 2019, both days inclusive, during which period no transfer of shares will be effected, for the purpose of ascertaining shareholders' entitlement to attend and vote at the Company's forthcoming AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 29 May 2019.

By Order of the Board
Hong Kong Television Network Limited
Wong Wai Kay, Ricky
Chairman

Hong Kong, 27 March 2019

As at the date of this announcement, the executive Directors of the Company are Mr. Wong Wai Kay, Ricky (Chairman), Mr. Cheung Chi Kin, Paul (Vice Chairman and Chief Executive Officer), Ms. Wong Nga Lai, Alice (Chief Financial Officer), Mr. Lau Chi Kong (Chief Operating Officer) and Ms. Zhou Huijing and the independent non-executive Directors are Mr. Lee Hon Ying, John, Mr. Peh Jefferson Tun Lu and Mr. Mak Wing Sum, Alvin.