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TOM Group Limited

TOM集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2383)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

CHAIRMAN'S STATEMENT

For the six months ended 30 June 2019, TOM Group continued its business focus on high growth potential sectors such as e-commerce, fintech and advanced data analytics.

Gross revenue from the Group's Technology Platform and Investments was HK\$47 million. The Group's Media Business, comprising its Publishing and Advertising business units, recorded gross revenue of HK\$385 million.

During the period under review, revenue and segment profit of the Group from its operations were HK\$432 million and HK\$21 million respectively. Gross profit margin dropped slightly from 42% to 41%. Including net share of operating losses of HK\$50 million from Associates and the higher net finance costs of HK\$41 million due to increased market interest rates, the Group's loss for the period attributable to shareholders increased from HK\$64 million to HK\$82 million.

Ule, the Group's e-commerce joint operation with China Post, continued development of rural New Retail and associated B2B business with focus on supply chain innovation during the review period. B2B GMV reached RMB3,648 million. Going forward, Ule will continue to expand its business offerings and drive technology innovation to further elevate its brand awareness and industry competitiveness in China's rural New Retail arena.

Pixnet, the Group's Social Network business, contributed gross revenue of HK\$36 million and recorded a segment profit of HK\$1 million.

The Publishing Group in Taiwan maintained its leadership position in its markets during the review period. The Publishing Group's gross revenue was HK\$362 million and segment profit increased 1% to HK\$28 million.

The Group continued exiting non-performing subsidiaries in its Outdoor Media advertising business.

I would like to take this opportunity to thank our shareholders, business partners, the management and all the staff of the Group for their concerted effort.

Frank John Sixt
Chairman

Hong Kong, 31 July 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

	For the six months ended	
	30 June 2019	30 June 2018
	HK\$'000	HK\$'000
Consolidated revenue	432,257	451,270
Loss before net finance costs and taxation	(33,751)	(36,364)
Loss attributable to equity holders of the Company	(82,079)	(64,453)
Total comprehensive income/(expense) attributable to equity holders of the Company	191,552	(40,098)
Loss per share (HK cents)	(2.07)	(1.66)
Net assets value	210,872	509

BUSINESS REVIEW

In the first half of 2019, TOM Group made steady progress in optimising its operations in traditional media businesses and aligning its focus on technology-centric strategic investments. The Group's operating subsidiaries delivered sustainable business performance during the review period. Our Media Business recorded gross revenue of HK\$385 million and a 5% increase in segment profit to HK\$27 million as a result of continued efforts in improving operational efficiency. Gross revenue from the Group's Technology Platform and Investments was HK\$47 million whilst segment loss was HK\$6 million as the Group continued to invest in technology innovation to drive further growth.

Technology Platform and Investments – continuing strong growth

The Group is pleased with the robust growth of several of its investments during the review period.

In 2014, TOM Group invested in WeLab, a leading Asian fintech company, which provides technology enabled consumer lending solutions for individuals and enterprise customers in Hong Kong, China and Indonesia. Using advanced data-powered technologies and risk management expertise, WeLab has over 38 million users, as of 30 June 2019. In April 2019, WeLab was granted a virtual banking license by the Hong Kong Monetary Authority (HKMA), becoming the first homegrown Hong Kong fintech company, and one of only eight companies, to obtain a virtual banking license. WeLab was recognised in a KPMG-sponsored report as one of the top 100 FinTech companies in the world – #7 in China and #23 globally. WeLab is the only Hong Kong fintech company that has been named to the list for three consecutive years. As at 30 June 2019, TOM Group owns 6.35% in WeLab on an issued basis.

Rubikloud is a Toronto-based AI platform for retail which TOM Group invested in 2015. During the review period, Rubikloud continued to expand its operations from Toronto to cover Hong Kong and London. By the end of 2019, Rubikloud is expected to achieve full growth stage as it grows beyond 150 employees with new tier one clients in grocery, mass drug, and mass beauty. Additionally, they have concluded significant partnerships with Microsoft, Salesforce and Google Cloud. TOM Group owns 4.15% in Rubikloud as at 30 June 2019 on an issued basis.

Ule, the Group's e-commerce joint operation with China Post, continued development of rural New Retail and associated B2B business with focus on supply chain innovation during the review period. B2B GMV reached RMB3,648 million. During the period under review, the Group and all of Ule's other shareholders received a written invitation from Ule to participate in a shareholders' loan proposal as a lender on a pro-rata basis in accordance with the respective shareholding of such shareholder in Ule. The relevant loan amount which was committed and agreed by the Group pursuant to the aforesaid arrangement was pro-rata to its shareholding in Ule. The fair value changes amounting to HK\$80 million of the shareholder loan arrangement in TOM and Ule were reflected in "Fair value gain on financial asset at fair value through profit or loss", and the "Share of fair value losses on financial liabilities at fair value through profit or loss" using the equity method respectively. In the second half of 2019, Ule will continue to expand its business offerings and drive technology innovation to further elevate its brand awareness and industry competitiveness in China's rural New Retail arena.

Pixnet, the Group's Social Network business, delivered solid performance during the review period. Gross revenue was HK\$36 million and segment profit was HK\$1 million as the Group continued to invest in Pixnet, the largest community website in Taiwan. Currently, Pixnet has about 7 million members and an average of over 5 million unique visitors per day, and has always been a preferred supplier and business partner for many multinational and local brands in Taiwan.

Media Business – sustained market leadership

The Group's Publishing business Cite, the market leader in Taiwan, maintained its leadership position in its markets during the review period. The Publishing Group's gross revenue recorded a slight 2% drop to HK\$362 million and segment profit was HK\$28 million amidst gloomy atmosphere in the Taiwan economy. Business Weekly, the Group's flagship business magazine in Taiwan, continued to adopt a two-pronged strategy in driving both traditional and digital media initiatives to diversify revenue streams.

During the review period, the Group accelerated its restructuring efforts on its Outdoor Media business and exited from certain non-performing business units.

For the six months ended 30 June 2019, the Group broadly maintained its revenue level from operations and recorded revenue of HK\$432 million with a gross profit margin of 41%. Including net share of operating losses of HK\$50 million from Associates, and the higher net finance costs of HK\$41 million due to increased market interest rates, the Group's loss for the period attributable to shareholders was HK\$82 million.

Going forward, the Group will continue to unlock value of its investments and create long term benefits for shareholders.

Group Capital Resources and Other Information

As at 30 June 2019, TOM Group had cash and bank balances, excluding pledged deposits, of approximately HK\$372 million. A total of HK\$3,417 million financing facilities were available, of which HK\$3,117 million, or 91%, had been utilised as at 30 June 2019, to finance the Group's investments, capital expenditures and for working capital purposes.

The principal of the total borrowings of TOM Group amounted to approximately HK\$3,117 million as at 30 June 2019, of which HK\$2,977 million and HK\$140 million equivalent is denominated in Hong Kong dollar and New Taiwan dollar respectively. The borrowings included long-term bank loans of approximately HK\$3,079 million (including portion repayable within one year) and short-term bank loans of approximately HK\$38 million. All bank loans bore floating interest rates. The gearing ratio (Total principal amount of bank borrowings/(Total principal amount of bank borrowings + Equity)) of TOM Group was 94% as at 30 June 2019, compared to 100% as at 31 December 2018. The net assets were approximately HK\$211 million as at 30 June 2019, compared to HK\$0.5 million as at 31 December 2018. The increase was mainly attributable to revaluation surplus of financial assets at fair value through other comprehensive income such as investment in WeLab.

As at 30 June 2019, the Group had net current assets of approximately HK\$299 million, compared to the balance of approximately HK\$357 million as at 31 December 2018. As at 30 June 2019, the current ratio (Current assets/Current liabilities) of TOM Group was 1.42, compared to 1.52 as at 31 December 2018.

For the period under review, net cash from operating activities after interest and taxation paid increased to HK\$37 million, 131% higher than HK\$16 million in the same period of 2018. Net cash outflow used in investing activities was HK\$200 million, mainly included the shareholders loan to Ule of approximately HK\$138 million and capital expenditure of approximately HK\$62 million. The convertible loan to Ule amounting to RMB155 million, which had been granted in 2014, was expired during the period and extended for a further 3 years period on terms that are substantially the same as the previous arrangement. As a result, no cashflow effect was aroused from the expiry of the convertible loan.

Financial Asset at Fair Value through Profit or Loss

On 10 May 2019, the Group entered into a shareholders loan arrangement with Ule to grant a shareholder loan of approximately US\$18 million (the "Facility") at an interest per annum of 2.0% over 3-month Hong Kong Interbank Offered Rate. The Facility is expiring in two years and the Group has an option to demand early repayment from Ule commencing from six months after the first drawdown of the Facility by way of a transfer of the charged unlisted equity instruments to the Group. None of the option had been exercised up to 30 June 2019. During the period, the fair value movement amounted to HK\$80 million to the Facility recognised in the Group under "Fair value gain on financial asset at fair value through profit or loss" and the Group's share of Ule's fair value movement on the Facility amounted to HK\$80 million recognised under "Share of fair value losses on financial liabilities at fair value through profit or loss" using the equity method.

Charges on Group Assets

As at 30 June 2019, the Group had restricted cash amounting to HK\$7 million, being bank deposits mainly pledged in favour of certain publishing distributors as retainer fee for potential sales return, and banks as security for credit card and advance receipt in Taiwan, and also the courts for legal proceedings in Mainland China.

Contingent Liabilities

As at 30 June 2019, the Group had no significant contingent liabilities.

Subsequent Events

There is no subsequent event after the reporting period which has material impact to the condensed consolidated interim financial information of the Group.

Foreign Exchange Exposure

The Group's operations principally locate in Mainland China and Taiwan, with transactions and related working capital denominated in Renminbi and New Taiwan dollar respectively. In general, it is the Group's policy for each operating entity to borrow in their local currencies, where necessary, to minimise currency risk. Overall, the Group is not exposed to significant foreign exchange risk; however, the Group will monitor this risk on an ongoing basis.

Employee Information

As at 30 June 2019, TOM Group had approximately 1,400 full-time employees (excluding approximately 500 full-time employees of Ule, an associated company of TOM). For the first six months of the year, employee costs, including Directors' emoluments, totalled HK\$171 million. The Group's employment and remuneration policies remained the same as detailed in the Annual Report for the year ended 31 December 2018.

Disclaimer:

Non-GAAP measures

Certain non-GAAP (generally accepted accounting principles) measures, such as profit/(loss) before net finance costs and taxation including share of results of investments accounted for using the equity method and segment profit/(loss) are used for assessing the Group's performance. These non-GAAP measures are not expressly permitted measures under GAAP in Hong Kong and may not be comparable to similarly titled measures for other companies. Accordingly, such non-GAAP measures should not be considered as an alternative to operating income as an indicator of the operating performance of the Group or as an alternative to cash flows from operating activities as a measure of liquidity. The use of non-GAAP measures is provided solely to enhance the overall understanding of the Group's current financial performance. Additionally, since the Group has historically reported certain non-GAAP results to investors, it is considered the inclusion of non-GAAP measures provides consistency in the Group's financial reporting.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Unaudited Six months ended 30 June	
	Note	2019 HK\$'000	2018 HK\$'000
Revenue	2	<u>432,257</u>	<u>451,270</u>
Cost of sales		(254,614)	(261,411)
Selling and marketing expenses		(69,360)	(75,702)
Administrative expenses		(35,279)	(49,221)
Other operating expenses		(77,564)	(71,490)
Other gains, net		20,667	8,594
Fair value gain on financial asset at fair value through profit or loss	4	<u>80,302</u>	<u>–</u>
		96,409	2,040
Share of profits less losses of investments accounted for using the equity method	3		
– Share of operating losses		(49,858)	(38,404)
– Share of fair value losses on financial liabilities at fair value through profit or loss		<u>(80,302)</u>	<u>–</u>
		<u>(130,160)</u>	<u>(38,404)</u>
Loss before net finance costs and taxation	5	(33,751)	(36,364)
Finance income		2,196	1,691
Finance costs		<u>(43,279)</u>	<u>(30,742)</u>
Finance costs, net	6	<u>(41,083)</u>	<u>(29,051)</u>
Loss before taxation		(74,834)	(65,415)
Taxation	7	<u>(6,884)</u>	<u>217</u>
Loss for the period		<u>(81,718)</u>	<u>(65,198)</u>
Attributable to:			
– Non-controlling interests		<u>361</u>	<u>(745)</u>
– Equity holders of the Company		<u>(82,079)</u>	<u>(64,453)</u>
Loss per share attributable to equity holders of the Company during the period			
Basic and diluted	9	<u>HK(2.07) cents</u>	<u>HK(1.66) cents</u>

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Loss for the period	(81,718)	(65,198)
Other comprehensive income/(expenses) for the period, net of tax		
– Items that will not be reclassified subsequently to income statement:		
Revaluation surplus of financial assets at fair value through other comprehensive income	224,042	–
Share of revaluation surplus through other comprehensive income from an associated company	86,127	–
Revaluation surplus of properties	–	14,625
	<u>310,169</u>	<u>14,625</u>
– Item that may be subsequently reclassified to income statement:		
Exchange translation differences	<u>(5,515)</u>	<u>9,923</u>
	<u>304,654</u>	<u>24,548</u>
Total comprehensive income/(expense) for the period	<u><u>222,936</u></u>	<u><u>(40,650)</u></u>
Total comprehensive income/(expense) for the period attributable to:		
– Non-controlling interests	<u><u>31,384</u></u>	<u><u>(552)</u></u>
– Equity holders of the Company	<u><u>191,552</u></u>	<u><u>(40,098)</u></u>

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019**

		Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
	Note		
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets		41,798	44,297
Right-of-use assets		61,747	–
Investment properties		21,649	21,649
Goodwill		578,305	578,363
Other intangible assets		129,047	128,120
Investments accounted for using the equity method	3	1,239,890	1,259,461
Financial assets at fair value through other comprehensive income		670,817	446,984
Financial asset at fair value through profit or loss	4	218,035	–
Deferred tax assets		46,778	48,369
Pension assets		2,066	2,066
Other non-current assets		1,841	3,428
		<u>3,011,973</u>	<u>2,532,737</u>
Current assets			
Inventories		100,982	103,198
Trade and other receivables	10	526,009	544,610
Restricted cash		7,469	5,282
Cash and cash equivalents		372,142	386,064
		<u>1,006,602</u>	<u>1,039,154</u>
Current liabilities			
Trade and other payables	11	575,917	584,845
Taxation payable		20,907	21,532
Long-term bank loans – current portion		43,539	38,130
Short-term bank loans		37,860	38,130
Lease liabilities – current portion		29,876	–
		<u>708,099</u>	<u>682,637</u>
Net current assets		<u>298,503</u>	<u>356,517</u>
Total assets less current liabilities		<u>3,310,476</u>	<u>2,889,254</u>

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

AS AT 30 JUNE 2019

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Non-current liabilities		
Deferred tax liabilities	15,955	14,326
Long-term bank loans – non-current portion	3,024,393	2,845,813
Lease liabilities – non-current portion	33,284	–
Pension obligations	25,972	28,606
	<u>3,099,604</u>	<u>2,888,745</u>
Net assets	<u>210,872</u>	<u>509</u>
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	395,852	395,852
Deficits	(542,980)	(733,307)
Own shares held	(6,244)	(6,244)
	<u>(153,372)</u>	<u>(343,699)</u>
Non-controlling interests	364,244	344,208
Total equity	<u>210,872</u>	<u>509</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY **FOR THE SIX MONTHS ENDED 30 JUNE 2019**

	Unaudited Attributable to equity holders of the Company															
	Fair value															
	Share capital HK\$'000	Own shares held HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	General reserve HK\$'000	comprehensive income			Properties revaluation reserve HK\$'000	Exchange reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total shareholders' deficits HK\$'000	Non-controlling interests HK\$'000	Total equity/(deficit) HK\$'000
Balance at 31 December 2018	395,852	(6,244)	3,744,457	(75,079)	776	165,847	327,679	14,625	684,211	6,096	(5,601,919)	(343,699)	344,208	509	(1,245)	(736)
Change in accounting policies (note 1(b))	-	-	-	-	-	-	-	-	-	-	(1,225)	(1,225)	(20)			
Restated balance at 1 January 2019	395,852	(6,244)	3,744,457	(75,079)	776	165,847	327,679	14,625	684,211	6,096	(5,603,144)	(344,924)	344,188			
Comprehensive income:																
Loss for the period	-	-	-	-	-	-	-	-	-	-	(82,079)	(82,079)	361		(81,718)	
Other comprehensive income:																
Revaluation surplus of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	200,612	-	-	-	-	200,612	23,430		224,042	
Share of revaluation surplus through other comprehensive income from an associated company	-	-	-	-	-	-	77,516	-	-	-	-	77,516	8,611		86,127	
Exchange translation differences	-	-	-	-	-	-	-	-	(4,497)	-	-	(4,497)	(1,018)		(5,515)	
Total comprehensive income/(expense) for the period ended 30 June 2019	-	-	-	-	-	-	278,128	-	(4,497)	-	(82,079)	191,552	31,384		222,936	
Transactions with equity holders:																
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(4,349)		(4,349)	
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(6,979)		(6,979)	
Transactions with equity holders	-	-	-	-	-	-	-	-	-	-	-	-	(11,328)		(11,328)	
Balance at 30 June 2019	395,852	(6,244)	3,744,457	(75,079)	776	165,847	605,807	14,625	679,714	6,096	(5,685,223)	(153,372)	364,244		210,872	

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Unaudited Attributable to equity holders of the Company														
	Fair value														
	Share capital HK\$'000	Own shares held HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	General reserve HK\$'000	comprehensive income reserve HK\$'000	Available-for-sale financial assets HK\$'000	Properties revaluation reserve HK\$'000	Exchange reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total shareholders' deficits HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 31 December 2017	389,328	(6,244)	3,625,981	(75,079)	776	161,668	-	364,355	-	716,197	6,096	(5,459,790)	(276,712)	354,196	77,484
Change in accounting policies	-	-	-	-	-	-	345,963	(364,355)	-	-	-	18,392	-	-	-
Restated balance at 1 January 2018	389,328	(6,244)	3,625,981	(75,079)	776	161,668	345,963	-	-	716,197	6,096	(5,441,398)	(276,712)	354,196	77,484
Comprehensive income:															
Loss for the period	-	-	-	-	-	-	-	-	-	-	-	(64,453)	(64,453)	(745)	(65,198)
Other comprehensive income:															
Revaluation surplus of properties	-	-	-	-	-	-	-	-	14,625	-	-	-	14,625	-	14,625
Exchange translation differences	-	-	-	-	-	-	-	-	-	9,730	-	-	9,730	193	9,923
Total comprehensive income/(expense) for the period ended 30 June 2018	-	-	-	-	-	-	-	-	14,625	9,730	-	(64,453)	(40,098)	(552)	(40,650)
Transactions with equity holders:															
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,917)	(7,917)
Transactions with equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,917)	(7,917)
Balance at 30 June 2018	389,328	(6,244)	3,625,981	(75,079)	776	161,668	345,963	-	14,625	725,927	6,096	(5,505,851)	(316,810)	345,727	28,917

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 Basis of preparation and accounting policies

This financial information is extracted from the Group's unaudited condensed consolidated interim financial information for the six months ended 30 June 2019 which has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and applicable disclosure requirements of the Listing Rules.

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

In preparing this unaudited condensed consolidated interim financial information, the Group has taken into account all information that could reasonably be expected to be available and has ascertained that the Group has obtained adequate financial resources to support the Group to continue in operational existence for the foreseeable future. The Group also has undrawn banking facilities guaranteed by one of its substantial shareholders. Accordingly, the Group has prepared this unaudited condensed consolidated interim financial information on a going concern basis.

The accounting policies and methods of computation used in the preparation of this unaudited condensed consolidated interim financial information are consistent with those used in 2018 annual financial statements, except for the adoption of new standard and amendments to standards and accounting policy not yet applied which are relevant to the operations of the Group and mandatory for annual periods beginning 1 January 2019.

(a) New standard and amendments to standards

A number of new standard and amendments to standards became applicable for the current reporting period. The Group has changed its accounting policies as a result of adopting HKFRS 16 Leases.

The impact of the adoption of this standard and the new accounting policies are disclosed in note 1(b) below. The adoption of other amendments to standards does not have a significant impact on the Group's accounting.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

1 Basis of preparation and accounting policies (Continued)

(b) Effect of the adoption of HKFRS 16 Leases

The following tables show the impact on each individual line item. Line items that were not affected by the changes have not been included.

Condensed consolidated interim statement of financial position (extract)

	As at 31 December 2018 As originally presented HK\$'000	Impact on initial adoption of HKFRS 16 HK\$'000	As at 1 January 2019 Restated HK\$'000
Non-current assets			
Right-of-use assets	–	73,862	73,862
Current liabilities			
Trade and other payables	584,845	(52)	584,793
Lease liabilities – current portion	–	31,892	31,892
Non-current liabilities			
Lease liabilities – non-current portion	–	43,267	43,267
Equity			
Deficits	(733,307)	(1,225)	(734,532)
Non-controlling interests	344,208	(20)	344,188

Condensed consolidated interim income statement (extract)

	Six months ended 30 June 2019 without adoption of HKFRS 16 HK\$'000	Impact on adoption of HKFRS 16 HK\$'000	Six months ended 30 June 2019 HK\$'000
Cost of sales	254,883	(269)	254,614
Administrative expenses	49,093	(13,814)	35,279
Other operating expenses	64,337	13,227	77,564
Finance costs	42,432	847	43,279

(c) Accounting policy not yet applied in 2018 annual financial statements

Financial asset at fair value through profit or loss ("FVPL")

Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income ("FVOCI"), or designated as FVPL using fair value option, are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss in the period in which it arises.

2 Turnover, revenue and segment information

The Group has five reportable operating segments:

- E-Commerce Group – provision of services to users using the mobile and Internet-based marketplace and provision of technical services for e-commerce operations.
- Mobile Internet Group – provision of mobile Internet services, online advertising and commercial enterprise solutions.
- Social Network Group – provision of services of online community and social networking websites and related online advertising.
- Publishing Group – magazine and book publishing and circulation, sales of advertising and other related products.
- Advertising Group – advertising sales of outdoor media assets and provision of outdoor media services; provision of media sales, event production and marketing services.

Sales between segments are carried out at arm's length.

2 Turnover, revenue and segment information (Continued)

The segment results for the six months ended 30 June 2019 are as follows:

Unaudited Six months ended 30 June 2019							
	Technology Platform and Investments				Media Business		
	E-Commerce Group HK\$'000	Mobile Internet Group HK\$'000	Social Network Group HK\$'000	Sub-total HK\$'000	Publishing Group HK\$'000	Advertising Group HK\$'000	Sub-total HK\$'000
Gross segment revenue	4,649	6,797	35,999	47,445	362,063	23,398	385,461
Inter-segment revenue	-	-	(483)	(483)	-	(166)	(166)
Net revenue from external customers	4,649	6,797	35,516	46,962	362,063	23,232	385,295
Timing of revenue recognition:							
At a point in time	71	2,165	35,516	37,752	330,021	3,176	333,197
Over time	4,578	4,632	-	9,210	32,042	20,056	52,098
	4,649	6,797	35,516	46,962	362,063	23,232	385,295
Segment profit/(loss) before amortisation and depreciation	(1,888)	(2,213)	2,926	(1,175)	95,589	1,090	96,679
Amortisation and depreciation	-	(2,678)	(2,222)	(4,900)	(67,473)	(2,358)	(69,831)
Segment profit/(loss)	(1,888)	(4,891)	704	(6,075)	28,116	(1,268)	26,848
Other material items:							
Fair value gain on financial asset at FVPL	80,302	-	-	80,302	-	-	-
Gain on dilution of shareholding in associated companies	26,320	-	-	26,320	-	-	-
Loss on disposal of subsidiaries	-	-	-	-	-	(5,081)	(5,081)
Share of profits less losses of investments accounted for using the equity method							
– Share of operating (losses)/profits	(50,526)	(447)	-	(50,973)	1,115	-	1,115
– Share of fair value losses on financial liabilities at FVPL	(80,302)	-	-	(80,302)	-	-	-
	(24,206)	(447)	-	(24,653)	1,115	(5,081)	(3,966)
Finance costs:							
Finance income (note a)	639	1,014	53	1,706	1,961	334	2,295
Finance expenses	-	(110)	(22)	(132)	(1,529)	(165)	(1,694)
	639	904	31	1,574	432	169	601
Segment profit/(loss) before taxation	(25,455)	(4,434)	735	(29,154)	29,663	(6,180)	23,483
Unallocated corporate expenses							(69,163)
Loss before taxation							(74,834)
Expenditure for operating segment non-current assets	-	132	11,657	11,789	59,988	1,491	61,479
Unallocated expenditure for non-current assets							-
Total expenditure for non-current assets							73,268

Note (a):

Inter-segment interest income amounted to HK\$1,807,000 was included in the finance income.

2 Turnover, revenue and segment information (Continued)

The segment results for the six months ended 30 June 2018 are as follows:

Unaudited Six months ended 30 June 2018							
	Technology Platform and Investments				Media Business		
	E-Commerce Group HK\$'000	Mobile Internet Group HK\$'000	Social Network Group HK\$'000	Sub-total HK\$'000	Publishing Group HK\$'000	Advertising Group HK\$'000	Total HK\$'000
Gross segment revenue	4,451	12,980	39,161	56,592	369,673	25,830	452,095
Inter-segment revenue	-	-	(561)	(561)	-	(264)	(825)
Net revenue from external customers	<u>4,451</u>	<u>12,980</u>	<u>38,600</u>	<u>56,031</u>	<u>369,673</u>	<u>25,566</u>	<u>451,270</u>
Timing of revenue recognition:							
At a point in time	141	10,939	38,600	49,680	330,393	4,899	384,972
Over time	<u>4,310</u>	<u>2,041</u>	<u>-</u>	<u>6,351</u>	<u>39,280</u>	<u>20,667</u>	<u>66,298</u>
	<u>4,451</u>	<u>12,980</u>	<u>38,600</u>	<u>56,031</u>	<u>369,673</u>	<u>25,566</u>	<u>451,270</u>
Segment profit/(loss) before amortisation and depreciation	582	(2,090)	4,243	2,735	84,736	(805)	86,666
Amortisation and depreciation	<u>-</u>	<u>(506)</u>	<u>(1,123)</u>	<u>(1,629)</u>	<u>(56,809)</u>	<u>(1,449)</u>	<u>(59,887)</u>
Segment profit/(loss)	<u>582</u>	<u>(2,596)</u>	<u>3,120</u>	<u>1,106</u>	<u>27,927</u>	<u>(2,254)</u>	<u>26,779</u>
Other material item:							
Share of profits less losses of investments accounted for using the equity method	<u>(39,258)</u>	<u>(6)</u>	<u>-</u>	<u>(39,264)</u>	<u>860</u>	<u>-</u>	<u>(38,404)</u>
Finance costs:							
Finance income (note a)	-	1,041	3	1,044	2,314	484	3,842
Finance expenses (note a)	<u>-</u>	<u>-</u>	<u>(2)</u>	<u>(2)</u>	<u>(1,497)</u>	<u>-</u>	<u>(1,499)</u>
	<u>-</u>	<u>1,041</u>	<u>1</u>	<u>1,042</u>	<u>817</u>	<u>484</u>	<u>2,343</u>
Segment profit/(loss) before taxation	<u>(38,676)</u>	<u>(1,561)</u>	<u>3,121</u>	<u>(37,116)</u>	<u>29,604</u>	<u>(1,770)</u>	<u>(9,282)</u>
Unallocated corporate expenses							<u>(56,133)</u>
Loss before taxation							<u>(65,415)</u>
Expenditure for operating segment non-current assets	-	41	1,562	1,603	56,251	61	57,915
Unallocated expenditure for non-current assets							-
Total expenditure for non-current assets							<u>57,915</u>

Note (a):

Inter-segment interest income and inter-segment interest expenses amounted to HK\$2,160,000 and HK\$3,000 were included in the finance income and finance expenses respectively.

2 Turnover, revenue and segment information (Continued)

The segment assets and liabilities at 30 June 2019 are as follows:

	Unaudited As at 30 June 2019							
	Technology Platform and Investments				Media Business			Total HK\$'000
	E-Commerce Group HK\$'000	Mobile Internet Group HK\$'000	Social Network Group HK\$'000	Sub-total HK\$'000	Publishing Group HK\$'000	Advertising Group HK\$'000	Sub-total HK\$'000	
Segment assets	305,117	877,864	56,770	1,239,751	1,312,053	129,616	1,441,669	2,681,420
Investments accounted for using the equity method	1,230,912	4,937	–	1,235,849	4,041	–	4,041	1,239,890
Unallocated assets								97,265
Total assets								<u>4,018,575</u>
Segment liabilities	22,585	56,174	29,086	107,845	416,827	57,078	473,905	581,750
Unallocated liabilities:								
Corporate liabilities								83,299
Current taxation								20,907
Deferred taxation								15,955
Borrowings								3,105,792
Total liabilities								<u>3,807,703</u>

The segment assets and liabilities at 31 December 2018 are as follows:

	Audited As at 31 December 2018							
	Technology Platform and Investments				Media Business			Total HK\$'000
	E-Commerce Group HK\$'000	Mobile Internet Group HK\$'000	Social Network Group HK\$'000	Sub-total HK\$'000	Publishing Group HK\$'000	Advertising Group HK\$'000	Sub-total HK\$'000	
Segment assets	85,985	636,930	46,379	769,294	1,298,605	146,730	1,445,335	2,214,629
Investments accounted for using the equity method	1,249,762	5,386	–	1,255,148	4,313	–	4,313	1,259,461
Unallocated assets								97,801
Total assets								<u>3,571,891</u>
Segment liabilities	22,369	48,175	19,198	89,742	397,879	48,717	446,596	536,338
Unallocated liabilities:								
Corporate liabilities								77,113
Current taxation								21,532
Deferred taxation								14,326
Borrowings								2,922,073
Total liabilities								<u>3,571,382</u>

The unallocated assets represent the corporate assets. The unallocated liabilities represent the corporate liabilities in addition to operating segment taxation payable, deferred tax liabilities and borrowings which are managed on a central basis.

3 Investments accounted for using the equity method

The amounts recognised in the condensed consolidated interim statement of financial position are as follows:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Associated companies	<u>1,239,890</u>	<u>1,259,461</u>

The share of net losses recognised in the condensed consolidated interim income statement are as follows:

	Unaudited Six months ended 30 June 2018 HK\$'000	2018 HK\$'000
Associated companies		
– Share of operating losses	(49,858)	(38,404)
– Share of fair value losses on financial liabilities at FVPL (note b)	<u>(80,302)</u>	<u>–</u>
	<u>(130,160)</u>	<u>(38,404)</u>

Notes:

- (a) In June 2016, the shareholders of Ule Holdings Limited ("Ule Holdings"), a material associated company of the Group, resolved the launch of share incentive options of Ule Holdings ("Ule Share Incentive Options"). Under the Ule Share Incentive Options, a total of 100,000,000 ordinary shares (based on the current par value of US\$0.00001 each) were reserved, of which 43.71% of the Ule Share Incentive Options representing 43,711,860 shares ("Ule Major Shareholder Options") were approved to be granted to one of Ule Holdings' major shareholders ("Ule Major Shareholder"), subject to the completion of a deed ("Deed") signed by Ule Holdings and all of its shareholders, and the remaining 56.29% of the Ule Share Incentive Options representing 56,288,140 shares ("Ule Other Options") were approved to be granted to directors, employees and consultants of Ule and such other persons contributing to Ule, subject to determination of the details of Ule Other Options by the Ule remuneration committee ("Ule Committee").

As at 30 June 2019, as if the Ule Share Incentive Options were all granted, fully vested and exercised, Ule Holdings would be held as to 43.71%, 38.32%, 13.04% and 4.93% by Ule Major Shareholder, a non-wholly owned subsidiary of the Group, certain investors and holders of Ule Other Options respectively on a fully diluted basis.

3 Investments accounted for using the equity method (Continued)

Notes (Continued):

(a) (Continued)

In June 2016, the Deed was signed by Ule Holdings, the Ule Major Shareholder and remaining shareholders of Ule Holdings, under which it was mutually agreed that Ule Holdings granted Ule Major Shareholder Options to the Ule Major Shareholder for its contributions to Ule's business over the past years. The Ule Major Shareholder Options granted to the Ule Major Shareholder are only exercisable upon the completion of a qualified initial public offering ("Qualified IPO") of Ule Holdings. The exercise price of each Ule Major Shareholder Option is at the par value of each share on the exercise date. The Deed will be terminated if the Qualified IPO of Ule Holdings is not completed within 10 years from the date of the Deed. As at 30 June 2019 and 2018, Ule Major Shareholder Options are not yet exercisable as the Qualified IPO has not occurred.

In October 2017, a total of 4,765,000 options under the Ule Other Options were granted. The options that were granted carried a Qualified IPO performance of Ule Holdings and service condition that affect vesting. As at 30 June 2019, the Qualified IPO performance condition is yet to be satisfied. As the options only vest upon a Qualified IPO, Ule Holdings did not recognise any share-based compensation expense for the period then ended. No outstanding options granted under the Ule Other Options were vested as at 30 June 2019. All the outstanding options will be expired in October 2027.

- (b) During the period ended 30 June 2019, Ule Holdings recognised financial liabilities at FVPL in relation to loan facilities from certain shareholders and also recognised the change in fair value of the financial liabilities. Accordingly, the Group has shared the losses from the fair value change of the financial liabilities amounting to HK\$80,302,000 in the condensed consolidated interim income statement.

4 Financial asset at fair value through profit or loss

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Loan with option to an associated company	137,733	—
Fair value change during the period	80,302	—
	<u>218,035</u>	<u>—</u>

During the period ended 30 June 2019, the Group was offered a shareholder loan proposal by Ule Holdings to subscribe for its shareholding pro-rata amount of US\$17,658,100 (equivalent to HK\$137,733,000) loan to Ule Holdings for a period of up to 24 months with interest bearing at 3 months Hong Kong Interbank Offered Rate plus 2% per annum. Pursuant to the loan facility, the Group has an option, commencing from 6 months after the drawdown date, to demand early repayment from Ule Holdings by way of transfer of collateral, which is an unlisted equity instrument. Accordingly, the loan with option was recognised as a financial asset at FVPL and a fair value gain of the loan with option during the period ended 30 June 2019 amounting to HK\$80,302,000 was recognised in the condensed consolidated interim income statement.

5 Loss before net finance costs and taxation

Loss before net finance costs and taxation is stated after charging/crediting the following:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Charging:		
Depreciation of fixed assets	9,038	9,765
Depreciation of right-of-use assets	16,987	–
Amortisation of other intangible assets	51,869	51,013
Loss on disposal of subsidiaries (note a)	5,081	–
Exchange loss, net	659	–
	<u>77,574</u>	<u>51,778</u>
Crediting:		
Dividend income from financial assets at FVOCI	–	511
Recovery from a previously fully written off receivable of discontinued operations	–	2,736
Gain on dilution of shareholding in associated companies (note b)	26,320	–
Gain on disposal of a former subsidiary (note c)	–	3,660
Gain on disposal of fixed assets	87	20
Exchange gain, net	–	1,667
	<u>26,407</u>	<u>5,594</u>

Notes:

- (a) In April 2019, a subsidiary of the Advertising Group entered into an agreement to dispose its entire interests in two subsidiaries engaging in outdoor media business, at a total consideration of RMB5,000,000 (approximately HK\$5,650,000). The disposal of equity interests in the two subsidiaries was completed in June 2019. Accordingly, a loss on disposal of approximately HK\$5,081,000 was recognised in the condensed consolidated interim income statement for the period ended 30 June 2019.
- (b) In April 2019, Ule Major Shareholder subscribed certain Series A Preferred Shares of Ule Holdings. Following the subscription by Ule Major Shareholder, the equity interest in Ule Holdings held by the non-wholly owned subsidiary of the Group decreased from 42.52% to 42.00%. Accordingly, a gain on dilution of shareholding in Ule Holdings of approximately HK\$26,320,000 was recognised in the condensed consolidated interim income statement for the period ended 30 June 2019.
- (c) In December 2017, a subsidiary of the Advertising Group entered into an agreement to dispose its entire interests in a former subsidiary ("Entity") which engages in outdoor media business at a consideration of RMB3,000,000 (approximately HK\$3,660,000). The disposal of the entire equity interest in the Entity was completed in January 2018. Accordingly, a gain on disposal of approximately HK\$3,660,000 was recognised in the condensed consolidated interim income statement for the period ended 30 June 2018.

6 Finance costs, net

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Interest and borrowing costs on bank loans	(42,432)	(30,742)
Interest costs on lease liabilities	(847)	–
Bank interest income	1,560	1,691
Interest income on loan to an associated company	636	–
	<u>(41,083)</u>	<u>(29,051)</u>

7 Taxation

Hong Kong profits tax has been provided for at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the condensed consolidated interim income statement represents:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Overseas taxation	2,575	4,074
Under-provision in prior years	1,393	719
Deferred taxation	2,916	(5,010)
	<u>6,884</u>	<u>(217)</u>

8 Dividends

No dividends had been paid or declared by the Company for the six months ended 30 June 2019 (2018: Nil).

9 Loss per share

(a) Basic

The calculation of basic loss per share is based on consolidated loss attributable to equity holders of the Company of HK\$82,079,000 (2018: HK\$64,453,000) and the weighted average of 3,958,510,558 (2018: 3,893,270,558) ordinary shares in issue during the period.

(b) Diluted

Diluted loss per share is equal to the basic loss per share for the period ended 30 June 2019 (2018: Same).

10 Trade and other receivables

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Trade receivables	259,186	274,998
Prepayments, deposits and other receivables	266,823	269,612
	<u>526,009</u>	<u>544,610</u>

The Group has established credit policies for customers in each of its businesses. The average credit period granted for trade receivables ranges from 30 to 180 days. The Group's turnover is determined in accordance with terms specified in the contracts governing the relevant transactions. The carrying values of trade and other receivables approximate their fair values.

The ageing analyses of the Group's trade receivables are as follows:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Current	116,717	116,765
31 – 60 days	59,248	70,587
61 – 90 days	34,667	42,009
Over 90 days	104,225	105,280
	<u>314,857</u>	<u>334,641</u>
Less: Provision for impairment	(55,671)	(59,643)
	<u>259,186</u>	<u>274,998</u>

11 Trade and other payables

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Trade payables	136,621	137,971
Other payables and accruals, and receipt in advance	280,728	310,306
Contract liabilities	158,568	136,568
	<u>575,917</u>	<u>584,845</u>

The carrying values of trade and other payables approximate their fair values.

The ageing analyses of the Group's trade payables are as follows:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Current	54,749	50,987
31 – 60 days	12,055	14,601
61 – 90 days	7,246	8,627
Over 90 days	62,571	63,756
	<u>136,621</u>	<u>137,971</u>

REVIEW OF INTERIM FINANCIAL INFORMATION

The unaudited condensed consolidated interim financial information of the Company and its subsidiary companies for the six months ended 30 June 2019 have been reviewed by the Company's auditor, PricewaterhouseCoopers, 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. The auditor's independent review report will be included in the Interim Report to shareholders. The unaudited condensed consolidated interim financial information of the Company and its subsidiary companies for the six months ended 30 June 2019 have been reviewed by the Audit Committee of the Company.

CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions of the Corporate Governance Code throughout the six months ended 30 June 2019, save and except Code Provision A.5 which is with respect to the nomination committee.

The Company has considered the merits of establishing a nomination committee but is of the view that it is in the best interests of the Company that the Board collectively reviews, deliberates on and approves the structure, size and composition of the Board and the appointment of any new Director. The Board is tasked with ensuring that it has a balanced composition of skills, experience and expertise appropriate for the requirements of the businesses of the Group, with due regard to the benefits of diversity on the Board, and that appropriate individuals with the relevant expertise and leadership qualities are appointed to the Board to complement the capabilities of the existing Directors. In addition, the Board as a whole is also responsible for reviewing the succession plan for the Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the Group's code of conduct regarding Directors' securities transactions. In response to specific enquiry made with the Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code during the six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares. In addition, the Company has not redeemed any of its listed shares during the period.

PAST PERFORMANCE AND FORWARD-LOOKING STATEMENTS

The performance and the results of operations of the Group contained in this announcement are historical in nature, and past performance is no guarantee of the future results of the Group. Any forward-looking statements and opinions contained in this announcement are based on current plans, estimates and projections, and therefore involve risks and uncertainties. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. The Group, the Directors, employees and agents of the Group assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this announcement; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise or turn out to be incorrect.

DEFINITIONS

"Associate(s)"	has the meaning ascribed to it in the Listing Rules
"B2B"	means business-to-business
"Board"	means the board of Directors
"China Post"	means China Post Group Limited, a state-owned enterprise of the PRC, and its subsidiaries (its subsidiary Telpo Philatelic Company Limited is the entity that is the shareholder of Ule)
"CKH"	means Cheung Kong (Holdings) Limited, a company incorporated in Hong Kong with limited liability, whose listing status on the Stock Exchange was replaced by CKHH on 18 March 2015
"CKHH"	means CK Hutchison Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange on 18 March 2015 (Stock Code: 0001)
"Company" or "TOM"	means TOM Group Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 2383)
"Corporate Governance Code"	means the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Director(s)"	means the director(s) of the Company
"GMV"	means Gross Merchandise Value, the total value of all orders handled or processed through Ule Group's platform which includes multiple websites, mobile applications and PC applications, regardless of whether the orders are consummated, goods and services returned or not
"Group" or "TOM Group"	means the Company and its subsidiaries
"HWL"	means Hutchison Whampoa Limited, a company incorporated in Hong Kong with limited liability, whose shares ceased to be listed on the Stock Exchange on 3 June 2015
"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange

“Main Board”	means the main board of the Stock Exchange
“Mainland” or “PRC”	means The People’s Republic of China, excluding Hong Kong, Macau and Taiwan
“Media Business”	means two reportable operating segments of Publishing Group and Advertising Group
“Model Code”	means Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“Rubikloud”	means Rubikloud Technologies Inc., a corporation incorporated in Canada
“SFO”	means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Technology Platform and Investments”	means three reportable operating segments of E-Commerce Group, Social Network Group and Mobile Internet Group; and investments in Fintech and Advanced Data Analytics sectors
“Ule” or “Ule Holdings”	means Ule Holdings Limited, a material associate of the Company which undertakes an e-Commerce business in PRC and from time to time raises funds for its growing business
“Ule Group”	means Ule or Ule Holdings and its subsidiaries
“WeLab”	means WeLab Holdings Limited, a BVI business company incorporated in the British Virgin Islands with limited liability

To the extent that there are any inconsistencies between the English version and the Chinese version of this announcement, the English version shall prevail.

As at the date hereof, the directors of the Company are:

<i>Executive Director:</i>	<i>Non-executive Directors:</i>	<i>Independent Non-executive Directors:</i>
<i>Mr. Yeung Kwok Mung</i>	<i>Mr. Frank Sixt (Chairman)</i>	<i>Mr. Henry Cheong</i>
	<i>Ms. Debbie Chang</i>	<i>Mr. James Sha</i>
	<i>Mrs. Angelina Lee</i>	<i>Mr. Albert Ip</i>
		<i>Alternate Director:</i>
		<i>Mr. Dominic Lai</i>
		<i>(Alternate to Mr. Frank Sixt)</i>