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Change

The Way We Shop

INTERIM REPORT 2017



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

Stock Code - SEHK : 1137

www.hktv.com.hk

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Change

Nowadays, e-commerce is one of the growth momentum of the global economy. Hong Kong, praised as Shopping Paradise, however, is lagging behind in this aspect compared to neighbourhood areas. HKTVmall endeavors to be the engine of local e-commerce development. By keeping evolve to create value for customers, and encouraging them to learn and try, we hope to become an indispensable part of lives, and remain the competitiveness of Hong Kong.

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Corporate Information

FINANCIAL CALENDAR

Six months period ended:
30 June 2017

Interim results announced on:
18 August 2017

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 representing 20 ordinary shares, are eligible for trading in the United States in the over-the-counter (OTC) market.

Executive Directors

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

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

(Vice Chairman and Chief Executive Officer)

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

Non-executive Director

Ms. TO Wai Bing

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^{2,7,9}

¹ Chairman of Audit Committee

² Members of Audit Committee

³ Members of Executive Committee

⁴ Chairman of Investment Committee

⁵ Members of Investment Committee

⁶ Chairman of Nomination Committee

⁷ Members of Nomination Committee

⁸ Chairman of Remuneration Committee

⁹ Members of Remuneration Committee

Company Secretary

Ms. WONG Nga Lai, Alice

Authorised Representatives

Mr. WONG Wai Kay, Ricky

Mr. CHEUNG Chi Kin, Paul

Registered Office

HKTV Multimedia and Ecommerce Centre

No.1 Chun Cheong Street

Tseung Kwan O Industrial Estate

New Territories, Hong Kong

Auditor

KPMG

Certified Public Accountants

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,

The merge of HKTVmall and Groupon Hong Kong was completed in March this year. I believe that HKTVmall has already become the largest online shopping platform in Hong Kong, and we are the only company that is willing to devote tremendous resources in developing online shopping business in Hong Kong market, such as setting up 2 enormous logistics centres in Tsing Yi and Tseung Kwan O with the introduction of a large scale robotic system from Germany. After the merge, Groupon Hong Kong was rebranded as "HoKoBuy". With the differentiation on customer segments and consumption patterns between HoKoBuy and HKTVmall, the merge will bring significant synergy, leading to a more extensive coverage on customer segments. Over the past few months, HKTVmall joined hands with HoKoBuy to launch numerous cross-selling initiatives, aiming for more diversified collaborations to expand each other's customer bases.

While traditional retailers are globally facing challenges brought by macro economic development, technology advancement and consumer behavioral change, everyone is striving for survival, yet seeking synergy between online and offline operations.

In recent months, several leading online shopping companies have made different breakthroughs. Amazon, the e-commerce leader in the U.S., keeps trying new models for business, that has not only acquired organic food supermarket Whole Foods Market, but also opened a smart retail shop "Amazon Go" in Seattle. What customers need to do is to download the corresponding app, grab what they want in the shop, and then the products will be added to virtual shopping cart in the app. When they finish shopping and leave the shop, the system will automatically charge to their Amazon accounts.

In early July, Alibaba launched unmanned supermarket "Tao Café", exercising the concept of "unmanned retail". They have combined various technologies from computer vision, sensor fusion to biometrics, to make shopping easier. When customers walk through the payment area, payment will be made automatically via Alipay.

What can we learn from these examples and apply in this condensed place – Hong Kong?

Today, many retailers in Hong Kong still place digital advertisements online to drive offline traffic and sales. HKTVmall retails the other way round to exercise O2O, and drive online sales via offline stores. In October last year and January this year, we opened our North Point store and South Horizons store respectively. Using stores of 400 to 500 square feet as a major promotion channel, products can be shown on the weekly thematic display to attract customers to shop online. Taking the store at South Horizons as an example, number of orders and customers from surrounding residential areas soared by 5 times, while revenue from product sales increased by 4 times after first 3 months of the operation. The promising results enhanced our confidence towards this new business model, and we aim to add to 20 to 30 O2O stores by the end of 2017, in addition to the existing 3 stores (located in North Point and South Horizons respectively, and HoKoBuy's store located in Causeway Bay).

Moreover, after years of operation, we have gathered tremendous and valuable big data. Hence, we have invested in Predictive Intelligence system, to provide tailor-made product information to different customers by understanding their character, shopping and browsing records, when they visit our platform. Besides, we are adopting cloud system on marketing, making our promotional emails and information more thoughtful and smarter.

Finally, I understand that the public will have concern over the Group's development on TV business. In fact, it has been 8 years since our first application for free TV licence in December 2009. During this period, the advertising revenue, number of TV operators, technological development, interest of audience and viewing habit for the TV market in Hong Kong have all changed significantly. With the popularity of smartphone, broadcast-type mobile television service appears to be obsolete. In this regard, the Group will review the commercial viability and sustainability of free TV and mobile TV businesses, and expect to come to a decision and announcement in several months' time.

Wong Wai Kay, Ricky
Chairman

Hong Kong, 18 August 2017

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 2017 | For the six months ended 30 June 2016 |
|--|--|--|
| Turnover | 203,905 | 67,855 |
| Loss attributable to shareholders | (96,204) | (125,763) |
| Loss per share | | |
| – Basic and diluted (HK cents) | (11.9) | (15.5) |
| Capital expenditures | 111,274 | 259,648 |
| | As at 30 June 2017 | As at 31 December 2016 |
| Cash position ¹ | 58,813 | 44,397 |
| Available-for-sale securities | 946,107 | 1,183,425 |
| Total outstanding borrowings | 93,370 | 184,144 |
| Total equity attributable to equity shareholders | 1,923,169 | 1,996,663 |
| Shares in issue (in thousands) | 809,017 | 809,017 |
| Net asset per share (HK\$) | 2.38 | 2.47 |
| Gearing ratio (times) | 0.02 | 0.07 |

¹ Cash position means cash at bank and in hand and term deposits

BUSINESS REVIEW

2017 is expected to be a year full of new developments and growth momentum. During the first six months of 2017, a few key decisions were made to bring the Group being the largest online shopping mall in Hong Kong – a platform integrates entertainment and one-stop online shopping and delivery to people in Hong Kong.

In the fourth quarter of 2016, we started the experiment on O2O concept store aiming to use a 400–500 square feet store to serve customers better than a 20,000 square feet retailer by converting offline traffic to online traffic. Two stores were opened in North Point and South Horizons in October 2016 and late January 2017, different sales and promotional formats were tested in the stores, such as free gift box distribution, regular distribution of product catalogue, weekly theme promotion, etc., to find the right mix of pillars for different geographical locations so as to accelerate the regional sales performance. The past few months' results were encouraging and we noticed the opening of the concept store not only increased the order intake of the surrounding area, the order pick-up service is also getting popular to suit different customer delivery needs. Essentially, O2O concept store is an effective marketing tool to increase HKTVmall's awareness in the neighbourhood and gradually becoming top of the mind when the consumers want to purchase anything! This result has strengthened our confidence on the upcoming O2O store expansion plan.

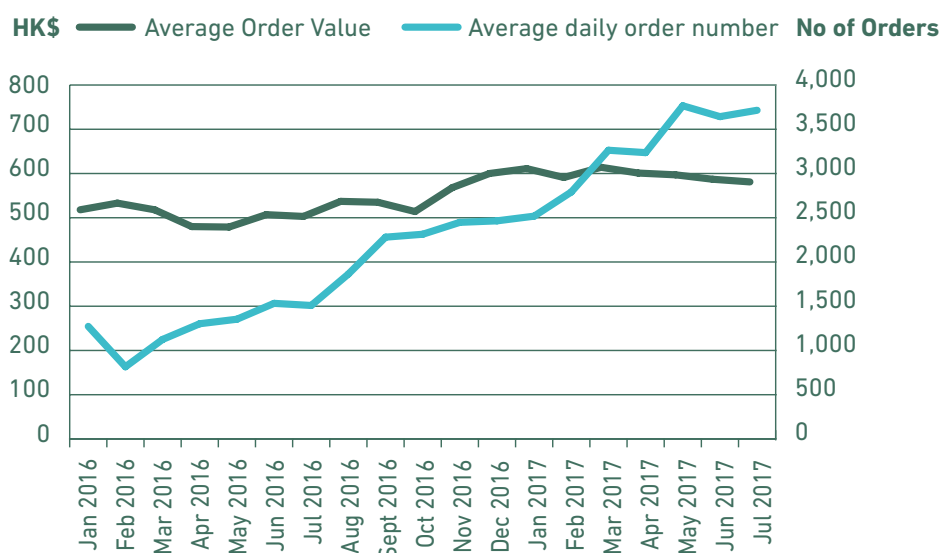
In early March 2017, we completed the acquisition of Groupon Hong Kong operation. Since then, we have worked with the prevailing management team to re-energize the business engine in the e-voucher market. In the meantime, we re-branded Groupon Hong Kong to "HoKoBuy" and this brand new online shopping platform was officially released on 28 June 2017. We are working aggressively on the customer conversion from the previous Groupon website and apps to HoKoBuy website and apps. Various collaborations have been executed between HKTVmall and HoKoBuy in the past few months, for example to bring over the deals selling at the Hot Deal Street of HKTVmall to HoKoBuy platform, and vice versa. Our primary goal is to elevate customers' living quality by offering thousands of quality deals, ranging from dining, shopping to experiences and travel. We want to ensure that their daily needs can be fully satisfied at HKTVmall and HoKoBuy, at a reasonable price with an incredible experience.

From April 2017 onward, at HKTVmall, we have worked with selective merchants and launched a "Clickstarter" campaign riding on "group-buy" mechanism. This campaign is updated weekly by selecting a list of products at bargain price. The price of each specific item under this campaign shall be lower by rebating different level of Mall Dollars subject to the number of items sold at the end of the weekly programme. More people buy each specific item, the price of it will be getting lower and lower. This programme has successfully driven business growth, in particular on electronics and household products.

Management's Discussion and Analysis

The above are only certain key highlights during the period under review. With various efforts made so far, we have built a solid fundamental for long term sustainable growth:

1. Relative to 1H2016, our total Gross Merchandise Value ("GMV")¹ on order intake has increased by approximately 270%, mainly from the organic growth in HKTVmall plus the effect from the acquisition of HoKoBuy. For the month of June 2017, the GMV on order intake reached approximately HK\$86.7 million relative to the month of June 2016 at HK\$23.4 million. By annualising the June 2017 GMV, we are building a growing HK\$1 billion GMV online shopping business per annum.
2. On HKTVmall, our average daily order number and average order value have a consistent track record during 1H2017. Below is a trend analysis for the monthly performance from January 2016 to the latest July 2017. For the month of July 2017, an average daily order number of about 3,700 was achieved which represented an impressive growth from about 1,300 orders in January 2016 to about 3,000 orders in the first half of March 2017.



On HoKoBuy, we completed the acquisition of the business in March 2017 and the online platform was still in the process to fully migrate from Groupon Hong Kong to HoKoBuy during the period under review. Having said that, the average daily order number after acquisition of HoKoBuy to 30 June 2017 was more than 3,500 orders.

3. On HKTVmall, we have 149,000 unique customers who have placed orders with HKTVmall during 1H2017, a substantial growth from 78,000 in 1H2016.
4. On HKTVmall, at the date of this report we have a wide product spectrum by carrying more than 160,000 products, a continued growth from 135,000 products since the last reporting date in March 2017. While on HoKoBuy platform, we are carrying about 1,800 live deals.

All these achievements have given us more confidence that we are in the right business with sustainable long term scalability. We are looking forward to monetarise from the growing orders and customer base.

¹ Gross Merchandise Value ("GMV") 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 and returns of merchandise sold.

Apart from operating online shopping business under HKTVmall and HoKoBuy, during the period under review, the Company continues its business including the offer of free television programming through its Over-The-Top (OTT) platform, international and local content distribution, provision of artiste management services and independent content production, while the TV programme production remains suspended. Nevertheless, we did not stop the multimedia production. Our online shopping business is much more than just a platform for bridging merchants and customers, it is a one-stop platform including multimedia marketplace, customer order placement, payment collection, logistics and warehousing facilities including door-to-door deliveries, post transaction customer services, and multimedia and digital production and marketing. The facilities for our multimedia and digital production are getting more complete after our relocation to the Tsueng Kwan O new premises.

After a few months' design and renovation work, we finally relocated our headquarters to the new premises in August 2017 and we officially named the premises as HKTV Multimedia and Ecommerce Centre (the "Centre"). The Centre currently includes 4 studios, editing facilities, dubbing facilities, etc., together with our Hollywood movie grade production equipment shall provide a comprehensive production friendly environment for our multimedia production. Furthermore, in March 2017, we accepted the offer of Hong Kong Science and Technology Parks Corporation in relation to the application for an additional use to incorporate an Ecommerce Fulfilment Centre of 5,080 square meters subject to the payment of a consent fee of HK\$62.1 million and the fulfilment of certain conditions. While we have paid the consent fee in July 2017, we are in the process of shortlisting the most appropriate structure and set-up for this new Ecommerce Fulfilment Centre, which we believe it shall facilitate the operational efficiency and the long term business sustainability.

FINANCIAL REVIEW

During the period under review, the Company mainly operated its Multimedia Business including the E-commerce online shopping and delivery services, OTT platform, and corporate functions.

The Group incurred a loss of HK\$96.2 million for the six months ended 30 June 2017 ("1H2017"), a decrease of HK\$29.6 million from HK\$125.8 million for the same period of 2016 ("1H2016"). Overall, the decrease in loss for the period under review was mainly due to following:

1. Increase in turnover by HK\$136.1 million to HK\$203.9 million in 1H2017, partially net off by the increase in costs of inventories by HK\$68.7 million to HK\$124.6 million in 1H2017;
2. Increase in valuation gains on investment properties by HK\$27.9 million to reach a gain of HK\$23.9 million for 1H2017 (1H2016: loss of HK\$4.0 million) based on the valuation carried out by an independent firm of surveyors; net off by
3. Increase in operating expenses by HK\$67.5 million to HK\$247.7 million mainly caused by the continued expansion on logistics and warehouse functions, the increase in talent costs and the inclusion of HoKoBuy's operating costs since the completion of acquisition in March 2017.

On turnover, the Group achieved HK\$203.9 million for 1H2017 (1H2016: HK\$67.8 million), an growth by 200% relative to 1H2016, which mainly composed of direct merchandise sales and income from concessionaire sales and other service income.

The substantial increase in turnover was due to the aggressive growth in average daily order number from about 1,300 in January 2016 to more than 3,600 in June 2017, with average order value increased from about HK\$500 during 1H2016 to HK\$600 during 1H2017. The increase in turnover was also included the contribution from a newly acquired subsidiary – HoKoBuy from 4 March 2017 onward.

Management's Discussion and Analysis

Cost of inventories increased by HK\$68.7 million to HK\$124.6 million for 1H2017 (1H2016: HK\$55.9 million) which was caused by the increase in direct merchandise sales. Given the increasing purchasing power, the volume discount benefit has brought in a higher margin to direct merchandise sales during the period under review.

Other operating expenses increased by HK\$67.5 million to HK\$247.7 million for 1H2017 relative to the HK\$180.2 million incurred for 1H2016. The increase mainly due to the below items:

1. Talent costs increased by HK\$24.7 million caused by the business scale up and the acquisition of HoKoBuy. The overall talent headcount increased by 146 talents to 727 as at 30 June 2017 which was mainly for logistics and warehouse operations, merchant relations and the acquisition of HoKoBuy;
2. Increase in logistics and warehouse operating costs caused by the expansion of logistics and warehouse center, owned car fleet and scalable sub-contracted labour resources to cope with business growth in order intake; and
3. Depreciation increased by HK\$4.2 million mainly due to the completion of the Center and the start of depreciation from April 2017 onward.

Other income, net, of HK\$48.8 million was earned in 1H2017 (1H2016: HK\$46.9 million), mainly composed of investment income generated from available-for-sale securities, bank interest income, rental income from investment properties and net exchange gain. The increase of HK\$1.9 million was mainly due to the increase in exchange gain caused by the appreciation of RMB and USD during the period under review, net off by the decrease in bank interest income and investment return caused by the realisation of a portion of the investment portfolio to support the capital expenditures and operating activities of the Group.

Finance costs increased by HK\$0.5 million mainly due to the increase in interest rates during 1H2017 relative to 1H2016.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2017, the Group had total cash position of HK\$58.8 million represented cash at bank and in hand (31 December 2016: HK\$44.4 million) and outstanding borrowings of HK\$93.4 million (31 December 2016: HK\$184.1 million) drawn for investment yield enhancement purpose. The increase in total cash position was mainly due to the net realisation from investment portfolio of HK\$242.7 million, cash acquired through acquisition of a subsidiary of HK\$11.0 million and net investment income received of HK\$32.1 million partially net off by purchases of property, plant and equipment of HK\$112.6 million, net bank loan repayment of HK\$91.5 million, and the resources utilised for operating activities of HK\$67.3 million.

On investment in available-for-sale securities, the Group has invested, at fair value, of HK\$946.1 million as at 30 June 2017 (as at 31 December 2016: HK\$1,183.4 million). The decrease in investment in available-for-sale securities was mainly due to the use of certain matured available-for-sale debt securities to fund the capital expenditure and operating activities. As at 30 June 2017, there was a deficit of HK\$2.7 million being recorded in Fair Value Reserve (31 December 2016: a revaluation deficit of HK\$18.4 million), a decrease in deficit by HK\$15.7 million. Among the available-for-sale securities, about 95.2% (as at 31 December 2016: 96.6%) are invested in fixed income products or other debt securities which substantially will be repaid at par upon maturity.

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 cater for 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 2017, the Group has utilised HK\$93.4 million (31 December 2016: HK\$184.1 million) uncommitted banking facilities mainly for investment purpose, leaving HK\$1,082.1 million (31 December 2016: HK\$998.6 million) uncommitted banking facilities available for future utilisation.

Our total cash and cash equivalents consisted of cash at bank and in hand and term deposits within three months of maturity, if any. There is no pledged bank deposit as at 30 June 2017 and 31 December 2016.

The debt maturity profiles of the Group as of 30 June 2017 and 31 December 2016 were as follows:

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|---------------------------|--------------------------|------------------------------|
| Repayable within one year | 93,370 | 184,144 |

As at 30 June 2017, our outstanding borrowings bore fixed interest rate and denominated in Hong Kong dollars. After considering the cash and cash equivalents and term deposits, if any, held by the Group, the gearing ratio of the Group as of 30 June 2017 was 0.02 times (31 December 2016: 0.07 times). The Group is of the opinion that, after taking into consideration of the internal available financial resources and the current banking facilities, the Group has sufficient funds to finance its operations and to meet the financial obligations of its business when they fall due.

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|-----------------------|--------------------------|------------------------------|
| Net Debt (note (a)) | 34,557 | 139,747 |
| Net Asset | 1,923,169 | 1,996,663 |
| Gearing ratio (times) | 0.02 | 0.07 |

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

During 1H2017, the Group invested HK\$111.3 million on capital expenditure versus HK\$259.6 million in 1H2016. The capital expenditure was mainly incurred for the construction of the Centre at Tseung Kwan O Industrial Estate, for the expansion of our logistic car fleet and installation of the automatic picking and conveying system. For the upcoming capital expenditure requirements for the business, we will remain cautious and it is expected to be funded by internal resources within the Group and the available banking facilities. Overall, the Group's financial position remains sound for continued business expansion.

Charge on Group Assets

As of 30 June 2017, the Group's bank loans of HK\$93.4 million (31 December 2016: HK\$184.1 million) were secured by an equivalent amount of available-for-sale securities held by various banks.

Exchange Rates

All the Group's monetary assets and liabilities are primarily denominated in Hong Kong dollars, United States dollars or 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 the two currencies.

The Group is also exposed to 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 when necessary.

Contingent Liabilities

As of 30 June 2017 and 31 December 2016, the Group had no material contingent liabilities or off-balance sheet obligations.

Management's Discussion and Analysis

PROSPECTS

Hong Kong's retail market finally saw the light of dawn, the provisional value and volume of total retail sales for the first half of 2017 achieved at the similar level as in the first half of 2016², and overall, on an moderate increasing trend. The improving consumer sentiment in Hong Kong has solidified our O2O concept store expansion plan. During 1H2017, we successfully used our first two O2O concept stores at North Point and South Horizons as an effective marketing tool to enhance the awareness of HKTVmall as well as to increase the online business generated from the neighbourhood. In this regard, we are making full effort to add to 20–30 stores by the end of 2017 targeting to replicate the success on the O2O conversion in other regions of Hong Kong.

On hardware enhancement, the first phase of the automatic picking and conveying system at our Tsing Yi logistics and warehouse centre is on its full speed deployment and is expected to be fully launched in the next few months in 2017. While the system is undergoing a continuous deployment, we are also re-engineering and streamlining our existing workflow and procedures to optimise the output of the whole logistics, fulfilment and warehousing functions. We are not only aiming to substantially reduce our reliance on human workforce and the related labour costs, we are also enhancing the output capacity to cope with the continued business growth. We look forward to having a more stable, efficient and scalable operating environment as well as more cost effective fulfilment and last mile delivery service for improving our operating margin in the near future.

Last but not the least, while we just officially relocate HKTV headquarters and HoKoBuy offices to our newly built Centre at Tseung Kwan O Industrial Estate in mid-August 2017, we expect this co-location not only provide a fresh enlarged working environment to our talents, it shall also enhance the effectiveness and efficiency in deploying our resources on management team, logistics and fulfilment function, multimedia production function, etc.. The multimedia facilities we currently built in the Centre, including 4 studios, dubbing facilities, editing facilities, multimedia data centre, together with the Hollywood grade production equipment are ready to serve the upcoming needs on digital production and marketing needs of our merchants and business partners to scale up their business. Aided with visual and multimedia experience at our online shopping mall, we shall be able to bring more value choices to our customers.

On media business, after long discussion with the Office of the Communications Authority (the "OFCA") since March 2014, the OFCA finally granted us approval on the transmission standard to provide mobile television service through adopting Digital Video Broadcasting – Terrestrial 2 on 13 July 2017. The result for the second application of the Free TV licence we submitted in April 2014 is still pending from the government. Given it has been almost 8 years since our first submission for the application of Free TV licence on 31 December 2009, the TV landscape in Hong Kong has changed tremendously.

1. Viewers' interest and preference on watching free and paid TV content has shifted towards other content or information channels, and the content geographical barrier has almost been removed completely given the commoditisation of Internet broadband and mobile transmission speed, and the accessibility and popularity of the mobile smart devices.
2. Provision of media content is no longer limited to TV only but also coming from variety of digital channels, such as Netflix, YouTube, Instagram, Facebook and even content posted by individual Key Opinion Leader ("KOL") – content is everywhere nowadays.
3. While digital marketing is getting more and more popular among different target consumer groups and getting more cost effective, TV is no longer the dominant player in the advertising and promotional space.
4. Haven't said the new players added to the TV market in the past few years, and the potential players planning to join the market.

² According to the Report on Monthly Survey of Retail Sales published in June 2017 by the Census and Statistics Department of Hong Kong Special Administrative Region.

The TV and also the overall media landscape have significant difference comparing to 8 years ago when we first considered the business opportunity. While the Group currently put most of the focus on the shining online shopping business and multimedia production, in the next few months, we shall conduct a strategic review on the use of the Mobile TV licence and the application for the second Free TV licence in particular on its commercial viability at this changing TV business environment and the expected return to our shareholders. We shall provide an update to our stakeholders in the next few months in 2017 when we have a clear direction on the media business.

TALENT REMUNERATION

Including the directors of the Company, as at 30 June 2017, the Company had 727 permanent full-time employees versus 618 as of 31 December 2016. The increase was mainly due to the acquisition of HoKoBuy in early March 2017.

The Company provides remuneration package consisting of basic salary, bonus and other benefits. Bonus payments are discretionary and dependent on both the Company's and individual performances. The Company also provides comprehensive medical insurance coverage, competitive retirement benefits schemes, staff training programs and share option scheme.

Unaudited Consolidated Income Statement

For the six months ended 30 June 2017 (Expressed in Hong Kong dollars)

| | Notes | Six months ended | |
|---|-------|-----------------------------|-----------------------------|
| | | 30 June 2017 HK\$'000 | 30 June 2016 HK\$'000 |
| Turnover | 3 | 203,905 | 67,855 |
| Cost of inventories | | (124,556) | (55,932) |
| Valuation gains/(losses) on investment properties | 10 | 23,900 | (4,000) |
| Other operating expenses | | (247,657) | (180,237) |
| Other income, net | 4 | 48,787 | 46,856 |
| Finance costs | 5(a) | (782) | (262) |
| Loss before taxation | 5 | (96,403) | (125,720) |
| Income tax credit/(expense) | 7 | 199 | (43) |
| Loss for the period | | (96,204) | (125,763) |
| Basic and diluted loss per share | 9 | HK (11.9) cent | HK (15.5) cent |

The notes on pages 17 to 31 form part of this interim financial report.

Unaudited Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017 (Expressed in Hong Kong dollars)

| | Notes | Six months ended | |
|--|-------|-----------------------------|-----------------------------|
| | | 30 June 2017 HK\$'000 | 30 June 2016 HK\$'000 |
| Loss for the period | | (96,204) | (125,763) |
| Other comprehensive income | 6 | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange difference on translation of financial statements of an overseas subsidiary | | 39 | (101) |
| Available-for-sale securities: net movement in fair value reserve | | 15,754 | 12,754 |
| Other comprehensive income | | 15,793 | 12,653 |
| Total comprehensive income for the period | | (80,411) | (113,110) |

The notes on pages 17 to 31 form part of this interim financial report.

Unaudited Consolidated Statement of Financial Position

As at 30 June 2017 (Expressed in Hong Kong dollars)

| | Notes | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|--|-------|-----------------------------|---------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 10 | 1,030,904 | 917,048 |
| Intangible assets | 11 | 109,269 | 112,248 |
| Long-term receivables and prepayments | | 14,131 | 8,209 |
| Other financial assets | 12 | 724,580 | 828,019 |
| | | 1,878,884 | 1,865,524 |
| Current assets | | | |
| Other receivables, deposits and prepayments | | 53,580 | 39,201 |
| Tax recoverable | | 1,103 | – |
| Inventories | 13 | 19,107 | 17,833 |
| Other current financial assets | 12 | 221,527 | 355,406 |
| Cash at bank and in hand | | 58,813 | 44,397 |
| | | 354,130 | 456,837 |
| Current liabilities | | | |
| Accounts payable | 14 | 57,321 | 22,714 |
| Other payables and accrued charges | | 154,074 | 115,942 |
| Deposits received | | 4,286 | 1,905 |
| Bank loans | 15 | 93,370 | 184,144 |
| | | 309,051 | 324,705 |
| Net current assets | | 45,079 | 132,132 |
| Total assets less current liabilities | | 1,923,963 | 1,997,656 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 17 | 794 | 993 |
| NET ASSETS | | 1,923,169 | 1,996,663 |
| CAPITAL AND RESERVES | | | |
| Share capital | 18 | 1,268,914 | 1,268,914 |
| Reserves | | 654,255 | 727,749 |
| TOTAL EQUITY | | 1,923,169 | 1,996,663 |

The notes on pages 17 to 31 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017 (Expressed in Hong Kong dollars)

| Note | Attributable to equity shareholders of the Company | | | | | | Total equity HK\$'000 |
|---|--|------------------------------|---------------------------------|--------------------------------|------------------------------|---------------------------|--------------------------|
| | Share capital HK\$'000 | Retained profits HK\$'000 | Revaluation reserve HK\$'000 | Fair value reserve HK\$'000 | Exchange reserve HK\$'000 | Other reserve HK\$'000 | |
| Balance at 1 January 2017 | 1,268,914 | 588,207 | 159,759 | (18,410) | 19 | (1,826) | 1,996,663 |
| Changes in equity for the six months ended 30 June 2017: | | | | | | | |
| Loss for the period | - | (96,204) | - | - | - | - | (96,204) |
| Other comprehensive income | 6 | - | - | 15,754 | 39 | - | 15,793 |
| Total comprehensive income | - | (96,204) | - | 15,754 | 39 | - | (80,411) |
| Equity settled share-based transactions | - | - | - | - | - | 6,917 | 6,917 |
| Balance at 30 June 2017 | 1,268,914 | 492,003 | 159,759 | (2,656) | 58 | 5,091 | 1,923,169 |

| Note | Attributable to equity shareholders of the Company | | | | | | Total equity HK\$'000 |
|---|--|------------------------------|---------------------------------|--------------------------------|------------------------------|---------------------------|--------------------------|
| | Share capital HK\$'000 | Retained profits HK\$'000 | Revaluation reserve HK\$'000 | Fair value reserve HK\$'000 | Exchange reserve HK\$'000 | Other reserve HK\$'000 | |
| Balance at 1 January 2016 | 1,268,914 | 845,323 | 159,759 | (33,552) | (1) | (1,826) | 2,238,617 |
| Changes in equity for the six months ended 30 June 2016: | | | | | | | |
| Loss for the period | - | (125,763) | - | - | - | - | (125,763) |
| Other comprehensive income | 6 | - | - | 12,754 | (101) | - | 12,653 |
| Total comprehensive income | - | (125,763) | - | 12,754 | (101) | - | (113,110) |
| Balance at 30 June 2016 | 1,268,914 | 719,560 | 159,759 | (20,798) | (102) | (1,826) | 2,125,507 |

The notes on pages 17 to 31 form part of this interim financial report.

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2017 (Expressed in Hong Kong dollars)

| | Six months ended | |
|--|-----------------------------|-----------------------------|
| | 30 June 2017 HK\$'000 | 30 June 2016 HK\$'000 |
| Loss before taxation | (96,403) | (125,720) |
| Valuation (gains)/losses on investment properties | (23,900) | 4,000 |
| Equity settled share-based transactions | 6,917 | – |
| Others | 46,122 | 28,597 |
| Net cash used in operating activities | (67,264) | (93,123) |
| Investing activities | | |
| Additions of available-for-sale securities | (127,178) | (57,096) |
| Proceeds from disposal of available-for-sale securities | 145,151 | 27,255 |
| Proceeds from maturity of available-for-sale securities | 224,708 | 157,147 |
| Acquisition of a subsidiary, net cash acquired | 11,042 | – |
| Purchases of property, plant and equipment | (112,646) | (131,366) |
| Others | 32,116 | 40,162 |
| Net cash generated from investing activities | 173,193 | 36,102 |
| Financing activities | | |
| Net repayment of bank loans | (90,769) | (38,140) |
| Interest paid on bank loans | (776) | (142) |
| Net cash used in financing activities | (91,545) | (38,282) |
| Net increase/(decrease) in cash and cash equivalent | 14,384 | (95,303) |
| Cash and cash equivalent at 1 January | 44,397 | 174,808 |
| Effect of foreign exchange rate changes | 32 | (131) |
| Cash and cash equivalent at 30 June | 58,813 | 79,374 |

The notes on pages 17 to 31 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

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 18 August 2017.

The unaudited interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the changes that are expected to be reflected in the 2017 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 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for 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 32 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 2016 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 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several 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 in this interim financial report.

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

3 TURNOVER AND SEGMENT INFORMATION

Turnover

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

Turnover mainly includes direct merchandise sales and income from concessionaire sales and other service income.

Segment information

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

4 OTHER INCOME, NET

| | Six months ended | |
|---|-----------------------------|-----------------------------|
| | 30 June 2017 HK\$'000 | 30 June 2016 HK\$'000 |
| Bank interest income | 34 | 602 |
| Dividend income from available-for-sale equity securities | 243 | 286 |
| Interest income from available-for-sale debt securities | 27,389 | 36,978 |
| Gain on disposal of available-for-sale securities | 1,744 | 1,765 |
| Rentals from investment properties | 6,362 | 5,714 |
| Net exchange gain/(loss) | 12,111 | (490) |
| Others | 904 | 2,001 |
| | 48,787 | 46,856 |

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

| | Six months ended | |
|--|-----------------------------|-----------------------------|
| | 30 June 2017 HK\$'000 | 30 June 2016 HK\$'000 |
| (a) Finance costs | | |
| Interest on bank loans | 656 | 162 |
| Bank charges | 126 | 100 |
| | 782 | 262 |
| (b) Other items | | |
| Advertising and marketing expenses | 13,499 | 15,765 |
| Depreciation | 21,596 | 17,428 |
| Amortisation of intangible assets | 6,516 | 6,538 |
| Loss on disposal of property, plant and equipment | 13 | 44 |
| Operating lease charges in respect of land and building | 19,789 | 9,922 |
| Acquisition-related costs incurred in business combination | 1,068 | – |
| | 114,712 | 90,046 |
| (c) Talent costs | | |
| Wages and salaries | 104,046 | 86,156 |
| Retirement benefit costs – defined contribution plans | 3,749 | 3,890 |
| Equity settled share-based payment expenses | 6,917 | – |
| | 114,712 | 90,046 |

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 unless otherwise indicated)

6 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to other comprehensive income

| | Six months ended | | | | | |
|--|-------------------------------|-------------------------|-------------------------------|-------------------------------|-------------------------|-------------------------------|
| | 30 June 2017 | | | 30 June 2016 | | |
| | 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 |
| Exchange difference on translation of financial statements of an overseas subsidiary | 39 | – | 39 | (101) | – | (101) |
| Available-for-sale securities: net movement in fair value reserve | 15,754 | – | 15,754 | 12,754 | – | 12,754 |
| Other comprehensive income | 15,793 | – | 15,793 | 12,653 | – | 12,653 |

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

| | Six months ended | |
|---|--------------------------|--------------------------|
| | 30 June 2017 HK\$'000 | 30 June 2016 HK\$'000 |
| Available-for-sale securities: net movement in fair value reserve | | |
| – Changes in fair value recognised during the period | 17,498 | 14,519 |
| – Reclassified to profit or loss upon disposal | (1,744) | (1,765) |
| | 15,754 | 12,754 |

7 INCOME TAX (CREDIT)/EXPENSE

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements in both periods as the Group sustained a loss for taxation purpose during the periods. The provision for Hong Kong Profits Tax is calculated by applying annual effective tax rate of 16.5% (2016: 16.5%) to the six months ended 30 June 2017.

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

| | Six months ended | |
|---|-----------------------------|-----------------------------|
| | 30 June 2017 HK\$'000 | 30 June 2016 HK\$'000 |
| Current taxation | | |
| Hong Kong Profits Tax | - | - |
| Deferred taxation | | |
| Origination and reversal of temporary differences | (199) | 43 |
| | (199) | 43 |

8 DIVIDENDS

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30 June 2017. No final dividend was declared for the year ended 31 December 2016.

9 LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period of HK\$96,204,000 (six months ended 30 June 2016: HK\$125,763,000) and the weighted average of 809,017,000 ordinary shares (six months ended 30 June 2016: 809,017,000 shares) in issue during the six months ended 30 June 2017.

The diluted loss per share for the six months ended 30 June 2017 is the same as the basic loss per share, as the Group's share options would result in an anti-dilutive effect on loss per share. The diluted loss per share for the six months ended 30 June 2016 is the same as the basic loss per share, as no potential dilutive ordinary shares were outstanding during the period.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

10 PROPERTY, PLANT AND EQUIPMENT

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|---|-----------------------------|---------------------------------|
| At the beginning of the period/year | 917,048 | 560,335 |
| Additions through business combination (note 20) | 296 | – |
| Additions | 111,274 | 384,648 |
| Disposal | (18) | (405) |
| Valuation gains on investment properties (note a) | 23,900 | 6,700 |
| Depreciation charge | (21,596) | (34,230) |
| At the end of the period/year | 1,030,904 | 917,048 |

Note:

- (a) All investment properties of the Group were revalued as at 30 June 2017 by direct comparison approach determined by reference to recent sales price of comparable properties. 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.

11 INTANGIBLE ASSETS

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|---|-----------------------------|---------------------------------|
| At the beginning of the period/year | 112,248 | 125,410 |
| Addition through business combination (note 20) | 3,537 | – |
| Amortisation | (6,516) | (13,162) |
| At the end of the period/year | 109,269 | 112,248 |

Intangible assets included the indefeasible right of use in certain capacity of the telecommunications network of a former subsidiary for a term of 20 years, right to use of the telecommunications services from a former subsidiary for a term of 10 years, and an intangible asset relating to the spectrum with frequency at 678–686 MHz and microwave link at the frequency range of 7910–7920 MHz for the provision of broadcast-type mobile television services for a period of about 12 years and customer relationship acquired pursuant to the acquisition of a subsidiary as set out in note 20 which is determined on provisional basis.

12 OTHER FINANCIAL ASSETS

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|--------------------------------------|-----------------------------|---------------------------------|
| Available-for-sale debt securities | | |
| – Maturity dates within 1 year | 221,527 | 355,406 |
| – Maturity dates over 1 year | 679,589 | 788,310 |
| | 901,116 | 1,143,716 |
| Available-for-sale equity securities | | |
| – Listed | 31,838 | 28,538 |
| – Unlisted | 13,153 | 11,171 |
| | 44,991 | 39,709 |
| | 946,107 | 1,183,425 |

All of these financial assets were carried at fair value as at 30 June 2017 and 31 December 2016.

13 INVENTORIES

The inventories are mainly merchandise purchased for the Group's E-commerce business.

14 ACCOUNTS PAYABLE

The aging analysis of the accounts payable is analysed as follows:

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|-----------------|-----------------------------|---------------------------------|
| Current–30 days | 46,806 | 18,985 |
| 31–60 days | 712 | 766 |
| 61–90 days | 163 | 220 |
| Over 90 days | 9,640 | 2,743 |
| | 57,321 | 22,714 |

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

15 BANK LOANS

At 30 June 2017, the bank loans were repayable as follows:

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|---------------|-----------------------------|---------------------------------|
| Within 1 year | 93,370 | 184,144 |

At 30 June 2017, the uncommitted banking facilities of the Group amounted to HK\$1,175,484,000 (31 December 2016: HK\$1,182,763,000). The facilities were utilised to the extent of bank loans of HK\$93,370,000 (31 December 2016: HK\$184,144,000).

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 2017 and 31 December 2016, none of the covenants relating to drawn down facilities had been breached.

At 30 June 2017, the bank loans bore fixed interest rate ranged from 0.8% to 1.2% (31 December 2016: 1.0% to 1.2%) per annum and were secured by certain of the Group's available-for-sale securities with an equivalent amount to the bank loans.

16 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 years 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 21 February 2017, the Company granted a total of 18,500,000 share options at exercise price of HK\$1.45 per share to certain eligible employees to subscribe for ordinary shares of the Company under the 2012 Share Option Scheme. Such options were granted a 10-year term. Among the 18,500,000 Share Options, the vesting date is as follows:

- (i) 12,295,000 of which will vest on 1 March 2018; and
- (ii) 6,205,000 of which will vest on 1 March 2018 subject to the achievement of certain performance targets as determined by the Board.

16 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

On 23 March 2017, the Company granted a total of 1,500,000 share options to a director of the Company to subscribe for ordinary shares of the Company under the 2012 Share Option Scheme. The share options were granted with exercise price of HK\$1.464 per share. Such options will vest on 1 March 2018 and have a 10-year term.

On 23 March 2017, the Company granted, subject to the approval by the independent shareholders at the Annual General Meeting held on 26 May 2017, a total of 20,000,000 share options to two directors of the Company to subscribe for ordinary shares of the Company under the 2012 Share Option Scheme. The grant of the share options were approved by the independent shareholders at the Annual General Meeting on 26 May 2017. The share options were granted with exercise price of HK\$1.464 per share. Such options will vest on 1 March 2018 and have a 10-year term.

In determining the value of the share options granted during the period ended 30 June 2017, 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 includes 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 period, the following variables have been applied to the Black-Scholes Model:

| Measurement date | 26 May 2017 | 23 March 2017 | 21 February 2017 |
|---------------------------|----------------|------------------|---------------------|
| Variables | | | |
| – Expected life | 3 years | 3 years | 3 years |
| – Risk-free rate | 0.76% | 1.05% | 1.14% |
| – Expected volatility | 57.51% | 56.41% | 58.40% |
| – Expected dividend yield | – | – | – |

The above variables were determined as follows:

- (i) The expected life is estimated to be 3 years from the date of grant (the "Measurement Date").
- (ii) The risk-free rate represents the yield of the Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the Measurement Date.
- (iii) The expected volatility represents the annualized 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 period is estimated as below:

| | | | |
|-----------------------------|-------------|---------------|------------------|
| Date of grant | 26 May 2017 | 23 March 2017 | 21 February 2017 |
| Fair value per share option | HK\$1.30 | HK\$0.55 | HK\$0.58 |

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 unless otherwise indicated)

16 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 require input 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 expense of HK\$6.9 million was recognised in the consolidated income statement, with the offset in equity reserves, for the six months ended 30 June 2017. Particulars and movements of share options during the six months ended 30 June 2017 was as follows:

| | Six months ended 30 June 2017 | |
|--|---|-------------------|
| | Weighted average exercise price HK\$ | Number of options |
| 2012 Share Option Scheme | | |
| Outstanding at the beginning of the period | – | – |
| Granted during the period | 1.46 | 40,000,000 |
| Exercised during the period | – | – |
| Lapsed during the period | 1.45 | (1,000,000) |
| Outstanding at the end of the period | 1.46 | 39,000,000 |
| Exercisable at the end of period | – | – |

17 DEFERRED TAXATION

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

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|--|-----------------------------|---------------------------------|
| At the beginning of the period/year | (993) | (919) |
| Deferred taxation credited/(charged) to consolidated income statement – relating to the origination and reversal of temporary differences | 199 | (74) |
| At the end of the period/year | (794) | (993) |

17 DEFERRED TAXATION (continued)

As at 30 June 2017, the Group did not recognise deferred tax assets in respect of unused tax losses of HK\$1,542,898,000 (31 December 2016: HK\$1,395,674,000) as it was not probable that future taxable profits against which these differences could be utilised would be available in the relevant tax jurisdictions. The tax losses do not expire under the current tax legislation.

The components of deferred tax assets and liabilities in the consolidated statement of financial position and the related movements during the period/year are as follows:

| | Tax losses carried forward | |
|---|--------------------------------------|---------------------------------|
| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
| Deferred tax assets: | | |
| At the beginning of the period/year | 27,084 | 17,964 |
| Credited to consolidated income statement | 2,258 | 9,120 |
| At the end of the period/year | 29,342 | 27,084 |

| | Depreciation allowances in excess of the related depreciation | |
|--|--|---------------------------------|
| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
| Deferred tax liabilities: | | |
| At the beginning of the period/year | (28,077) | (18,883) |
| Charged to consolidated income statement | (2,059) | (9,194) |
| At the end of the period/year | (30,136) | (28,077) |

The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position.

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|-------------------------------|--------------------------------------|---------------------------------|
| Deferred tax assets | – | – |
| Deferred tax liabilities | (794) | (993) |
| At the end of the period/year | (794) | (993) |

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CAPITAL AND RESERVES

| | 30 June 2017 | | 31 December 2016 | |
|--|---------------|--------------------|------------------|--------------------|
| | No. of shares | Amount HK\$'000 | No. of shares | Amount HK\$'000 |
| Ordinary shares, issued and fully paid: | | | | |
| At the end of the period/year | 809,016,643 | 1,268,914 | 809,016,643 | 1,268,914 |

19 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

Fair value hierarchy

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 is 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 financial 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 2017 | Fair value measurements categorised into | | | |
|--|--|---------------------|---------------------|-------------------|
| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
| Financial assets: | | | | |
| – Available-for-sale debt securities | – | 901,116 | – | 901,116 |
| – Available-for-sale equity securities | 31,838 | 13,153 | – | 44,991 |
| | | | | |
| | Fair value measurements categorised into | | | |
| 31 December 2016 | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
| Financial assets: | | | | |
| – Available-for-sale debt securities | – | 1,143,716 | – | 1,143,716 |
| – Available-for-sale equity securities | 28,538 | 11,171 | – | 39,709 |

During the six months ended 30 June 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: 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 value of available-for-sale securities are based on quoted market prices for identical financial instruments at the end of the reporting period.

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

The carrying amounts of the Group's other financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2017 and 31 December 2016.

20 BUSINESS COMBINATION

Acquisition of a subsidiary

On 20 February 2017, Talent Ascent Limited (“Talent Ascent”), a wholly owned subsidiary of the Company, entered into a conditional sale and purchase agreement (“Agreement”) with Groupon, Inc. and Groupon Holdings B.V., an indirectly wholly owned subsidiary of Groupon Inc. (“Groupon”), to acquire 100% of the issued share capital of HoKoBuy Limited (formerly known as Shift Media Group Limited) (“HoKoBuy”), at an initial consideration of US\$0.67 million (equivalent to approximately HK\$5.21 million) in cash, which was subsequently adjusted for the net working capital to US\$0.27 million (equivalent to HK\$2.07 million) as at the date of completion (the “Transaction”), as defined in the Agreement. The Transaction was completed on 3 March 2017 and Talent Ascent entered into a Master Transition Services and License Agreement with HoKoBuy and Groupon pursuant to which Groupon will provide or cause to provide to HoKoBuy (a) a limited and temporary license to access to certain systems, application tools, and trademarks, and (b) other support services, including merchant payment and customer support for a period of 6 to 12 months from the effective date of the Master Transition Services and License Agreement.

The financial results of the Group as of and for the six months ended 30 June 2017 include HoKoBuy’s financial results from 4 March 2017 through 30 June 2017. HoKoBuy contributed HK\$22 million of revenue and incurred net loss of HK\$1.6 million (excluding transaction costs used for the acquisition) to the consolidated financial results of the Group for the six months ended 30 June 2017.

If the acquisition had occurred on 1 January 2017, management estimates that consolidated revenue would have been HK\$215 million, and consolidated loss for the period would have been HK\$99 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

The following table summarizes the recognised amounts of assets acquired and liabilities assumed at the acquisition date as a preliminary allocation of the purchase price.

| | Acquiree’s provisional fair value at acquisition date HK\$’000 |
|---|---|
| Property, plant and equipment | 296 |
| Intangible asset | 3,537 |
| Trade and other receivables | 10,353 |
| Cash and bank balances | 13,110 |
| Trade and other payables | (25,228) |
| Net identifiable assets acquired and satisfied by cash consideration | 2,068 |
| Net cash flow arising on acquisition: | HK\$’000 |
| Purchase consideration for acquisition of a subsidiary, settled in cash | 2,068 |
| Cash and cash equivalents in business acquired | (13,110) |
| Cash inflow on acquisition of a subsidiary | (11,042) |

The acquired intangible asset is comprised of customer relationship and is determined on a provisional basis as the Group is in the process of completing the identification of separable intangible assets and the independent valuation to assess the provisional fair value of the identifiable assets acquired. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

21 COMMITMENTS

(a) Capital commitments

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|---|-----------------------------|---------------------------------|
| Purchase of office equipment | | |
| – Contracted but not provided for | 45,319 | 42,636 |
| Construction of Multimedia and Ecommerce Centre | | |
| – Contracted but not provided for | 15,395 | 26,937 |
| | <hr/> | <hr/> |

(b) Commitments under operating leases

At 30 June 2017 and 31 December 2016, the Group has future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|---|-----------------------------|---------------------------------|
| Leases in respect of land and buildings which are payable: | | |
| Within 1 year | 33,770 | 29,676 |
| After 1 year but within 5 year | 29,162 | 38,924 |
| | <hr/> | <hr/> |
| | 62,932 | 68,600 |
| | <hr/> | <hr/> |

(c) Production cost commitments

The Group entered into several long-term agreements with certain production-related talents and artistes for future production in the Group's Multimedia Business. Minimum amounts of production costs to be paid by the Group are analysed as follows:

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|--------------------------|-----------------------------|---------------------------------|
| Production costs: | | |
| Within 1 year | 306 | 612 |
| | <hr/> | <hr/> |

22 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 2017 HK\$'000 | 30 June 2016 HK\$'000 |
| Short-term employee benefits | 1,326 | 5,900 |
| Post-employment benefits | 91 | 526 |
| | 1,417 | 6,426 |

Independent Review Report



Independent 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 12 to 31 which comprises the consolidated statement of financial position of Hong Kong Television Network Limited and its subsidiaries as of 30 June 2017 and the related consolidated income statement, consolidated statement of comprehensive income, and 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 2017 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

18 August 2017

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 2017.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2017, 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 | Total 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. Wong Wai Kay, Ricky | 15,236,893 | 339,814,284 (Note 2(ii)) | – | 355,051,177 | 10,000,000 | 365,051,177 | 45.12% |
| Mr. Cheung Chi Kin, Paul | 25,453,424 | 24,924,339 (Note 2(ii)) | – | 50,377,763 | 10,000,000 | 60,377,763 | 7.46% |
| Ms. Wong Nga Lai, Alice | 50,000 | – | – | 50,000 | 1,500,000 | 1,550,000 | 0.19% |
| Ms. To Wai Bing | 95,239 | – | – | 95,239 | – | 95,239 | 0.01% |

Notes:

- This percentage is based on 809,016,643 ordinary shares of the Company issued as at 30 June 2017.
- The corporate interests of Mr. Wong Wai Kay, Ricky and Mr. Cheung Chi Kin, Paul arise through their respective interests in the following companies:
 - 339,814,284 shares are held by Top Group International Limited ("Top Group") which is 42.12% owned by Mr. Wong Wai Kay, Ricky; the interests of Top Group in the Company is also disclosed under the section "Substantial Shareholder" in this report.
 - 24,924,339 shares are held by Worship Limited which is 50% owned by Mr. Cheung Chi Kin, Paul.

Save as disclosed above, as at 30 June 2017, 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 SCHEME

On 31 December 2012, the Company adopted a share option scheme (the "Share Option Scheme"). Under the Share Option Scheme, share options may be granted to eligible participants include employee, 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 its adoption at the discretion of the Board of the Company.

Details of the share options granted under the Share Option Scheme during the period for the six months ended 30 June 2017 were as follows:

| Participants | Date of grant | Exercise price per share HK\$ | Balance as at 1 January 2017 | Options granted during the period | Options exercised during the period | Options cancelled/ lapsed during the period (Note 1) | Balance as at 30 June 2017 | Vesting period | Exercise period |
|--|------------------|----------------------------------|------------------------------------|--------------------------------------|--|---|----------------------------------|---|-------------------------------------|
| Directors | | | | | | | | | |
| 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 |
| Mr. Cheung Chi Kin, Paul | 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 | - | 1,500,000 | - | - | 1,500,000 | 23 March 2017 to 28 February 2018 | 1 March 2018 to 22 March 2027 |
| Employees under continuous employment contracts | | | | | | | | | |
| Employees | 21 February 2017 | 1.450 | - | 6,205,000 | - | 850,000 | 5,355,000 | (Note 2) | (Note 2) |
| | 21 February 2017 | 1.450 | - | 12,295,000 | - | 150,000 | 12,145,000 | 21 February 2017 to 28 February 2018 | 1 March 2018 to 20 February 2027 |
| Total | | | - | 40,000,000 | - | 1,000,000 | 39,000,000 | | |

Notes:

- The options lapsed during the period under review upon resignation of certain eligible employees.
- The vesting period of the Options is from 21 February 2017 to 28 February 2018, while the exercise of the Options is subject to certain conditions that must be achieved by the employees. The Options shall be exercised not later than 20 February 2027.

SUBSTANTIAL SHAREHOLDER

At 30 June 2017, 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 | 339,814,284 | 42.00% |

Note: This percentage is based on 809,016,643 ordinary shares of the Company issued as at 30 June 2017.

Save as disclosed above, as at 30 June 2017, 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 2017, the Company has complied with the applicable code provisions as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by Directors (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 2017.

UPDATE ON DIRECTORS' INFORMATION

Changes in Directors' information since the Company's last published annual report, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:

During the period for the six months ended 30 June 2017, Ms. Wong Nga Lai, Alice, received discretionary bonuses in the amount of HK\$300,000. The basis of determining the Directors' emoluments (including bonus payments) remain unchanged during the six months ended 30 June 2017.

During the period for the six months ended 30 June 2017, Mr. Wong Wai Kay, Ricky and Mr. Cheung Chi Kin, Paul had agreed to waive their emoluments for the year from 1 January 2017 to 31 December 2017.

Share options were granted to Executive Directors on 23 March 2017 and 26 May 2017 respectively pursuant to the Share Option Scheme, details of which are set out in the section "Share Option Scheme" above.

Save as disclosed above, there is no change in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company's last published annual report.

Other Information

REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed and discussed with the management of the Company the unaudited interim financial report of the Company for the six months ended 30 June 2017.

The Audit Committee currently 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 2017 (six months ended 30 June 2016: Nil).

By Order of the Board
Wong Wai Kay, Ricky
Chairman

Hong Kong, 18 August 2017