



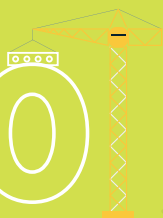
HONG KONG TELEVISION
NETWORK LIMITED
香港電視網絡有限公司

SEHK 香港交易所股份編號:1137
www.hktv.com.hk



2020 中期報告

2020



INTERIM
REPORT





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Corporate Information

FINANCIAL CALENDAR

Six months period ended:
30 June 2020

Announcement of interim results:
27 August 2020

LISTING

The ordinary shares of Hong Kong Television Network Limited (the "Company") are listed on The Stock Exchange of Hong Kong Limited. In addition, the Company's American Depositary Shares (ADSs) each represent 20 ordinary shares. On 8 December 2015, the Company filed the Form 25 with the U.S. Securities and Exchange Commission ("SEC") to effect the delisting of the ADSs. On 29 December 2016, the Company filed the Form 15F with the SEC to deregister and terminate its reporting obligations under the U.S. Securities Exchange Act. Since 21 December 2015, our ADSs are eligible for trading in the United States in the over-the-counter (OTC) market.

Executive Directors

Mr. CHEUNG Chi Kin, Paul^{3,5} (Chairman)

Mr. WONG Wai Kay, Ricky^{3,4}

(Vice Chairman and Chief Executive Officer)

Ms. WONG Nga Lai, Alice^{3,5} (Chief Financial Officer)

Mr. LAU Chi Kong³ (Chief Operating Officer)

Ms. ZHOU Huijing³

(Managing Director of Shopping and eCommerce)

Independent Non-executive Directors

Mr. LEE Hon Ying, John^{1,7,8}

Mr. PEH Jefferson Tun Lu^{2,5,6,9}

Mr. MAK Wing Sum, Alvin^{2,5,7,9}

¹ Chairman of Audit Committee

² Member of Audit Committee

³ Member of Executive Committee

⁴ Chairman of Investment Committee

⁵ Member of Investment Committee

⁶ Chairman of Nomination Committee

⁷ Member of Nomination Committee

⁸ Chairman of Remuneration Committee

⁹ Member of Remuneration Committee

Company Secretary

Ms. WONG Nga Lai, Alice

Authorised Representatives

Mr. CHEUNG Chi Kin, Paul

Mr. WONG Wai Kay, Ricky

Registered Office

HKTVMultimedia and Ecommerce Centre
No. 1 Chun Cheong Street
Tseung Kwan O Industrial Estate
New Territories, Hong Kong

Auditor

KPMG

Certified Public Accountants

Public Interest Entity Auditor registered in accordance
with the Financial Reporting Council Ordinance

8th Floor

Prince's Building

10 Chater Road

Central, Hong Kong

Share Registrar

Computershare Hong Kong Investor Services Limited

46th Floor

Hopewell Centre

183 Queen's Road East

Wanchai, Hong Kong

American Depositary Bank

The Bank of New York Mellon Corporation

101 Barclay Street, 22nd Floor

New York, NY 10286 USA

Principal Bankers

Citibank, N.A.

The Hongkong and Shanghai Banking Corporation Limited

Website

www.hktv.com.hk

Chairman's Statement

Dear Shareholders,

Since the establishment of HKTVMall as an “online supermarket” in February 2015, we have leapfrogged and transformed into an “online shopping mall” within five years. Nowadays we serve over one million consumers and nearly four thousand retailers in Hong Kong. Going forward, we will strive to complete the final stage of our digital ecosystem in Hong Kong in the next few years – building an “online life circle” – such that HKTVMall will become an integral partner of the digital lives of Hong Kong people as well as the centre of all digital commercial activities in Hong Kong. At the same time, riding on the advantages brought by the macro environment, we will expand to markets all over the world, by providing consultancy services on commercial models as well as the integrated set of sales platform and automated pick/pack system technology to investors or operators who are interested in developing online shopping platforms. Following six years of technological research, development and operation experiences, we are confident that we will become one of the major technical partners in promoting online shopping operation globally.

For the first half of 2020 (“1H2020”), there were three major reasons for the Group’s turnaround to profit:

- (1) Turnover increased significantly by 114.2% compared to the same period last year;
- (2) Gross profit margin (including the gross profit margin for HKTVMall self-operated stores and commission rates received from other merchants) increased from 21.2% to 24.8% for the same corresponding period this year;
- (3) Fulfilment cost accounts for 11.4% of GMV on completed orders, versus 15.9% in first half of 2019 (“1H2019”).

Driven by the above three reasons, the Group recorded a net profit for the period of HK\$109.3 million, with adjusted EBITDA at HK\$175.7 million, which is the first turnaround to profit since the grand launch of HKTVMall five years ago. And we are also one of the few online shopping operators globally, who can make profit in just five years.

eCommerce Market in Hong Kong

Over the years, different external stakeholders have raised doubts about the long term competitiveness and sustainability of HKTVMall. The first type of questions is: why only HKTVMall in Hong Kong? Why don't the two supermarket chains in Hong Kong join in? In fact, they have, but the results are not satisfactory.

Offline and online supermarkets are two totally different business concepts and operation models; offline supermarket emphasizes store operations while online supermarket focuses on the design and management of fully automated, robotic warehousing and logistics systems, as well as “last mile” delivery arrangements.

If offline supermarket adopts the same operation to run the online platform and does the pick pack manually, accuracy will be in question. And as unit prices can be as low as ten dollars or even below, picking cost will be too high. All these means a viable long term business model cannot be achieved. Globally, there has not been a successful case whereby an offline supermarket manages its online shopping platform by using shops as warehouse and delivery dispatch points and handling orders manually. This is actually not cost-effective. The more the number of orders, the greater the deficits become.

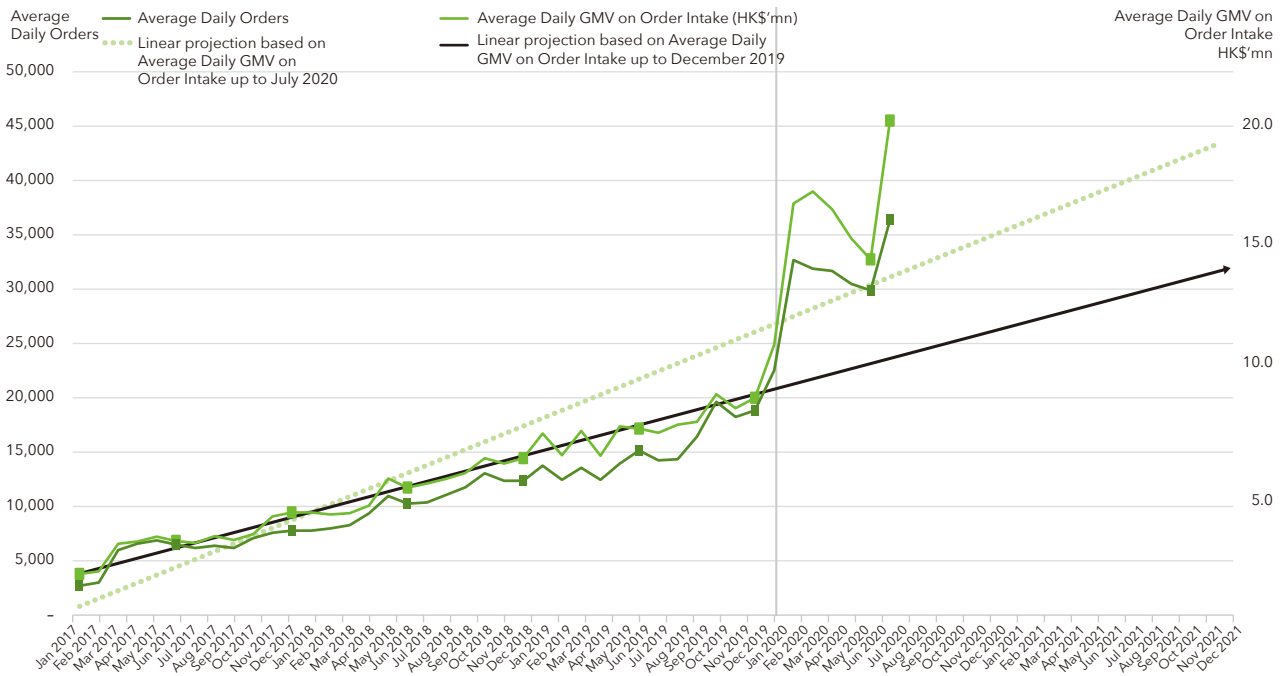
By contrast, HKTVMall designs its large scale automated picking and fulfilment centre based on big data analysis supported by past operation information. From the sequence and location of items inside our centre, to the selection of systems for pick and pack, all are based on big data analysis aiming to achieve the highest efficiency and cost effectiveness. Most offline supermarkets simply have zero knowledge in this regard.

The account above represents the current position. Having said that, complacency will only lead to failure. We never take our adversaries lightly. On the one hand, we have adopted an “online shopping mall” operational model, through which we connect with thousands of large and small retailers in an open structure. This excels the closed shop approach used by traditional supermarkets. On the other hand, we are actively laying the ground for many new projects, thereby constructing a “high entry barrier” and consolidating our leading position. For details, see the part under “Realisation of digital ecosystem”.

Chairman's Statement

The second type of questions is, can HKTVmall still survive if those online giants with extensive operational experiences and financial resources from Mainland China or overseas move to Hong Kong market? In our view, brand recognition and consumer habits are part of any local culture. Besides, rental and salary structures, transportation and logistics are unique in different places and thus cannot be easily replicated. We strongly believe that HKTVmall holds an irreplaceable position in many local consumers' minds. In fact, over the past years when HKTVmall had yet to establish its foothold, several overseas online shopping platforms tried to enter the Hong Kong market but failed.

The last type of question is, whether consumers will give up online shopping and move back to offline stores after the pandemic? As a matter of fact, this pandemic has not "changed" consumer behaviour, but has only "accelerated" the change in consumer habits, thereby pushing more consumption power to online shopping platforms. In the first half of this year, new customers of HKTVmall only accounted for about 16.3% of the 1H2020 GMV on order intake, whereas most of our business growth came from existing customers who were already here in 2019 or before.



Chairman's Statement

A linear projection based on GMV growth over the previous years would have suggested that HKTVmall could handle 30,000 orders daily and achieve EBITDA breakeven by the end of 2021. The pandemic has shortened this anticipated timeframe by 18 months. Besides, according to our analysis on customers' purchase frequency and numbers, we believe that if a customer can maintain 5 to 6 times of purchase over a 6-month period, "online shopping" will become a part of their consumption habits.

Realisation of Digital Ecosystem

HKTVmall's target is not merely an "online supermarket" or "online shopping mall". Rather, we are building a more sustainable digital ecosystem for the long term. Therefore when we have achieved certain results in online shopping and new retailing, HKTVmall will launch a number of large scale innovative projects in the second half of this year.

The first project is "Open Data Bank". In this digital era, having big data is equivalent to owning an "oil mine" which is valuable to many aspects of society. Its potential must not be ignored, waiting to be unleashed. With 5 years' operation, HKTVmall has accumulated substantial consumer data, and therefore, we plan to launch an open data bank. Within the confines of applicable laws and regulations, and while safeguarding and protecting consumer privacy, information relating to Hong Kong-specific eCommerce platform including sales transaction, user traffic, logistics and warehouse performance, etc. will be shared with specified groups of people. During the first phase of this project, these will include local universities and tertiary institutions, research institutes, digital media agencies, banks etc. By so doing, we hope to make positive contributions to academic research and digital advertising sectors.

The second project is on Food Takeaway. Measures against COVID-19 including prohibition of group gatherings and the limitation on dining-in have brought tremendous pressure on the catering sector. At the same time, consumers are getting used to takeaway dining. Following this change, HKTVmall will add a food takeaway function into its existing app. Although there are a number of existing apps serving similar purposes, the competitive advantage of HKTVmall is that we have a large customer database with daily visits from about 250,000 users. There were 813,000 unique customers who shopped with HKTVmall in the first half of 2020, which means one out of ten Hong Kong people have shopped on HKTVmall. This collaboration will connect small local shops and restaurants to HKTVmall customers. Restaurants will be able to push different offerings to customers in a locality in a much more targeted and effective way. Currently we are working on restaurant recruitment and technical trial of the system. We target to have about 3,000 partnering restaurants at the launch in September to October 2020.

The third project is eWallet. HKTVmall collaborates with Citi Hong Kong to launch cobrand credit card which has received satisfactory customer response. HKTVmall app enjoys millions of download from hundreds of thousand devices visiting HKTVmall daily. With this stable customer database, it is time for us to extend from eCommerce to payment services, allowing the Group and merchants to have a more comprehensive view on consumers' online and offline shopping behaviour. This will also bring remarkable benefits in the long run.

The fourth project is Open Landing Page. Currently the interface of HKTVmall is supported by big data intelligence which enables us to display customised product introduction based on individual customers' purchase habit and browsing records. Open Landing Page will push one step forward to allow merchants and other content providers such as Key Opinion Leaders, to build, to fill and to manage their own page on HKTVmall. Customers will also be free to choose what to follow. All these interactions will further enhance the bonding among HKTVmall, merchants with offline stores users and content providers.

Chairman's Statement

Looking Ahead to the Next Three Years

The management expects that the Group will achieve GMV on order intake at comparable level or even slight growth to 1H2020, with GMV target set at levels of HK\$2.8 billion to HK\$3.0 billion for 2H2020.

We believe that year 2020 is the real starting point for online shopping in Hong Kong and the rest of the world. The total GMV on order intake for 1H2020 of HKTvmall accounts only for 1.7% the total retail sales of Hong Kong. The COVID-19 pandemic has awakened more and more Hong Kong brand owners and retailers, alerting them to pay more attention on the development of eCommerce. Therefore, we must prepare ourselves, especially on the automated fulfilment infrastructures and facilities, to avoid missing most of the market share (if not 100%) of eCommerce sector in Hong Kong, due to the limitation on the pick and pack system capacity.

Our existing automated fulfilment capacity is capable to handle 50% growth in orders. As mentioned in 2019 annual results, we are gradually shifting the fulfilment of groceries business, in particular on long tail or slow moving SKU, from own inventory to merchant sales. Hence, we do not expect incremental CAPEX is required to expand costly automated picking and storage system but more for facilities serving fast moving inventory and merchant parcels.

For the coming three years, we will further enhance our automated pick/pack system and warehousing capacity to cater for further e-commerce business growth up to HK\$10 billion GMV on order intake. For this capacity enhancement, as well as for addressing operational efficiency and service quality improvement, we estimate additional CAPEX investment of about HK\$380 million to HK\$400 million will be required, including the below major items:

(1) Expansion of e-fulfilment centre at Tseung Kwan O Headquarters

We plan to expand by about 50,000 square feet with anticipated construction cost at around HK\$150 million and cost for facilities at about HK\$50 million, estimating to be completed by the end of 2022.

(2) Adding the 6th fulfilment centre

To cope with the increasing demand, we plan to lease and set up the 6th fulfilment centre with cost for facilities at about HK\$40 million, estimating to be completed by the end of 2021.

(3) Adding around 200 to 250 delivery trucks

To cope with the increasing last mile delivery need, we plan to purchase additional 200 to 250 delivery trucks over the 3-year period at about HK\$90 million to HK\$110 million.

(4) Upgrade computer hardware and software

To cater for system requirements for handling large quantities of order and data within a short time, we will put in HK\$50 million to expand current hardware and software capacities.

Chairman's Statement

The COVID-19 pandemic has changed the world and has speeded up consumers' and commercial world's march towards digital development. Responding to the pandemic, retail industry and investors who are interested in retailing across the world have to think about the future development direction. They are aware they have to turn to digital development but they do not have the knowhow for digital operations. The experiences of most of the successful offline retailers are confined to physical retailing only.

Over the past six and half years, HKTVmall has walked through this rough road, from "online supermarket" to "online shopping mall". In terms of business model, marketing and promotions, operation strategies, big data analysis, system development, warehousing design, selection and installation of automated system as well as last mile delivery fleet management, we have accumulated rich and practical knowledge and experiences, which traditional retailers and even some online shopping platforms all over the world lack.

We believe that this is a great business opportunity for HKTVmall to extend overseas and globally. We will be able to share our unique knowledge, experiences and technical skills; and especially to export the entire set of self-developed software system to the world in order to assist overseas traditional supermarkets or retailers to enter into digital retailing successfully in the shortest time, bringing them tremendous technology innovation and economic values.

As far as we know, among those system integrators around the world who possess similar technical knowledge and experience, only a few of them are capable to design the entire set of systems. We will soon establish overseas branches and subsidiaries to start promoting and searching for overseas partners. As this is uncharted territory, we are unable to foresee the progress and achievements of this project. Suffice it to say that this is absolutely a positive attempt which will lead HKTVmall to a much larger new economy market, and which is worth devoting our full efforts to this borderless new world.

Finally, we wish to take this opportunity to sincerely thank all Talents of HKTVmall, particularly those working at the front-line including delivery assistants, drivers, O2O shop assistants and warehouse workers, who are unable to "Work From Home" because of their job natures. We are very grateful for their hard work especially having to cope with enormous extra workload in the midst of the pandemic situation. Their special efforts have enabled us to deliver food and necessities to Hong Kong people to maintain normal daily lives. We wish all Hong Kong people would stay healthy, and together we will overcome every natural and man-made disaster.

Cheung Chi Kin, Paul
Chairman

Wong Wai Kay, Ricky
Vice Chairman

Hong Kong, 27 August 2020

Management's Discussion and Analysis

OPERATION HIGHLIGHTS

In thousands of Hong Kong dollars unless specified

On order intake	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Change in percentage
Gross Merchandise Value ("GMV") ¹	2,746,512	1,285,809	113.6%
Average Daily Order Number (rounded to the nearest hundred)	29,700	13,400	121.6%
Average Order Value (HK\$) (rounded to the nearest dollar)	508	530	(4.2%)
Combined Unique Customers (rounded to the nearest thousand)	813,000	566,000	43.6%

On order intake	For the month ended 30 June 2020	For the month ended 30 June 2019	Change in percentage
Gross Merchandise Value ("GMV") ¹	430,956	224,572	91.9%
Average Daily Order Number (rounded to the nearest hundred)	29,800	15,000	98.7%
Average Order Value (HK\$) (rounded to the nearest dollar)	483	500	(3.4%)

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.

Management's Discussion and Analysis

FINANCIAL HIGHLIGHTS

In thousands of Hong Kong dollars except for per share amounts and ratios

	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Change in percentage
Turnover	1,339,982	625,547	114.2%
EBITDA/(EBITDA loss) ^{2,3}	151,135	(123,921)	Improved by 222.0%
EBITDA/(EBITDA loss) ³ /GMV on completed orders (in %)	5.6%	(10.0%)	15.6%
Adjusted EBITDA/(adjusted EBITDA loss) ^{2,4}	175,678	(132,699)	Improved by 232.4%
Adjusted EBITDA/(adjusted EBITDA loss)/GMV on completed orders (in %)	6.5%	(10.7%)	17.2%
Profit/(loss) for the period	109,277	(155,391)	Improved by 170.3%
Profit/(loss) for the period/GMV on completed orders (in %)	4.0%	(12.6%)	16.6%
Capital expenditure - Property, plant and equipment (excluded right-of-use assets)	45,764	46,042	(0.6%)

	As at 30 June 2020	As at 31 December 2019	Change in percentage
Cash position ⁵	669,371	149,713	347.1%
Other financial assets	418,007	555,552	(24.8%)
Bank loans	-	315,015	(100.0%)
Total equity attributable to equity shareholders	2,011,004	1,451,608	38.5%
Number of shares in issue (in thousands)	910,814	820,734	11.0%
Net asset per share (HK\$)	2.21	1.77	24.9%
Gearing ratio (total bank loans less cash position divided by total equity) (times)	-	0.11	(100.0%)

² EBITDA/(EBITDA loss) and adjusted EBITDA/(adjusted EBITDA loss) are not measures of performance under Hong Kong Financial Reporting Standards ("HKFRSs"). These measures do not represent, and should not be used as substitutes for, net profit/(loss) or cash flows from operations as determined in accordance with HKFRSs. These measures are not necessarily an indication of whether cash flow will be sufficient to fund our cash requirements. In addition, our definitions of these measures may not be comparable to other similarly titled measures used by other companies.

³ EBITDA/(EBITDA loss) means profit/(loss) for the period plus interest on bank loans (excluded finance costs - interest on lease liabilities), income tax expense, depreciation on property, plant and equipment (excluded depreciation on right-of-use assets) and amortisation of intangible assets and deduct investment returns.

⁴ Adjusted EBITDA/(adjusted EBITDA loss) means EBITDA/(EBITDA loss) adjusted by major non-cash items.

⁵ Cash position means cash at bank and in hand and term deposits, excluding pledged bank deposits.

Management's Discussion and Analysis

RECONCILIATION OF ADJUSTED EBITDA/(ADJUSTED EBITDA LOSS)

	For the six months ended 30 June 2020 HK\$'000	For the six months ended 30 June 2019 HK\$'000
Profit/(loss) attributable to shareholders	109,277	(155,391)
Income tax expense	142	228
Interest on bank loans (excluded finance costs - interest on lease liabilities)	1,855	1,634
Investment returns ⁶	(16,156)	(18,867)
Depreciation - on property, plant and equipment (excluded depreciation on right-of-use assets)	49,483	40,272
Amortisation on intangible assets	6,534	8,203
EBITDA/(EBITDA loss)	151,135	(123,921)
Major non-cash items:		
Valuation losses/(gains) on investment properties	4,400	(5,850)
Net exchange loss	2,559	1,304
Provision of expected credit losses on debt securities measured at FVOCI	5,090	553
Non-cash licensing income	-	(1,666)
Unrealised fair value loss/(gain) on units in investment funds measured at FVPL	5,908	(3,119)
Equity-settled share-based payment expenses	6,586	-
Adjusted EBITDA/(adjusted EBITDA loss)	175,678	(132,699)

⁶ Investment returns include bank interest income, dividend and investment income from other financial assets, interest income from other financial assets and loss/(gain) on disposal of other financial assets.

Management's Discussion and Analysis

BUSINESS REVIEW

When we announced the 2019 interim results on 29 August 2019, in the Chairman's Statement under the sub-header "Striking for Breakeven", we mentioned that we would be able to achieve an EBITDA breakeven by end of 2021 if we could manage to:

- (1) increase gross profit margin and blended commission rate to 25.0%;
- (2) lower the fulfilment costs as a % of GMV on completed orders to 13.5% or below when having an average daily orders of 25,000 orders per day; and
- (3) stabilize the fixed operating costs for the platform.

Thanks to everyone's effort, we overachieved the above target in 1H2020, and probably HKTVmall is one of the leading eCommerce players in the world with the shortest history to turn net profit in just five years' time. While the past six months were challenging for most of the local and global retailers and corporates, we managed to respond to the accelerated growth on the eCommerce business from the continued momentum brought forward from 2019 and also the increased demand amid the COVID-19 pandemic. With the substantial increase in GMV on order intake by 113.6% comparing to 1H2019, the successful increment in gross profit margin and blended commission rate to 24.8% (1H2019: 21.2%) and the high efficiency gain on logistics and fulfilment operations pushing down the cost ratio to 11.4% of GMV on completed orders (1H2019: 15.9%), we bypassed the EBITDA breakeven target and reached a net profit of HK\$109.3 million in 1H2020.

Apart from financial achievement, we also had significant improvement on certain key operational matrices as summarised below which have contributed to the financial success in 1H2020, as well as the sustainability of the eCommerce adoption in Hong Kong retail sector.



⁷ Monthly active user data is extracted from Google Analytics and rounded to the nearest thousand, the computation method and basis of which have not been verified. The data could be overlapping:

- (a) between App users and Web users - if the same user uses the HKTVmall App and uses other device(s) for browsing the HKTVmall web-page at the same time;
- (b) for Web users - if the same device is used to browse the HKTVmall web-page through different browsers or if the user uses incognito mode to browse the HKTVmall web-page; and
- (c) for App users - if the user re-installs the HKTVmall App on the same device or amends the advertising ID of its device in the same month.

The information for the same period can be changed at different points of time when capturing the data as Google Analytics performs the analysis on a sampling basis. According to Google Analytics, "Active User" is defined as the unique user who initiated sessions on the website or App within the selected date range. The above data are unaudited and are not indicative of the Company's business performance, financial condition or growth prospect. Readers should not place reliance on these data.

Management's Discussion and Analysis

Expansion on Gross Profit Margin and Blended Commission Rate

Embraced by the continued growth in groceries demand which brought to us larger purchase volume rebate, and the new standardized merchant categorical commission and annual fee scheme effective from 1 January 2020, the gross margin on direct merchandise sales and the blended commission rate from merchant concessionaire sales and other service income had a decent improvement in 1H2020 with details as below:

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 2020	For the six months ended 30 June 2019
On completed orders and on adjusted basis⁸		
Direct merchandise sales		
GMV on completed orders ^{8,9}	939,411	500,033
Cost of inventories	(676,483)	(375,485)
Gross profit	262,928	124,548
Gross profit margin	28.0%	24.9%
Income from concessionaire sales and other service income		
GMV on completed orders ⁸	1,749,896	734,594
Merchant payments (net off by other service income)	(1,346,737)	(597,277)
Income from concessionaire sales and other service income ¹⁰	403,159	137,317
Blended commission rate	23.0%	18.7%
Total GMV on completed orders⁸	2,689,307	1,234,627
Total gross profit and income from concessionaire sales and other service income^{9,10}	666,087	261,865
Total gross profit margin and blended commission rate	24.8%	21.2%
Net advertising income and licensing of programme rights		
Net advertising income	9,950	1,868
Other programme license income	173	1,825
	10,123	3,693

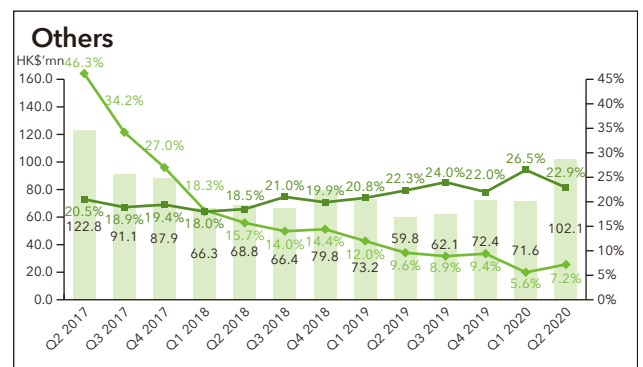
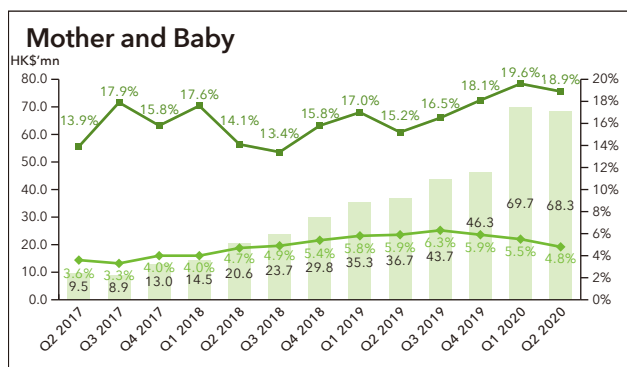
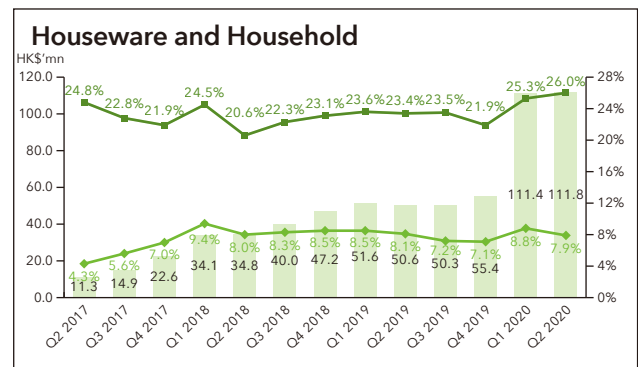
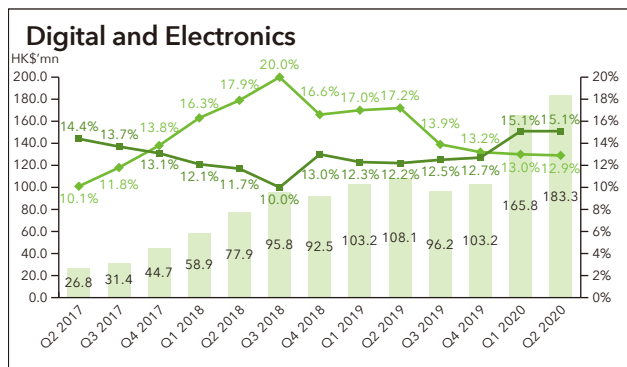
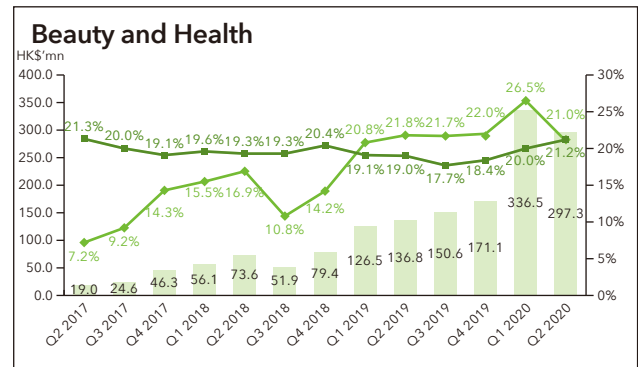
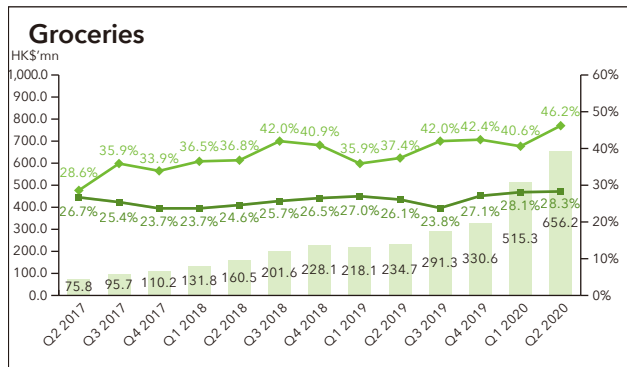
⁸ GMV on completed orders represents the total gross sales dollar value for merchandise sold through a particular marketplace and the customer has obtained control of the promised goods and services ordered over a certain time frame, after deduction of any discounts offered by the marketplace, cancellation 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.

⁹ For direct merchandise sales, the GMV on completed orders is before the deduction of HKTVmall Dollars and use of promotional coupon of HK\$14,122,000 (for the six months ended 30 June 2019: HK\$15,940,000).

¹⁰ For income from concessionaire sales and other service income, it is before the addition of net HKTVmall Dollars of HK\$1,411,000 (for the six months ended 30 June 2019: HK\$444,000) and included merchant annual fee amortisation and other service income.

Management's Discussion and Analysis

On product category basis, the gross profit margin and blended commission rate is also on increasing trend in 1H2020 as below:

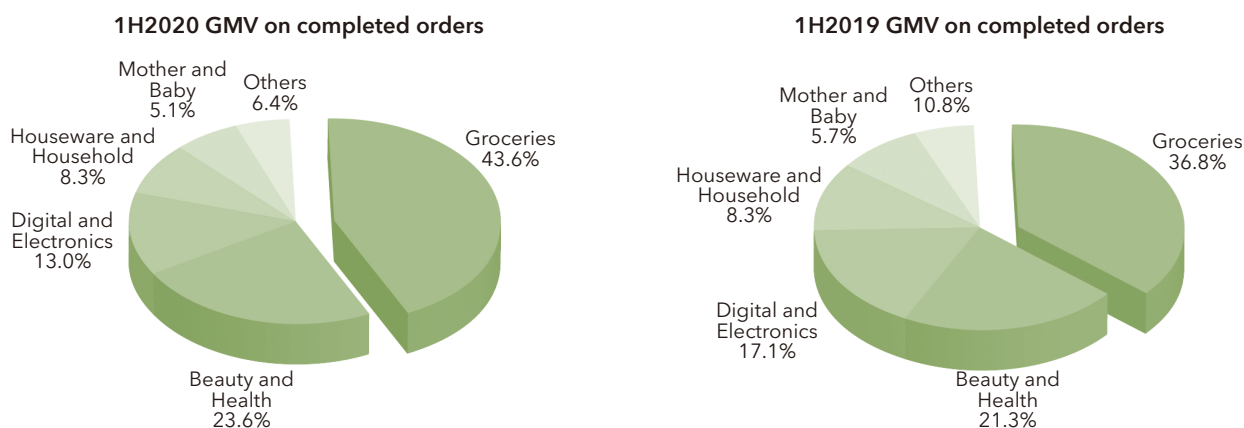


- ◆ Quarterly proportion of GMV on completed orders
- Quarterly gross profit margin and blended commission rate
- Quarterly GMV on completed orders

Management's Discussion and Analysis

Product categories distribution and GMV growth parameters

On product categories mix, Groceries continued as the largest contributor to GMV on completed orders and accounted for 43.6% (1H2019: 36.8%), Beauty and Health ranked the second and contributed to 23.6% (1H2019: 21.3%) and Digital and Electronics ranked the third and contributed to 13.0% (1H2019: 17.1%).



The features such as new customer acquisition entrance point, recurring purchase catalyst and foundation for product categories cross-selling have caused an increase in proportion of Groceries during 1H2020. On the other hand, various marketing and promotional campaigns were held during 1H2020 to boost GMV growth, in particular the May 2020 Thankful Festival, which we proactively engaged 80 branded retailers to join an O2O Partnership Trial Program to widen the product spectrum offered at HKTVmall and also enabled their experience on end-to-end online retail - this program has set the cornerstone at HKTVmall to the upcoming street designated for branded stores. Other than this, HKTVmall's 5th anniversary campaign in March 2020 and the Mid-year Big Sales in June 2020 also drove additional traffic and transactions in 1H2020.

The average purchase frequency per customer has increased to 4.53x in Q2 2020 versus 3.03x in Q2 2019, and the average main categories purchased per customer also increased from 2.52 main categories in Q2 2019 to 3.09 in Q2 2020. This is a very encouraging trend in offline-to-online conversion as well as a direction for frequent online shopping habit with customers shopping for increasing product categories at HKTVmall.

Innovative DNA and Future-Proof Automation

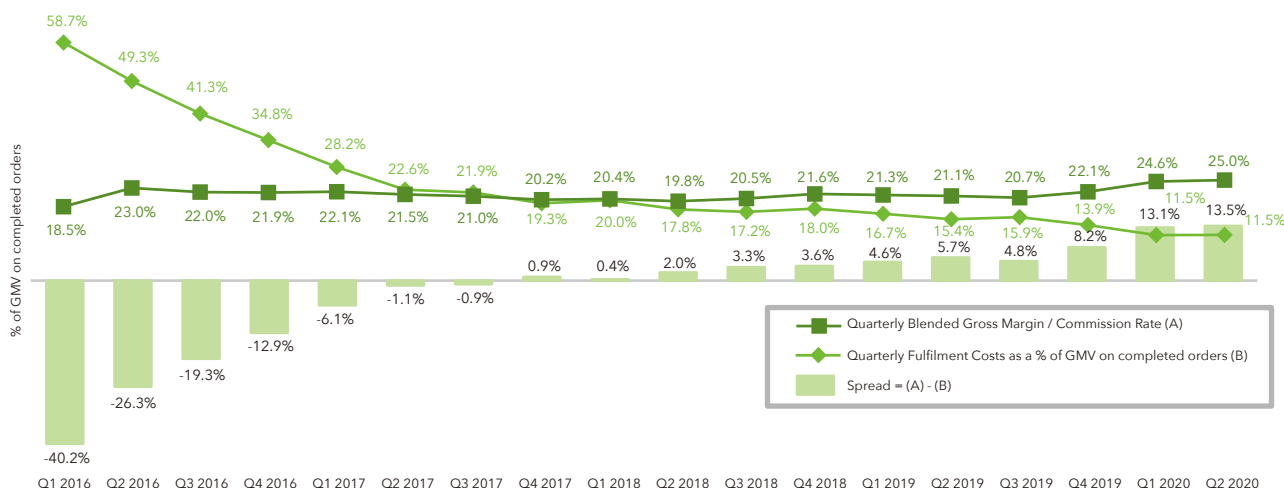
There is no doubt that "Innovation" and "Technology" is our DNA to grow and to succeed which was implanted in us 25 years ago. The successful turnaround during 1H2020 was not attained easily, it was largely contributed by our consistent belief on forward-looking and future-proof innovation as well as being socially responsible in building a digital ecosystem in Hong Kong so as to turn Hong Kong into a smarter city.

Increasing consumer enthusiasm towards online retail has accelerated the demand on eCommerce and being the largest online shopping mall in Hong Kong, our investment in innovation and technology has sailed us through opportunities and challenges brought by the surge in order intake.

If we did not have the belief and determination that innovation and technology is the only way to win the eCommerce battlefield, we might not have started the automation projects on logistics and fulfilment in 2016 when we were suffering significant net loss of HK\$257.1 million. If we did not develop and launch the automated picking and warehousing system for warehouse groceries products, cross-belt sorter system for handling merchant parcels and the delivery route planning system to optimise the last mile efficiency during 2018 - 2020, we would not have the capacity to take up the opportunities when the retail landscape is being redefined from offline to online and not able to fulfill the expedited growth in order intake from average daily orders of 15,000 in June 2019, to 18,700 in December 2019, to 29,800 in June 2020 and to the latest record high of 36,300 orders in July 2020.

Management's Discussion and Analysis

Our quarterly last mile fulfilment ratio (include HKTVMall delivery and shop pick up only) on order intake was 99.4% in Q2 2020 versus 97.6% in Q2 2019. The improved performance was largely contributed by the logistics and fulfilment team's effort aided by different automation systems. On overall basis, our quarterly fulfilment costs as a % of GMV on completed orders¹¹ decreased consistently, in particular, with cross-belt sorter system launched in February 2020 and the economy of scale gained from increased number of orders, it dropped from 13.9% in Q4 2019 to 11.5% in Q2 2020, a decent decrease by 2.4%. In medium term, we target to maintain this ratio in the range of 11.0% to 12.0% subject to the absorption of fixed operating costs for new fulfilment capacity and order intake growth overtime.



Other than automation, during 1H2020, to cope with the significant increase in orders, we adopted a couple of measures to increase the fulfilment capacity and options to our customers. Firstly, we ramped up the fulfilment and logistics capacity significantly to enable HKTVMall to serve as many loyal and vulnerable customers as possible. Since mid-February 2020, together with outsourced partnership, we maintain a capacity of around 300 - 400 delivery trucks for operation. Secondly, apart from the partnership with Foodwise in December 2019, starting from February 2020, we extended the collaboration with a number of well-known retail chains including Baleno, CATALO, GIORDANO and Hung Fook Tong to have their outlets serving as new pick up points for HKTVMall orders. Together with 68 HKTVMall O2O stores in June 2020, we have more than 100 pick-up points to fulfill customer orders.

In mid-June 2020, we formally launched the Citi HKTVMall cobrand credit card which shall form the foundation of the upcoming HKTVMall e-Wallet with first phase to be launched in Q3-Q4 2020.

Overall, we build our business specifically for the change of consumer shopping behavior and to lead the online revolution for the retail operators. For the period under review, encouraging progress was received by having 813,000 unique customers in 1H2020 and more than 3,700 merchants and suppliers partnering with HKTVMall. We hold the belief that the sales channel shifts towards online is a natural trend and is sustainable given the redrawing of the retail landscape globally including Hong Kong in the past 6 - 12 months. At HKTVMall, we shall continue to solidify and expand our business through innovation to enable Hong Kong to become a smarter city.

¹¹ Quarterly Fulfilment Costs as a % of GMV on completed orders included the interest on lease liabilities under HKFRS 16 in relation to fulfilment centers, which is included in finance costs in the consolidated income statement.

Management's Discussion and Analysis

FINANCIAL REVIEW

During the period under review, COVID-19 pandemic has created unprecedented challenges for the retail sector, however, the surge in online traffic and business volume arising from the increasing consumer enthusiasm towards online retail has enhanced the Group's business growth in eCommerce business performance – in 1H2020 the Group recorded a 117.8% growth on GMV on completed orders reaching HK\$2,689.3 million (1H2019: HK\$1,234.6 million), almost equivalent to what we achieved in FY2019 of HK\$2,707.8 million.

In 1H2020, the Group's turnover increased by 114.2% to HK\$1,340.0 million (1H2019: HK\$625.5 million) which is composed of HK\$925.3 million from direct merchandise sales (1H2019: HK\$484.1 million), HK\$404.6 million from concessionaire sales and other service income (1H2019: HK\$137.8 million), HK\$10.1 million from net advertising income and licensing of programme rights (1H2019: HK\$3.7 million).

With the 91.1% strong growth in direct merchandise sales, the cost of inventories increased to HK\$676.5 million in 1H2020 (1H2019: HK\$375.5 million), representing an 80.2% increase.

In 1H2020, other operating expenses increased by HK\$135.5 million to HK\$575.0 million as compared with HK\$439.5 million incurred in 1H2019, nevertheless, as a percentage of GMV on completed orders, it has a significant decrease from 35.6% in 1H2019 to 21.4% in 1H2020. The breakdown is as below:

	1H2020		1H2019	
	HK\$ million	As a % of GMV on completed orders	HK\$ million	As a % of GMV on completed orders
Fulfilment costs (note 1)	306.6	11.4%	196.6	15.9%
Marketing, promotional and O2O shop operating expenses (note 2)	66.4	2.5%	75.1	6.1%
eCommerce operation and supporting functions	136.6	5.1%	118.1	9.6%
Major non-cash items (note 3)	65.4	2.4%	49.7	4.0%
	575.0	21.4%	439.5	35.6%

Notes:

1. Included depreciation – right-of-use assets of HK\$20.9 million (1H2019: HK\$12.7 million), excluded interest on lease liabilities of HK\$3.0 million (1H2019: HK\$1.5 million).
2. Excluded HKTVMall Dollars and promotional coupon of HK\$12.7 million (1H2019: HK\$15.5 million) being deducted in turnover, included depreciation – right-of-use assets of HK\$21.2 million (1H2019: HK\$16.7 million), and excluded interest on lease liabilities of HK\$1.3 million (1H2019: HK\$1.0 million).
3. Excluded depreciation – right-of-use assets of HK\$42.1 million (1H2019: HK\$29.4 million).

- (1) **Fulfilment costs** incurred for warehousing and logistics functions including shop pick up costs allocation. Operational efficiency keep improving mainly attributed to the full period benefit from the launch of automated picking and warehousing system at Tseung Kwan O Headquarters in March 2019, the launch of cross-belt sorter system located in Tuen Mun fulfilment centre in February 2020 as well as the efficiency gained from the increase in average daily orders from 13,400 in 1H2019 to 29,700 in 1H2020.

This automatic sorter system has lifted substantial productivity issues due to manpower, and increased accuracy of order processing. This sorter system is designed to handle throughputs around 13,000 parcels per hour on average and to sort a wide range of products from large parcels down to loose items to different delivery points, which in the past, was handled entirely by manual process.

Management's Discussion and Analysis

As a result, the total fulfilment costs as a percentage of GMV on completed orders decreased from 15.9% in 1H2019 to 11.4% in 1H2020.

- (2) **Marketing, promotional and O2O shop operating expenses** in 1H2020 included digital marketing, promotional coupons and HKTVmall dollar grant, promotional leaflet, O2O shop running and marketing costs, etc., and all related functions' Talent costs. Given the boost on consumer preferences for online shopping during the period, we incurred less digital advertising expenses on new customer acquisition but invested the resources on driving repeated purchases in terms of more product categories, increasing basket size and more frequent purchases. Moreover, the Group did not incur any TV commercial advertising and also reduced out-of-pocket digital advertising expenses due to increased third party digital advertising credit paid by merchants and suppliers. Increase in shop pick up orders also increased the recharge to fulfilment expenses.

The above factors have consequentially led to a 3.6% drop to 2.5% of GMV on completed orders in 1H2020. If including the HK\$12.7 million (1H2019: HK\$15.5 million) mall dollars granted and promotional coupons used which was deducted in the turnover, the total expenses accounted for 2.9% of GMV on completed orders (1H2019: 7.3%).

- (3) **eCommerce operation and supporting costs** includes payment processing charges, merchant relations and acquisition, customer service, information technology, and other supporting functions. There was a continued efficiency improvement during the period in which the eCommerce operation and supporting costs decreased from 9.6% of GMV on completed orders in 1H2019 to 5.1% in 1H2020. The increase in absolute costs of HK\$18.5 million was mainly for the increase in payment processing charges which was in line with the significant growth in GMV during the period under review.
- (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\$9.2 million increase in depreciation on property, plant and equipment (excluded depreciation on right-of-use assets) mainly due to the full period depreciation effect for the launch of automated picking and storage system in Tseung Kwan O headquarters in March 2019, the depreciation of cross-belt sorter system in Tuen Mun distribution centre launched in February 2020, and the renovation, furniture and equipment costs for the newly launched O2O shops during 1H2020. Moreover, there was equity-settled share-based expenses of HK\$6.6 million recorded in 1H2020 while there was nil in 1H2019.

During 1H2020, a valuation loss on investment properties of HK\$4.4 million (1H2019: gain of HK\$5.9 million) was recognised based on the valuation carried out by an independent firm of surveyors.

Other income, net, of HK\$31.5 million was earned in 1H2020 (1H2019: HK\$32.6 million), which mainly composed of government subsidies recognised during the period of HK\$16.3 million (1H2019: nil), investment returns generated from other financial assets and bank deposits of HK\$16.2 million (1H2019: HK\$18.9 million), rental income from investment properties of HK\$11.9 million (1H2019: HK\$11.9 million), offset by the unrealised fair value loss on units in investment funds measured at FVPL of HK\$5.9 million (1H2019: gain of HK\$3.1 million), provision for expected credit losses on debit securities measured at FVOCI of HK\$5.1 million (1H2019: HK\$0.6 million), and net exchange loss of HK\$2.6 million (1H2019: HK\$1.3 million).

The decrease in bank interest income and returns from investment in other financial assets of HK\$2.7 million was mainly due to the realisation of a portion of the investment portfolio to reduce the market and financial risk exposure on investment.

Finance costs is mainly composed of interest on bank loans of HK\$1.9 million (1H2019: HK\$1.6 million) and interest on lease liabilities of HK\$4.3 million (1H2019: HK\$2.5 million).

Overall, the Group generated a net profit of HK\$109.3 million in 1H2020 relative to a net loss of HK\$155.4 million in 1H2019. If excluding interest on bank loans, income tax expenses, depreciation of property, plant and equipment (excluded depreciation on right-of-use assets of HK\$42.1 million (1H2019: HK\$29.4 million)), amortisation of intangible assets, investment returns and major non-cash items ("adjusted EBITDA"), the Group achieved an adjusted EBITDA of HK\$175.7 million in 1H2020 versus adjusted EBITDA loss of HK\$132.7 million in 1H2019.

Management's Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2020, the Group has a net liquidity position of HK\$1,091.3 million (31 December 2019: HK\$394.2 million) composed of investment in other financial assets, cash at bank and in hand, pledged deposit, net of bank loans (if any).

The Group had total cash position of HK\$669.4 million represented cash at bank and in hand (31 December 2019: HK\$149.7 million) and no outstanding bank loans (31 December 2019: HK\$315.0 million was drawn investment yield enhancement purpose). The increase in total cash position was mainly due to the cash inflow generated from operating activities of HK\$340.1 million, the net realisation from investment portfolio of HK\$112.9 million, net investment income received of HK\$18.2 million, net proceeds of HK\$453.3 million from issuance of new shares for exercised share options and placing and subscription during the period, proceeds received from disposal of property, plant and equipment of HK\$0.5 million, partially net off by the capital and interest element of lease rentals of HK\$44.1 million, payment made for purchases of property, plant and equipment of HK\$43.3 million, net bank loan repayment of HK\$315.0 million and interest paid on bank loans of HK\$2.9 million.

On investment in other financial assets, the Group has invested, at fair value, of HK\$418.0 million as at 30 June 2020 (as at 31 December 2019: HK\$555.6 million) and there was a net deficit of HK\$1.6 million being recorded in fair value reserve (non-recycling and recycling) (31 December 2019: a revaluation surplus of HK\$8.2 million). During the period under review, the total fair value change on other financial assets (after netting of expected credit losses recognised) amounted to deficit of HK\$20.8 million (31 December 2019: surplus of HK\$23.3 million), in which deficit of HK\$11.0 million (31 December 2019: deficit of HK\$0.3 million), deficit of HK\$3.3 million (31 December 2019: surplus of HK\$19.4 million) and deficit of HK\$6.5 million (31 December 2019: surplus of HK\$4.2 million) was recorded in profit or loss, fair value reserve (recycling) and fair value reserve (non-recycling) respectively.

Moreover, as at 30 June 2020 and 31 December 2019, 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 2020, the Group has not utilised any (31 December 2019: utilised HK\$315.0 million mainly for investment yield enhancement purpose) uncommitted banking facilities, leaving HK\$934.9 million (31 December 2019: HK\$624.9 million) uncommitted banking facilities available for future utilisation.

The debt maturity profiles of the Group as of 30 June 2020 and 31 December 2019 were as follows:

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Repayable within one year	-	315,015

Management's Discussion and Analysis

The Group was in a net cash position as of 30 June 2020 and hence no gearing ratio was presented. As at 31 December 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 31 December 2019 was 0.11 times. The Directors are 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 its financial obligations as and when they fall due.

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Net Debt (note (a))	-	(165,302)
Net Assets	2,011,004	1,451,608
Gearing (times)	-	0.11

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

During 1H2020, the Group invested HK\$43.3 million on capital expenditure included deposits paid versus HK\$57.5 million in 1H2019. The capital expenditure for 1H2020 was mainly incurred for balance payment of cross-belt sorter system located in Tuen Mun distribution centre, additional delivery trucks, new O2O shops opening, warehouse equipment and 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.

Fund raising activity

For the purpose of strengthening the Group's financial position and the medium term funding of its expansion and growth plan, 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 ordinary shares of the Company to not less than six independent placees at HK\$5.15 per share (the "Placing"), and the Vendor agreed to subscribe for 90,000,000 new ordinary shares of the Company (the "Subscription Shares") at HK\$5.15 per share (the "Subscription"). The gross proceeds amounted to approximately HK\$463.5 million and the net proceeds from the Subscription amounted to approximately HK\$453.2 million. The net placing price is approximately HK\$5.03 per share. The Subscription Shares represent approximately 10.96% of the issued share capital of the Company as at the date of the Placing Agreement and the Subscription Agreement and approximately 9.88% of the issued share capital of the Company as enlarged by the Subscription. The Subscription Shares have a market value of approximately HK\$540.9 million based on the closing price of the shares as at 11 February 2020.

The Company intends to use the net proceeds from the Subscription for (1) expansion of the eCommerce and related business of the Group; and (2) as general working capital, which is consistent with the intentions disclosed in the Company's announcements dated 12 February 2020 and 24 February 2020. Details of the use of net proceeds are as follows:

Management's Discussion and Analysis

Intended use of net proceeds	Amount intended to be utilised HK\$ million	Amount utilised as at 30 June 2020 HK\$ million	Expected timeline of utilisation
Expansion of the eCommerce and related business of the Group:			
(i) Expansion of e-fulfilment centre at Tseung Kwan O Headquarters	200	-	By the end of 2022
(ii) Adding the 6th fulfilment centre	40	-	By the end of 2021
(iii) Adding around 200 to 250 delivery trucks	around 90 to 110	-	By the end of 2023
(iv) Upgrading computer hardware and software	50	-	By the end of 2023
General working capital of the Group	around 53.2 to 73.2	-	By the end of 2023
Total	453.2	-	

Charge on Group Assets

As of 30 June 2020, the Group's banking facilities of HK\$934.9 million were secured by the Group's other financial assets of HK\$418.0 million and cash of HK\$183.3 million held by various banks. Moreover, as of 30 June 2020 and 31 December 2019, 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 and Renminbi. 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. In order to limit this exchange rate risk, the Group closely monitors Renminbi exposure to an acceptable level by buying or selling foreign currencies at spot rates where necessary.

Contingent Liabilities

As of 30 June 2020 and 31 December 2019, the Group had no material contingent liabilities or off-balance-sheet obligations.

Management's Discussion and Analysis

PROSPECTS

With the "Innovative" DNA, HKTv is a technology partner rather than a retailer for consumer market. As we mentioned in the past few years, HKTv's mission is "to build a digital ecosystem to transform Hong Kong business operations, trading, retail, finance and daily life onto a digital online platform." In the coming months, to actualise this mission, we are going to launch by phases a few digital projects including Open Data Bank, Open Landing Page and eWallet with the purposes and benefits mentioned in the Chairman's Statement in details. All these initiatives shall bring HKTvmall closer to completing a digital ecosystem.

When building the digital ecosystem, our philosophy is to build the core to business by ourselves - when we can build, we will build the proprietary infrastructure either by ourselves from the scratch or we build by learning from our development partners over time. In this regard, in the past 5 years, we groomed and expanded our technical development team that developed almost all of the software, from effective user interface for web and mobile app, order management system, merchant management system, warehouse management, multiple order-picking solutions to delivery route planning and optimisation tool. We have built a leading edge end-to-end eCommerce solution with proprietary knowhow which made HKTvmall an eCommerce Enabler to local retailers, consumers, academic, researchers, tech developers, etc.. By owning the proprietary systems and having the proven success in the Hong Kong eCommerce battlefield, we have the capability to expand ourselves to becoming a solution provider to global retail operators who wish to go digital. This will be an exciting potential business opportunity extending from the core eCommerce business to beyond the geographical boundaries.

On our core eCommerce business, while we had an encouraging GMV on order intake recorded in 1H2020, management expects the performance for 2H2020 shall be similar or slightly better than 1H2020 in the range of HK\$2.8 billion to HK\$3.0 billion, making a full year estimate on HK\$5.55 billion to HK\$5.75 billion.

TALENT REMUNERATION

Including the Directors, as at 30 June 2020, the Company had 1,555 permanent full-time Talents versus 1,238 as at 31 December 2019. 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 the share option schemes.

Unaudited Consolidated Income Statement

For the six months ended 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Six months ended	
		30 June 2020 HK\$'000	30 June 2019 HK\$'000
Turnover	3	1,339,982	625,547
Direct merchandise sales	3	925,289	484,093
Cost of inventories		(676,483)	(375,485)
		248,806	108,608
Income from concessionaire sales and other service income	3	404,570	137,761
Net advertising income and licensing of programme rights	3	10,123	3,693
Valuation (losses)/gains on investment properties	10	(4,400)	5,850
Other operating expenses		(574,950)	(439,469)
Other income, net	4	31,530	32,641
Finance costs	5(a)	(6,260)	(4,247)
Profit/(loss) before taxation	5	109,419	(155,163)
Income tax expense	7	(142)	(228)
Profit/(loss) for the period		109,277	(155,391)
Earnings/(loss) per share	9		
Basic		HK\$0.12	HK\$(0.19)
Diluted		HK\$0.12	HK\$(0.19)

The notes on pages 27 to 39 form part of this interim financial report.

Unaudited Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020 (Expressed in Hong Kong dollars)

	Note	Six months ended	
		30 June 2020 HK\$'000	30 June 2019 HK\$'000
Profit/(loss) for the period		109,277	(155,391)
Other comprehensive income for the period	6		
<i>Item that will not be reclassified to profit or loss:</i>			
Equity instruments designated at fair value through other comprehensive income			
- net movement in fair value reserve (non-recycling)		(6,477)	3,741
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of financial statements of an overseas subsidiary		(4)	(24)
Debt securities measured at fair value through other comprehensive income			
- net movement in fair value reserve (recycling)		(3,309)	19,281
Other comprehensive income for the period		(9,790)	22,998
Total comprehensive income for the period		99,487	(132,393)

The notes on pages 27 to 39 form part of this interim financial report.

Unaudited Consolidated Statement of Financial Position

As at 30 June 2020 (Expressed in Hong Kong dollars)

	Note	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Non-current assets			
Property, plant and equipment	10	1,373,113	1,409,816
Intangible assets	11	66,292	72,826
Goodwill		897	897
Long-term receivables, deposits and prepayments		29,856	24,658
Other financial assets	12	349,760	472,284
		1,819,918	1,980,481
Current assets			
Other receivables, deposits and prepayments		97,436	90,121
Inventories		119,568	95,763
Other current financial assets	12	68,247	83,268
Pledged bank deposit		3,905	3,905
Cash at bank and in hand		669,371	149,713
		958,527	422,770
Current liabilities			
Accounts payable	13	242,808	168,718
Other payables and accrued charges	13	261,124	177,799
Deposits received		5,757	5,757
Bank loans	14	-	315,015
Tax payable		481	237
Lease liabilities		90,931	86,358
		601,101	753,884
Net current assets/(liabilities)		357,426	(331,114)
Total assets less current liabilities		2,177,344	1,649,367
Non-current liabilities			
Deferred tax liabilities	16	1,086	1,188
Lease liabilities		165,254	196,571
		166,340	197,759
NET ASSETS		2,011,004	1,451,608
CAPITAL AND RESERVES			
Share capital	17	1,746,761	1,293,392
Reserves		264,243	158,216
TOTAL EQUITY		2,011,004	1,451,608

The notes on pages 27 to 39 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020 (Expressed in Hong Kong dollars)

Note	Attributable to equity shareholders of the Company								
	Share capital HK\$'000	(Accumulated losses)/ 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 2020	1,293,392	(60,021)	183,338	5,499	2,710	(73)	28,589	(1,826)	1,451,608
Changes in equity for the six months ended 30 June 2020:									
Profit for the period	-	109,277	-	-	-	-	-	-	109,277
Other comprehensive income	6	-	-	(3,309)	(6,477)	(4)	-	-	(9,790)
Total comprehensive income	-	109,277	-	(3,309)	(6,477)	(4)	-	-	99,487
Shares issued under share option scheme	17	162	-	-	-	-	(46)	-	116
Issuance of new shares	17	453,207	-	-	-	-	-	-	453,207
Equity-settled share-based transactions	15	-	-	-	-	-	6,586	-	6,586
Share options cancelled reclassified to retained profits	-	35	-	-	-	-	(35)	-	-
Balance at 30 June 2020	1,746,761	49,291	183,338	2,190	(3,767)	(77)	35,094	(1,826)	2,011,004

Note	Attributable to equity shareholders of the Company								
	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 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 under share option scheme	17	3,718	-	-	-	-	(1,057)	-	2,661
Share options forfeited reclassified to retained profits	15	-	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

The notes on pages 27 to 39 form part of this interim financial report.

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2020 (Expressed in Hong Kong dollars)

	Six months ended	
	30 June 2020 HK\$'000	30 June 2019 HK\$'000
Profit/(loss) before taxation	109,419	(155,163)
Valuation losses/(gains) on investment properties	4,400	(5,850)
Equity-settled share-based payment expenses	6,586	-
Depreciation	91,541	69,660
Amortisation of intangible assets	6,534	8,203
Interest income from other financial assets	(11,162)	(16,477)
Provision of expected credit losses on debt securities measured at fair value through other comprehensive income ("FVOCI")	5,090	553
Changes in working capital	117,894	29,598
Others	9,760	(1,979)
Net cash generated from/(used in) operating activities	340,062	(71,455)
Investing activities		
Payment for the purchase of other financial assets	-	(3,446)
Proceeds received from disposal of other financial assets	112,919	9,354
Proceeds received from maturity of debt securities	-	7,832
Payment for the purchase of property, plant and equipment	(43,294)	(57,451)
Proceeds received from disposal of property, plant and equipment	539	-
Others	18,183	19,620
Net cash generated from/(used in) investing activities	88,347	(24,091)
Financing activities		
Capital element of lease rentals paid	(39,892)	(21,185)
Interest element of lease rentals paid	(4,257)	(2,482)
Net proceeds from new bank loans	-	73,720
Net repayments of bank loans	(315,015)	-
Net proceeds from issuance of new shares	453,207	-
Proceeds from shares issued under share option scheme	116	2,661
Interest paid on bank loans	(2,871)	(1,525)
Net cash generated from financing activities	91,288	51,189
Net increase/(decrease) in cash and cash equivalents	519,697	(44,357)
Cash and cash equivalents at 1 January	149,713	105,901
Effect of foreign exchange rate changes	(39)	(8)
Cash and cash equivalents at 30 June	669,371	61,536

The notes on pages 27 to 39 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

This unaudited interim financial report of Hong Kong Television Network Limited (the “Company”) and its subsidiaries (the “Group”) 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”). It was authorised for issue on 27 August 2020.

The unaudited interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an unaudited interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This unaudited interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 40 of this interim financial report. In addition, this interim financial report has been reviewed by the Company’s Audit Committee.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report 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 2019 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has 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.

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 2020 HK\$'000	30 June 2019 HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by nature		
- Direct merchandise sales	925,289	484,093
- Income from concessionaire sales and other service income	404,570	137,761
- Net advertising income and licensing of programme rights	10,123	3,693
	1,339,982	625,547
Disaggregated by timing of revenue recognition		
- Point in time	1,321,389	624,470
- Over time	18,593	1,077
	1,339,982	625,547

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.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

4 OTHER INCOME, NET

	Six months ended	
	30 June 2020 HK\$'000	30 June 2019 HK\$'000
Bank interest income	2,583	53
Dividend and investment income from other financial assets	2,910	2,252
Interest income from other financial assets	11,162	16,477
(Loss)/gain on disposal of other financial assets	(499)	85
Unrealised fair value (loss)/gain on units in investment funds measured at fair value through profit or loss ("FVPL")	(5,908)	3,119
Provision of expected credit losses on debt securities measured at FVOCI	(5,090)	(553)
Rentals from investment properties	11,887	11,887
Net exchange loss	(2,559)	(1,304)
Government subsidies	16,266	-
Others	778	625
	31,530	32,641

5 PROFIT/(LOSS) BEFORE TAXATION

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

	Six months ended	
	30 June 2020 HK\$'000	30 June 2019 HK\$'000
(a) Finance costs		
Interest on bank loans	1,855	1,634
Interest on lease liabilities	4,257	2,482
Bank charges	148	131
	6,260	4,247
(b) Other items		
Advertising and marketing expenses (excluding HK\$12,711,000 (six months ended 30 June 2019: HK\$15,496,000) being deducted in turnover)	22,873	40,186
Depreciation (Note 10)		
- owned property, plant and equipment	49,483	40,272
- right-of-use assets	42,058	29,388
Amortisation of intangible assets	6,534	8,203
Gain on disposal of property, plant and equipment	(24)	(62)
(c) Talent costs		
Wages and salaries	254,676	183,001
Retirement benefit costs-defined contribution plans	9,922	7,571
Equity-settled share-based payment expenses	6,586	-
	271,184	190,572

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

6 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to other comprehensive income

	Six months ended					
	30 June 2020			30 June 2019		
	Before-tax amount HK\$'000	Tax expense HK\$'000	Net-of-tax amount HK\$'000	Before-tax amount HK\$'000	Tax expense HK\$'000	Net-of-tax amount HK\$'000
Equity instruments designated at FVOCI - net movement in fair value reserve (non-recycling)	(6,477)	-	(6,477)	3,741	-	3,741
Exchange difference on translation of financial statements of an overseas subsidiary	(4)	-	(4)	(24)	-	(24)
Debt securities measured at FVOCI - net movement in fair value reserve (recycling)	(3,309)	-	(3,309)	19,281	-	19,281
Other comprehensive income	(9,790)	-	(9,790)	22,998	-	22,998

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

	Six months ended	
	30 June 2020 HK\$'000	30 June 2019 HK\$'000
Equity instruments designated at FVOCI - net movement in fair value reserve (non-recycling):		
- Changes in fair value recognised during the period	(6,477)	3,741
Debt securities measured at FVOCI - net movement in fair value reserve (recycling):		
- Changes in fair value recognised during the period	(8,898)	18,813
- Reclassified to profit or loss upon disposal	499	(85)
- Reclassified to profit or loss for provision of expected credit loss	5,090	553
	(3,309)	19,281

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

7 INCOME TAX EXPENSE

The provision for Hong Kong Profits Tax to the six months ended 30 June 2020 is calculated at 16.5% of the estimated assessable profits for the period, 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\$2,000,000 of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5% for the six months ended 30 June 2020.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements for the six months ended 30 June 2019 as the Group has sustained a loss for taxation purpose.

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

	Six months ended	
	30 June 2020 HK\$'000	30 June 2019 HK\$'000
Current taxation		
Hong Kong Profits Tax	(244)	-
Deferred taxation		
Origination and reversal of temporary differences	102	(228)
	(142)	(228)

8 DIVIDENDS

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30 June 2020. No final dividend was declared for the year ended 31 December 2019.

9 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the profit for the period of HK\$109,277,000 (six months ended 30 June 2019: loss for the period of HK\$155,391,000) and the weighted average of 884,093,000 ordinary shares (six months ended 30 June 2019: 814,641,000 shares) in issue during the period.

The calculation of diluted earnings per share for the period ended 30 June 2020 is based on the profit for the period of HK\$109,277,000 and the weighted average number of ordinary shares of 901,701,000, after adjusting for the effect of dilutive potential ordinary shares under share option scheme during the period.

The diluted loss per share for the period ended 30 June 2019 was 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

10 PROPERTY, PLANT AND EQUIPMENT

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
At the beginning of the period/year	1,409,816	1,239,403
Additions	59,753	325,612
Disposals	(515)	(61)
Valuation (losses)/gains on investment properties (note (a))	(4,400)	750
Depreciation charge	(91,541)	(155,888)
At the end of the period/year	1,373,113	1,409,816

Note:

- (a) All investment properties of the Group were revalued as at 30 June 2020 by direct comparison approach determined by reference to recent sales price of comparable properties on a price per square feet basis using market data which is publicly available. The valuations were carried out by an independent firm of surveyors, CBRE Limited, who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

During the six months ended 30 June 2020, the Group entered into a number of lease agreements for use of retail stores, and therefore recognised the additions to right-of-use assets of HK\$13,989,000 (six months ended 30 June 2019: HK\$132,507,000; year ended 31 December 2019: HK\$217,136,000).

The leases of retail stores contain variable lease payment terms that are based on the relevant retail stores' revenue pursuant to the terms and conditions as set out in the respective rental agreements and minimum annual lease payment terms that are fixed.

11 INTANGIBLE ASSETS

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
At the beginning of the period/year	72,826	87,653
Amortisation	(6,534)	(14,827)
At the end of the period/year	66,292	72,826

Intangible assets included the indefeasible right of use in certain capacity of the telecommunications network of the former subsidiary for a term of 20 years, right to use of the telecommunications services from the former subsidiary for a term of 10 years, and merchant relationship and brand name from the acquisition of a subsidiary for terms of 2 years and 1 year respectively.

The amortisation charge for the period is included in "other operating expenses" in the consolidated income statement.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

12 OTHER FINANCIAL ASSETS

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Equity instruments designated at FVOCI (non-recycling)		
- Equity securities	19,858	24,957
- Perpetual bonds	50,645	62,692
	70,503	87,649
Debt securities measured at FVOCI (recycling)		
- Maturity dates within 1 year	68,247	83,268
- Maturity dates over 1 year	213,168	312,069
	281,415	395,337
Units in investment funds measured at FVPL	66,089	72,566
	418,007	555,552
Representing		
- Non-current portion	349,760	472,284
- Current portion	68,247	83,268
	418,007	555,552

All of these financial assets were carried at fair value as at 30 June 2020 and 31 December 2019.

13 ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUED CHARGES

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Accounts payable (note (a))	242,808	168,718
Contract liabilities	66,100	49,349
Other payables and accrued charges (note (b))	195,024	128,450
	261,124	177,799
	503,932	346,517

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

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Current-30 days	235,954	160,452
31-60 days	1,330	2,745
61-90 days	2,788	422
Over 90 days	2,736	5,099
	242,808	168,718

(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 fulfilment expenses and advertising and promotional expenses.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

14 BANK LOANS

As 30 June 2020, the bank loans were repayable as follows:

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Within 1 year	-	315,015

At 30 June 2020, the uncommitted banking facilities of the Group amounted to HK\$934,935,000 (31 December 2019: HK\$939,864,000). These banking facilities were secured by the Group's other financial assets of HK\$418,007,000 (31 December 2019: HK\$555,552,000), bank balances of HK\$183,274,000 (31 December 2019: HK\$38,634,000) and pledged bank deposits of HK\$3,905,000 (31 December 2019: HK\$3,905,000) as at 30 June 2020. The facilities were not utilised as at 30 June 2020 (31 December 2019: utilised balance of HK\$315,015,000).

All of the Group's banking facilities are subject to the fulfilment of covenants as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2020 and 31 December 2019, none of the covenants relating to drawn down facilities had been breached.

At 31 December 2019, the bank loans bore fixed interest rates ranging from 2.8% to 3.2% per annum.

15 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company operates a share option scheme (the "2012 Share Option Scheme") which was adopted by shareholders of the Company on 31 December 2012 whereby the directors may, at their discretion, invite eligible participants to receive options to subscribe for shares subject to the terms and conditions stipulated therein.

Under the 2012 Share Option Scheme, the Company may grant options to Talents (including executive, non-executive and independent non-executive directors), suppliers and professional advisers to subscribe for shares of the Company. The maximum number of options authorised under the 2012 Share Option Scheme may not, when aggregated with any shares subject to any other executive and talent share option scheme, exceed 10% of the Company's issued share capital on the date of adoption. The exercise price of the option is determined by the Company's board of directors at a price not less than the higher of (a) the average closing price of the Company's shares for five trading days preceding the grant date; and (b) the closing price of the Company's shares on the date of grant. The 2012 Share Option Scheme is valid and effective for a ten-year-period up to 30 December 2022 subject to earlier termination by the Company by resolution in general meeting or by the board of directors. The period during which the option may be exercised will be determined by the board of directors at its discretion, save that no option may be exercised after more than ten years from the date of grant.

On 14 January 2020, the Company granted a total of 315,000 share options at exercise price of HK\$3.840 per share to eligible Talent to subscribe for ordinary shares of the Company under the 2012 Share Option Scheme. Such options were granted a 10-year term from the date of grant, among the 315,000 share options, the vesting date is as follows:

- (i) 157,500 of which will vest on 1 January 2021; and
- (ii) 157,500 of which will vest on 1 January 2022.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

15 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

On 27 March 2020, the Company proposed to grant a total of 20,900,000 share options at exercise price of HK\$4.434 per share to eligible Talents to subscribe for ordinary shares of the Company under the 2012 Share Option Scheme, among the 20,900,000 share options, a total of 11,900,000 share options proposed to be granted to two directors were not approved by the independent shareholders at the Annual General Meeting held on 2 June 2020. The remaining 9,000,000 share options granted to the other three directors have a 10-year term from the date of grant, and the vesting date is as follows:

(iii) 4,500,000 of which will vest on 27 March 2021; and

(iv) 4,500,000 of which will vest on 27 March 2022.

In determining the value of the share options granted during the six months ended 30 June 2020, the Black-Scholes option pricing model (the "Black-Scholes Model") has been used. The Black-Scholes Model is one of the most generally accepted methodologies used to calculate the value of options. The variables of the Black-Scholes Model include expected life of the options, risk-free interest rate, expected volatility and expected dividend yield of the shares of the Company.

In determining the value of the share options granted during the six months ended 30 June 2020, the following variables have been applied to the Black-Scholes Model:

	14 January 2020 (vest on 1 January 2021)	14 January 2020 (vest on 1 January 2022)	27 March 2020 (vest on 27 March 2021)	27 March 2020 (vest on 27 March 2022)
Variables				
- Expected life	2 years	1 year	2 years	1 year
- Risk-free rate	1.43%	1.43%	0.61%	0.61%
- Expected volatility	49.09%	53.66%	54.59%	66.81%
- Expected dividend yield	-	-	-	-

The above variables were determined as follows:

- (i) The expected life is estimated to be 1 year to 2 years after the end of the respective vesting period.
- (ii) The risk-free rate represents the yield of the Hong Kong Government Bonds corresponding to the expected life of the option as at the measurement date.
- (iii) The expected volatility represents the annualised standard deviation of the return on the daily share price of the Company over the period commensurate to the expected life of the options (taking into account the remaining contractual life of the option and the effect of the expected early exercise of the option).

The fair value of the options granted during the six months ended 30 June 2020 is estimated as below:

	14 January 2020	27 March 2020
Date of grant		
Fair value per share option	\$0.96	\$1.25

The Group recognises the fair value of share options as an expense in the income statement over the vesting period, or as an asset, if the cost qualifies for recognition as an asset. The fair value of the share options is measured at the date of grant.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

15 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

The Black-Scholes Model applied for the determination of the estimated value of the options granted under 2012 Share Option Scheme requires inputs of highly subjective assumptions, including the expected stock volatility. As the Company's share options have characteristics significantly different from those of traded options, changes in subjective inputs may materially affect the estimated fair value of the options granted.

Total equity-settled share-based payment expenses of HK\$6,586,000 was recognised in the consolidated income statement (30 June 2019: Nil), with the offset in capital reserve, for the six months ended 30 June 2020 and year ended 31 December 2019. Particulars and movements of share options during the six months ended 30 June 2020 and year ended 31 December 2019 were as follows:

	Period ended 30 June 2020		Year ended 31 December 2019	
	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$	Number of options
2012 Share Option Scheme				
Outstanding at the beginning of the period/year	2.38	48,061,300	1.46	32,140,000
Granted during the period/year	4.41	9,315,000	3.42	22,538,300
Exercised during the period/year	1.45	(80,000)	1.45	(6,517,000)
Cancelled during the period/year	3.42	(65,600)	-	-
Forfeited during the period/year	3.42	(580,200)	1.45	(100,000)
Outstanding at the end of the period/year	2.70	56,650,500	2.38	48,061,300
Exercisable at the end of the period/year	1.46	25,443,000	1.46	25,523,000

The options outstanding at 30 June 2020 had a weighted average remaining contractual life of 8.3 years (31 December 2019: 8.5 years).

16 DEFERRED TAXATION

The movements of the net deferred tax liabilities recognised in the consolidated statement of financial position are as follows:

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
At the beginning of the period/year	(1,188)	(1,479)
Deferred taxation charged to consolidated income statement - relating to the origination and reversal of temporary differences	102	291
At the end of the period/year	(1,086)	(1,188)

As at 30 June 2020, the Group did not recognise deferred tax assets in respect of unused tax losses of HK\$2,255,770,000 (31 December 2019: HK\$2,372,761,000) as it is not probable that future taxable profits against which these tax losses can be utilised will be available in the relevant tax jurisdictions and entity. The tax losses do not expire under the current tax legislation.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

17 SHARE CAPITAL

	30 June 2020		31 December 2019	
	No. of shares	Amount HK\$'000	No. of shares	Amount HK\$'000
Ordinary shares, issued and fully paid:				
At the beginning of the period/year	820,733,643	1,293,392	814,216,643	1,280,191
Net proceeds from issuance of new shares	90,000,000	453,207	-	-
Shares issued under share option scheme	80,000	162	6,517,000	13,201
At the end of the period/year	910,813,643	1,746,761	820,733,643	1,293,392

(a) Shares issued under share option scheme

During the six months ended 30 June 2020, 80,000 (six months ended 30 June 2019: 1,835,000) ordinary shares were issued at weighted average exercise price of HK\$1.45 (six months ended 30 June 2019: HK\$1.45) per ordinary share to share option holders who had exercised their options with an aggregate consideration of HK\$116,000 (six months ended 30 June 2019: HK\$2,661,000) of which HK\$162,000 (six months ended 30 June 2019: HK\$3,718,000) was credited to share capital and the balance of HK\$46,000 (six months ended 30 June 2019: HK\$1,057,000) was debited to the capital reserve.

(b) Issuance of new shares

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 HK\$453,207,000 (net of related fees and expenses).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified as determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair values measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair values measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair values measured using significant unobservable inputs

30 June 2020	Fair value measurements categorised into			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Assets:				
- Debt securities measured at FVOCI	-	281,415	-	281,415
- Units in investment funds measured at FVPL	5,446	60,643	-	66,089
- Equity securities designated at FVOCI	19,858	-	-	19,858
- Perpetual bonds designated at FVOCI	-	50,645	-	50,645

31 December 2019	Fair value measurements categorised into			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Assets:				
- Debt securities measured at FVOCI	-	395,337	-	395,337
- Units in investment funds measured at FVPL	6,238	66,328	-	72,566
- Equity securities designated at FVOCI	24,957	-	-	24,957
- Perpetual bonds designated at FVOCI	-	62,692	-	62,692

During the six months ended 30 June 2020, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3 (2019: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair values of other financial assets are based on quoted market prices in active markets for similar instruments or quoted prices for identical or similar instruments in markets that are not considered active at the end of the reporting period.

(b) Fair value of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost were not materially different from their fair value as at 30 June 2020 and 31 December 2019.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

19 COMMITMENTS

Capital commitments

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Purchase of motor vehicles, computers and equipment Contracted but not provided for	62,000	51,828
Construction of eCommerce and Distribution Centre Contracted but not provided for	8,360	1,876

20 MATERIAL RELATED PARTY TRANSACTIONS

The Group entered into the following material related party transactions.

Key management personnel remuneration

Remuneration for key management personnel of the Group is as follows:

	Six months ended	
	30 June 2020 HK\$'000	30 June 2019 HK\$'000
Short-term employee benefits	15,427	10,804
Retirement scheme contributions	333	533
Equity-settled share-based payment expenses	2,196	-
	17,956	11,337

21 IMPACTS OF COVID-19 PANDEMIC

After the recent outbreak of the 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 approval of the financial statements, 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.

Independent Review Report



Review report

To the Board of Directors of Hong Kong Television Network Limited

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 22 to 39 which comprises the consolidated statement of financial position of Hong Kong Television Network Limited and its subsidiaries as of 30 June 2020 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2020 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

27 August 2020

Other Information

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 2020.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2020, the interests or short positions of the Company's Directors, chief executive and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in ordinary shares and underlying shares of the Company

Name of Director	Interests in shares			Total interests in shares	Interests in underlying shares pursuant to share options	Aggregate Interests	Approximate percentage interests in the Company's issued share capital (Note 1)
	Personal interests	Corporate interests	Family Interests				
Mr. Cheung Chi Kin, Paul	26,453,424	24,924,339 (Note 2(i))	-	51,377,763	9,000,000	60,377,763	6.63%
Mr. Wong Wai Kay, Ricky	-	355,051,177 (Note 2(ii))	-	355,051,177	10,000,000	365,051,177	40.08%
Ms. Wong Nga Lai, Alice	50,000	-	-	50,000	4,000,000	4,050,000	0.44%
Mr. Lau Chi Kong	-	-	-	-	4,000,000	4,000,000	0.44%
Ms. Zhou Huijing	-	-	-	-	3,500,000	3,500,000	0.38%

Notes:

- This percentage is based on 910,813,643 ordinary shares of the Company issued as at 30 June 2020.
- The corporate interests of Mr. Cheung Chi Kin, Paul ("Mr. Cheung") and Mr. Wong Wai Kay, Ricky ("Mr. Wong") arise through their respective interests in the following companies:
 - 24,924,339 shares are held by Worship Limited which is 50% owned by Mr. Cheung.
 - 355,051,177 shares are held by Top Group International Limited ("Top Group"), a corporation accustomed to act in accordance with Mr. Wong's directions; the interests of Top Group in the Company is also disclosed under the section "Substantial Shareholder" in this report.

Save as disclosed above, as at 30 June 2020, none of the Directors nor the chief executive (including their spouse and children under 18 years of age) of the Company had any interests or short positions in the shares, underlying shares and derivative to ordinary shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information

SHARE OPTION SCHEMES

On 31 December 2012, the Company adopted a share option scheme (the "2012 Share Option Scheme"). In view of the 2012 Share Option Scheme will expire on 30 December 2022, the Company adopted a new share option scheme at the Company's annual general meeting held on 2 June 2020 (the "2020 Share Option Scheme"). Under the 2012 Share Option Scheme and the 2020 Share Option Scheme, share options may be granted to eligible participants including Talents, executives or officers (including executive, non-executive and independent non-executive directors) of the Company or any of its subsidiaries, suppliers and professional advisers of the Group and those who have contributed or will contribute to the Group at any time within ten years after their respective adoptions at the discretion of the Board of the Company.

As at the date of this report, no share option has been granted under the 2020 Share Option Scheme since it has been adopted.

Details of the share options granted under the 2012 Share Option Scheme during the period for the six months ended 30 June 2020 were as follows:

Participants	Date of grant	Exercise price per share HK\$	Balance as at 1 January 2020	Options granted during the period	Options exercised during the period	Options cancelled/lapsed during the period	Balance as at 30 June 2020	Vesting period	Exercise period
Directors									
Mr. Cheung Chi Kin, Paul	26 May 2017	1.464	9,000,000	-	-	-	9,000,000	26 May 2017 to 28 February 2018	1 March 2018 to 22 March 2027
Mr. Wong Wai Kay, Ricky	26 May 2017	1.464	10,000,000	-	-	-	10,000,000	26 May 2017 to 28 February 2018	1 March 2018 to 22 March 2027
Ms. Wong Nga Lai, Alice	23 March 2017	1.464	1,000,000	-	-	-	1,000,000	23 March 2017 to 28 February 2018	1 March 2018 to 22 March 2027
	27 March 2020 (Note 1)	4.434	-	1,500,000	-	-	1,500,000	27 March 2020 to 26 March 2021	27 March 2021 to 26 March 2030
	27 March 2020 (Note 1)	4.434	-	1,500,000	-	-	1,500,000	27 March 2020 to 26 March 2022	27 March 2022 to 26 March 2030
Mr. Lau Chi Kong	21 February 2017	1.450	1,000,000	-	-	-	1,000,000	21 February 2017 to 28 February 2018	1 March 2018 to 20 February 2027
	27 March 2020 (Note 1)	4.434	-	1,500,000	-	-	1,500,000	27 March 2020 to 26 March 2021	27 March 2021 to 26 March 2030
	27 March 2020 (Note 1)	4.434	-	1,500,000	-	-	1,500,000	27 March 2020 to 26 March 2022	27 March 2022 to 26 March 2030
Ms. Zhou Huijing	21 February 2017	1.450	500,000	-	-	-	500,000	(Note 2)	(Note 2)
	27 March 2020 (Note 1)	4.434	-	1,500,000	-	-	1,500,000	27 March 2020 to 26 March 2021	27 March 2021 to 26 March 2030
	27 March 2020 (Note 1)	4.434	-	1,500,000	-	-	1,500,000	27 March 2020 to 26 March 2022	27 March 2022 to 26 March 2030
Talents under continuous employment contracts									
Talents	21 February 2017	1.450	393,000	-	-	-	393,000	(Note 2)	(Note 2)
	21 February 2017	1.450	3,630,000	-	80,000 (Note 3)	-	3,550,000	21 February 2017 to 28 February 2018	1 March 2018 to 20 February 2027
	27 December 2019	3.420	11,269,150	-	-	322,900 (Note 4)	10,946,250	27 December 2019 to 31 December 2020	1 January 2021 to 26 December 2029
	27 December 2019	3.420	11,269,150	-	-	-	10,946,250	27 December 2019 to 31 December 2021	1 January 2022 to 26 December 2029
	14 January 2020 (Note 5)	3.840	-	157,500	-	-	157,500	14 January 2020 to 31 December 2020	1 January 2021 to 13 January 2030
	14 January 2020 (Note 5)	3.840	-	157,500	-	-	157,500	14 January 2020 to 31 December 2021	1 January 2022 to 13 January 2030
Total			48,061,300	9,315,000	80,000	645,800	56,650,500		

Notes:

- The closing price per share immediately before the date of grant was HK\$4.75.
- The exercise of the options is subject to certain conditions that must be achieved by the grantees. The options vested on 1 March 2018 and shall be exercised not later than 20 February 2027.
- The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$5.11.
- The options were cancelled during the period under review.
- The closing price per share immediately before the date of grant was HK\$3.75.

Other Information

SUBSTANTIAL SHAREHOLDER

As at 30 June 2020, the interests or short positions of the persons, other than the Directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register maintained by the Company required to be kept under Section 336 of the SFO were as follows:

Name	Interests in shares in long positions	Approximately percentage interests (Note)
Top Group International Limited	355,051,177	38.98%

Note: This percentage is based on 910,813,643 ordinary shares of the Company issued as at 30 June 2020.

Save as disclosed above, as at 30 June 2020, the Company had not been notified of any persons (other than the Directors and chief executive of the Company) having any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the six months ended 30 June 2020, 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 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 2020.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the Directors' information since the disclosure made in the Company's last published annual report is set out as follows:

1. The monthly base salary of Mr. Cheung Chi Kin, Paul has been adjusted from HK\$85,000 to HK\$180,000 with effect from 1 July 2020.
2. The monthly base salary of Mr. Wong Wai Kay, Ricky has been adjusted from HK\$500,000 to HK\$600,000 with effect from 1 July 2020.
3. Mr. Mak Wing Sum, Alvin has been appointed as a member of the Investment Committee of the Company with effect from 15 July 2020.
4. The annual Director's fee of Mr. Lee Hon Ying, John will be adjusted from HK\$231,900 to HK\$243,500 with effect from 1 September 2020.
5. The annual Director's fee of Mr. Peh Jefferson Tun Lu will be adjusted from HK\$217,600 to HK\$228,480 with effect from 1 September 2020.
6. The annual Director's fee of Mr. Mak Wing Sum, Alvin will be adjusted from HK\$217,600 to HK\$228,480 with effect from 1 September 2020.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Other Information

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 2020.

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 2020 (six months ended 30 June 2019: Nil).

By Order of the Board
Cheung Chi Kin, Paul
Chairman

Hong Kong, 27 August 2020



HONG KONG TELEVISION
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香港電視網絡有限公司

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