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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)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

OPERATIONAL HIGHLIGHT

1. On average daily order number, the growth momentum was maintained and achieved a milestone at an average daily order number of 15,000 in June 2019, relative to 12,200 orders in December 2018. An average daily order number of 15,000 essentially represents 6 times increment in 30 months' time relative to an average daily order number of 2,500 in January 2017;
2. With substantial growth in average daily orders with average order value at around HK\$530 in 1H2019, our Gross Merchandise Value ("GMV") on order intake¹ also had a 4.6 times growth from HK\$49 million in January 2017 to HK\$225 million in June 2019;
3. Total GMV on order intake for 1H2019 of HK\$1,285.8 million, a growth of 57.4% relative to 1H2018 of HK\$816.7 million;
4. We had 566,000 unique customers who made purchases at HKTVMall and/or HoKoBuy in 1H2019, a growth from 427,000 in 1H2018.

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. Target to achieve EBITDA breakeven by end of 2021 by expanding gross margin and blended commission rate by 3% to 5% over time, to drive for fulfilment efficiency to reach 2%–3% saving in the fulfillment cost as a percentage of GMV, and to control and stabilize the operating costs structure;
2. 61% growth on turnover reaching HK\$625.5 million in 1H2019 versus HK\$388.6 million in 1H2018;
3. Turnover is composed of: i. Direct merchandise sales of HK\$484.1 million (1H2018: HK\$297.2 million) with gross margin² at 24.9% (1H2018: 23.5%); ii. Income from concessionaire sales and other service income of HK\$137.8 million (1H2018: HK\$86.9 million) with blended commission rate² at 18.7% (1H2018: 18.0%); and iii. Net advertising income and licensing of programme rights of HK\$3.7 million (1H2018: HK\$4.5 million);
4. On an overall basis, we gradually increased the gross profit margin and blended commission rate at 21.2% in 1H2019, from 20.1% in 1H2018;
5. Managed to substantially narrow down the EBITDA loss margin³ from 14.6% in 1H2018 to 10.0% in 1H2019. For 1H2019, the EBITDA loss was HK\$123.9 million versus loss of HK\$116.7 million in 1H2018;
6. Net loss of HK\$155.4 million in 1H2019 versus loss of HK\$139.9 million in 1H2018;
7. Maintained strong financial position with investment in other financial assets, cash at bank and in hand, pledged deposit, net of bank loans, totalling HK\$603.9 million (31 December 2018: HK\$712.3 million);
8. In response to the current market condition, the Board prudently assessed our short term business plan and confirmed to tune down the growth rate for 2H2019. Hence, our full year 2019 key business targets on the eCommerce business are revised as below:
 - (a) Annual GMV on order intake to reduce from HK\$3.2 billion to HK\$2.75 billion;
 - (b) O2O shops expansion to slow down, with the targeted total number of O2O shops opened by December 2019 to reduce from 120 to 65 shops.

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 EBITDA loss margin means EBITDA loss divided by GMV on completed orders.

EBITDA loss means loss for the period plus interest on bank loans (excluded finance costs — interest on lease liabilities upon adoption of HKFRS 16), income tax expenses, depreciation on owned property, plant and equipment (excluded depreciation on right-of-use assets upon adoption of HKFRS 16) and amortisation of intangible assets and deduct investment returns. 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.

Dear Shareholders,

With our efforts over the past 4 years, HKTVmall has established its leading position in the online shopping market in Hong Kong and is now the largest scale and most powerful Hong Kong-based online shopping mall. Putting a step further, I believe that HKTVmall will be able to maintain this leading position in the coming years.

THE LARGEST ONLINE SHOPPING MALL IN HONG KONG

Currently, HKTVmall works with over 2,800 retailers and suppliers and many famous local retailers have set up their own virtual stores on HKTVmall. In the coming 18 months, we will invest heavily on acquiring retailers, traders and brand owners who are passionate, committed to invest and with strong fundamentals to be the partners of HKTVmall, multiplying the number of merchant partners. In fact, HKTVmall is the only choice for retailers who wish to expand their online business.

According to Google Analytics, approximately 250,000 to 300,000 unique devices (Including mobile phones, laptops, desktop computers and tablets) visiting HKTVmall daily; On a monthly basis, there are more than 1,500,000 unique devices visiting HKTVmall.

HKTVmall possesses a healthy customer profile with details of Q2 of 2019 as follows:

Age Range	Percentage of Overall Customer Base
18–24	9%
25–34	36%
35–44	35%
45–54	13%
55 or above	7%

Please visit <http://cloud.marketing.hktvmall.com/merchantrecruitment> if you wish to know more about the customer profile of HKTVmall. In short, we observe an encouraging trend on traffic and visitors, customers profile and its widening age range, as well as social group distribution of HKTVmall.

Over the past years, many local conglomerates such as traditional retailers, supermarket chains, personal care stores and convenience stores, TV station and even telecommunication operators, have explored their online shopping business with different models. However, so far none of them are able to sort out an ideal new retail model for Hong Kong, while some of them have closed down or transformed the business. From my observation, the reason behind this is their “mindset”. In HKTVmall, we embrace “Open and Transparency” as our management philosophy. We do not have the burden of legacy and offline retailing, and we do not have to worry about the cannibalization of the existing business and the conflict of sales channels. That is why we allow many different stores selling the same products, as the choice of products would not be limited by “merchandisers”, but a platform that is opened to global suppliers directly. This explains why HKTVmall can be developed as the only Hong Kong based online shopping platform which can continue to expand and lead the online shopping market development in Hong Kong.

STRIKING FOR BREAKEVEN

While we are maintaining our strong business growth momentum, we target to achieve an EBITDA breakeven by end of 2021:

1. Increasing Gross Profit Margin for Different Product Categories

Currently, HKTVmall works with over 2,800 retailers and suppliers to offer more than 320,000 product items for sale, covering the needs of every aspect of your lives. To achieve breakeven, the first thing we need to do is to increase gross profit margin for different product categories. As of 30 June 2019, the overall gross profit margin for HKTVmall is 21.2%; In coming 2 to 3 years if we can multiply our business volume, with our bargaining power we would likely be able to increase gross profit margin by 3% to 5%, achieving a 25% gross profit margin.

2. Lowering Logistics and Fulfilment Costs

HKTVmall is the only online shopping platform in Hong Kong with its own marketplace, warehousing, logistics and last mile delivery operations. Therefore, apart from increasing gross profit margin, we need to lower our fulfilment costs at the same time, which include warehousing, pick & pack, as well as last mile delivery from the following 2 aspects:

- (1) Automation — By investing in automation system, we can reduce the reliance on manpower and operating cost for warehouse including storage, pick and pack.
- (2) Economies of Scale — More home delivery orders to reduce traveling time between delivery points and hence reduce the last mile delivery cost significantly.

In the first half of 2017, fulfillment cost was 24.8% of GMV, which reduced to 18.6% in first half of 2018 and further reduced to 15.9% in first half of 2019. When our daily order reach 25,000 per day, we target to reduce the percentage of fulfillment costs per GMV to 13.5% or below.

3. Stabilizing Fixed Operating Cost for the Platform

Finally, we need to stabilize the fixed operating cost for the entire platform, which includes sales and marketing and all supporting functions such as finance, legal, administration, talent management, information technology, customer service and even corporate communications. We strongly believe that we will be able to control the fixed operating cost at the current level, or even lower, in the coming years.

A RETAIL MODEL WITH HIGHER COST-EFFICIENCY

According to the public and market information of respective retailers in Hong Kong, rental cost alone accounts for 8% to 10% of their sales revenue; Other miscellaneous expenses such as store front decoration works, remuneration for frontline sales, warehouse operations, labour expenses and other overhead costs such as electricity supply, which constitute the fulfilment costs for delivering the goods from suppliers to customers, account for as high as 25% to 35% of the sales revenue. Under the new retail model of HKTVmall, our fulfilment costs are only around 16% and will be driven down in accordance with the business volume growth. More importantly, our operating cost is independent from high store rental costs, which is a true testimonial for the cost-efficiency of this new retail model comparing to traditional offline retailing.

OUR PLANS

1. More Customers Shop on HKTVmall, and Shop More on HKTVmall

In fact, are Hong Kong consumers converting their consumption from offline to online? In the first half of 2019, there are a total of 566,000 unique customers who shopped on HKTVmall and/or HokoBuy, and below are the figures over the past 3 years:

Period	Number of Unique Customers
1H2016	78,000
1H2017	149,000
1H2018	427,000
1H2019	566,000

Given the popularity of smart devices, the social bonding of the elderly groups and their loyalty, we will soon launch an app that targets the elderly segment, to build a “healthier” customer profile.

We need to acquire more customers to expand our customer segment, and for existing customers, we would like them to stay active — we hope that they can shop more frequently, spend more and purchase more product categories.

1. *Personalized Shopping Cart to Enhance Customer Stickiness*

As I have mentioned in the annual report of 2017, the HKTVmall team is positioning ourselves as a technology application pioneer, to integrate different technologies from different business areas. Therefore, this year our team has spent some efforts to enhance HKTVmall app to achieve the above. For instance, there are a number of lists in the account of every member: Wishlist, Recently Viewed and Purchased Items to enhance convenience for shopping; We are in the process of developing an intelligence to build a “Regular Purchase List” according to customers’ previous orders, in order to bring up purchase frequency.

2. *“Add-On” Function to Expand Product Categories*

So how shall we increase order value, or even expand product categories for customers’ purchases? In fact, we have launched “Add-On Function” in June this year. Upon completion of orders, customers will receive messages alerting them on selected discount items for adding into their orders. This new function has received surging customer support since its launch.

3. *“Buy More Save More” to Enhance Basket Size*

Apart from the above, we have also launched “Buy More Save More” function where selected items are offering bulk purchase discounts — the more they purchase, the higher the discount will be. This serves as another effective way to raise basket size.

2. Strategic Partnership to Complement our Digital Ecosystem

In terms of product categories, HKTVmall is now the largest online shopping mall in Hong Kong with diversified product items. We will continue to search for strategic partnership to complement this digital ecosystem from the following 3 aspects:

1. On digital advertising, we are working with various partners to enhance the return on investment for our merchant partners. Small and medium sized merchants, major suppliers of supermarket products and fast moving consumer goods place their digital advertisements with the big data intelligence from HKTVmall bringing precise reach to the target customers and potential segments. From this project, we are also contributing to the digitalization of the retail industry in Hong Kong. For instance, HKTVmall is a Google Partner since January 2018 and has worked with Google to organize workshops for SMEs. This type of big data analysis service is currently only available from HKTVmall.
2. We will work with top tier banks in Hong Kong to enhance digital banking and financial services, which will include ePayment and personal loans with details to be announced at a later stage.
3. HKTVmall partners with Zurich Insurance and FWD Hong Kong to launch insurance products which began earlier this year, including travel insurance, personal accident insurance and overseas study insurance plans. Later on, partnership with other insurance companies on other types of insurance plans will be announced too.

3. The 4 Smart Logistics Centres

Finally but equally important is our logistics and fulfilment arrangement. Apart from the logistics centres located at Tseung Kwan O headquarters and Tsing Yi, and the logistics centre with cold storage facilities at Kwai Chung, a new logistics centre sizing 110,000 square feet was established at Tuen Mun and started operation since July 2019. The new logistics centre is now handling the delivery fleet for Northern and Eastern part of New Territories, as well as transit product items from merchants. A large scale sorting system will be installed by the end of this year to handle the transit product items from merchants, and to sort the items into the respective delivery fleet route according to their delivery destinations. Upon completion, this system can handle 13,000 to 16,000 items per hour.

CONCLUSION

Our team is investing and building a large scale infrastructure to connect all the retailers and all the consumers in Hong Kong in the digital world. We believe that Hong Kong consumers will convert their shopping from offline to online. Inevitably, billions of retail businesses will be relocated to online shopping in 3 to 5 years, and it is just a matter of time. I believe that HKTVmall will be the only one with an entire set of infrastructure and strength to grasp this golden opportunity, to build a unique new retail model for Hong Kong.

Wong Wai Kay, Ricky
Chairman

Hong Kong, 29 August 2019

The Board of Directors (the “Board” or the “Directors”) of Hong Kong Television Network Limited (“HKTV” or the “Company”) hereby announce the consolidated income statement for the six months ended 30 June 2019 and the consolidated statement of financial position as at 30 June 2019 of the Company and its subsidiaries (collectively referred to as the “Group”), which are unaudited.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2019 (Expressed in Hong Kong dollars)

		Six months ended	
		30 June	30 June
		2019	2018
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Note)</i>
Turnover	3	625,547	388,598
Direct merchandise sales	3	484,093	297,165
Cost of inventories		(375,485)	(239,139)
		108,608	58,026
Income from concessionaire sales and other service income	3	137,761	86,899
Net advertising income and licensing of programme rights	3	3,693	4,534
Valuation gains on investment properties		5,850	19,700
Other operating expenses		(439,469)	(336,315)
Other income, net	4	32,641	30,030
Finance costs	5(a)	(4,247)	(2,472)
Loss before taxation	5	(155,163)	(139,598)
Income tax expense	7	(228)	(265)
Loss for the period		(155,391)	(139,863)
Basic and diluted loss per share	9	HK\$(0.19)	HK\$(0.17)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2019 (Expressed in Hong Kong dollars)*

		Six months ended	
		30 June	30 June
		2019	2018
	<i>Note</i>	HK\$'000	HK\$'000
			<i>(Note)</i>
Loss for the period		(155,391)	(139,863)
Other comprehensive income for the period	6		
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Equity instruments designated at fair value through other comprehensive income — net movement in fair value reserve (non-recycling)		3,741	(5,650)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of financial statements of an overseas subsidiary		(24)	(29)
Debt securities measured at fair value through other comprehensive income — net movement in fair value reserve (recycling)		19,281	(23,567)
Other comprehensive income for the period		22,998	(29,246)
Total comprehensive income for the period		(132,393)	(169,109)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019 (Expressed in Hong Kong dollars)

		30 June 2019	31 December 2018
	<i>Note</i>	HK\$'000	HK\$'000 (Note)
Non-current assets			
Property, plant and equipment		1,353,991	1,115,347
Intangible assets		79,450	87,653
Goodwill		897	897
Long-term receivables, deposits and prepayments		19,921	5,444
Other financial assets	10	661,070	656,634
		2,115,329	1,865,975
Current assets			
Other receivables, deposits and prepayments		91,697	71,449
Inventories		68,297	54,322
Other current financial assets	10	30,504	25,295
Pledged bank deposit		3,905	3,905
Cash at bank and in hand		61,536	105,901
		255,939	260,872
Current liabilities			
Accounts payable	11	200,055	146,493
Other payables and accrued charges	11	196,010	185,337
Lease liabilities	2(c)	69,458	–
Deposits received		5,757	5,757
Bank loans		153,112	79,392
		624,392	416,979
Net current liabilities		(368,453)	(156,107)
Total assets less current liabilities		1,746,876	1,709,868

		30 June 2019	31 December 2018
	<i>Note</i>	HK\$'000	HK\$'000 (<i>Note</i>)
Non-current liabilities			
Deferred tax liabilities		1,707	1,479
Lease liabilities	2(c)	166,512	–
		168,219	1,479
NET ASSETS		1,578,657	1,708,389
CAPITAL AND RESERVES	12		
Share capital		1,283,909	1,280,191
Reserves		294,748	428,198
TOTAL EQUITY		1,578,657	1,708,389

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

Notes:

1 BASIS OF PREPARATION

The interim results set out in the announcement are extracted from the Group's unaudited interim financial report which has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Main Board Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The unaudited interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The financial information relating to the financial year ended 31 December 2018 that is included in this announcement of the interim results as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new Hong Kong Financial Reporting Standard ("HKFRS"), HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this announcement of the interim results. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases — incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

(a) *Changes in the accounting policies*

(i) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) *Lessee accounting*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value asset is typically photocopiers. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

(b) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.1%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to certain leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019; and
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 HK\$'000
Operating lease commitments at 31 December 2018	157,834
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(1,922)
— lease contracts entered before 31 December 2018 and the leases not yet commenced on 31 December 2018	(21,631)
	134,281
Less: total future interest expenses	(6,574)
Total lease liabilities recognised at 1 January 2019	<u>127,707</u>

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

The Group presents right-of-use assets that do not meet the definition of investment property in property, plant and equipment and presents lease liabilities separately in the consolidated statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 <i>HK\$'000</i>	Capitalisation of operating lease contracts <i>HK\$'000</i>	Carrying amount at 1 January 2019 <i>HK\$'000</i>
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	1,115,347	124,056	1,239,403
Total non-current assets	1,865,975	124,056	1,990,031
Other payables and accrued charges	(185,337)	3,651	(181,686)
Lease liabilities (current)	–	(41,580)	(41,580)
Current liabilities	(416,979)	(37,929)	(454,908)
Net current liabilities	(156,107)	(37,929)	(194,036)
Total assets less current liabilities	1,709,868	86,127	1,795,995
Lease liabilities (non-current)	–	(86,127)	(86,127)
Total non-current liabilities	(1,479)	(86,127)	(87,606)
Net assets	1,708,389	–	1,708,389

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	30 June 2019 <i>HK\$'000</i>	1 January 2019 <i>HK\$'000</i>
Included in "Property, plant and equipment":		
Properties leased for own use, carried at depreciated cost	227,175	124,056

(c) *Lease liabilities*

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present	Total	Present	Total
	value of the	minimum	value of the	minimum
	lease	lease	lease	lease
	payment	payments	payment	payments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	69,458	70,604	41,580	42,319
After 1 year but within 2 years	65,962	69,125	41,537	43,541
After 2 years but within 5 years	69,198	75,934	44,590	48,421
After 5 years	31,352	38,450	–	–
	166,512	183,509	86,127	91,962
	235,970	254,113	127,707	134,281
Less: total future interest expenses		(18,143)		(6,574)
Present value of lease liabilities		235,970		127,707

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:

	Six months ended	
	30 June	30 June
	2019	2018
	HK\$'000	HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by nature		
— Direct merchandise sales	484,093	297,165
— Income from concessionaire sales and other service income	137,761	86,899
— Net advertising income and licensing of programme rights	3,693	4,534
	625,547	388,598
Disaggregated by timing of revenue recognition		
— Point in time	624,470	387,986
— Over time	1,077	612
	625,547	388,598

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 resource 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

	Six months ended	
	30 June	30 June
	2019	2018
	HK\$'000	HK\$'000
Bank interest income	53	15
Dividend and investment income from other financial assets	2,252	440
Interest income from other financial assets	16,477	20,692
Gain on disposal of debt securities	85	10
Unrealised fair value gain/(loss) on units in investment funds measured at fair value through profit or loss ("FVPL")	3,119	(7,895)
(Provision)/reversal of expected credit losses on debt securities measured at fair value through other comprehensive income ("FVOCI")	(553)	471
Rentals from investment properties	11,887	11,253
Net exchange (loss)/gain	(1,304)	2,748
Others	625	2,296
	32,641	30,030

5 LOSS BEFORE TAXATION

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

	Six months ended	
	30 June 2019	30 June 2018
	HK\$'000	(Note) HK\$'000
(a) Finance costs		
Interest on bank loans	1,634	2,366
Interest on lease liabilities	2,482	–
Bank charges	131	106
	<u>4,247</u>	<u>2,472</u>
(b) Other items		
Advertising and marketing expenses (excluding HK\$15,496,000 (six months ended 30 June 2018: HK\$15,620,000) being deducted in turnover)	40,186	30,993
Depreciation		
— owned property, plant and equipment	40,272	30,658
— right-of-use assets	29,388	–
Amortisation of intangible assets	8,203	10,989
(Gain)/loss on disposal of property, plant and equipment	(62)	33
Operating lease charges in respect of land and buildings	<u>2,015</u>	<u>20,622</u>
(c) Talent costs		
Wages and salaries	183,001	132,279
Retirement benefit costs — defined contribution plans	7,571	5,674
Equity settled share-based payment expenses	–	7,189
	<u>190,572</u>	<u>145,142</u>

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

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

6 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to other comprehensive income

	30 June 2019			Six months ended			30 June 2018		
	Before-tax	Tax	Net-of-tax	Before-tax	Tax	Net-of-tax	Before-tax	Tax	Net-of-tax
	amount	expense	amount	amount	expense	amount	amount	expense	amount
	HK\$'000	HK\$'000	HK\$'000	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)	3,741	—	3,741	(5,650)	—	(5,650)			
Exchange difference on translation of financial statements of an overseas subsidiary	(24)	—	(24)	(29)	—	(29)			
Debt securities measured at FVOCI — net movement in fair value reserve (recycling)	19,281	—	19,281	(23,567)	—	(23,567)			
Other comprehensive income	<u>22,998</u>	<u>—</u>	<u>22,998</u>	<u>(29,246)</u>	<u>—</u>	<u>(29,246)</u>			

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

	Six months ended	
	30 June	30 June
	2019	2018
	HK\$'000	HK\$'000
Equity instruments designated at FVOCI — net movement in fair value reserve (non-recycling):		
— Changes in fair value recognised during the period	<u>3,741</u>	<u>(5,650)</u>
Debt securities measured at FVOCI — net movement in fair value reserve (recycling):		
— Changes in fair value recognised during the period	19,366	(23,557)
— Reclassified to profit or loss upon disposal	<u>(85)</u>	<u>(10)</u>
	<u>19,281</u>	<u>(23,567)</u>

7 INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements in both periods as the Group sustained a loss for taxation purpose during the periods. The provision for Hong Kong Profits Tax is calculated by applying annual effective tax rate of 16.5% (six months ended 30 June 2018: 16.5%) to the six months ended 30 June 2019.

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

	Six months ended	
	30 June	30 June
	2019	2018
	HK\$'000	HK\$'000
Current taxation		
Hong Kong Profits Tax	–	–
Deferred taxation		
Origination and reversal of temporary differences	<u>(228)</u>	<u>(265)</u>
	<u>(228)</u>	<u>(265)</u>

8 DIVIDENDS

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30 June 2019. No final dividend was declared for the year ended 31 December 2018.

9 LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period of HK\$155,391,000 (six months ended 30 June 2018: HK\$139,863,000) and the weighted average of 814,641,000 ordinary shares (six months ended 30 June 2018: 810,977,000 shares) in issue during the period.

The diluted loss per share for the periods ended 30 June 2019 and 30 June 2018 are 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 during the periods ended 30 June 2019 and 30 June 2018 respectively.

10 OTHER FINANCIAL ASSETS

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Equity instruments designated at FVOCI (non-recycling)		
— Equity securities	25,750	25,864
— Perpetual bonds	61,541	57,820
	<u>87,291</u>	<u>83,684</u>
Debt securities measured at FVOCI (recycling)		
— Maturity dates within 1 year	30,504	25,295
— Maturity dates over 1 year	434,803	436,686
	<u>465,307</u>	<u>461,981</u>
Units in investment funds measured at FVPL	<u>138,976</u>	<u>136,264</u>
	<u>691,574</u>	<u>681,929</u>

All of these financial assets were carried at fair value as at 30 June 2019 and 31 December 2018.

11 ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUED CHARGES

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Accounts payable (<i>note (a)</i>)	200,055	146,493
Contract liabilities	54,686	31,188
Other payables and accrued charges (<i>note (b)</i>)	141,324	154,149
	<u>396,065</u>	<u>331,830</u>

(a) The aging analysis of the accounts payable is as follows:

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Current–30 days	190,321	136,734
31–60 days	1,452	4,288
61–90 days	2,247	1,785
Over 90 days	6,035	3,686
	<u>200,055</u>	<u>146,493</u>

(b) Other payables and accrued charges

Other payables and accrued charges primarily consist of accruals for Talent salaries and bonus, payable for purchase of property, plant and equipment, outsourced manpower services expenses and advertising and promotional expenses. On the date of transition to HKFRS 16, accrued lease payments of HK\$3,651,000 previously included in “Other payables and accrued charges” were adjusted to right-of-use assets recognised at 1 January 2019. See note 2.

12 CAPITAL AND RESERVES

		Attributable to equity shareholders of the Company								
		Share capital	Retained profits	Revaluation reserve	Fair value reserve (recycling)	Fair value reserve (non-recycling)	Exchange reserve	Capital reserve	Other reserve	Total equity
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2019		1,280,191	229,834	183,338	(13,890)	(1,463)	(66)	32,271	(1,826)	1,708,389
Changes in equity for the six months ended 30 June 2019:										
Loss for the period		-	(155,391)	-	-	-	-	-	-	(155,391)
Other comprehensive income	6	-	-	-	19,281	3,741	(24)	-	-	22,998
Total comprehensive income		-	(155,391)	-	19,281	3,741	(24)	-	-	(132,393)
Shares issued upon exercise of share options		3,718	-	-	-	-	-	(1,057)	-	2,661
Share options forfeited reclassified to retained profits		-	58	-	-	-	-	(58)	-	-
Balance at 30 June 2019		1,283,909	74,501	183,338	5,391	2,278	(90)	31,156	(1,826)	1,578,657

Attributable to equity shareholders of the Company

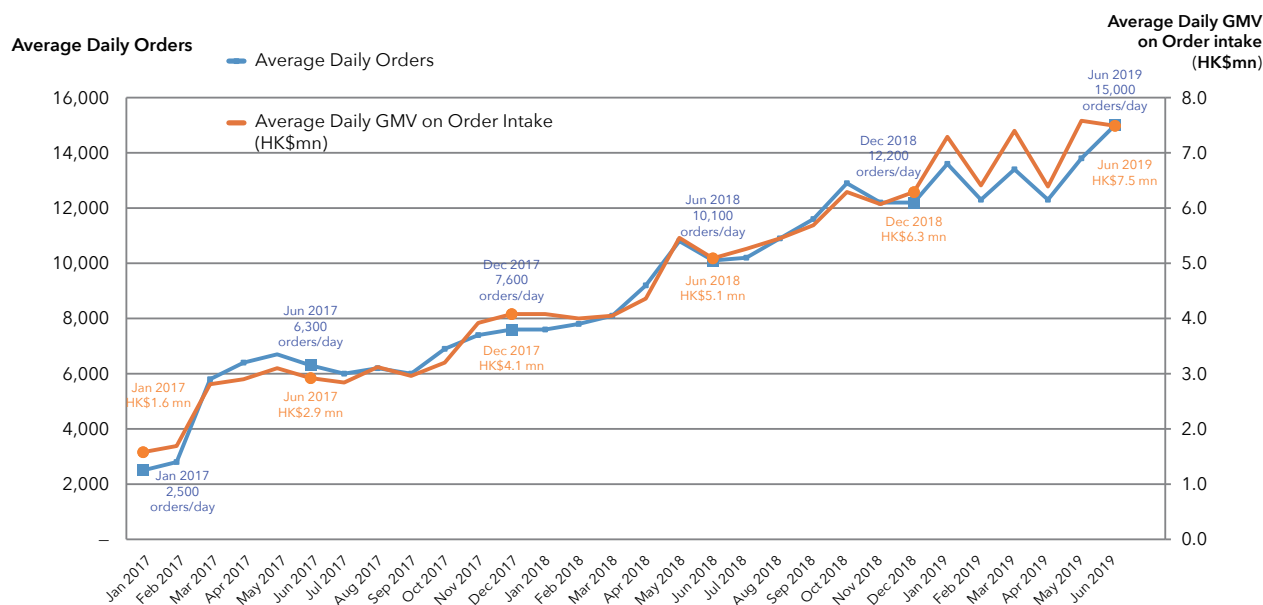
	Note	Share capital HK\$'000	Retained profits HK\$'000	Revaluation reserve HK\$'000	Fair value reserve (recycling) HK\$'000	Fair value reserve (non-recycling) HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000	Total equity HK\$'000
Balance at 1 January 2018		1,268,914	363,029	183,338	12,555	7,840	(23)	28,805	(1,826)	1,862,632
Changes in equity for the six months ended 30 June 2018:										
Loss for the period		-	(139,863)	-	-	-	-	-	-	(139,863)
Other comprehensive income	6	-	-	-	(23,567)	(5,650)	(29)	-	-	(29,246)
Total comprehensive income		-	(139,863)	-	(23,567)	(5,650)	(29)	-	-	(169,109)
Shares issued upon exercise of share options		8,267	-	-	-	-	-	(2,867)	-	5,400
Equity settled share-based transactions		-	-	-	-	-	-	7,189	-	7,189
Balance at 30 June 2018 (Note)		<u>1,277,181</u>	<u>223,166</u>	<u>183,338</u>	<u>(11,012)</u>	<u>2,190</u>	<u>(52)</u>	<u>33,127</u>	<u>(1,826)</u>	<u>1,706,112</u>

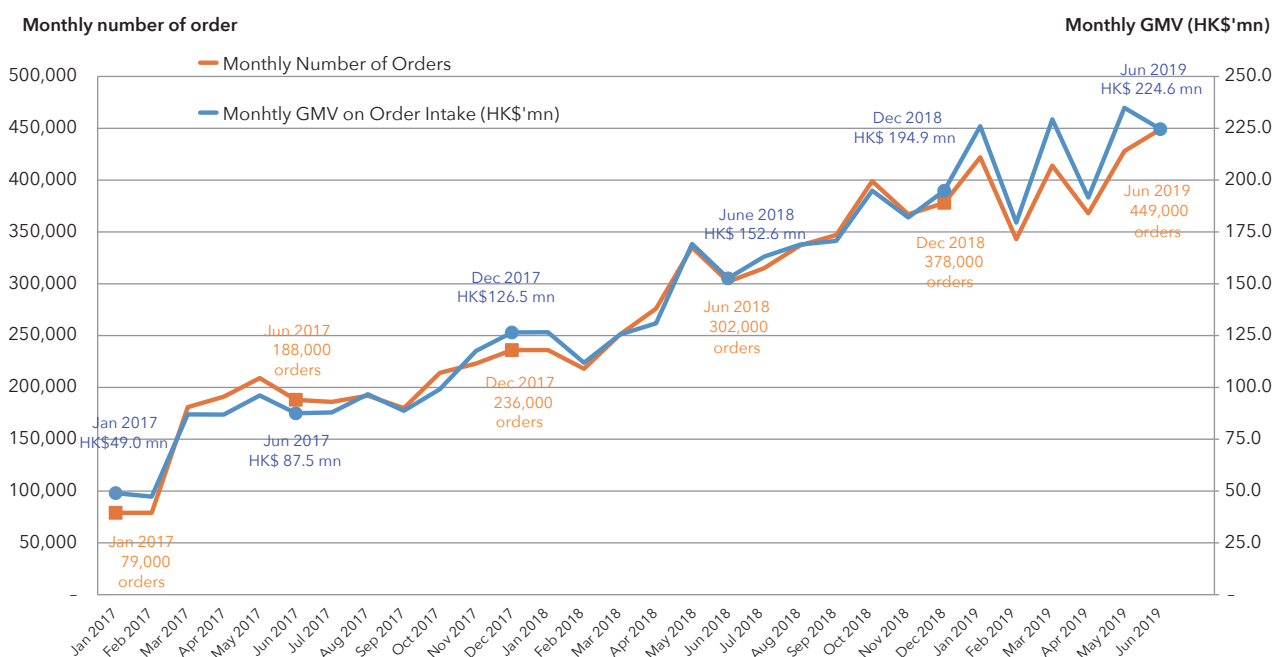
Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

BUSINESS REVIEW

The six months ended 30 June 2019 (“1H2019”) was a bittersweet period for the business. Overall, we continued to experience a growth momentum by recording a 57.4% increase on GMV on order intake reaching HK\$1,285.8 million in 1H2019 versus HK\$816.7 million in 1H2018. In particular in May 2019, we achieved our record high monthly GMV on order intake of HK\$235 million. Nevertheless, due to the exceptionally long holiday effect in February 2019 and in April 2019 ranging from 9–13 days in a row, the sales performance of the relevant months were being affected to only record HK\$179 million and HK\$192 million GMV on order intake.

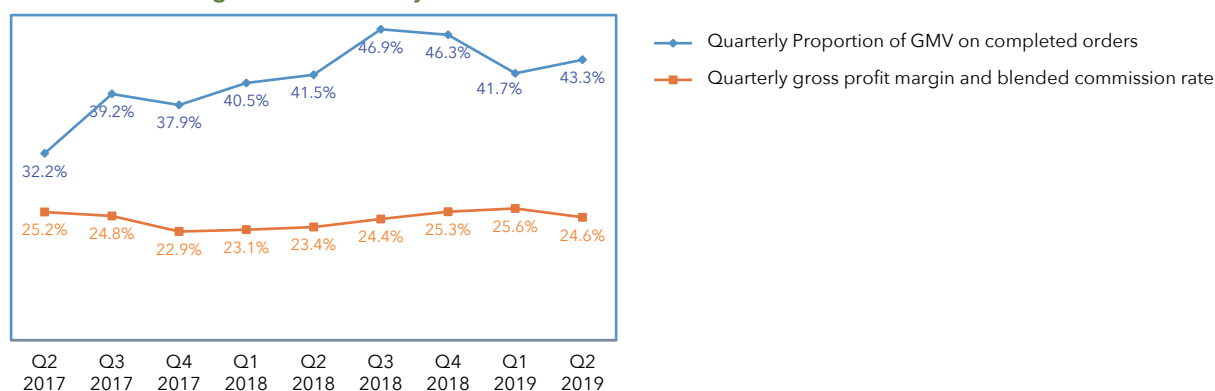
In terms of the average daily order number, the growth momentum was also maintained and achieved a milestone at an average daily order number of 15,000 in June 2019, relative to 12,200 orders in December 2018. Below are two graphs demonstrating the sales trend on average daily basis and monthly basis:



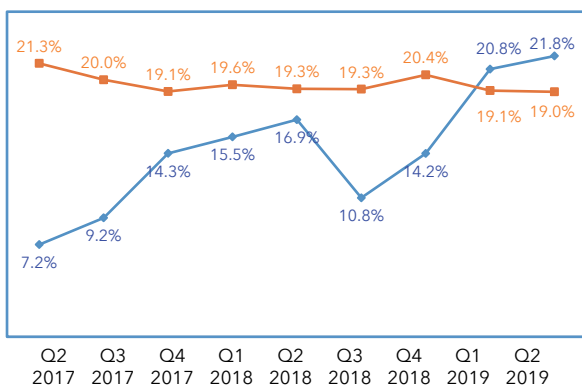


On individual product category basis, Groceries including Mother and Baby contributed to the largest proportion to the Group's GMV on completed orders, while Beauty and Health, and Digital and Electronics come in the second and third places from time to time. From a gross profit margin and blended commission rate perspective, Groceries including Mother and Baby achieved the highest. Please see below graphs for details of the key product categories:

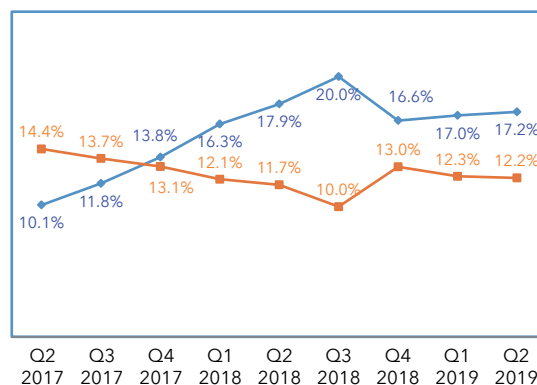
Groceries including Mother and Baby



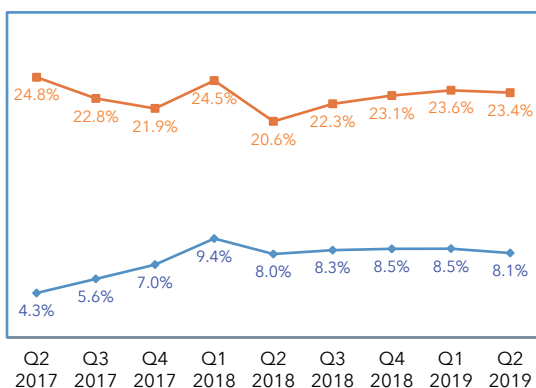
Beauty and Health



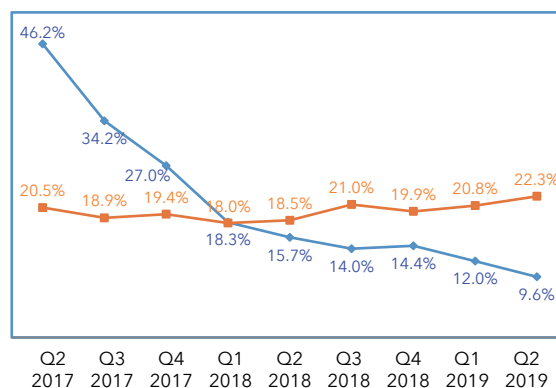
Digital and Electronics



Houseware and Household



Others



While growing the GMV and number of orders are the key KPIs over time, we are also working hard to push for higher gross margin or commission rate so as to narrow down the EBITDA loss and to turn the EBITDA positive, despite that promotional offer is still required to push for customer acquisition and sales growth. During 1H2019, we achieved a 63.2% growth on the total gross profit and income from concessionaire sales and other service income to HK\$261.9 million (1H2018: HK\$160.5 million) (before the deduction of certain HKTVmall dollars and promotional coupon which is considered as advertising and promotional expenses under management reporting purpose) with an improvement on the total gross profit margin and blended commission rate at 21.2% (1H2018: 20.1%).

On direct merchandise sales, its gross margin was increased from 23.5% in 1H2018 to 24.9% in 1H2019, benefiting from the increasing volume discount and rebates due to growing purchasing power on inventory. On income from concessionaire sales and other service income, the blended commission rate for 1H2019 was 18.7%, which increased from 18.0% in 1H2018.

GROSS PROFIT MARGIN AND BLENDED COMMISSION RATE

In thousands of Hong Kong dollars unless specified except for ratios

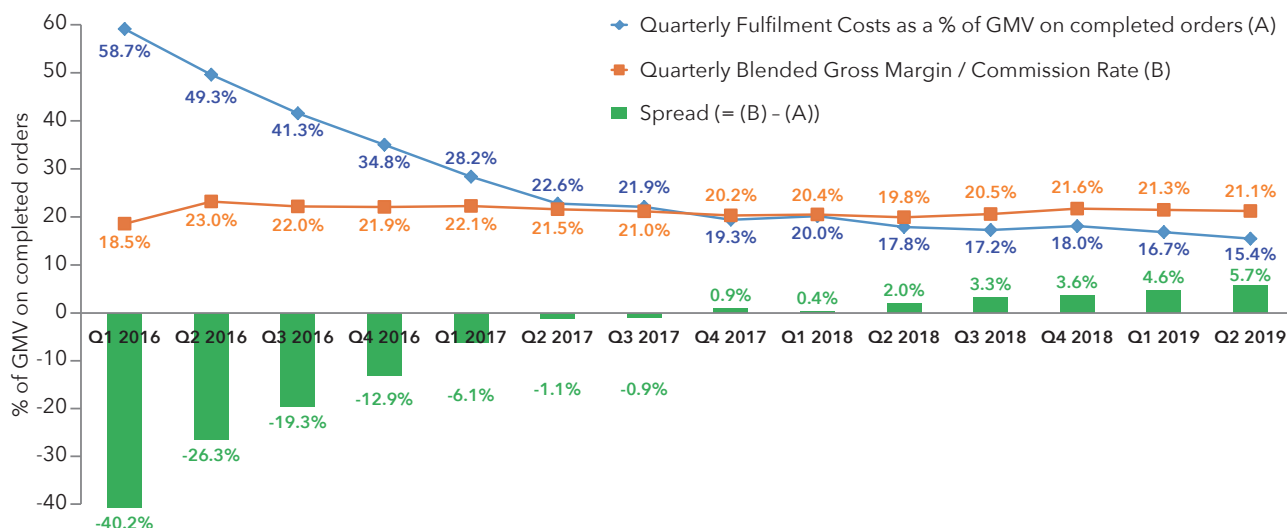
	For the six months ended 30 June 2019	For the six months ended 30 June 2018
On completed orders and on adjusted basis⁴		
Direct merchandise sales		
GMV on completed orders ^{4,5}	500,033	312,424
Cost of inventories	(375,485)	(239,139)
Gross profit	124,548	73,285
Gross profit margin	24.9%	23.5%
Income from concessionaire sales and other service income		
GMV on completed orders ⁴	734,594	485,448
Merchant payments (net off by other service income)	(597,277)	(398,188)
Income from concessionaire sales and other service income ⁶	137,317	87,260
Blended commission rate	18.7%	18.0%
Total GMV on completed orders⁴	1,234,627	797,872
Total gross profit and income from concessionaire sales and other service income^{5,6}	261,865	160,545
Total gross profit margin and blended commission rate	21.2%	20.1%

While we mentioned previously that our total gross profit and income from concessionaire sales and other service income has well covered the total fulfilment costs since May 2018, the below graph demonstrates that our path towards breakeven is getting closer and closer. For Q2 2019, the spread (defined as Quarterly Blended Gross Margin/Commission Rate minus Quarterly Fulfilment costs as a % of GMV on completed orders) reached 5.7%, expanding from 2.0% in Q2 2018.

⁴ 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.

⁵ For Direct merchandise sales, the GMV on completed orders is before the deduction of HKTVmall Dollars and use of promotional coupon of HK\$15,940,000 (for the six months ended 30 June 2018: HK\$15,259,000).

⁶ For Income from concessionaire sales and other service income, it is before the addition of net HKTVmall Dollars of HK\$444,000 (for the six months ended 30 June 2018: deduction of HK\$361,000)



Hence, to drive for higher gross profit and commission income, and more efficient fulfilment costs, volume is always the key. Same as previous years, we continue to focus on expanding our market share in the Hong Kong online shopping space, and apart from this, we also use different tools to stimulate repeated purchase with increasing basket size, on both new customer acquisition and retention.

New customer acquisition is always our core business direction. During 1H2019, we used numerous channels to drive for offline to online conversion including VIP member-get-member program, special offer of \$59 frozen meat set to brand new customers, expanding O2O shop network from 24 shops in June 2018 to 57 shops in June 2019 at different high residential patronage locations, the use of TV commercials to access household consumers, etc.. As a result of these efforts, we had 566,000 (1H2018: 427,000) unique customers who made purchases at HKTVmall and/or HoKobuy in 1H2019, representing a growth of 32.6% from 1H2018.

Driving for Stickiness is another key direction we pursue continuously to secure the customer base and also to drive for sustainable business growth. Stickiness refers to 3 different dimensions on customers' behaviour on HKTVmall:

- (1) To drive up the purchase frequency
- (2) To widen the number of product categories purchased by customers over time
- (3) To enlarge the check-out basket size by increasing the value of each SKU⁷ line per order

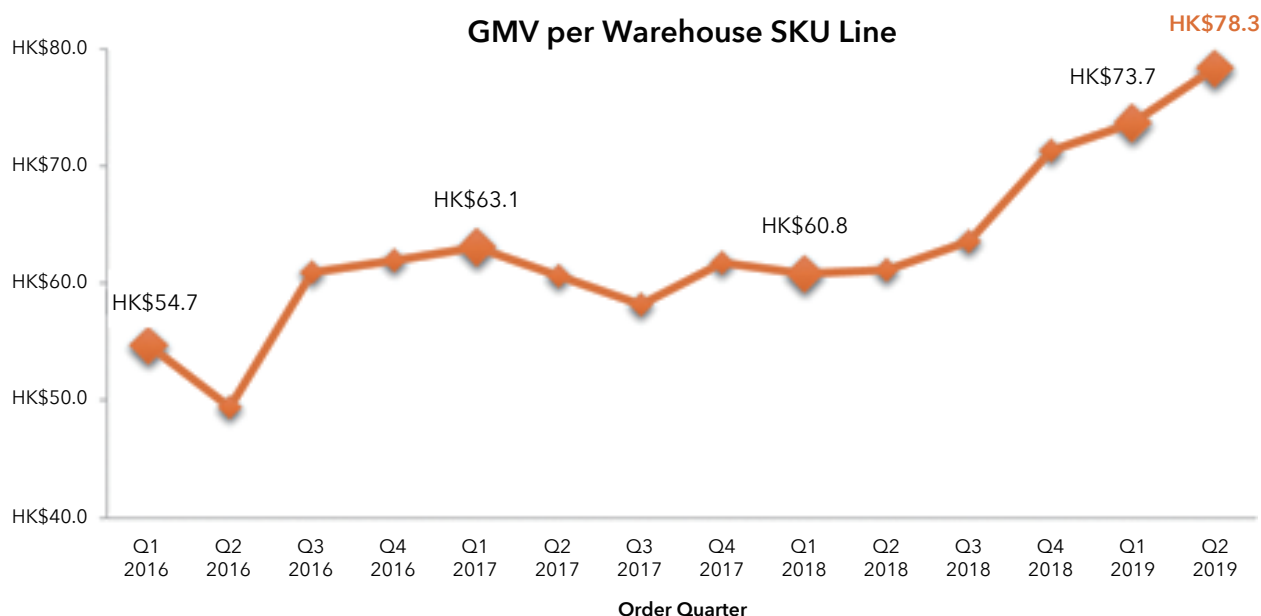
In terms of average purchase frequency per customer at HKTVmall, it increased to about 3.03 times in Q2 2019, from 2.16 times in Q1 2016. While for the average number of main categories purchased by customer per quarter, on average, it was 2.52 main categories, which increased from 1.93 in Q1 2016.

We are fully aware of the importance to drive up the above two parameters so as to increase the spending amount per customer on HKTVmall. Hence, in 1H2019, while we continued to use digital advertising and marketing, TV commercials, promotional coupons for various product categories promotion and cross categories selling, we introduced additional features at HKTVmall APP or Web to increase customer stickiness, and also to facilitate customers to “save money, save efforts and save time” when shopping at HKTVmall.

- (1) “Add-on” Shopping List: a new tool was just launched in June 2019, after checking out and paying for an order, there is an immediate APP notification to push for “add-on” which customers can choose to purchase from a list of 20 or more pre-set SKUs at special price through a one-button check out process. This add-on order will be delivered together with the first order.
- (2) Personalised shopping cart: a fresh launch in July 2019 on top of the default “My List” to store favourite products, most recent viewed products, recent purchased product, etc., we added a few new features to enhance shopping convenience to customers:
 - a. Personalised “My List” — customer can create different personalised “wish list” for different groups of people or for different purposes, such as for parents, for pets, for snack pool at office, for Valentine’s Day gift, etc.;
 - b. Grocery replenishment cart — customer can add the same list of products purchased in previous transactions to the shopping cart for easy repurchase. This is particularly important to frequent purchase items which the customer does not need to choose from scratch again.

⁷ SKU refers to Stock Keeping Unit which is a distinct type of item for sale (source: http://en.wikipedia.org/wiki/Stock_keeping_unit)

To increase the basket size per order, apart from the push for “Bulk/Full Case” purchase, a new program “Buy More Save More” on the same SKU was launched in February 2019. These programs were not only increasing the basket size per order but also enhancing the efficiency on pick and pack for warehouse inventory. Below graph shows the GMV on order intake per Warehouse SKU Line which increased consistently in particular from Q4 2018 onward demonstrating the effectiveness of those early adopted programs.



Overall, during 1H2019 and afterwards, we would continue to grow our business on GMV, number of orders, customer base, stickiness, basket size and in the meantime, lower the fulfilment costs for order completion. Together with stable marketing and promotional costs, and other eCommerce operating costs, we are narrowing down the EBITDA loss margin from 14.6% in 1H2018 to 10.0% in 1H2019. We are on the right track to achieve EBITDA breakeven targeting by end of 2021.

FINANCIAL REVIEW

During the period under review, despite of the economic slow-down in the Hong Kong retail sector, embraced by operating the largest online shopping mall in Hong Kong, the Group’s business was managed to continue its growth from the eCommerce business performance — relative to 1H2019 the Group recorded a 54.7% growth on GMV on completed orders reaching HK\$1,234.6 million (1H2018: HK\$797.9 million).

In 1H2019, the Group’s turnover increased by 61.0% to HK\$625.5 million (1H2018: HK\$388.6 million) which is composed of HK\$484.1 million from direct merchandise sales (1H2018: HK\$297.2 million), HK\$137.8 million from concessionaire sales and other service income (1H2018: HK\$86.9 million), HK\$3.7 million from net advertising income and licensing of programme rights (1H2018: HK\$4.5 million).

With the 62.9% strong growth in direct merchandise sales, the cost of inventories increased to HK\$375.5 million in 1H2019 (1H2018: HK\$239.1 million), representing a 57.0% increase. Before netting any HKTVmall dollars usage and promotional coupon deduction, the gross profit margin increased from 23.5% in 1H2018 to 24.9% in 1H2019, this was benefited from the larger volume rebate and discounts as a result of the Group's stronger purchasing power.

In 1H2019, other operating expenses increased by HK\$103.2 million to HK\$439.5 million relative to HK\$336.3 million incurred in 1H2018, with breakdown as below:

	1H2019	As a % of GMV on completed orders	1H2018	As a % of GMV on completed orders
	HK\$ million		HK\$ million	
Fulfilment costs (note 1)	196.6	15.9%	148.4	18.6%
Marketing, promotional and O2O shop operating expenses (note 2)	75.1	6.1%	47.1	5.9%
Ecommerce operation and supporting functions	118.1	9.6%	92.0	11.5%
Major non-cash items (note 3)	49.7	4.0%	48.8	6.1%
	439.5	35.6%	336.3	42.1%

Notes

1. For comparison purpose, included depreciation — right-of-use assets of HK\$12.7 million upon adoption of HKFRS 16 in 1H2019
2. Excluded HKTVmall Dollars and promotional coupon of HK\$15.5 million (1H2018: HK\$15.6 million) being deducted in turnover and, for comparison purpose, included depreciation — right-of-use assets of HK\$16.7 million upon adoption of HKFRS 16 in 1H2019
3. For comparison purpose, excluding depreciation — right-of-use assets of HK\$29.4 million upon adoption of HKFRS 16 in 1H2019

- (1) **Fulfilment costs** incurred for warehousing and logistics functions including shop pick up costs allocation — operational efficiency continued to kick in which was mainly attributed to the launch of the automated picking and storage system at Tsing Yi fulfilment centre and TKO Headquarters in March 2018 and March 2019 respectively. The system enables a handling capacity of up to 20,000 orders daily while at the same time, substantially cuts down the manpower costs for picking and packing of our warehouse inventory. In June 2019, we added a new distribution center in Tuen Mun to cope with the business expansion. Together with the existing fulfilment facilities at Tsing Yi, TKO Headquarters and Kwai Chung, in total, we now have around 400,000 Sq Ft floor space for customer fulfilment purpose.

On last mile order delivery, the increasing average daily orders from 7,600 in January 2018 to 15,000 in June 2019, the continued refinement of delivery zone per truck based on geographical customer order distribution, expanding O2O shop network from 24 in June 2018 to 57 in June 2019 for additional pick up capacity are key measures to cut down the relative costs for last mile home delivery.

As a result of the above, the total fulfilment costs as a percentage of GMV on completed orders decreased from 18.6% in 1H2018 to 15.9% in 1H2019.

- (2) **Marketing, promotional and O2O shop operating expenses** incurred mainly for new customer acquisition and driving for repeated purchases in terms of more product categories, increasing basket size and more frequently purchase. The costs were expensed for digital marketing, TV commercials advertising, promotional coupons and HKTVmall dollars usage, promotional leaflet, O2O shop point of purchase displays, O2O shop running costs, etc., and all related functions' talent costs. The managed expenses were maintained at about 6%–8% of GMV on completed orders in 1H2018 and 1H2019. Relative to 1H2018, the increase of HK\$28.0 million was mainly for the use of promotional coupon as an effective tool to drive new customer acquisition and repeated purchases and for the net growth of 33 O2O shops since last period ended 30 June 2018.
- (3) **eCommerce operation and supporting costs** includes merchant relations and acquisition, customer service, information technology, and other supporting functions. Relative to 1H2018, there was an increase of HK\$26.1 million mainly due to the increase in payment processing charge for the growth in GMV, expansion of customer service and technical functions for service quality and customer experience enhancement, and the resumption of remuneration to 2 directors since January 2019. Though there was an increase in absolute costs, there was a continuous efficiency improvement in which the eCommerce operation and supporting costs decreased from 11.5% of GMV on completed orders in 1H2018 to 9.6% in 1H2019.
- (4) **Major non-cash items** mainly include depreciation on property, plant and equipment, amortisation of intangible assets and equity settled share based payment. There was an HK\$9.6 million increase in depreciation on property, plant and equipment (excluded depreciation on right-of-use assets upon adoption of HKFRS 16) mainly due to the full period depreciation effect for the launch of automated picking and storage system in March 2018 at Tsing Yi fulfilment centre, and at TKO headquarters in March 2019, and the renovation, furniture and equipment costs for the newly launched 33 O2O shops during the 12 months ended 30 June 2019. This was partially net off by the decrease in share based transaction expenses of HK\$7.2 million as all share options were vested in March 2018.

In 1H2019, a valuation gain on investment properties of HK\$5.9 million (1H2018: HK\$19.7 million) was recognised based on the valuation carried out by an independent firm of surveyors, representing a drop of HK\$13.8 million, which was mainly due to the disposal of certain investment properties through the disposal of a subsidiary in September 2018.

Other income, net, of HK\$32.6 million was earned in 1H2019 (1H2018: HK\$30.0 million), mainly composed of investment income generated from other financial assets, bank interest income, rental income from investment properties, and net of net exchange loss. The increase of HK\$2.6 million was mainly caused by a HK\$10 million net increase in unrealised fair value gain to HK\$2.6 million on financial assets measured at FVPL after netting off the expected credit losses recognised (1H2018: loss of HK\$7.4 million), partially net off by the decrease in bank interest income and returns from investment in other financial assets of HK\$2.3 million due to the realisation of a portion of the investment portfolio to support the capital expenditures and operating activities of the Group, and the increase in exchange loss of HK\$4.0 million from net exchange gain of HK\$2.7 million in 1H2018 to net exchange loss of HK\$1.3 million in 1H2019 mainly due to the depreciation of USD during the period.

Finance costs, net increased by HK\$1.8 million mainly due to the interest on lease liabilities of HK\$2.5 million upon the adoption of HKFRS 16 in 1H2019.

Overall, the Group incurred a loss of HK\$155.4 million for 1H2019 relative to HK\$139.9 million for 1H2018. If excluding interest on bank loans, income tax expenses, depreciation of property, plant and equipment (excluded depreciation of right-of-use assets of HK\$29.4 million after the adoption of HKFRS 16), amortisation of intangible assets, and investment returns, the Group incurred an EBITDA loss of HK\$123.9 million in 1H2019 versus loss of HK\$116.7 million in 1H2018.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2019, the Group has a net liquidity position of HK\$603.9 million (31 December 2018: HK\$712.3 million) composed of investment in other financial assets, cash at bank and in hand, pledged deposit, net of bank loans.

As at 30 June 2019, the Group had total cash position of HK\$61.5 million represented cash at bank and in hand (31 December 2018: HK\$105.9 million) and outstanding bank loans of HK\$153.1 million (31 December 2018: HK\$79.4 million) drawn mainly for investment yield enhancement purpose. The decrease in total cash position was mainly due to the resources utilised for operating activities of HK\$71.5 million, capital and interest element of lease rentals of HK\$23.6 million, deposit paid for purchases of property, plant and equipment of HK\$57.5 million, partially net off by the net realisation from investment portfolio of HK\$13.7 million, net bank loan of HK\$73.7 million, net investment income received of HK\$17.2 million, and proceeds of HK\$2.7 million from issuance of new shares from share options exercised during the period.

On investment in other financial assets, the Group has invested, at fair value, of HK\$691.6 million as at 30 June 2019 (as at 31 December 2018: HK\$681.9 million). As at 30 June 2019, there was a net surplus of HK\$7.7 million being recorded in fair value reserve (non-recycling and recycling) (31 December 2018: a revaluation deficit of HK\$15.4 million). During the period under review, the total fair value change on other financial assets (after netting of expected credit losses recognised) amounted to HK\$25.6 million, in which HK\$2.6 million, HK\$19.3 million and HK\$3.7 million was recorded in profit or loss, fair value reserve (recycling) and fair value reserve (non-recycling) respectively.

Moreover, as at 30 June 2019 and 31 December 2018, the Group has a pledged bank deposit of US\$0.5 million (equivalent to HK\$3.9 million) as security for a banking facility of equivalent amount granted by a bank for certain short term credit facility arrangement.

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 30 June 2019, the Group has utilised HK\$153.1 million (31 December 2018: HK\$79.4 million) uncommitted banking facilities mainly for investment purpose, leaving HK\$989.1 million (31 December 2018: HK\$1,022.0 million) uncommitted banking facilities available for future utilisation.

The debt maturity profiles of the Group as of 30 June 2019 and 31 December 2018 were as follows:

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Repayable within one year	<u>153,112</u>	<u>79,392</u>

As at 30 June 2019, our outstanding borrowings bore fixed interest rate and denominated in Hong Kong dollars. After considering the cash and cash equivalents and term deposits, if any, held by the Group, the gearing ratio of the Group as of 30 June 2019 was 0.06 times. The Group was in a net cash position as of 31 December 2018 and hence no gearing ratio was presented. 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.

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Net Debt (<i>note (a)</i>)	(91,576)	—
Net Asset	1,578,657	1,708,389
Gearing (times)	<u>0.06</u>	<u>—</u>

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

During 1H2019, the Group invested HK\$57.5 million on capital expenditure included deposits paid versus HK\$77.5 million in 1H2018. The capital expenditure for 1H2019 was mainly incurred for automated picking and storage system, new O2O shops opening, renovation for fulfilment centre and system capacity expansion. For the upcoming capital expenditure requirements for the business, 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 30 June 2019, the Group's bank loans of HK\$153.1 million (31 December 2018: HK\$79.4 million) drawn under banking facilities of HK\$1,138.3 million which were secured by the Group's other financial assets of HK\$691.6 million and cash of HK\$6.3 million held by various banks. Moreover, as of 30 June 2019 and 31 December 2018, 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 30 June 2019 and 31 December 2018, the Group had no material contingent liabilities or off-balance-sheet obligations.

PROSPECTS

At HKTV, we always have a spirit to prepare for the worst and hope for the best, and we always hold the belief that “after a storm comes a calm.”

The economy in Hong Kong has been slowing down in the past few months which would have an inevitable impact on the overall business performance, in particular on the offline retail industry. According to the monthly survey published by the government for June 2019, it was provisionally estimated that there was a 2.6% decrease in the Value of the Total Retail Sales in Hong Kong in 1H2019 comparing to 1H2018⁸, especially for the durable and luxury sectors. The Hong Kong Retail Management Association (“HKRMA”) also issued a press release on 16 July 2019⁹ mentioning that their member companies forecasted a drop by double digit in the next months and HKRMA adjusted its original forecast on Hong Kong’s total retail sales value from single-digit growth to double-digit drop for the whole of 2019.

At HKTV, we cannot completely escape from this economic downturn but we are preparing ourselves to manage and overcome in a positive way. We had a decent growth on GMV on order intake in 1H2019 by 57.4% versus 1H2018, nevertheless, we estimate that the current unfavourable business environment is moderating our growth momentum in 2H2019, in particular, to bring less demand in certain durable product categories, such as digital and electronics, houseware and household, etc., which normally have higher GMV per product than other product categories. In fact, from the sales performance of July 2019 and our estimate of August 2019, we can only see a similar or slightly better performance on GMV on order intake relative to June 2019, which is about HK\$227.0 million for July 2019 and estimate of HK\$230.0 million for August 2019. Hence, a revision on the annual target GMV on order intake is inevitable.

⁸ Extracted from “Report on Monthly Survey of Retail Sales” — June 2019, Census and Statistics Department Hong Kong Special Administrative Region

⁹ Extracted from press release issued by The Hong Kong Retail Management Association dated 16 July 2019 “[https://www.hkrma.org/upload/press/Press%20Release_16July2019%20\(Eng\).pdf](https://www.hkrma.org/upload/press/Press%20Release_16July2019%20(Eng).pdf)”

In response to the recent retail slump, HKRMA issued another press release on 22 August 2019¹⁰ urging the shop landlords to halve rent to the tenants for a term of six months. Given the expectation on the increase in shop vacancies due to sales loss in the offline retail business, which is possible to cause the rent to be reduced in the next few months, the Board consider that it may not be an appropriate timing to continue the original accelerated shop opening schedule, and rather should take a more cost effective approach to search for the best location at the best pricing to optimise the use of resources.

In this regard, the Board prudently reassessed our business plan based on the current market condition and confirmed to tune down the growth rate for 2H2019. Our full year 2019 key business targets on the eCommerce business are revised as below:

- (1) An annual GMV on order intake to reduce from HK\$3.2 billion to HK\$2.75 billion
- (2) O2O shops expansion to slow down, with the targeted total number of O2O shops opened by December 2019 to reduce from 120 to 65 shops.

Though we revised our target for 2H2019 in a moderate pace, we also see the light from this unexpected economic downturn which shall be able to bring long term value to our eCommerce business.

(1) Opportunity to accelerate Retailers' Offline-to-Online conversion to widen the product offerings

It is usual to have no desire to “Change” when in the good old days. Nevertheless, while there is much less patrons or tourists on the street, or need to shorten the shop operating hours or even to close the shop, now is the good timing for the retailers to “Change” and look for additional sales channels. Being Hong Kong’s largest online shopping mall with proven sales record, growing visitor traffic and paid customers, together with established end-to-end eCommerce infrastructure for immediate onboarding, it seems there is no better choice than HKTVmall in Hong Kong as an alternative sales platform. This change will further expand our product categories and product item spectrum over time, and offer more choices to satisfy customer’s every aspect in life.

(2) Opportunity to accelerate Consumers' Offline-to-Online conversion

While it is expected to have less demand in durable or luxury products, people still need to purchase necessities including groceries, mother and baby products, personal care, health and skin care products, etc.. It may not be convenient for a customer, or a customer may not be free or have the mood for physical shopping, online purchase will become an immediate alternative to them. HKTVmall has more than 210,000 product items on Groceries, mother and baby, beauty and health product categories to meet different customer needs, and this can expand our customer base and also for cross categories selling in longer term.

¹⁰ Extracted from press release issued by The Hong Kong Retail Management Association dated 22 August 2019 “https://www.hkrma.org/upload/press/Press%20Release%20on%20immediate%20measures_22%20Aug2019.pdf”

Though the economic condition was not as positively developed as when we prepared the FY2019 annual plan last year, our online business nature does have a positive perspective to our mid to long term development, and also adds sustainable value to our shareholders. As a locally grown company with about 27 years' history in Hong Kong, we shall continue to serve Hong Kong people with our best endeavours. Let's sail through this hard time together!

TALENT REMUNERATION

Including the Directors, as at 30 June 2019, the Company had 1,179 permanent full-time Talents versus 1,036 as of 31 December 2018. 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 a share option scheme.

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 six months ended 30 June 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the six months ended 30 June 2019, the Company has complied with the applicable code provisions as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 of 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 to 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 six months ended 30 June 2019.

REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed and discussed with the management of the Company the unaudited interim results of the Company for the six months ended 30 June 2019.

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.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

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

Hong Kong, 29 August 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.