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 2019

OPERATIONAL HIGHLIGHT

1. GMV on order intake[1] during 2019 of HK$2,779.1 million, representing a growth of 46.9% relative to 2018 of HK$1,891.3 million;
2. Average daily orders increased from 12,200 orders per day in December 2018, to 18,700 orders per day in December 2019, and even reached a record high of 19,500 orders per day in October 2019 with GMV on order intake of HK$276.0 million as a result of the "Thankful Festival" held in the same month;
3. In the meantime, the Company managed to maintain the average order value at approximately HK$504 in 2018 and 2019;
4. Subsequent to 2019 year-end, we achieved another record high in February 2020 with average daily orders of 32,600 orders per day and total GMV on order intake of HK$482.4 million; and
5. During 2019, collectively, we had 823,000 unique customers whom made purchases at HKTVmall and/or HoKoBuy, a growth of 21.0% from 680,000 in 2018.

FINANCIAL HIGHLIGHT

1. 57.7% growth on turnover reaching HK$1,414.0 million in 2019 versus HK$896.4 million in 2018;
2. Turnover is composed of:
   i. Direct merchandise sales of HK$1,101.0 million (2018: HK$685.9 million) with gross profit margin[2] at 24.5% (2018: 24.7%);
   ii. Income from concessionaire sales and other service income of HK$302.8 million (2018: HK$197.4 million) with blended commission rate[2] at 19.1% (2018: 17.9%); and
   iii. Net advertising income and licensing of programme rights of HK$10.2 million (2018: HK$13.1 million);
3. Improved Adjusted EBITDA loss[3] at HK$216.0 million in 2019 versus loss at HK$271.4 million in 2018;
4. Net loss of HK$289.9 million in 2019 (after including valuation gains on investment properties of HK$0.8 million) versus loss of HK$133.1 million in 2018 (after including a gain on disposal of a subsidiary of HK$161.6 million and valuation gains on investment properties of HK$43.6 million); and
5. The Company completed the placing and the subscription for 90,000,000 shares of the Company at HK$5.15 per share on 14 February 2020 and 24 February 2020 respectively. The net proceeds amounted to approximately HK$453.1 million (net of expenses relating to the subscription).

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.

2 Gross profit 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 (excluded finance costs-interest on lease liabilities upon adoption of HKFRS 16) , income tax expenses, depreciation of property, plant and equipment (excluded depreciation on other properties leased for own use) and amortisation of intangible assets and deduct investment returns 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

Dear Shareholders,

This article was written at the time when COVID-19 is spreading globally and Hong Kong is facing critical challenges.

Looking back at 2019, the Group's 24-hour online shopping mall-HKTVmall has developed steadily. The three core pillars on infrastructures that the management has been emphasizing have gradually become more mature and stable, fuelling the Group with sufficient capacity to handle surging orders in response to the epidemic since early 2020.

A Fair and Transparent Online Shopping Mall

The first major infrastructure pillar is our "online shopping mall". This mall is already the largest in Hong Kong and has partnered with more than 3,200 retailers and suppliers, offering more than 320,000 items for sale, including many large brands, traditional retailers, traders, small and medium retailers and enterprises, to display and sell their own products on the platform. HKTVmall is an open online shopping mall that any merchant is welcome to join. Therefore, merchants on HKTVmall are having different commission rates as they joined us through different channels and merchant plans, even though they may be selling exactly the same products.

In this aspect, the role of HKTVmall is not only to provide platform space, research and development of technologies, sales support and marketing, etc. The most important thing is to create a fair and transparent competitive environment to protect customer choices and rights. In this regard, we notified all merchants at the end of last year for a new commission plan starting from 1 January 2020 : standardized commission rates for merchants selling the same product category. In the future, merchants will be able to sell and promote their products under this fair and transparent commission plan.

At the same time, as the number of suppliers, retailers and brands cooperating with HKTVmall has increased significantly, we understand that merchants are facing fierce competition on advertising space on HKTVmall. Therefore, we opened some of the advertising resources on HKTVmall to merchants with fees, including splash ad, image slider, electronic Direct Mail, etc; hoping that both large and small businesses will have the opportunity to use advertising resources on HKTVmall under a transparent mechanism, and to allow customers selecting their products on a fair basis.

Automated & Robotic System

The second infrastructure pillar is the four logistics centres with a total area of more than 400,000 square feet located in different districts of Hong Kong, and with different automated and robotic systems being installed. As mentioned in the annual results announcements over the past years, the first and second phases of automated picking and warehousing system introduced from Germany, which are located at the logistic centres in Tsing Yi and the headquarters of Tseung Kwan O have been completed. They can now handle 20,000 orders on supermarket products and groceries daily on a combined basis, bringing higher efficiency and accuracy to our logistics, warehousing and fulfilment operations. The effectiveness of the system is even more prominent from January to February this year, when the public has less desire to go and stay in crowded locations and switched to shop online for daily life and disinfection products, which brought a surge in the order numbers of HKTVmall.

In fact, currently around 60% of the collaboration between HKTVmall and merchants falls into the items from merchant's self-operated warehouses, which will be packed according to customer orders and delivered to HKTVmall's logistics centre in Tuen Mun, and we sort these orders based on delivery addresses. In the past, the operation of sorting was conducted manually, with intensive manpower performing the work from evening to overnight. As the number of orders increased, manual operations became a bottleneck for the Group's business growth. To this end, the Group has been looking for different innovative logistics technologies to deal with this issue. In February 2020, the establishment of a set of cross-belt automatic sorting system was officially completed to enhance productivity, accuracy of order processing and to improve the working environment of warehouse operators.

In simple terms, this automatic sorter system scans the barcode labels on parcels and distributes the parcels to designated delivery points with the use of conveyance belts. The sorters are designed to handle throughputs around 13,000 items per hour on average and sort a wide range of products from large parcels down to loose items, to different delivery points with an accuracy rate of 99%.

SSI systems located in Tsing Yi and Tseung Kwan O Headquarters logistics centre

Crossbelt sorter system located in Tuen Mun logistics centre

AGV system located in Tseung Kwan O Headquarters

Collaborate with Third Parties to Expand Delivery Network & Pick Up Points

The third infrastructure pillar is the residential distribution network, which includes our fleet and store network. The scale of the fleet is about 250 trucks operating daily, and orders are delivered to customers by delivery talents and drivers. In order to deal with the surge of orders, the Group has expanded its delivery capacity by working with a number of large scale outsourced companies and individual drivers starting from February 2020, ramping up to as high as 350 trucks operating daily.

Another segment of residential distribution is HKTVmall's O2O stores. In addition to serving as an education centre of our 60+ O2O stores, the role of a sales centre was added during the year, and electronic payment options including Octopus and credit cards are accepted for onsite sales of fresh fruit and frozen meat products.

Another important role of HKTVmall O2O stores is the pick up service for customer orders. Starting from 14 February 2020, we extended our collaboration with a number of well-known chain retailers including Baleno, CATALO, Foodwise, GIORDANO and Hung Fook Tong, to have their outlets serving as pick up points for HKTVmall customer orders. This collaboration has increased our 90 pick up points (including 64 HKTVmall O2O stores, 19 mobile pickup trucks and 7 merchant stores) by 25 pick up points, making up a total of 115 pick up points. This collaboration not only offers convenience to customers, merchants are also benefited from increased traffic. We will continue to expand this collaboration model.

Conclusion: Prospects and Blessings

Under the current COVID-19 outbreak, Hong Kong people are now spending more time at home and have listened to the opinions of medical experts to avoid crowded places. This outbreak has brought unprecedented challenges to Hong Kong, especially the retail industry, and no one can estimate how long it will last. However, this has brought gradual changes to the working and consumption habits of Hong Kong people. For example, online conferencing and online shopping are becoming more popular and habit-forming.

Traffic and business volume in the past two months have increased more than expected. While bringing us business growth, it has also led to a considerable number of HKTVmall customers facing unpleasant experiences of online shopping and delivery services. Therefore, after attracting a large number of new customers, how to convert them into regular users and repeat purchasing through HKTVmall is the challenge we are facing. If we can overcome this issue, HKTVmall will be able to step up to a higher level of development.

After the increase in demand in January and February 2020, management has examined the shortcomings of HKTVmall more clearly; all Talents of the Group, including logistics, O2O stores, information technology and system management, marketing, etc., will continue to work hard to overcome these challenges.

Following the change of business landscape of Hong Kong retail industry, and referencing to the growth and trend for the Group's turnover over the first three months of this year, we should make an upward adjustment on the GMV target for 2020 at HK$3.4 billion that we set at the end of last year. We estimate that the GMV for the first three months of this year will exceed HK$1.2 billion. Despite the fact that HKTVmall has catered for the new shopping model for consumers with new technologies that has solved the needs of daily necessities for Hong Kong people, the current outbreak has led to economic downturn or even recession for global economy that may severely affect the Hong Kong economy that will reduce the income of Hong Kong people and will result in reduction of shopping intention in both physical stores and online platforms. Even though we are sure that HKTVmall is on the right track and this year we are likely to have better business performance than 2019, the possibility of further deterioration of the current outbreak may pose more uncertainties to our economic outlook and therefore we are unable to make a proper quantitative estimation for the growth of sales turnover this year. We will continue to keep an eye on the situation and estimate the impact on the sustainability of the Group's business growth.

Finally, wish you all stay healthy.

Cheung Chi Kin, Paul
Chairman

Wong Wai Kay, Ricky
Vice Chairman

Hong Kong, 26 March 2020

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 2019.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	**Year ended 31 December 2019**	Year ended 31 December 2018 *(Note)*
		HK$’000	*HK$’000*
Turnover	*3*	**1,413,958**	896,374
Direct merchandise sales	*3*	**1,101,005**	685,889
Cost of inventories		**(853,258)**	(538,752)
		247,747	147,137
Income from concessionaire sales and other service income	*3*	**302,770**	197,358
Net advertising income and licensing of programme rights	*3*	**10,183**	13,127
Valuation gains on investment properties		**750**	43,550
Other operating expenses	*5(a)*	**(893,285)**	(737,567)
Gain on disposal of a subsidiary		**–**	161,645
Other income, net	*4*	**54,377**	46,913
Finance costs	*5(b)*	**(12,509)**	(4,921)
Loss before taxation		**(289,967)**	(132,758)
Income tax credit/(expense)	*6*	**54**	(337)
Loss for the year		**(289,913)**	(133,095)
Basic and diluted loss per ordinary share	*9*	**HK$(0.35)**	HK$(0.16)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	**Year ended 31 December 2019**	Year ended 31 December 2018
			(Note)
		HK$'000	*HK$'000*
Loss for the year		**(289,913)**	(133,095)
Other comprehensive income for the year	*8*		
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)		**4,173**	(9,403)
		4,173	(9,403)
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of an overseas subsidiary		**(7)**	(43)
Debt securities measured at fair value through other comprehensive income — net movement in fair value reserve (recycling)		**19,389**	(26,445)
		19,382	(26,488)
Other comprehensive income for the year		**23,555**	(35,891)
Total comprehensive income for the year		**(266,358)**	(168,986)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019
(Expressed in Hong Kong dollars)

	Note	**31 December 2019**	31 December 2018 *(Note)*
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**1,409,816**	1,115,347
Intangible assets		**72,826**	87,653
Goodwill		**897**	897
Long-term receivables, deposits and prepayments		**24,658**	5,444
Other financial assets	*10*	**472,284**	656,634
		1,980,481	1,865,975
Current assets			
Other receivables, deposits and prepayments		**90,121**	71,449
Inventories		**95,763**	54,322
Other current financial assets	*10*	**83,268**	25,295
Pledged bank deposit		**3,905**	3,905
Cash at bank and in hand		**149,713**	105,901
		422,770	260,872
Current liabilities			
Accounts payable	*11*	**168,718**	146,493
Other payables and accrued charges	*11*	**177,799**	185,337
Deposits received		**5,757**	5,757
Bank loans		**315,015**	79,392
Tax payable		**237**	–
Lease liabilities		**86,358**	–
		753,884	416,979
Net current liabilities		**(331,114)**	(156,107)
Total assets less current liabilities		**1,649,367**	1,709,868

	Note	**31 December 2019**	31 December 2018
			(Note)
		HK$'000	*HK$'000*
Non-current liabilities			
Deferred tax liabilities		**1,188**	1,479
Lease liabilities		**196,571**	–
		197,759	1,479
NET ASSETS		**1,451,608**	1,708,389
CAPITAL AND RESERVES	*12*		
Share capital		**1,293,392**	1,280,191
Reserves		**158,216**	428,198
TOTAL EQUITY		**1,451,608**	1,708,389

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

Notes:

1 BASIS OF PREPARATION

The financial information relating to the years ended 31 December 2019 and 31 December 2018 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 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 Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31 December 2019 in due course.

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

The annual results set out in the announcement are extracted from the Group's consolidated financial statements for the 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. 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 value.

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.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new 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. 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 which remain substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and there is no net effect on the opening balance of equity as 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. 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.

b. Lessee accounting and transitional impact

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 which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to properties.

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	**127,707**

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 statement of financial position at 31 December 2018.

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	Capitalisation of operating lease contracts	Carrying amount at 1 January 2019
	HK$'000	*HK$'000*	*HK$'000*
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**

c. 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.

d. Lessor accounting

The Group leases out a number of properties as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

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 2019 *HK$'000*	Year ended 31 December 2018 *HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by nature		
— Direct merchandise sales	**1,101,005**	685,889
— Income from concessionaire sales and other service income	**302,770**	197,358
— Net advertising income and licensing of programme rights	**10,183**	13,127
	1,413,958	896,374
Disaggregated by timing of revenue recognition		
— Point in time	**1,405,755**	893,658
— Over time	**8,203**	2,716
	1,413,958	896,374

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 2019 *HK$'000*	Year ended 31 December 2018 *HK$'000*
Bank interest income	**94**	457
Dividend and investment income from other financial assets	**5,457**	6,440
Interest income from other financial assets	**30,332**	35,079
(Loss)/gain on disposal of other financial assets	**(2,063)**	11
Unrealised fair value gain/(loss) on units in investment funds measured at fair value through profit or loss ("FVPL")	**378**	(12,573)
(Provision)/reversal of expected credit losses on debt securities measured at fair value through other comprehensive income ("FVOCI")	**(671)**	224
Rentals from investment properties	**23,774**	18,455
Net exchange loss	**(4,362)**	(2,932)
Others	**1,438**	1,752
	54,377	46,913

5 LOSS BEFORE TAXATION

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

	Year ended 31 December 2019 *HK$'000*	Year ended 31 December 2018 *HK$'000*
(a) Other operating expenses		
Depreciation		
— owned property, plant and equipment*	**64,416**	67,464
— right-of-use assets *	**91,472**	–
Advertising and marketing expenses (excluding HK$27,822,000 (2018: HK$32,234,000) being deducted in turnover)	**66,045**	75,416
Auditor's remuneration	**2,415**	2,342
Total minimum lease payments for leases previously classified as operating lease under HKAS 17*	**–**	44,511
Loss/(gain) on disposal of property, plant and equipment	**11**	(997)
Write-down of inventories	**6,156**	2,601
Talent costs *(note 5(c))*	**398,788**	293,709
Amortisation of intangible assets	**14,827**	24,016
Reversal of provision for onerous contract	**(144)**	(3,156)
Total outgoings of investment properties	**1,427**	1,492
Others	**247,872**	230,169
	893,285	737,567

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.

	Year ended 31 December 2019 *HK$'000*	Year ended 31 December 2018 *HK$'000*
(b) Finance costs		
Interest on bank loans	**5,139**	4,718
Interest on lease liabilities#	**7,119**	–
Bank charges	**251**	203
	12,509	4,921

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

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
(c) Talent costs		
Wages and salaries	**382,088**	274,449
Retirement benefit costs — defined contribution plans	**16,580**	12,071
Equity-settled share-based payment expenses *(note 12)*	**120**	7,189
Talent costs included in other operating expenses	**398,788**	293,709

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

6 INCOME TAX CREDIT/(EXPENSE)

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime. For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5% for 2019.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements in 2018 as the Group has sustained a loss for taxation purpose for that year.

The amount of income tax credit/(expense) in the consolidated income statement represents:

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Current taxation		
Hong Kong Profits Tax	**(237)**	–
Deferred taxation		
Origination and reversal of temporary differences	**291**	(337)
	54	(337)

7 DIVIDEND

The Board of Directors has resolved not to declare any final dividend for the year ended 31 December 2019 (31 December 2018: nil).

8 OTHER COMPREHENSIVE INCOME

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

	Year ended 31 December 2019			Year ended 31 December 2018		
	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)	**4,173**	**–**	**4,173**	(9,403)	–	(9,403)
Exchange difference on translation of financial statements of an overseas subsidiary	**(7)**	**–**	**(7)**	(43)	–	(43)
Debt securities measured at FVOCI						
— net movement in fair value reserve (recycling)	**19,389**	**–**	**19,389**	(26,445)	–	(26,445)
Other comprehensive income	**23,555**	**–**	**23,555**	(35,891)	–	(35,891)

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

	Year ended 31 December 2019	Year ended 31 December 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 year	**4,173**	(9,403)
Debt securities measured at FVOCI — net movement in fair value reserve (recycling):		
— Changes in fair value recognised during the year	**16,505**	(26,210)
— Reclassified to profit or loss upon disposal	**2,213**	(11)
— Reclassified to profit or loss for provision/(reversal) of expected credit losses	**671**	(224)
	19,389	(26,445)

9 LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year ended 31 December 2019 of HK$289,913,000 (31 December 2018: HK$133,095,000) and the weighted average of 817,584,000 ordinary shares (31 December 2018: 812,165,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	Year ended 31 December 2019 ***'000***	Year ended 31 December 2018 *'000*
Issued ordinary shares at 1 January	**814,217**	809,017
Effect of share options exercised	**3,367**	3,148
Weighted average number of ordinary shares at 31 December	**817,584**	812,165

The diluted loss per share for the years ended 31 December 2019 and 2018 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 2019	31 December 2018
	HK$'000	*HK$'000*
Equity instruments designated at FVOCI (non-recycling)		
— Equity securities	**24,957**	25,864
— Perpetual bonds	**62,692**	57,820
	87,649	83,684
Debt securities measured at FVOCI (recycling)		
— Maturity dates within 1 year	**83,268**	25,295
— Maturity dates over 1 year	**312,069**	436,686
	395,337	461,981
Units in investment funds measured at FVPL	**72,566**	136,264
	555,552	681,929
Representing		
— Non-current portion	**472,284**	656,634
— Current portion	**83,268**	25,295
	555,552	681,929

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

11 ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUED CHARGES

	31 December 2019 *HK$'000*	1 January 2019 *HK$'000*	31 December 2018 *HK$'000*
Accounts payable *(note (a))*	**168,718**	146,493	146,493
Contract liabilities	**49,349**	31,188	31,188
Other payables and accrued charges *(note (b))*	**128,450**	150,498	154,149
	177,799	181,686	185,337
	346,517	328,179	331,830

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

	31 December 2019 *HK$'000*	31 December 2018 *HK$'000*
Current–30 days	**160,452**	136,734
31–60 days	**2,745**	4,288
61–90 days	**422**	1,785
Over 90 days	**5,099**	3,686
	168,718	146,493

(b) Other payables and accrued charges

Other payables and accrued charges primarily consist of accruals for Talent salaries and related costs, 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

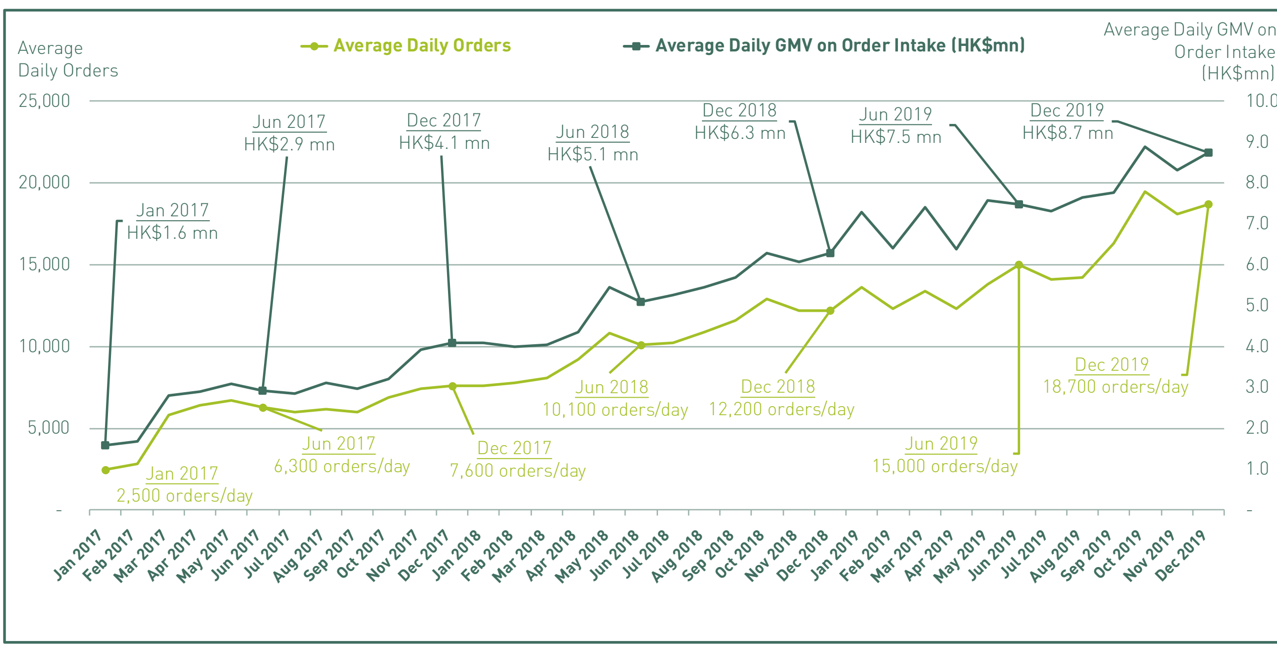
	Note	Share capital	Retained profits/ (accumulated losses) *(Note)*	Revaluation reserve	Fair value reserve (recycling)	Fair value reserve (non-recycling)	Exchange reserve	Capital reserve	Other reserve	Total equity
		Attributable to equity shareholders of the Company								
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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 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	*5(c)*	–	–	–	–	–	–	7,189	–	7,189
Balance at 31 December 2018 and 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 2019:										
Loss for the year		–	(289,913)	–	–	–	–	–	–	(289,913)
Other comprehensive income	*8*	–	–	–	19,389	4,173	(7)	–	–	23,555
Total comprehensive income		–	(289,913)	–	19,389	4,173	(7)	–	–	(266,358)
Shares issued under share option scheme		13,201	–	–	–	–	–	(3,744)	–	9,457
Share options forfeited reclassified to retained profits		–	58	–	–	–	–	(58)	–	–
Equity-settled share-based transactions	*5(c)*	–	–	–	–	–	–	120	–	120
Balance at 31 December 2019		1,293,392	(60,021)	183,338	5,499	2,710	(73)	28,589	(1,826)	1,451,608

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

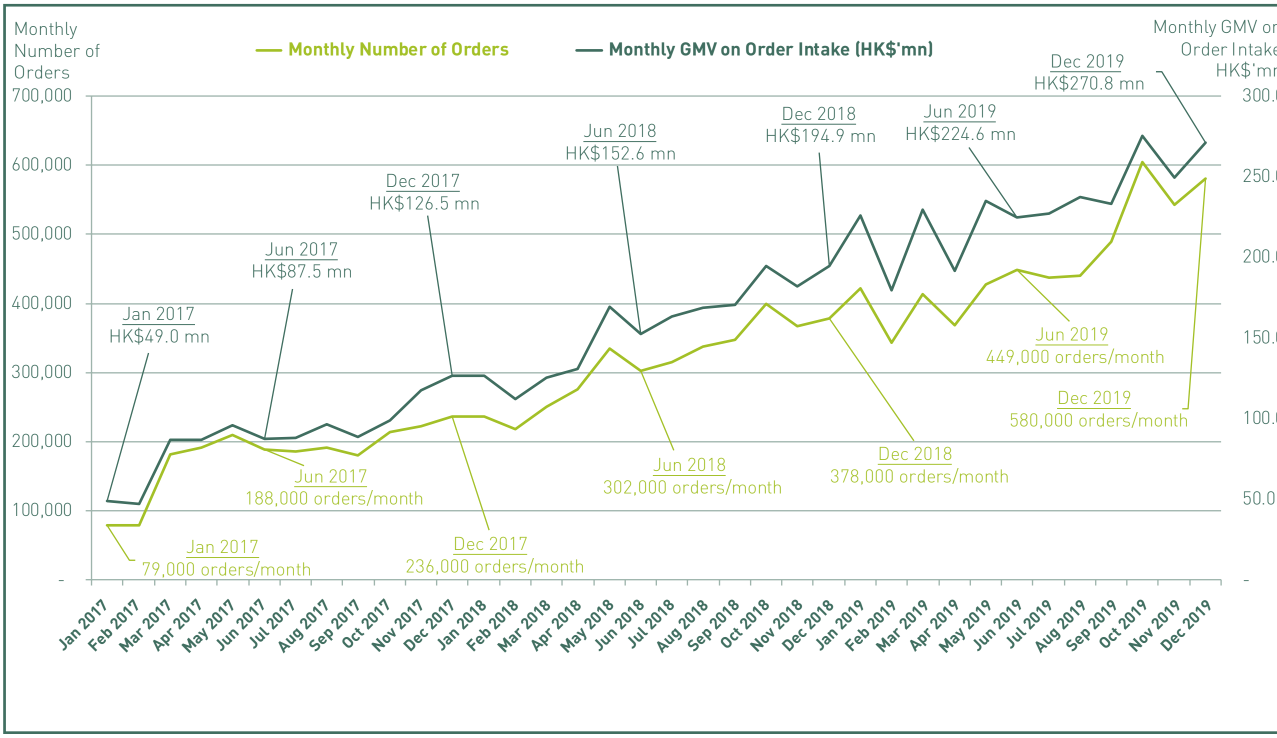
BUSINESS REVIEW

The local economic and political environment remained challenging during the year under review in particular on the retail sector. On a year-on-year basis, Hong Kong's value of total retail sales in 2019 has decreased by 11.1% to HK$431.2 billion across all product categories except for commodities in supermarkets and fuels[4]. At HKTV, we had a different phenomenon. Our growth momentum continued and our annual GMV on order intake reached HK$2,779.1 million in 2019, a year-on-year growth by 46.9%, and average daily order numbers increased from 10,300 in 2018 to 15,100 in 2019, an increase by 46.6%. Apart from February 2019 and April 2019 which sales performance were affected by the exceptionally long holidays for Chinese New Year and Easter, different marketing campaigns launched during the year have brought the Group's sales performance on an upward trend, such as "Summer Festival" in June 2019, "HK$99 Frozen Meat Sets" in September 2019, and most importantly, in October 2019, embraced by the "Thankful Festival" held from 11 October 2019 to 11 November 2019, the Group's sales performance was pushed to a record high with GMV on order intake and average daily order numbers reaching HK$275.5 million and 19,500 orders respectively.

Below are two graphs demonstrating the sales trend on average daily basis and monthly basis:



[4] Source: "Report on Monthly Survey of Retail Sales" — January 2020, Census and Statistics Department Hong Kong Special Administrative Region



Monthly Number of Orders
Monthly Number of Orders
Monthly GMV on Order Intake (HK$'mn)
Monthly GMV on Order Intake HK$'mn
700,000
600,000
500,000
400,000
300,000
200,000
100,000
300.0
250.0
200.0
150.0
100.0
50.0
Jan 2017 HK$49.0 mn
Jun 2017 HK$87.5 mn
Dec 2017 HK$126.5 mn
Jun 2018 HK$152.6 mn
Dec 2018 HK$194.9 mn
Jun 2019 HK$224.6 mn
Dec 2019 HK$270.8 mn
Jan 2017 79,000 orders/month
Jun 2017 188,000 orders/month
Dec 2017 236,000 orders/month
Jun 2018 302,000 orders/month
Dec 2018 378,000 orders/month
Jun 2019 449,000 orders/month
Dec 2019 580,000 orders/month
Jan 2017 Feb 2017 Mar 2017 Apr 2017 May 2017 Jun 2017 Jul 2017 Aug 2017 Sep 2017 Oct 2017 Nov 2017 Dec 2017 Jan 2018 Feb 2018 Mar 2018 Apr 2018 May 2018 Jun 2018 Jul 2018 Aug 2018 Sep 2018 Oct 2018 Nov 2018 Dec 2018 Jan 2019 Feb 2019 Mar 2019 Apr 2019 May 2019 Jun 2019 Jul 2019 Aug 2019 Sep 2019 Oct 2019 Nov 2019 Dec 2019

GROSS PROFIT MARGIN AND BLENDED COMMISSION RATE

In thousands of Hong Kong dollars unless specified except for ratios

On completed orders and on adjusted basis[5]	For the year ended 31 December 2019	For the year ended 31 December 2018
Direct merchandise sales		
GMV on completed orders[5,6]	**1,129,506**	715,093
Cost of inventories	**(853,258)**	(538,752)
Gross profit	**276,248**	176,341
Gross profit margin	**24.5%**	24.7%
Income from concessionaire sales and other service income		
GMV on completed orders[5]	**1,578,310**	1,118,970
Merchant payments (net off by other service income)	**(1,276,219)**	(918,582)
Income from concessionaire sales and other service income[7]	**302,091**	200,388
Blended commission rate	**19.1%**	17.9%
Total GMV on completed orders[5]	**2,707,816**	1,834,063
Total gross profit and income from concessionaire sales and other service income[6,7]	**578,339**	376,729
Total gross profit margin and blended commission rate	**21.4%**	20.5%

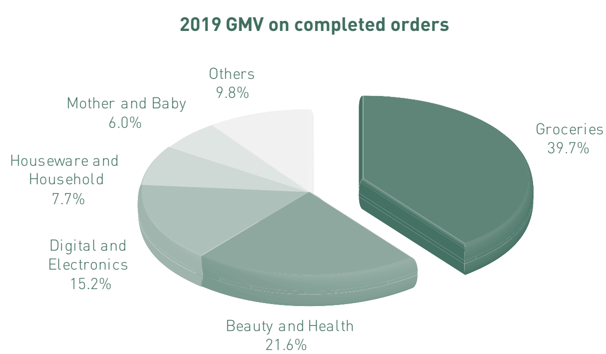
5 GMV on completed orders represents the total gross sales dollar value for merchandise sold through a particular marketplace and the customer has obtained control of the promised goods and services ordered over a certain time frame, after deduction of any discounts offered by the marketplace, cancellation 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.

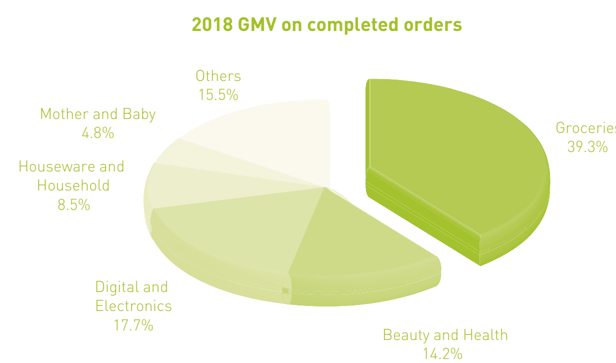
6 For direct merchandise sales, the GMV on completed orders is before the deduction of HKTVmall dollars of HK$4,743,000 (2018: HK$13,412,000) and use of promotional coupon of HK$23,758,000 (2018: HK$15,792,000).

7 For income from concessionaire sales and other service income, it is before the addition of net HKTVmall dollars of HK$679,000 (2018: deduction of HK$3,030,000).

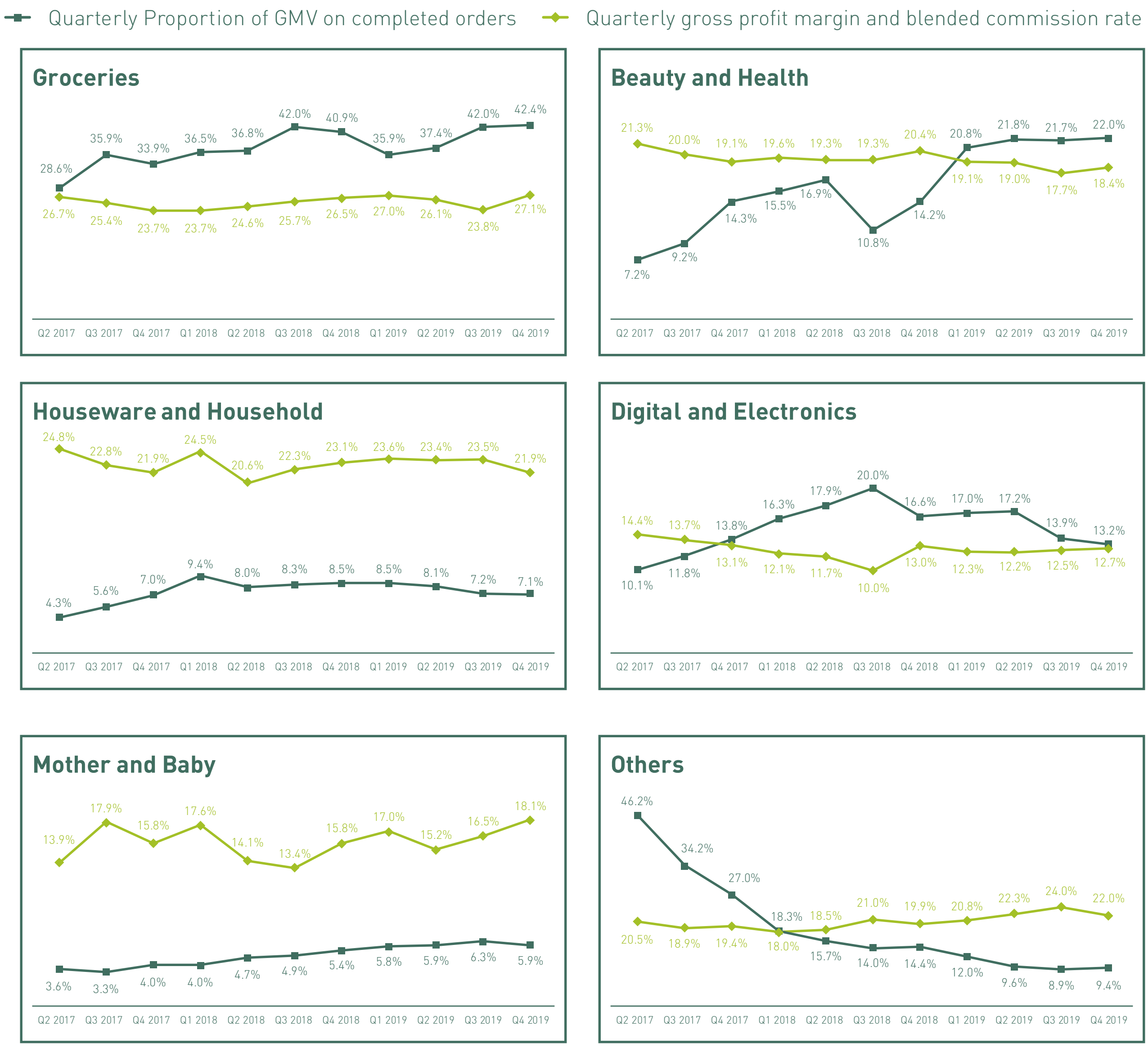
In 2019, the Group maintained a stable proportion of sales from the two main business models of its eCommerce business — direct merchandise sales accounted for about 41.7% (2018: 39.0%) of the total GMV on completed orders while concessionaire sales and other service income accounted for 58.3% (2018: 61.0%). Before netting any HKTVmall dollars usage and promotional coupon deduction, the Group's total gross profit margin and blended commission rate increased from 20.5% in 2018 to 21.4% in 2019, which was mainly due to the growth in blended commission rate from concessionaire sales and other service income from 17.9% in 2018 to 19.1% in 2019. The improved blended commission rate was due to the progressive increment on merchant commission rate and also the shift of GMV on completed orders from lower commission product categories, such as Digital and Electronics, to higher commission product categories, such as Beauty and Health, during 2019. The gross profit margin on direct merchandise sales remained stable at 24.5% in 2019 (2018: 24.7%). As a result, the Group's total gross profit and income from concessionaire sales and other service income increased by 53.5% to HK$578.3 million in 2019.

Among different product categories, in 2019, Groceries continued to be the largest contributor, accounting for 39.7% (2018: 39.3%) of the Group's total GMV on completed orders. Beauty and Health has surpassed Digital and Electronics and become the second place, contributing 21.6% to the Group's total GMV on completed orders, representing a substantial increment from 14.2% in 2018.





In terms of gross profit margin and blended commission rate, Groceries remained the highest product category achieving 27.1% in Q42019. The following graphs depict the quarterly proportion of GMV on completed orders and quarterly gross profit margin and blended commission rate among the main product categories:

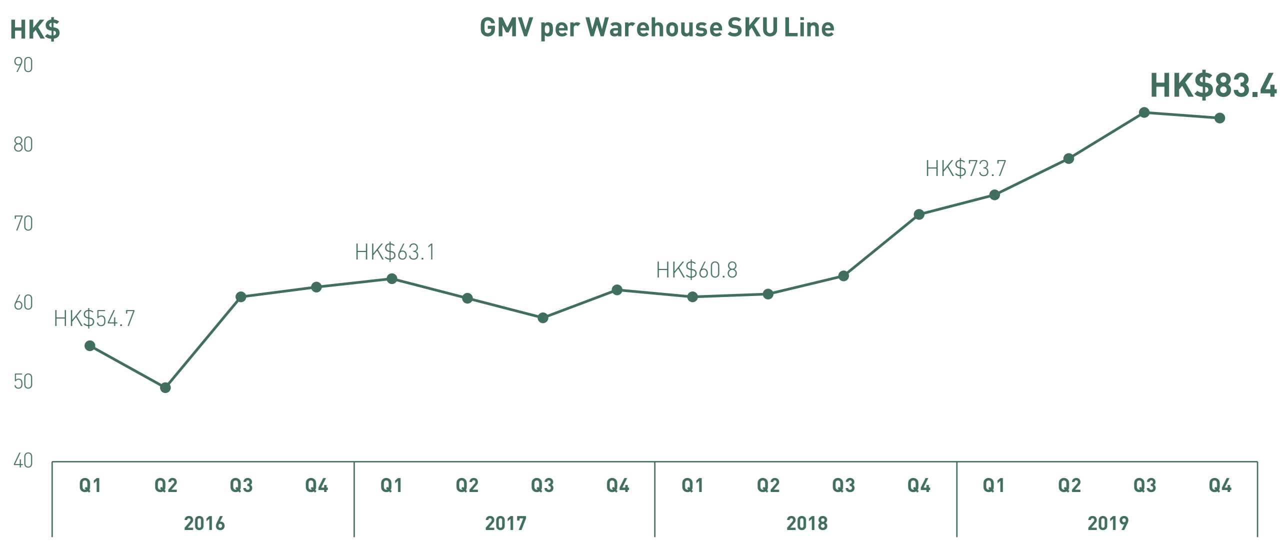


While the Group has experienced quality growth in its top line and also the gross profit and income from concessionaire sales and other service income, certain key parameters have also improved over time.

- **New Customer acquisition** — During 2019, around 823,000 unique customers made purchases at HKTVmall and/or HoKobuy, representing a growth of 21.0% from 680,000 in 2018.

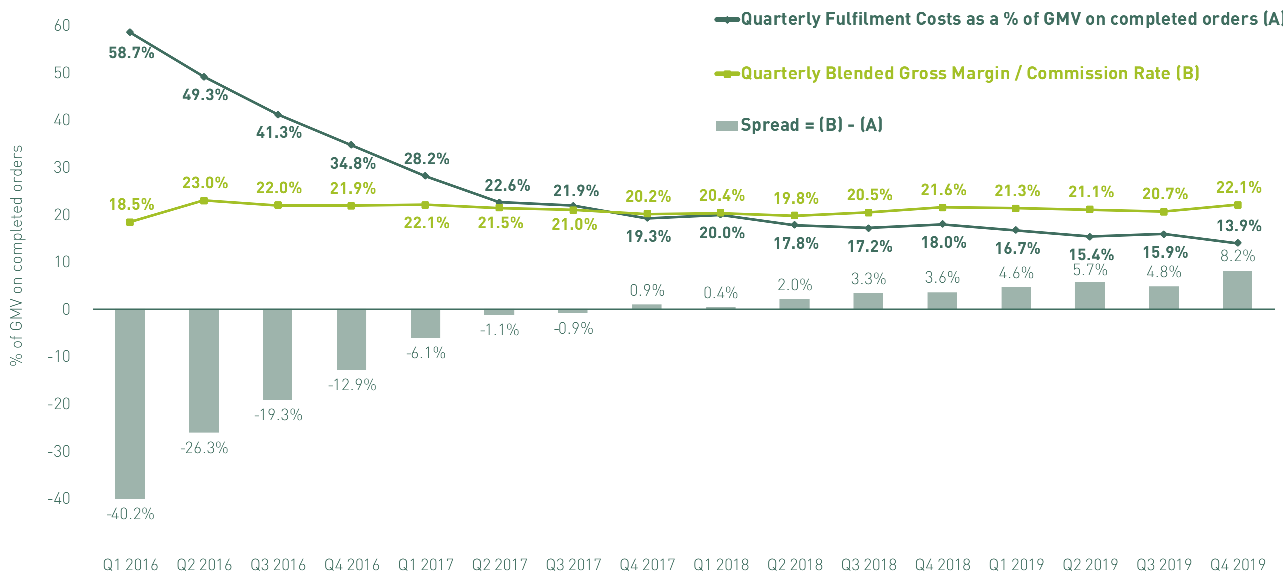
- **Average purchase frequency and product categories** — the average purchase frequency per customer at HKTVmall has increased from 3.03 times in Q42018 to 3.76 times in Q42019, while the average number of main product categories purchased per customer per quarter also increased from 2.44 in Q42018 to 2.57 in Q42019.

- **GMV per warehouse SKU[8] line** — the push for "Bulk/Full Case" purchase and the new program "Buy More Save More" on the same SKU launched since February 2019 has facilitated the continuing growth trend on GMV per warehouse SKU line which has increased from HK$71.3 per warehouse SKU line in Q42018 to HK$83.4 per warehouse SKU line in Q42019. This improvement has also enhanced the fulfilment efficiency over time.



Other than the above key parameters, the Group has put significant effort to achieve efficiency gain in particular on its fulfilment costs. On pre-HKFRS 16 basis, the quarterly fulfilment costs as a percentage of GMV on completed orders further decreased to 13.9% in Q42019 versus 18.0% in Q42018. This represents a big step towards the Group's EBITDA breakeven target.

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



The above efficiency gain not only came from the increase in business volume, but also from the continued effort made on process automation and enrichment of fulfilment channels during the year under review.

- **Expanding fulfilment capacity and channels** — to cope with the continued growth in business volume, in July 2019, a 110,000 square feet new logistics centre located at Tuen Mun was set up to handle the delivery for the northern and eastern parts of the New Territories, and also to handle the transit parcels from merchant concessionaire sales. Moreover, an additional 50 multi-compartment delivery trucks were added to the delivery fleet which are capable of storing products in 3 different temperatures. Other than increasing its own capacity, the Group is also enriching its fulfilment channels by partnering with 3rd party merchants for additional order pick up points. As at the year end date, together with our O2O shops, the Group has extended its order pick up points to 62, versus 39 at 2018 year-end.

- **Process automation** — the automated picking and storage system in Tseung Kwan O headquarters has launched in March 2019, together with the automation system in Tsing Yi logistics centre which launched in March 2018, the Group has a total capacity to handle around 20,000 orders consisted of warehouse products per day. This automation has substantially saved a lot of manpower who used to run around the warehouse for picking and stock replenishment.

Moreover, a new sorting system was installed at Tuen Mun logistics centre which was under final tuning during December 2019 for handling transit parcels from merchant concessionaire sales, and to sort the parcels into respective delivery fleet routes according to the delivery destinations. This new system has been fully launched in February 2020 and is expected to bring manpower efficiency and also substantial capacity in handling around 13,000 transit parcels per hour.

For O2O shops, given the pessimistic outlook in the offline retail sector and the expected deteriorating rental market, the Group has adopted a conservative and cost-effective approach in the O2O shop expansion plan since the second half of 2019. By the end of 2019, the Group had 60 O2O shops in operation (2018: 39). Though we have less O2O shops than originally planned at the beginning of 2019, the business scope of these O2O shops have been expanded to be more sales driven. In the past, the O2O shops were more for order pick-up, customer education and marketing presence. In 2019, the Group has put more weighting on the Point-of-Sales, in particular on selling fruit and frozen meats. These have turned the shops to one of the key entrance points for offline-to-online customer conversion and have also brought additional revenue to the Group.

Overall, 2019 was a turbulent year for Hong Kong. Nevertheless, we have made use of this window to re-engineer and refine the front-end user experience and also the supporting capacity and efficiency in particular on fulfilment functions. The positive impact has started to reflect in the 2019 financial results with EBITDA loss margin narrowed down from 13.1% in 2018 to 8.1% in 2019, on pre-HKFRS 16 basis. The re-engineering and refinement is an ongoing process for future business growth so as to pave the way forward for breakeven status in the foreseeable future.

FINANCIAL REVIEW

During the year, the economic slow-down and the social movement in Hong Kong stressed the retail sector especially in the second half of 2019. Nevertheless the Group's eCommerce business managed to continue its growth and recorded a 47.6% increment on GMV on completed orders reaching HK$2,707.8 million (2018: HK$1,834.1 million).

The Group's turnover increased by 57.7% to HK$1,414.0 million in 2019 (2018: HK$896.4 million) which is composed of HK$1,101.0 million from direct merchandise sales (2018: HK$685.9 million), HK$302.8 million from concessionaire sales and other service income (2018: HK$197.4 million) and HK$10.2 million from net advertising income and licensing of programme rights (2018: HK$13.1 million). With the 60.5% strong growth in direct merchandise sales, the cost of inventories increased correspondingly to HK$853.3 million (2018: HK$538.8 million), representing a 58.4% increase.

In 2019, other operating expenses increased by 21.1% to HK$893.3 million relative to HK$737.6 million incurred in 2018. However, the total other operating expenses as a percentage of GMV on completed orders has improved by 7.2% in 2019 versus 2018.

	2019		2018	
	HK$ million	**As a % of GMV on completed orders**	*HK$ million*	As a % of GMV on completed orders
Fulfilment costs *(note 1)*	**412.1**	**15.2%**	332.5	18.1%
Marketing, promotional and O2O shop operating expenses *(note 2)*	**151.3**	**5.6%**	119.1	6.5%
eCommerce operation and supporting costs	**229.4**	**8.5%**	188.6	10.3%
Major non-cash items *(note 3)*	**100.5**	**3.7%**	97.4	5.3%
Total other operating expenses	**893.3**	**33.0%**	737.6	40.2%

Notes

1. For comparison purpose, including depreciation — other properties leased for own use of HK$33.4 million upon adoption of HKFRS 16 in 2019

2. Excluded HKTVmall dollars and promotional coupon of HK$27.8 million (2018: HK$32.2 million) being deducted in turnover and, for comparison purpose, included depreciation — other properties leased for own use of HK$37.0 million upon adoption of HKFRS 16 in 2019

3. For comparison purpose, excluding depreciation — other properties leased for own use of HK$70.4 million upon adoption of HKFRS 16 in 2019

1) **Fulfilment costs** incurred for warehousing and logistics functions included shop pick up costs allocation. The fulfilment cost as a percentage of GMV on completed orders dropped from 18.1% in 2018 to 15.2% in 2019 though the absolute amount increased by HK$79.6 million to HK$412.1 million in 2019. The increase was mainly due to expansion of our own delivery fleet and the use of third parties' logistics partners for last mile delivery, and the launch of our new fulfilment centre located in Tuen Mun since July 2019. Nevertheless, the operational efficiency has improved continuously due to the launch of the automated picking and warehousing system at Tsing Yi logistics centre and Tseung Kwan O headquarters in March 2018 and March 2019 respectively. The system substantially cut down the manpower costs for picking and stock replenishment.

On last mile order fulfilment, efficiency continued to gain from the increasing average daily orders from 12,200 in December 2018 to 18,700 in December 2019, the ongoing refinement of delivery zone per truck based on geographical order distribution and the additional pick up capacity from an expanded O2O shop network from 39 in December 2018 to 60 in December 2019. Moreover, in December 2019, we started to engage third party merchant partners to widen our order pick up choices to meet different customers' fulfilment requirements. All of the above measures gradually improved the operational leverage for the Group's EBITDA breakeven target.

2) **Marketing, promotional and O2O shop operating expenses** mainly spent on acquiring new customers and driving for repeated purchase on more product categories and increased basket size, and for O2O shop running costs. During the year under review, we continued to spend the marketing expenditure on promotional coupons, HKTVmall dollars usage, digital channels, TV commercials advertising and O2O shop running and all related functions' Talent costs. The marketing, promotional and O2O shop operating expenses were managed to be within 6%-8% of GMV on completed orders. There was an increase of HK$32.2 million this year mainly due to the net growth of O2O shops from 39 in December 2018 to 60 in December 2019, and the use of promotional coupons as an effective tool to attract new customers and to drive for repeated purchase.

3) **eCommerce operation and supporting costs** includes merchant relations and acquisition, customer service, information technology, and other supporting functions. An increase of HK$40.8 million comparing with the corresponding period in 2018 was mainly due to the increase in payment processing charge in line with the growth in GMV, and for the expansion of customer service and technical functions for service quality and customer experience enhancement, and the resumption of remuneration to 2 executive directors effective from the beginning of 2019. Although there was an increase in absolute costs, there was a continuous efficiency improvement whereby this cost item as a percentage of GMV on completed orders decreased from 10.3% in 2018 to 8.5% in 2019.

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$18.0 million increase in depreciation mainly due to launch of the automated picking and warehousing system in March 2019 at Tseung Kwan O headquarters, and the renovation, furniture and equipment costs for the net increase of 21 O2O shops during the year of 2019, plus the depreciation on expansion of our own delivery fleet, which was partially net off by the decrease in share-based transaction expenses from HK$7.2 million to HK$0.1 million as a new batch of share options were granted in December 2019.

During the year ended 31 December 2019, a valuation gain of the Group on investment properties of HK$0.8 million (2018: HK$43.6 million) was recognised based on the valuation carried out by an independent firm of surveyors at year end, representing a drop of HK$42.8 million.

During 2018, the Group disposed of an investment property holding subsidiary and recognised a gain on disposal of HK$161.6 million.

Other income, net, of HK$54.4 million was earned in 2019 (2018: HK$46.9 million), mainly composing of investment income generated from other financial assets, bank interest income, rental income from investment properties, and offset by net exchange loss. The increase of HK$7.5 million was mainly caused by:

1. HK$12.1 million net increase in unrealised fair value gain to HK$0.3 million (2018: loss of HK$12.6 million) on financial assets measured at FVPL, after netting off the expected credit losses recognised amounting to HK$0.6 million (2018: reversal of HK$0.2 million);

2. HK$5.3 million increase in rental income from investment properties to HK$23.8 million in 2019; partially net off by:

3. the decrease in bank interest income and returns from investment in other financial assets of HK$8.2 million due to the realisation of certain investment portfolio to support the capital expenditure and operating activities of the Group; and

4. the increase in net exchange loss of HK$1.4 million to HK$4.4 million in 2019 mainly due to the depreciation of USD against HKD during the year.

Finance costs amounted to HK$12.5 million in 2019 (2018: HK$4.9 million), an increase of HK$7.6 million mainly due to the interest on lease liabilities of HK$7.1 million upon the adoption of HKFRS 16 in 2019.

Overall, the Group incurred a loss of HK$289.9 million for 2019 relative to HK$133.1 million for 2018. If excluding interest on bank loans, income tax expense, depreciation of property, plant and equipment (excluding depreciation of other properties leased for own use of HK$70.4 million after the adoption of HKFRS16), amortisation of intangible assets, investment returns, gain on disposal of a subsidiary in 2018 and major non-cash items mainly including the valuation gains on investment properties ("Adjusted EBITDA"), the Group incurred an Adjusted EBITDA loss of HK$216.0 million in 2019 versus loss of HK$271.4 million in 2018 representing a significant improvement of HK$55.4 million in 2019.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2019, the Group had total cash position representing cash at bank and in hand of HK$149.7 million (31 December 2018: HK$105.9 million) and outstanding borrowings of HK$315.0 million (31 December 2018: HK$79.4 million) drawn mainly for investment yield enhancement purposes. The increase in cash position was mainly due to the net cash inflow from changes in investment portfolio of HK$141.2 million, net proceeds from bank loan borrowing of HK$231.4 million, net investment income received of HK$38.9 million, and proceeds of HK$9.5 million from issuance of new shares from share options exercised during the year, partially net off by the resources utilised for operating activities of HK$172.4 million, capital and interest element of lease rentals of HK$64.8 million upon the adoption of HKFRS 16, purchases of property, plant and equipment of HK$139.9 million.

On investment in other financial assets, the Group has invested, at fair value, HK$555.6 million as at 31 December 2019 (as at 31 December 2018: HK$681.9 million). As at 31 December 2019, there was a net surplus of HK$8.2 million being recorded in fair value reserve (non-recycling and recycling) (31 December 2018: a revaluation deficit of HK$15.4 million). During the year, the total fair value change on other financial assets (after netting of expected credit losses recognised) amounted to HK$23.3 million, in which a loss of HK$0.3 million, gains of HK$19.4 million and HK$4.2 million were 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, investments that are 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 2019, the Group has utilised HK$315.0 million (31 December 2018: HK$79.4 million) uncommitted banking facilities mainly for investment purpose, leaving HK$624.9 million (31 December 2018: HK$1,022.0 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 as at 31 December 2019 and 31 December 2018 with an amount 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.

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

	31 December 2019	31 December 2018
	HK$'000	*HK$'000*
Repayable within one year	**315,015**	79,392

As at 31 December 2019, our outstanding borrowings bore fixed interest rate and were 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 31 December 2019 was 0.11 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 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 2019	31 December 2018
	HK$'000	*HK$'000*
Net Debt (note (a))	**(165,302)**	–
Net Assets	**1,451,608**	1,708,389
Gearing (times)	**0.11**	–

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

During 2019, the Group invested HK$139.9 million on capital expenditure as compared to HK$140.1 million in 2018. The capital expenditure for 2019 was mainly incurred for automated picking and warehousing system, new O2O shops opening, additional delivery trucks, renovation for fulfilment centre and 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 2019, the Group's bank loans of HK$315.0 million (31 December 2018: HK$79.4 million) were secured by other financial assets held by various banks with carrying value of HK$555.6 million. Moreover, as of 31 December 2019 and 31 December 2018, there was 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 was 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 dollar and the Renminbi arising from its investments mainly in Renminbi fixed income products or term deposits, and between the Hong Kong dollar 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 2019 and 31 December 2018, the Group had no material contingent liabilities or off-balance-sheet obligations.

PROSPECTS

Under the shadow of the Coronavirus Disease 2019 ("COVID-19") outbreak and the uncertain economy in Hong Kong, the business environment remained unfavourable in particular for the retail sector, travel and hospitality sector and also for the employment market. The COVID-19 outbreak is an unprecedented challenge around the world which not only caused business interruption but also forced people to stay at home. This is an unavoidable business risk to most of the corporates but in the meantime, this could be an opportunity to drive for "Change and Innovation".

While it is difficult for anyone to estimate when the COVID-19 outbreak will come to an end, the Group observes that the Hong Kong consumers now have a higher tendency and frequency to shop for their needs online than before, in particular on non-discretionary goods. The Group expects that after experiencing online shopping for several months, some of our customers may change their shopping behaviour from offline to online.

The Group has a direction to enlarge the proportion of its business transactions from Direct merchandise to Merchant concessionaire so as to enrich its product spectrum. The Group expects the widened product offerings will be able to attract more customers to switch their purchases on every aspect of life from offline to online. In this regard, the Group needs to accelerate the O2O conversion process of retailers so as to enrich the product offerings by merchants at HKTVmall.

- Effective from the beginning of 2020, HKTVmall has streamlined the merchant recruitment and management process. The Group introduced a new merchant commission scheme in 2020 setting "Standardised Commission Rate" by Product Category and added a merchant annual fee to facilitate their digital advertising and analytics capability at HKTVmall.

- The Group also introduced more aggressive merchant acquisition and conversion programs, such as the "Thankful Festival O2O Partnership Trial Program" aiming for recruiting branded retailers at tier one shopping malls in Hong Kong to open online stores during the upcoming "May Thankful Festival". The purpose of this program is to enable the branded offline retailers to have hands-on experience for online conversion.

- Furthermore, the Group is working to "change" the operating mode of the merchants towards operating "363 days" so as to shorten the order delivery lead time.

The Group considers if the retail participants can make use of this "Change" window to accelerate the O2O conversion, the expanded product spectrum, extended digital reach at HKTVmall as well as the speed up in order delivery shall bring incremental benefits to our customers and also the retail market in Hong Kong over time.

Though the overall atmosphere in Hong Kong is affected by the COVID-19 outbreak, there are a few pieces of encouraging events at HKTVmall that are rewarding to everyone working hard on our eCommerce journey. In February 2020, YouGov BrandIndex announced that HKTVmall was ranked number 1 in the 2019 Top Brand Buzz in Hong Kong[9]!

[9] Source: http://www.brandindex.com/ranking/hong-kong/2019-buzz

Moreover, at HKTVmall, as a result of the increased "home" time and less desire of the Hong Kong people to go to crowded areas, the unaudited operating and financial performance has improved in the first few months of 2020. The GMV on order intake has reached a record high in January 2020 at HK$338.0 million and further drove up to HK$482.4 million in February 2020 with an average daily order number of 32,600. We see the growth momentum is continuing in March 2020 — for the period from 1–20 March 2020, the GMV on order intake reached HK$324.6 million, representing about 67.3% of February's GMV on order intake.

The positive operational and financial performance in the first few months of 2020, the increased confidence in merchant and consumer O2O conversion as well as the brand recognition of HKTVmall in the local market bring us the courage and faith for the eCommerce journey ahead. Nevertheless, the Group understands that the risks brought on by the COVID-19 outbreak globally on the economy as well as on the individual disposable income level is increasing and highly uncertain, and it is inevitable for Hong Kong to face the similar risks and challenges. In this regard, given the uncertainty on the business growth sustainability, the Board did not make any upward revision on its announced 2020 GMV on order intake target of HK$3.4 billion.

The Group will closely monitor the business development and resources allocation to cope with the change in business activities and the challenges from the economy.

NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

1. On 11 February 2020, the Company entered into a placing agreement ("Placing Agreement") with Top Group International Limited (the "Vendor") and UBS AG Hong Kong Branch (the "placing agent") and a subscription agreement ("Subscription Agreement) with the Vendor, pursuant to which the placing agent agreed to place, on a fully underwritten basis, 90,000,000 existing shares to not less than six placees at HK$5.15 per share (the "Placing"), and the Vendor agreed to subscribe for 90,000,000 new shares of the Company at HK$5.15 per share (the "Subscription").

   The Placing and the Subscription were completed on 14 February 2020 and 24 February 2020 respectively, in accordance with the terms and conditions of the Placing Agreement and the Subscription Agreement. The net proceeds from the Subscription amounted to approximately HK$453.1 million (net of expenses relating to the Subscription).

2. After the recent outbreak of COVID-19, a series of precautionary and control measures have been implemented across the globe. The Group has been closely monitoring the development of the COVID-19 outbreak. As of the date of this announcement, the Group was not aware of any material adverse impact to its financial position and results. The actual impacts may differ from these estimates as the situation continues to evolve and when further information may become available.

TALENT REMUNERATION

Including the Directors, as at 31 December 2019, the Company had 1,238 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 and life 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 2019.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 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 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 2019.

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 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.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2019 (2018: Nil).

ANNUAL GENERAL MEETING (THE "AGM")

The AGM will be held on Tuesday, 2 June 2020. 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, 28 May 2020 to Tuesday, 2 June 2020, 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, 27 May 2020.

By Order of the Board
Hong Kong Television Network Limited
Cheung Chi Kin, Paul
Chairman

Hong Kong, 26 March 2020

As at the date of this announcement, the executive Directors of the Company are Mr. Cheung Chi Kin, Paul (Chairman), Mr. Wong Wai Kay, Ricky (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 (Managing Director of Shopping and eCommerce) and the independent non-executive Directors are Mr. Lee Hon Ying, John, Mr. Peh Jefferson Tun Lu and Mr. Mak Wing Sum, Alvin.