Hyfusin Group Holdings Limited
凱富善集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8512

2018
Annual Report

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

*This report, for which the directors (the "**Directors**") of Hyfusin Group Holdings Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company and its subsidiaries (together, the "**Group**"). The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

CONTENTS

CORPORATE INFORMATION

Board of Directors	**Executive Directors** Mr. Wong Wai Chit *(Chairman)* Mr. Wong Man Chit *(Chief Executive Officer)* **Non-executive Director** Ms. Wong Fong **Independent Non-executive Directors** Mr. Chan Cheong Tat Mr. Yu Pui Hang Mr. Ho Chi Wai
Audit committee	Mr. Chan Cheong Tat *(Chairman)* Mr. Yu Pui Hang Mr. Ho Chi Wai
Remuneration committee	Mr. Yu Pui Hang *(Chairman)* Mr. Chan Cheong Tat Mr. Ho Chi Wai
Nomination committee	Mr. Ho Chi Wai *(Chairman)* Mr. Chan Cheong Tat Mr. Yu Pui Hang
Company secretary	Mr. Lee Ka Wai
Authorized representatives	Mr. Wong Wai Chit Mr. Lee Ka Wai
Compliance officer	Mr. Wong Wai Chit
Registered office	PO Box 1350 Clifton House, 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Headquarters and principal place of business in Hong Kong	Unit Nos.4–8, 2/F Aberdeen Marina Tower 8 Shum Wan Road Aberdeen Hong Kong
Company's website address	http://www.fleming-int.com

Principal share registrar and transfer office	**Estera Trust (Cayman) Limited** PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1–1108 Cayman Islands
Hong Kong branch share registrar and transfer office	**Union Registrars Limited** Suites 3301–04, 33/F, Two Chinachem Exchange Square 338 King's Road, North Point Hong Kong
Principal bankers	**Shanghai Commercial Bank Limited** Shanghai Commercial Bank Tower 12 Queen's Road Central Hong Kong
	OCBC Wing Hang Bank Limited 161 Queen's Road Central Hong Kong
	Shinhan Bank Vietnam Floor 9, Sonadezi Tower No.1, 1 Street, Bion Hoa IZ1 Bien Hoa, Dong Nai Vietnam
	Public Bank Vietnam (formerly known as VID Public Bank) 251 Pham Van Thuan Street Tan Mai Ward, Bien Hoa City, Dong Nai Vietnam
Compliance Adviser	**TC Capital International Limited** Suites 1903–1904, 19/F, Tower 6 The Gateway, Harbour City 9 Canton Road, Tsim Sha Tsui Kowloon, Hong Kong
Auditor	**Deloitte Touche Tohmatsu** *Certified Public Accountants* 35/F, One Pacific Place 88 Queensway Hong Kong

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

The board (the "**Board**") of Directors of the Group is pleased to present the audited consolidated financial results of the Group for the year ended 31 December 2018 to the shareholders of the Company (the "**Shareholders**").

REVIEW OF RESULTS

For the year ended 31 December 2018, the Group's revenue was approximately HK$215.4 million. The Group recorded a net profit of approximately HK$4.8 million for the year ended 31 December 2018.

LISTING IN HONG KONG

On 19 July 2018 (the "**Listing Date**"), the Company had been successfully listed on GEM of the Stock Exchange in Hong Kong (the "**Listing**"), demonstrating the realisation of capital expansion and structure optimization of the Company as well as enhancing the recognition and social influence of the Company.

BUSINESS REVIEW

The Group principally engages in the manufacturing and sale of candle products with headquarters in Hong Kong and operations in Vietnam. The Group mainly manufactures and sells daily-use candles, scented candles, decorative candles and other products such as diffusers. Our major customers are mostly U.S. and U.K. department store operators and buying agents.

The Group mainly manufactures our candle products based on the requirements and specifications from our customers. The Group would also assess the design and specifications and put forward our suggestions to our customers. The Group offer a wide variety of services to our customers ranging from product design, raw material selection and procurement, provision of sample candle before mass production, laboratory testing to recommendation to improve the product quality.

According to an industry overview report prepared by Frost & Sullivan International Limited (the "**F&S Report**"), an independent market research and consulting firm, we ranked the third, the fourth and the fourth among the candle manufacturers in Vietnam in terms of estimated export value, estimated revenue and estimated production capacity in 2017, respectively. According to the F&S Report, the import value and share of candle products in U.S. and U.K. from Vietnam expected to reach approximately US$195.6 million and approximately US$15.6 million, respectively.

The F&S Report also mentioned that as the economy in the U.S. and other developed countries continue to recover, the consumption of mid-to-high end candle products is expected to increase. The candle market also has an increasing preference over candle products which are scented and with colour additives. With the preference for candle products with scent and coloured additives for use in rooms and households, increasing demand for scented and decorative candle products has provided the impetus for the whole market.

The analysis of product segment of the Group for the year ended 31 December 2018 is set out in Note 6 to the consolidated financial statements, where the sales of scented candles has growth turn around approximately in a double as compared with 2017 that reflects the trend of preference for candle products with scent and coloured additives is increasing in the U.S. market. The increase of sales of scented candles mainly due to an increase of approximately HK$36.0 million (approximately 34% of sales of scented candles in 2018) generated from a new customer introduced in the second half of 2017.

In order to catch up the rapid growth of candle products especially in the U.S. market, the Group cooperated with a U.S. market consultant company after our Listing, for the boost of sales by introducing some sales representatives through their network in candle field in the U.S. market.

The U.S. market consultant company helped in analysis and identifying recent developments of our competitors within the U.S. market, introducing sales representatives in candle industry in the U.S. market, introducing a designer to accelerate the negotiation between the Group and the sales representatives for the potential orders and cooperation and coordinating the communication among each other with the synergy effect.

During the year ended 31 December 2018, the Group entered into the contracts with sales representatives for the sales incentive to sales representatives for the orders from customers introduced by them. The Group received secured orders from customers introduced by those sales representatives. Those newly received secured orders are expected to be delivered to customers in the first half of 2019.

Based on our well established long-term relationships with our customers and with support from our experienced management team in the industry, we are confidence on capitalising further business opportunities and growth.

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2018 amounted to approximately HK$215.4 million (2017: approximately HK$162.5 million), representing an increase of approximately HK$52.9 million or 32.6% as compared with last year. The increase in revenue was mainly due to the increase in sales of daily-use candles, scented candles and diffusers, which was partially offset by the decrease in sales of decorative candles.

Cost of sales

Cost of sales for the year ended 31 December 2018 amounted to approximately HK$166.8 million (2017: approximately HK$121.4 million), representing an increase of approximately HK$45.4 million or 37.4% as compared with last year. The increase in cost of sales was mainly due to the increase in the sales volume of scented candles as well as the increase in cost of raw materials.

Gross profit and gross profit margin

Gross profit for the year ended 31 December 2018 amounted to approximately HK$48.6 million (2017: approximately HK$41.1 million), representing an increase of approximately HK$7.5 million or 18.2% as compared with last year.

The gross profit margin dropped from approximately 25.3% in 2017 to approximately 22.6% in 2018, mainly due to the increase in sales of scented candles, which generally had lower gross profit margin when compared with daily-use candles and the increase in the cost of raw materials.

Other income and other gains

Other income for the year ended 31 December 2018 amounted to approximately HK$0.9 million (2017: approximately HK$0.3 million), representing an increase of approximately HK$0.6 million or 200% as compared with last year. The increase in other income was mainly due to the increase in bank interest income from approximately HK$42,000 in 2017 to approximately HK$205,000 in 2018 and increase in surcharge income from reimbursement from our customers of approximately HK$464,000 in 2018.

Other gains for the year ended 31 December 2018 amounted to approximately HK$290,000 (2017: approximately HK$28,000), representing an increase of approximately HK$262,000 or 935.7% as compared with last year. The increase was mainly due to the exchange gain generated from inter-bank fund transfer and the US$ appreciated against Vietnamese dong.

Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2018 amounted to approximately HK$7.6 million (2017: approximately HK$5.1 million), representing an increase of approximately HK$2.5 million or 49.0% as compared with last year. The increase was mainly due to (i) the increase in transportation and declarations expenses of approximately HK$0.9 million as a result of the increase in sales; and (ii) increase in consultation service fee of approximately HK$1.2 million paid starting in current year in relation to U.S. market consultation which is beneficial to our business growth.

Administrative expenses

Administrative expenses for the year ended 31 December 2018 amounted to approximately HK$32.3 million (2017: approximately HK$24.2 million), representing an increase of approximately HK$8.1 million or 33.5% as compared with last year. The increase was mainly due to the increase in salaries and allowances of approximately HK$3.5 million caused by the increase in the number of administrative and finance personnel; and increase in legal and professional fees during the year ended 31 December 2018.

Finance costs

Finance costs for the year ended 31 December 2018 amounted to approximately HK$1.9 million (2017: approximately HK$1.6 million), representing an increase of approximately HK$0.3 million or 18.8% as compared with last year. The increase was mainly due to the increase in using bank borrowings for bank loans and import and export loans to cope with business growth.

Listing expenses

During the year ended 31 December 2018, the Group recognised non-recurring listing expenses of approximately HK$965,000 in connection with the Listing on GEM (2017: approximately HK$19.5 million).

Income tax expense

Income tax expense for the year ended 31 December 2018 amounted to approximately HK$2.3 million (2017: approximately HK$2.1 million), representing an increase of approximately HK$0.2 million or 9.5% as compared with last year. The increase primarily due to the increase in profit before taxation in Hong Kong and Vietnam.

Profit for the year

The Group recorded net profit of approximately HK$4.8 million for the year ended 31 December 2018 (2017: net loss of approximately HK$11.1 million), representing an increase of approximately HK$15.9 million as compared with last year. Such increase was mainly due to the recognition of non-recurring listing expenses of approximately HK$965,000 for the year ended 31 December 2018, compared to that of approximately HK$19.5 million in 2017.

The Group's net profit after excluding non-recurring expenses would be approximately HK$5.7 million (2017: approximately HK$8.4 million), representing a decrease of approximately HK$2.7 million or 32.1% as compared with last year. Such decrease was the combined effect of (i) increase in gross profit of approximately HK$7.5 million; (ii) increase in other income and other gains of HK$0.9 million; and offset by (a) the increase in administrative expenses for HK$8.1 million; (b) increase in selling and distribution expenses for HK$2.5 million; and (c) increase in finance costs for HK$0.3 million.

Dividend

The Board does not recommend the payment of any dividend for the year ended 31 December 2018. The detail is disclosed in Note 14 of the consolidated financial statements.

Liquidity and Financial Resources

As at 31 December 2018, the Group had total assets of approximately HK$166.1 million (2017: approximately HK$105.4 million), which is financed by total liabilities and Shareholders' equity (comprising share capital and reserves) of approximately HK$57.0 million (2017: approximately HK$66.8 million) and approximately HK$109.1 million (2017: approximately HK$38.6 million), respectively.

The total interest-bearing borrowings and bank overdraft of the Group as at 31 December 2018 were approximately HK$33.4 million (31 December 2017: approximately HK$31.7 million), and current ratio as at 31 December 2018 was approximately 2.4 times (31 December 2017: approximately 1.2 times) mainly due to the increase in cash and cash equivalents attributable to the unutilised proceeds received from the Listing.

The Group's gearing ratio, which is calculated by dividing total debt (total debts are defined to include payables incurred not in the ordinary course of business) by total equity as at the end of each of the financial year, dropped from approximately 89.6% as at 31 December 2017 to approximately 30.8% as at 31 December 2018, primarily due to the slightly decrease in the level of bank borrowings and the increase in total equity.

As at 31 December 2018 and 2017, the Group has unutilised banking facilities of approximately HK$37.2 million and HK$22.3 million respectively.

The Directors are of the view that as at the date hereof, the Group's financial resources are sufficient to support its business and operations.

Treasury Policy

The Group adopts a prudent financial management approach towards its treasury policy and thus maintained a healthy liquidity position throughout the reporting period. The management of the Group regularly reviews the recoverable amount of trade receivables by performing ongoing credit assessments and monitoring prompt recovery and if necessary to make adequate impairment losses for irrecoverable amounts. In order to achieve better cost control and minimise the cost of funds, the Group's treasury activities are centralised and cash is generally deposited with leading licensed banks in Hong Kong and denominated in Hong Kong dollars.

Capital Structure

The Company's shares were successfully listed on GEM on 19 July 2018. There has been no change in the Company's capital structure since 19 July 2018 to 31 December 2018. The capital structure of the Group comprises of issued share capital and reserves. The Directors review the Group's capital structure regularly.

As at 31 December 2018, the Company's issued share capital was HK$11,000,000 and the number of its issued ordinary shares was 1,100,000,000 of HK$0.01 each.

Pledge of Assets

As at 31 December 2018 and 2017, the Group had pledged certain assets including property, plant and equipment, prepaid lease payments, debt instrument at fair value through other comprehensive income, pledged bank deposits and corporate guarantees with carrying amounts of HK$22.3 million and HK$23.8 million respectively to secure the Group's bank borrowings.

Future Plans for Material Investments or Capital Assets

Save as disclosed in the prospectus of the Company dated 29 June 2018 (the "**Prospectus**") and this annual report, the Group did not have any other plans for material investment and capital assets as at 31 December 2018.

Foreign Currency Exposure

The majority transactions of expenditure of the Group are denominated in foreign currencies which are different from the functional currency of the Group, i.e. US dollar. The Group is mainly exposed to foreign exchange risk arising from transactions that are denominated in Hong Kong dollar and Vietnamese dong. During the year ended 31 December 2018, the Group did not have any hedging arrangements. The Group currently does not have a foreign currency hedging policy. However, the management of the Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arises. The management of the Group considers the exposure to the foreign exchange risk fluctuation for the Group is not material.

Capital Commitments

As at 31 December 2018, the Group had capital commitments of approximately HK$6.5 million (2017: Nil) in respect of property, plant and equipment and land use right in Vietnam.

Contingent Liabilities

As at 31 December 2018, the Group did not have any contingent liabilities (2017: Nil).

Employees and Remuneration Policies

As at 31 December 2018, the Group employed approximately 830 (2017: approximately 760) staff (including executive Directors). We determine the employees' remuneration based on factors such as qualification, duty, contributions and years of experience. In addition, the Group provides comprehensive training programs to its employees or sponsors the employees to attend various job-related training courses.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries and Capital Assets

Other than disclosed as elsewhere in this annual report, the Group did not have any significant investments, material acquisitions and disposals of subsidiaries and capital assets during the year ended 31 December 2018.

PRINCIPAL RISKS AND UNCERTAINTIES

There are certain risks and uncertainties involved in the Group's current operations, some of which are beyond the Group's control. The most significant risks relating to the business such as (i) fluctuations in prices of raw materials or unstable supply of raw materials could negatively impact the operations and may affect our profitability; (ii) our business is concentrated in the U.S. and the U.K. and is highly susceptible to any adverse economic or social conditions in these markets which would materially and adversely affect the demand for the products; (iii) the business rely on key management personnel; and (iv) the credit risk of trade receivables that the cash flow position may be affected. A detailed discussion of the risk factors is set out in the section headed "Risk Factors" in the Prospectus.

OUTLOOK

Looking forward, the business and operation environments of the Group will remain challenging. Nevertheless, we will embrace these challenges by implementing proactive marketing strategies, investing more resources for product development and reinforcing on cost control measures.

Based on our success, we remain optimistic about the Group's future development. We intend to execute our development plan as set forth in the Prospectus carefully and prudently for the purpose of bringing a desirable return to the Shareholders and facilitating the long-term growth of the business of the Group.

USE OF PROCEEDS

The net proceeds received by the Group from the Listing after deducting the relevant one-off and non-recurring listing expenses amounted to approximately HK$44.5 million (based on the public offering price of HK$0.295 per share), which was below the estimated net proceeds of approximately HK$50.5 million (estimated on the assumption that the public offering price would be HK$1.1 per share), the midpoint of the range stated in the Prospectus.

The following sets forth a summary of the allocation of the net proceeds and its utilisation as at 31 December 2018, as compared to that envisaged in the Prospectus.

Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as stated in the Prospectus with the Group's actual business progress for the period from Listing Date to 31 December 2018 is set out below:

	Approximate amount of net proceeds HK$ million	**Approximate actual utilised as at 31 December 2018** HK$ million	**Unused amount of net proceeds as at 31 December 2018** HK$ million
Upgrade existing production facilities	6.2	–	6.2
Acquisition of new production facilities	18.1	10.2	7.9
Purchase of new machinery	9.2	0.8	8.4
Installation of ERP systems	2.0	0.1	1.9
Partial repayment of bank loans	6.9	6.9	–
General working capital	2.1	2.1	–
	44.5	20.1	24.4

Upgrade existing production facilities

The Group had planned to use approximately HK$6.2 million of the net proceeds for demolition works and renovation of existing production facilities during the year ended 31 December 2018. As at 31 December 2018, no proceeds are spent on demolition works and renovation of existing production facilities, the reasons for the delay were (i) more than expected secured orders received from customers and manpower of existing factory were concentrated in the production; and (ii) the Group entered into an agreement to acquire a new land for new production facility during the year ended 31 December 2018, the management of the Group needed more time to discuss with designer and constructor for both the renovation of existing production facilities and construction of new production facility together. Given that the Group is performing the tender for the construction of new production facilities, the Group currently expects the demolition works and renovation of existing production facilities together with construction of new production facilities will be scheduled in the second half of 2019.

Acquisition of new production facility

During the year ended 31 December 2018, in consideration of the competition for land supply in Amata Industrial Park and the impact of increasing demand of factory land in Vietnam resulting from the China-United States trade war, the Board considers that the new land with a larger gross floor area and with a higher purchase price than the Board's planned use of the net proceeds, will cater and is suitable for the Group's expansion plan and production scale. The Group entered into an agreement to acquire a new land situated at land plot no. 51, Amata Industrial Park, Long Binh Ward, Dong Nai Province, Vietnam (official parcel number: 234 and map sheet number: 8), with a gross floor area of 19,000 sq.m. (the "**Land**"), for new production facility amounting to approximately HK$16.2 million of which approximately HK$10.2 million paid by part of net proceeds allocated for acquisition of new premises, the rest of balance approximately HK$6.0 million financed by a mortgage loan in Vietnam. The Land is designated for industrial use. As at 31 December 2018, the Group paid 80% of the total consideration of the new land for new production facility in accordance with the agreement on transfer of property lease right, the remaining 20% of the total consideration is payable and financing by bank loan upon (i) completion of the notarisation of the formal agreement; (ii) the signing of a new property lease agreement between the purchaser and Amata Vietnam Group Limited for sub-leasing of the Land; (iii) the purchaser being granted a new certificate of land use right; and (iv) the delivery of vacant possession of the land to the purchaser on site. The payment method is consistent with that mentioned in the section headed "Major Terms of the Deposit Agreement — Manner of payment" of the Company's announcement of Discloseable Transaction dated 15 October 2018. Details of the above acquisition, please refer to the Company's announcement dated 15 October 2018. The Group expects the completion of acquisition of factory land on 1st half 2019, and the completion of building construction of new production facility within 2019.

Acquisition of new machinery

During the year ended 31 December 2018, the Group paid a deposit approximately HK$0.8 million for a new multi-wicking machinery for the expected increasing purchase orders from our customers in year of 2019. The Group expects the acquisition of rest of machinery in second half of 2019.

Installation of ERP systems

During the year ended 31 December 2018 the Group had planned to use approximately HK$2.0 million of the installation of an ERP system. As at 31 December 2018, a total of approximately HK$0.1 million was spent on new computers and related hardware peripherals. The Group has planned to install ERP systems for production and warehouse management and customer relationship management but has not yet identified suitable systems. The Group is seeking various systems and expects the implementation of ERP during the second half of 2019.

Partial repayment of bank loans

The Group repaid the balance of bank loans in Hong Kong and Vietnam approximately HK$2.9 million and repaid overdraft in Hong Kong amounting to approximately HK$4.0 million.

Except as explained above, the Group intends to continue to apply the net proceeds received from the Listing in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

All the unutilised balances of net proceeds have been placed in licensed banks in Hong Kong.

The Directors are not aware of any material change to the planned use of proceeds as at the date of this annual report.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board acknowledges the importance of good corporate governance practices and believes that maintaining a high standard of corporate governance practices is crucial to the development of the Company. The Board will continue to review its corporate governance practices in order to enhance its corporate governance standards, comply with the increasingly complicated regulatory requirements, and meet with the rising expectations of the Shareholders and respective investors. The Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules has been applicable to the Company from the Listing Date. The Board is of the view that since the Listing Date and up to the date of this report (the "**Relevant Period**"), the Company has complied with all applicable code provisions as set out in the CG Code.

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. During the year ended 31 December 2018, the role of the chairman of the Company is performed by Mr. Wong Wai Chit and the executive functions of a chief executive officer are discharged by Mr. Wong Man Chit as the chief executive officer of the Company.

In accordance with article 132 of the memorandum and articles of association (the "**Articles**") of the Company, the Directors may elect a chairman of the Board meetings and determine the period for which he/she is to hold office. If no such chairman is elected, the Directors present may choose one of their members to be chairman of the meeting. The Board considers this arrangement allows contributions from all Directors with different expertise to manage the Group's overall business development, implementation and management.

The key corporate governance principles and practices of the Company are summarised as follows:

BOARD OF DIRECTORS

The Board cultivates good governance as the cornerstone of the Group's corporate culture. The Board is responsible for the leadership and control of the Company and is accountable to the Shareholders for the strategic development of the Group with a targeted goal in respect of maximising long-term Shareholder value, while balancing stakeholders' interests. The Board formulates the overall strategic direction, while the management is delegated with the power to implement policies and strategies as set out by the Board. The Board has also delegated the day-to-day responsibility to the executive Directors who will meet regularly to review the financial results and performance of the Group. The Group oversees the Group's affairs in a responsible and effective manner.

The Board has a balanced composition of executive and non-executive Directors. Currently, the Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors. At all times during the Relevant Period, the independent non-executive Directors represent at least one-third of the Board. Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from Listing Date which shall continue thereafter unless and until terminated by not less than three months' notice in writing served by either party on the other. A non-executive Director has entered into a letter of appointment with the Company for an initial term of three years commencing from Listing Date which shall continue thereafter unless and until terminated by not less than three months' notice in writing served by either party on the other. Each of the independent non-executive Directors appointed on 23 June 2018 has entered into a letter of appointment with the Company for an initial term of three years commencing from the Listing Date which shall continue thereafter unless and until terminated by not less than three months' notice in writing by either party on the other. Their appointments are subject to retirement by rotation and re-election at the Company's annual general meeting ("**AGM**") in accordance with the Articles.

The composition of the Board is as follows:

Executive Directors

Mr. Wong Wai Chit *(Chairman)*
Mr. Wong Man Chit *(Chief Executive Officer)*

Non-executive Director

Ms. Wong Fong

Independent non-executive Directors

Mr. Chan Cheong Tat
Mr. Yu Pui Hang
Mr. Ho Chi Wai

During the Relevant Period, there was no change in the composition of the Board. The biographical information of the Directors, which is set out on pages 25 to 28 in this annual report, demonstrates a balance of skills, experience and diversity perspectives of the Board. Except as disclosed in the biography of Directors, the Directors have no financial, business, family or other material/relevant relationships with the Group.

The Company has throughout the Relevant Period met the requirements of the GEM Listing Rules relating to the appointment of the independent non-executive Directors with at least one of them possessing appropriate accounting professional qualifications as required under rule 5.05(2) of the GEM Listing Rules. Mr. Ho Chi Wai is one of three independent non-executive Directors, possesses the appropriate professional qualifications, or accounting or related financial management expertise as required under rule 5.05(2) of the GEM Listing Rules. Each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence prior to their respective appointment and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received a written confirmation from each of the independent non-executive Directors in respect of their independence during the period from the Listing Date to 31 December 2018. The Board considers that all independent non-executive Directors are being considered to be independent by reference to the factors stated in the Rule 5.09 of the GEM Listing Rules throughout the period from the Listing Date to 31 December 2018.

In accordance with article 108(a) of the Articles, at each AGM one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Such retiring Directors shall be eligible for re-election at the AGM.

In accordance with article 112 of the Articles, any Director appointed by the Board during the year to fill a casual vacancy shall hold office only until the first general meeting of the Company after such appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election. Any Director appointed under article 112 of the Articles shall not be taken into account in determining the Directors of the number of Directors who are to retire by rotation at the AGM. Other matters reserved for the Board include consideration of dividend policy, approval of major investments and review of the corporate governance practices of the Group. Daily operations and administration are delegated to management teams.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation. The Company has also taken out Directors' and officers' liabilities insurance for such purposes with effect from the Listing Date.

The Company has arranged insurance cover in respect of legal action against its Directors. The insurance coverage is reviewed at least annually to ensure that the Directors and officers are adequately protected against potential liabilities.

Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

NOMINATION COMMITTEE

The Company has established the nomination committee (the "**Nomination Committee**") on 23 June 2018 with specific written terms of reference in compliance with the CG Code as set out in Appendix 15 to the GEM Listing Rules. The terms of reference setting out the Nomination Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on a regular basis; identify qualified individuals to become Board members; assess the independence of independent non-executive Directors; make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors; and monitor the implementation of the board diversity policy on an ongoing basis.

To facilitate sustainable and balanced development of the Company, the Nomination Committee has adopted a board diversity policy (the "**Diversity Policy**"), which sets out the approach to achieve diversity of the Board. Under the Diversity Policy, the appointment and/or recommendation for appointment will be based on objective criteria, having due regard to the benefits of diversity on the Board, including, among others, the candidates' gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Decisions of the Nomination Committee are made based on the merits and contribution of the selected candidates.

The Nomination Committee has also adopted a nomination policy (the "**Nomination Policy**") which sets out the selection criteria and procedure of appointment and re-appointment of Directors.

Procedure and Process for Nomination of Directors

The Nomination Committee will recommend to the Board for the appointment of a Director including an independent non-executive Director in accordance with the following selection criteria and nomination procedures:

Selection Criteria

The Nomination Committee shall consider the following criteria in evaluating and selecting candidates for directorships:

(a) Diversity in the aspects, amongst others, of gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;

(b) The number of directorships in other listed/public companies;

(c) Commitment for responsibilities of the Board in respect of available time and relevant interest;

(d) Qualifications, including accomplishment and experience in the relevant industries in which the Group's business is involved;

(e) Experience in the Group's principal business and/or the industry in which the Group operates;

(f) Independence;

(g) Reputation for integrity; and

(h) Potential contributions that the individual can bring to the Board.

Nomination Procedures

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedures and process:

i. The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents, and may seek independent professional advice to access a wider range of potential candidates.

ii. The secretary of the Nomination Committee shall invite nomination of candidates from the Board members (if any) for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by the Board.

iii. Upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment.

iv. The Nomination Committee will provide the relevant information of the selected candidate to the Remuneration Committee for consideration of the remuneration package of such selected candidate.

v. The Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment, and the Remuneration Committee will make the recommendation to the Board on the policy and structure for the remuneration.

vi. All appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be) to be filed with the relevant regulatory authorities, if required.

vii. For any person that is nominated by a Shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

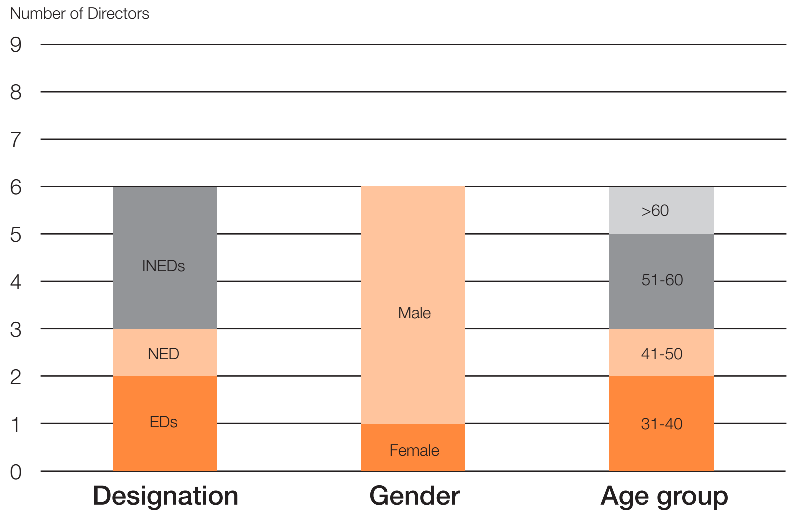
viii. The Nomination Committee and/or the Board should make recommendation to the Shareholders in respect of the proposed election of Director at the general meeting.

The Nomination Committee comprised a total of three members, being the three independent non-executive Directors, namely Mr. Chan Cheong Tat, Mr. Yu Pui Hang and Mr. Ho Chi Wai. The chairman of the Nomination Committee is Mr. Ho Chi Wai.

During the Relevant Period, the Nomination Committee held one meeting for, inter alia, considering the retirement and re-election of the Directors at the AGM and to assess, review and make recommendations on the structure, size and composition of the Board.

Details of the attendance records of each committee member at the Nomination Committee meeting are set out under the subheading “Practices and Conduct of Meetings” below.

The following graph provides an analysis on the composition of the Board as at the date of this report:



Remarks:

EDs – Executive Directors
NED – Non-Executive Director
INEDs – Independent Non-Executive Directors

REMUNERATION COMMITTEE

The Company has established the remuneration committee (the "**Remuneration Committee**") on 23 June 2018 with specific written terms of reference in compliance with the CG Code. The terms of reference setting out the Remuneration Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure relating to the Directors and senior management of the Group; review performance-based remuneration; make recommendations to the Board on the remuneration packages of the Directors and senior management of the Group; and ensure none of the Directors determine their own remuneration. The remuneration committee has adopted the model as described in the code provision B.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of individual executive Directors, including salaries, bonuses and benefits in kind.

The Remuneration Committee comprised a total of three members, being the three independent non-executive Directors, namely Mr. Chan Cheong Tat, Mr. Yu Pui Hang and Mr. Ho Chi Wai. The chairman of the Remuneration Committee is Mr. Yu Pui Hang.

For the financial year ended 31 December 2018, the remuneration of Directors was determined by their experience, responsibility, workload and the time devoted to the Group. Executive Directors and employees also participate in bonus arrangements determined in accordance with the performance of the Group and the individual's performance.

During the Relevant Period, the Remuneration Committee held two meetings for, inter alia, reviewing the remuneration policy of the Company, the Directors' fee of the independent non-executive Directors and remuneration packages of the executive Directors.

Details of the attendance records of each committee member at the Remuneration Committee meeting are set out under the subheading "Practices and Conduct of Meetings" below.

AUDIT COMMITTEE

The Company has established the audit committee (the "**Audit Committee**") on 23 June 2018 with specific written terms of reference in compliance with Rule 5.28 to 5.29 of the GEM Listing Rules and the CG Code. The terms of reference setting out the audit committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the audit committee are mainly to make recommendation to the Board on the appointment and removal of external auditor; review financial statements and material advice in respect of financial reporting; and review risk management and internal control system of the Company. The Audit Committee shall consider whether, in order to assure continuing auditor independence, there should be a regular rotation of the independent registered public accounting firm.

The Audit Committee comprised a total of three members, being the three independent non-executive Directors, namely Mr. Chan Cheong Tat, Mr. Yu Pui Hang and Mr. Ho Chi Wai. The chairman of the Audit Committee is Mr. Chan Cheong Tat. None of the members of the Audit Committee is a former partner of the Company's and its subsidiary's existing external auditors.

During the Relevant Period, the Audit Committee held five meetings for, inter alia, (1) appointment of external auditor; (2) appointment of independent external assurance provider to conduct the internal audit function; (3) discussing with the external auditor to assess the impact on applying the new accounting standard; (4) reviewing the audited consolidated financial statements for the year ended 31 December 2018, the unaudited consolidated financial statements for the nine months ended 30 September 2018 and six months ended 30 June 2018; (5) reviewing risk management and internal control system in accordance with code provision C.2.1 of the CG Code; (6) improving current standard of operational control procedures; and (7) considering the appointment and re-appointment of external auditor of the Company and reviewing and approving the audit scope and fees proposed by the external auditor.

Details of the attendance records of each committee member at the Audit Committee meeting are set out under the subheading "Practices and Conduct of Meetings" below.

PRACTICES AND CONDUCT OF MEETINGS

Schedules and agendas for regular Board meetings are normally agreed with the Directors in advance in order to facilitate them to attend. Notice of at least 14 days is given for a regular Board meeting. For other Board meetings, reasonable notice is given. Board papers together with appropriate, complete and reliable information are circulated to all Directors not less than 3 days before the date of the Board meetings to enable them to make informed decisions.

All Directors are supplied in a timely manner with all relevant documentation and financial information. The company secretary is responsible to keep minutes of all Board meetings. Draft minutes are normally circulated to all Directors for comments within a reasonable time after each meeting and the final version is open for their inspection.

The attendance records of each Director at the Board and the above committee meetings and the general meeting of the Company held during the Relevant Period:

	Attendance/Number of Meetings				
Name of Director	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meeting
Executive Directors					
Mr. Wong Wai Chit	10/10	N/A	N/A	N/A	N/A
Mr. Wong Man Chit	10/10	N/A	N/A	N/A	N/A
Non-executive Director					
Ms. Wong Fong	10/10	N/A	N/A	N/A	N/A
Independent non-executive Directors					
Mr. Chan Cheong Tat	10/10	5/5	2/2	1/1	N/A
Mr. Yu Pui Hang	10/10	5/5	2/2	1/1	N/A
Mr. Ho Chi Wai	10/10	5/5	2/2	1/1	N/A

The Board was satisfied with the attendance of the Directors as they have committed sufficient time and attention to the affairs of the Company. Each Director shall disclose to the Company at the time of the materiality of interest and be required to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

CORPORATE GOVERNANCE FUNCTIONS

According to code provision D.3.1 of the CG Code, the Board is responsible for performing the duties relating to corporate governance functions. The Board has the following responsibilities in performing the corporate governance duties of the Company as follows: (i) developing and reviewing the Group's policies and practices on corporate governance and make recommendations; (ii) reviewing and monitoring the training and continuous professional development of the Directors and senior management of the Group; (iii) reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and (v) reviewing the Group's compliance with the CG Code and disclose in the corporate governance report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2018, the fees of the external auditor in respect of audit and non-audit services provided to the Group were as follows:

Service rendered	**Fee amount** HK$'000
Audit Service	1,000
Non-audit service	
Reporting accountant for the Company's listing	4,430
Tax advisory	540
Risk management and internal control review	418
Total	6,388

FINANCIAL REPORTING

The Board has acknowledged their responsibility for the preparation of the consolidated financial statements for the year ended 31 December 2018 which give a true and fair view of the state of affairs of the Group in accordance with the statutory requirements and accounting standards and other financial disclosure requirement under the GEM Listing Rules. The management of the Group has provided sufficient explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group for the Board's approval. The statement by auditor about their reporting responsibilities is set out in the independent auditor's report on the consolidated financial statements.

REMUNERATION POLICY FOR DIRECTORS AND SENIOR MANAGEMENT

The remuneration policy of the Group is to ensure the fairness and competitiveness of total remuneration. The emoluments of executive Directors are determined based on the skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration the Company's performance and prevailing market conditions. The remuneration of the executive Directors and senior management of the Group is subject to review and approval by the Remuneration Committee. The remuneration policy of independent non-executive Directors is to ensure that they are adequately compensated for their efforts and time dedicated to the Company's affairs. Their emoluments are determined with reference to their skills, experience, knowledge, duties and market trends. The remuneration of the independent non-executive Directors is subject to approval by the Board.

Particulars of the Directors' remuneration for the year ended 31 December 2018 are set out in note 12 to the consolidated financial statements.

Pursuant to code provision B.1.5. of the CG Code, the remuneration of the members of the senior management of the Group (other than the Directors) whose particulars are contained in the section headed "Biography of Directors and Senior Management" of this annual report for the year ended 31 December 2018 by band is set out below.

Remuneration band	**Number of individual**
Nil to HK$1,000,000	3

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings (the "**Required Standard of Dealing**") set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries of all the Directors, each of them have confirmed that they have complied with the Required Standard of Dealings during the period from the Listing Date to 31 December 2018. No incident of non-compliance was noted by the Company during such period.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the GEM Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a Director.

According to the information provided by the Directors, a summary of training received by the Directors from the Listing Date to 31 December 2018 is as follows:

Name of Directors	Reading materials/ Attending seminars
Executive Directors	
Mr. Wong Wai Chit *(Chairman)*	✓
Mr. Wong Man Chit *(Chief Executive Officer)*	✓
Non-executive Director	
Ms. Wong Fong	✓
Independent Non-Executive Directors	
Mr. Chan Cheong Tat	✓
Mr. Yu Pui Hang	✓
Mr. Ho Chi Wai	✓

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the effectiveness of the Group's internal control and risk management systems. Such internal control and risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The Board had conducted a review on the effectiveness of the Group's internal control and risk management systems once during the year ended 31 December 2018 which covered financial, operational, compliance procedural and risk management functions and had considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function. In light of the size and scale of the Group's business, the Group does not have an internal audit function as the Board has reviewed the effectiveness of the internal control system of the Group and is currently of the view that there is no immediate need to set up an internal audit function within the Group. The Board will review and consider to establish such department as and when it thinks necessary.

The Group has engaged an external professional consultant, to conduct independent internal control review for the year ended 31 December 2018 and the review is completed as at the date of this annual report.

The Group believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The Group has therefore made continued efforts to uplift its quality of corporate governance. It has established an effective system of internal controls and adopted a series of measures to ensure its safety and effectiveness. As a result, the Group is able to safeguard its assets and protect the interests of the Shareholders.

The Board is of the view that the systems of internal control and risk management are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system.

Internal Control System

The Company has maintained an internal control system and its implementation has been considered effective by the Audit Committee and the Board. Meanwhile, the Group strives for continual improvement through efforts to enhance controls, ongoing employee training and development, talent retention, and other measures. The Group follows a disciplined and balanced compensation framework with strong internal governance and independent Board oversight. The impact of risk and control issues are carefully considered in the Group's performance evaluation and incentive compensation processes.

SHAREHOLDERS AND INVESTORS' RELATIONS

The Board has established shareholders communication policy and is dedicated to maintaining an on-going dialogue with the Shareholders and the investment community. The policy is subject to review regularly to ensure its effectiveness. It aims to ensure the Shareholders and the investment community are provided with ready and timely access to all publicly available information about the Company such as circulars and Company's financial reports (quarterly, interim and annual reports) so as to enable the Shareholders to exercise their rights in an informed manner and to allow the Shareholders and investment community to engage actively with the Company. We welcome the Shareholders and investment community to visit the Company's website at http://www.fleming-int.com to obtain up-to-date information regarding the Company.

CONSTITUTIONAL DOCUMENTS

These are no significant changes in the Company's constitutional documents from the Listing Date to 31 December 2018.

SHAREHOLDERS' RIGHTS

Convening an Extraordinary General Meeting of the Company and putting forward Proposals at General Meetings

In accordance with article 64 of the Articles, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company and carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting ("**EGM**") to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting forward Enquiries to the Board

Enquiries by the Shareholders to be put to the Board can be sent in writing to the Directors or company secretary of the Company at the principal place of business in Hong Kong. The Shareholders may make a request for information about the Company by sending an e-mail to info@fleming-int.com.

For share registration related matters, such as share transfer and registration, change of name or address, loss of share certificates or dividend warrants, the Company's registered shareholders can contact the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited.

COMPANY SECRETARY

During the Relevant Period, Mr. Lee Ka Wai is the company secretary of the Company. His biographical detail is set out under the section headed "Biography of Directors and Senior Management" of this annual report. He has complied with Rule 5.15 of GEM Listing Rules by taking no less than 15 hours of relevant professional training to update his skills and knowledge.

EXECUTIVE DIRECTORS

Mr. Wong Wai Chit

Mr. Wong Wai Chit (黃偉捷) (Mr. Vincent Wong), aged 51, is our chairman and executive Director. Mr. Vincent Wong is one of the controlling shareholders (as defined in the GEM Listing Rules) of the Company and he joined our Group as the director of Fleming International Limited a wholly owned subsidiary of the Company on 20 July 1993. He was appointed as Director on 5 July 2017 and was redesignated as executive Director on 23 June 2018. Mr. Vincent Wong is responsible for formulating our Group's overall strategic plans and overseeing its financial control, business development and policy setting.

Mr. Vincent Wong is one of the founding members of our Group and has over 20 years of candle manufacturing experience. He was educated in secondary schools in Hong Kong. Mr. Vincent Wong is the younger brother of Mr. Andrew Wong.

Mr. Wong Man Chit

Mr. Wong Man Chit (黃聞捷) (Mr. Andrew Wong), aged 53, is our chief executive officer and executive Director. Mr. Andrew Wong is one of the controlling shareholders of the Company and he joined our Group as the director of Fleming International Limited a wholly owned subsidiary of the Company on 20 July 1993. He was appointed as Director on 5 July 2017 and was redesignated as executive Director on 23 June 2018. Mr. Andrew Wong is responsible for overseeing our Group's business operations, its overall sales and marketing strategies and its production and product development.

Mr. Andrew Wong is one of the founding members of our Group and has over 20 years of candle manufacturing experience. He was educated in secondary schools in Hong Kong. Mr. Andrew Wong is the elder brother of Mr. Vincent Wong.

NON-EXECUTIVE DIRECTOR

Ms. Wong Fong

Ms. Wong Fong (王芳), aged 40, was appointed as our non-executive Director on 29 August 2017. Ms. Wong provides advice on overall financial matters to our Board in support of our development but is not participating in the day-to-day management of our business operation. Ms. Wong is appointed for a term of 3 years from the Listing Date and she is subject to retirement by rotation and re-election in accordance with the Articles.

Ms. Wong is a director of Grant Thornton Hong Kong Limited (certified public accountants). Prior to that, Ms. Wong had been appointed, among others, as the chief operating officer of Jonten Hopkins CPA Limited from January 2010 to January 2014.

Ms. Wong obtained a Bachelor degree in the Harbin Normal University of PRC in 2000 and was qualified and awarded the certificate of accounting professional by the Ministry of Finance of the PRC in June 2005 and awarded the HKSI Practising Certificate (Securities) by Hong Kong Securities Institute in having successfully completed the relevant Licensing Examination for Securities and Futures Intermediaries in January 2011.

Ms. Wong was appointed, from December 2014 to June 2016, as an independent non-executive director of Chun Sing Engineering Holdings Limited (now known as Huarong Investment Stock Corporation Limited), the shares of which are listed on the Main Board of the Stock Exchange (Stock code 2277).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Cheong Tat

Mr. Chan Cheong Tat (陳昌達), aged 69, was appointed as our independent non-executive Director on 23 June 2018 and is the chairman of the Audit Committee and a member of Remuneration Committee and Nomination Committee. Mr. Chan provides independent advice to our Board on management and provides independent judgment on the issue of strategy, performance, resources and standard of conduct of our Company, despite that he is not participating in the day-to-day management of our business operation. Mr. Chan is appointed for a term of 3 years from the Listing Date and he is subject to retirement by rotation and re-election in accordance with the Articles.

Mr. Chan is the founding shareholder and sole director of C T Tax Consultants Limited since August 2006. Prior to that, Mr. Chan had worked in the Inland Revenue Department for over 32 years. He joined the HK Government as assistant assessor in November 1972, and was promoted to assessor in January 1976, to senior assessor in May 1985, to chief assessor in June 1994, to assistant commissioner of Inland Revenue in September 2003 and commenced the pre-retirement leave in April 2005.

Mr. Chan obtained a Master degree in Financial Management from Central Queensland University of Australia in 1995. He was admitted as, an associate of the Institute of Chartered Secretaries and Administrators in March 1974, a fellow of the Association of Certified Accountants in November 1983, a fellow of the Hong Kong Institute of Certified Public Accountants in March 1986, a fellow of the Australian Society of Certified Practising Accountants in June 1990, and an associate of the Hong Kong Institute of Company Secretaries in August 1994.

Mr. Chan has been appointed as, since March 2006, an independent non-executive director of Guangdong Tannery Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 1058), since December 2014, an independent non-executive director of Medicskin Holdings Limited, the shares of which are listed on GEM of the Stock Exchange (Stock code: 8307), from January 2015 to December 2016, an independent non-executive director of Man Sang International Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 938), from May 2014 to May 2015, an independent non-executive director of Wasions Group Holdings Limited (now known as Wasions Holdings Limited), the shares of which are listed in Main Board of the Stock Exchange (Stock code: 3393), from October 2006 to December 2011, an independent non-executive director of Nobel Jewelry Holdings Limited (now known as Zhong Fa Zhan Holdings Limited), the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 475).

Mr. Yu Pui Hang

Mr. Yu Pui Hang (余沛恒), aged 39, was appointed as our independent non-executive Director on 23 June 2018 and is the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. Mr. Yu provides independent advice to our Board on management and provides independent judgment on the issue of strategy, performance, resources and standard of conduct of our Company, despite that he is not participating in the day-to-day management of our business operation. Mr. Yu is appointed for a term of 3 years from the Listing Date and he is subject to retirement by rotation and re-election in accordance with the Articles.

Mr. Yu is one of the founding partners of the law firm, L&Y Law Office since January 2016. Prior to that, Mr. Yu had worked, at ICBC International Holdings Limited from July 2010 to December 2015 with his last position as executive director, associate general counsel of legal department, at Freshfields Bruckhaus Deringer as associate from November 2006 to July 2010, at Norton Rose (Services) Limited as associate from November 2005 to October 2006, and at Kennedys as associate solicitor from July 2004 to August 2005.

Mr. Yu obtained a Bachelor degree of Laws in the King's College London, University of London of United Kingdom in 2001. Mr. Yu was qualified and admitted as, a solicitor in Hong Kong in August 2004, a solicitor in England and Wales in April 2005. Mr. Yu was also admitted as an associate of the Hong Kong Institute of Arbitrators in May 2003, and appointed as a member of Community Talks & Services Working Group of the Law Society of Hong Kong in October 2014.

Mr. Yu has been appointed as, since May 2018, an independent non-executive director of Amuse Group Holding Limited, the shares of which are listed on GEM of the Stock Exchange (Stock code: 8545).

Mr. Ho Chi Wai

Mr. Ho Chi Wai (何志威), aged 44, was appointed as our independent non-executive Director on 23 June 2018 and is the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee. Mr. Ho provides independent advice to our Board on management and provides independent judgment on the issue of strategy, performance, resources and standard of conduct of our Company, despite that he is not participating in the day-to-day management of our business operation. Mr. Ho is appointed for a term of 3 years from the Listing Date and he is subject to retirement by rotation and re-election in accordance with the Articles.

Mr. Ho has over 20 years of experience in audit assurance and business consulting. He is currently a partner of SRF Partners & Co., Certified Public Accountants. Prior to starting his own practice in 2012, Mr. Ho had been appointed, among others, from May 2010 to November 2011, the principal, from May 2005 to May 2010, the audit manager and from May 2000 to May 2005, the audit senior of an accounting firm, from June 1997 to April 1999, the audit staff, and from May 1999 to May 2000, the audit senior of a local accounting firm.

Mr. Ho obtained a Bachelor of Business Administration degree from Lingnan University (formerly known as Lingnan College) in 1997 and a Master of Finance degree from Jinan University in 2012. He is currently a practicing certified public accountant of the Hong Kong Institute of Certified Public Accountants, a certified tax adviser at the Taxation Institute of Hong Kong and a fellow member of the Taxation Institute of Hong Kong, a member of the Association of International Accountants and a fellow member of Association of Chartered Certified Accountants.

Mr. Ho has been appointed as, since March 2014, an independent non-executive director of Wai Chi Holdings Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 1305), from June 2012 to October 2013, an independent non-executive director of Ming Kei Holdings Limited (now known as Capital Finance Holdings Limited), the shares of which are listed on GEM of the Stock Exchange (Stock code: 8239), and since May 2018, an independent non-executive director of Affluent Foundation Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1757).

SENIOR MANAGEMENT

Mr. Choi Ka Shing

Mr. Choi Ka Shing (蔡嘉成), aged 37, is the chief financial officer of our Group. Mr. Choi joined our Group in November 2016 and is responsible for the overall finance and accounting matters of our Group.

Mr. Choi has over ten years of experience in auditing, accounting and financial management. Prior to joining our Group, Mr. Choi had been appointed, among others, the financial controller of Architectural Precast GRC (HK) Limited from June 2016 to October 2016, the audit supervisor in FTW & Partners CPA Limited from March 2009 to May 2016, the audit trainee from June 2005 to August 2007 and the audit semi-senior from September 2007 to March 2009 in Anthony Lam & Co.

Mr. Choi obtained a Bachelor of Accountancy in University of South Australia in 2008. Since December 2015, Mr. Choi was admitted to a full membership of CPA Australia.

Mr. Nguyen Quy Bao

Mr. Nguyen Quy Bao, aged 44, is the PMC manager of our Group and stationed in Vietnam. Mr. Nguyen joined our Group in September 2011 and is responsible for production planning, material control and purchasing, warehouse and logistic matters of our Group in Vietnam.

Mr. Nguyen has over 15 years of experience in production management. Prior to joining our Group, Mr. Nguyen had been appointed, among others, the filling and packing supervisor at Nestle Vietnam Limited from August 2005 to April 2009, the production supervisor at F&N Vietnam Foods Company Limited from September 2002 to September 2005, the business and planning manager at Shun Feng Pharmaceutical Company Limited from October 2001 to July 2002.

Mr. Nguyen obtained a Bachelor degree in Bach Khoa University of Vietnam in 1998. Over the years, Mr. Nguyen has also obtained various professional training in areas of, among others, time management, leadership and motivation skill and production planning.

COMPANY SECRETARY

Mr. Lee Ka Wai (李嘉威), age 44 was appointed as the company secretary of our Company in September 2017. His responsibilities are to serve as one of the primary contact points for communications with the Stock Exchange and relevant regulatory bodies for our Group, and advise the Board and senior management of the Group accordingly on matters relating to governance, administration, and management. Mr. Lee is admitted as a member and to the status of Certified Practising Accountant of CPA Australia in 2005 and a member of Hong Kong Institute of Certified Public Accountants in 2017.

Mr. Lee obtained a Bachelor of Commerce in Accountancy in University of Wollongong (Australia) in 1999. After graduation, he worked in various companies and consulting firm and was mainly responsible for preparing financial statements, reviewing and implementing financial policies and internal control procedures, ensuring corporate compliance and providing financial consulting services in Hong Kong and PRC. He has more than ten years of practical experience in financial management, accounting and corporate compliance matters. Prior to joining our Group, Mr. Lee had been appointed, among others, the finance manager of Silvermine Beach Resort Limited from October 2015 to February 2017, the financial consultant of Timex Corporate Consulting Limited from January 2011 to September 2015, and the finance manager of Bio-Treat Technology Limited from February 2006 to December 2010.

The Directors are pleased to present their first report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018 after its listing on GEM of the Stock Exchange on the Listing Date.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 July 2017. The Company completed the group reorganisation (the "**Reorganisation**") on 13 September 2017 in preparation for the Listing, pursuant to which the Company became the holding company of the companies now comprising our Group. Details of the Reorganisation are set out in the section headed "History, Development and Reorganisation" in the Prospectus. The shares were listed on the GEM of the Stock Exchange on Listing Date by way of share offer.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 40 to the consolidated financial statements. The principal activities of the Group is the manufacturing and sale of candle products with headquarters in Hong Kong and operation in Vietnam.

BUSINESS REVIEW

The business review of the Group during the period are set out in the section headed "Chairman's Statement and Management Discussion and Analysis" on pages 4 to 11 of this annual report. Principal risks and uncertainties that the Group may be facing are set out on page 9 of this annual report and the Corporate Governance Report is set out on pages 12 to 24 of this annual report. The discussion form part of this report.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2018 and the financial position of the Group at that date are set out in the consolidated financial statements on pages 48 to 51.

SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to profit or loss for the year by its principal activities is set out in Note 6 to the consolidated financial statements.

DIVIDEND POLICY

The Group adopted a dividend policy on 28 December 2018. A summary of this policy is disclosed below.

The Board considers sustainable returns to the Shareholders whilst retaining adequate reserves for the Group's future development to be an objective. Under the policy on payment of dividends adopted by the Company, dividends may be recommended, declared and paid to the Shareholders from time to time. In summary, the declaration of dividends and the dividend amount shall be determined at the sole and absolute discretion of the Board taking into account the following factors:

- the Group's current and future operations and earnings;
- the Group's liquidity position and future commitments at the time of declaration of dividend;
- any contractual restrictions on payment of dividends by the Company to the Shareholders or by the Company's subsidiaries to the Company;
- the retained earnings and distributable reserves of the Company and each of the members of the Group;
- the Group's working capital requirements, capital expenditure requirements and future expansion plans;
- the general market conditions; and
- any other factors that the Board deems appropriate.

The Board does not recommend the payment of any final dividend for the year as set out in Note 14 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last financial years is set out on page 128 of this annual report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in Note 31 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 52 of this annual report.

DISTRIBUTABLE RESERVES

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the Companies Law of the Cayman Islands, was approximately HK$30.0 million.

USE OF PROCEEDS

The net proceeds from the issue of new shares of the Company, after deduction of the professional fees, underwriting commissions and other fees payable by the Company in connection with the listing, were estimated to be approximately HK$44.5 million. Up to the date of this annual report, approximately HK$20.1 million has been utilised. Balance of net proceeds has been approximately HK$24.4 million. Details are set out in Management Discussion and Analysis on pages 9 to 11 of this annual report.

PLANT AND EQUIPMENT

Details of movements in plant and equipment of the Group during the year are set out in Note 15 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the existing Shareholders.

DEBENTURES

The Company did not issue any debentures during the year ended 31 December 2018.

DONATIONS

Donations made by the Group during the year amounted to HK$63,000 (2017: HK$7,000).

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for approximately 63.4% of the turnover of the Group for the year ended 31 December 2018 (2017: approximately 63.3%).

The five largest suppliers of the Group accounted for approximately 48.5% of the total purchases of the Group for the year ended 31 December 2018. (2017: approximately 55.7%).

During the year ended 31 December 2018, the aggregate sales attributable to the Group's largest customer and the aggregate purchases attributable to the Group's largest supplier were approximately 19.6% (2017: approximately 21.8%) and approximately 17.3% (2017: approximately 22.4%) of the Group's sales and purchases respectively.

None of the Directors, their close associates or any Shareholders (which to the knowledge of the Directors, owns more than 5% of the number of issued shares) had a beneficial interest in the five largest suppliers or customers of the Group for the year ended 31 December 2018.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 12 to 24 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to enhancing environmental protection to minimize the impact of its activities on the environment. It is the policy of the Group to promote clean operation and strives to making the most efficient use of resources in its operations, and minimizing wastes and emission.

A separate environment, social and governance report is expected to be published on the GEM website and the Company's website no later than three months after this annual report has been published.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2018, the Group's operations are mainly carried out by the subsidiaries of the Company in Hong Kong and Vietnam. The Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. There was no material breach of or non-compliance with the applicable laws and regulations by the Group.

RELATIONSHIPS WITH EMPLOYEES AND CUSTOMERS

The Group recognises employees as one of the valuable assets of the Group and the Group strictly complies with the labour laws and regulations in applicable jurisdictions and regularly reviews the existing employee benefits for improvement. Apart from the reasonable remuneration packages, the Group also offers good welfare benefits and continuous professional training. The Group provides good quality services to the customers and maintains a good relationship with them. Without good relationship with customers, the success of the Group's operation would be at risk.

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this report are as follow:

EXECUTIVE DIRECTORS

Mr. Wong Wai Chit
Mr. Wong Man Chit

NON-EXECUTIVE DIRECTOR

Ms. Wong Fong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Cheong Tat (appointed on 23 June 2018)
Mr. Yu Pui Hang (appointed on 23 June 2018)
Mr. Ho Chi Wai (appointed on 23 June 2018)

Pursuant to the Articles, at each AGM one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Such retiring Directors shall be eligible for re-election at the AGM. Any Directors appointed by the Board during the year to fill a casual vacancy shall hold office only until the first general meeting of the Company after such appointment and be subject to re-election at such meeting and any Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election. Accordingly, Mr. Wong Wai Chit, Mr. Wong Man Chit, Ms. Wong Fong, Mr. Chan Cheong Tat, Mr. Yu Pui Hang and Mr. Ho Chi Wai shall hold office only until the forthcoming AGM and being eligible, offer themselves for re-election at the AGM.

The Company has received an annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the GEM Listing Rules. The Company considers all independent non-executive Directors to be independent in light of the independence guidelines set out in the GEM Listing Rules.

The biographic details of Directors are set out on pages 25 to 28 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date, which shall continue thereafter unless and until terminated by not less than three months' notice in writing served by either party on the other. Each of the non-executive Directors and the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from the Listing Date, which shall continue thereafter unless and until terminated by not less than three months' notice in writing served by either party on the other.

Save as disclosed above, none of the Directors, including those to be re-elected at the forthcoming AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

EMOLUMENT POLICY

The Remuneration Committee is responsible for reviewing emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and corporate market practices.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five individuals with highest emoluments are set out in note 12 to the consolidated financial statements.

DIRECTORS' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed in the Prospectus and elsewhere in the annual report, there were no transactions, arrangements or contracts of significance to which the Company, its holding company, fellow subsidiaries or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at any time during the year.

CONTROLLING SHAREHOLDERS' INTERESTS

Save as disclosed in this annual report, there were no contracts of significance between the Company or any of its subsidiaries and any controlling shareholder of the Company or any of its subsidiaries or any contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme of the Company (the "**Share Option Scheme**"), no equity-linked agreements were entered into by the Company during the year ended 31 December 2018 or subsisted at the end of the year.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the year ended 31 December 2018 are set out in Notes 23 to the consolidated financial statements. To the best knowledge of the Directors, none of these related party transactions constitutes connected transactions that need to be disclosed under GEM Listing Rules.

PERMITTED INDEMNITY PROVISIONS

The Company's Articles provide that every Directors shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur or about the execution of the duties of his/her office or otherwise in relation thereto.

The Company has maintained appropriate directors' and officers' liability insurance and such permitted indemnity provision for the benefit of the Directors currently in force.

TAX RELIEF OR EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Company's securities.

NON-COMPETITION UNDERTAKING

The controlling shareholders of the Company gave a non-competition undertaking in favour of the Company and confirm that they and their associates have not breached the terms of the undertaking contained in the deed of non-competition during the period from the Listing Date to 31 December 2018. Details of the non-competition undertaking are set out in section headed "Deed of Non-competition" in the Prospectus. All independent non-executive Directors have reviewed on an annual basis the compliance with the respective non-competition undertakings by the controlling shareholders of the Company . In view of this conclusion, the controlling shareholders of the Company have complied with all the undertakings under the deed of non-competition in favour of the Company during the period from the Listing Date to 31 December 2018.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") held by the Directors and chief executives of the Company (the "**Chief Executives**") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise have been notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are as follows:

Long position in ordinary Shares

Name of Directors	Nature of interests	Number of Shares held	Approximate % of the total number of Shares in issue
Mr. Wong Wai Chit *(Notes 1 & 2)*	Interest in controlled corporation	643,500,000	58.5%
Mr. Wong Man Chit *(Notes 1 & 3)*	Interest in controlled corporation	643,500,000	58.5%

Notes:

1. These 643,500,000 Shares are held by AVW International Limited ("**AVW**") is beneficially owned as to 50% by Mr. Wong Wai Chit and 50% by Mr. Wong Man Chit. Each of Mr. Wong Wai Chit and Mr. Wong Man Chit is deemed to be interested in the same number of Shares in which AVW is interested under the SFO.

2. Ms. Iong Man Lai is the spouse of Mr. Wong Wai Chit. Ms. Iong Man Lai is deemed to be interested in the same number of Shares in which Mr. Wong Wai Chit is interested by virtue of the SFO.

3. Ms. Tse Sheung is the spouse of Mr. Wong Man Chit. Ms. Tse Sheung is deemed to be interested in the same number of Shares in which Mr. Wong Man Chit is interested by virtue of the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors or Chief Executive had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS IN THE SHARES

So far as the Directors and the Chief Executives are aware, as at 31 December 2018, other than the Directors and the Chief Executives, the following persons will have or be deemed or taken to have an interest and/or short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of the Company required to be kept under section 336 of the SFO, or who will be, directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group:

Long position in ordinary Shares

Names of Shareholder	Nature of interest	Number of Shares held	Approximate % of the total number of Shares in issue
AVW *(Note 1)*	Beneficial owner	643,500,000	58.5%
Vibes Enterprises Company Limited *(Note 2)*	Beneficial owner	181,500,000	16.5%
Vibes Management Company Limited *(Note 2)*	Interest in controlled corporation	181,500,000	16.5%
Pioneer Unicorn Limited *(Note 2)*	Interest in controlled corporation	181,500,000	16.5%
Ms. Li Yin Ping *(Note 2)*	Interest in controlled corporation	181,500,000	16.5%
Ms. Zheng Xiaochun *(Note 2)*	Interest in controlled corporation	181,500,000	16.5%
Mr. Guan Le *(Note 2 & 3)*	Interest of spouse	181,500,000	16.5%
Ms. Iong Man Lai *(Note 1 & 4)*	Interest of spouse	643,500,000	58.5%
Ms. Tse Sheung *(Note 1 & 5)*	Interest of spouse	643,500,000	58.5%

Notes:

1. AVW is beneficially owned as to 50% by Mr. Wong Wai Chit and 50% by Mr. Wong Man Chit, executive directors of the Company. Each of Mr. Wong Wai Chit and Mr. Wong Man Chit is deemed to be interested in the same number of Shares in which AVW is interested under the SFO.

2. Vibes Enterprises Company Limited ("**Vibes Enterprises**") is wholly owned by Vibes Management Company Limited ("**Vibes Management**"). Vibes Management Company Limited is wholly owned by Pioneer Unicorn Limited ("**Pioneer Unicorn**"), which is owned as to 50% by Ms. Li Yin Ping and 50% by Ms. Zheng Xiaochun. As such, Ms. Li Yin Ping and Ms. Zheng Xiaochun together indirectly control all the Shares held by Vibes Enterprises. Under the SFO, each of Vibes Management, Pioneer Unicorn, Ms. Li Yin Ping and Ms. Zheng Xiaochun is deemed to be interested in the same number of Shares in which Vibes Enterprises is interested.

3. Mr. Guan Le is the spouse of Ms. Zheng Xiaochun. Mr. Guan Le is deemed to be interested in the same number of Shares in which Ms. Zheng Xiaochun is interested by virtue of the SFO.

4. Ms. Iong Man Lai is the spouse of Mr. Wong Wai Chit. Ms. Iong Man Lai is deemed to be interested in the same number of Shares in which Mr. Wong Wai Chit is interested by virtue of the SFO.

5. Ms. Tse Sheung is the spouse of Mr. Wong Man Chit. Ms. Tse Sheung is deemed to be interested in the same number of Shares in which Mr. Wong Man Chit is interested by virtue of the SFO.

Save as disclosed above, as at 31 December 2018, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person or corporation (other than the Directors and the Chief Executives) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 or Part XV of the SFO.

COMPLIANCE ADVISER'S INTERESTS

As at the date of this report, save and except for (i) the participation of TC Capital International Limited ("**TC Capital**") as the sponsor in relation to the Listing; and (ii) the compliance adviser's agreement entered into between the Company and TC Capital dated 25 September 2017, neither TC Capital nor its directors, employees or close associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 23 June 2018 for the purpose to provide our Company with a flexible means of giving incentive and reward to employee, advisor, customer, service provider, agent, customer, partner or joint-venture partner of the Group (including a director of the Group) (the "**Eligible Participants**") for incentive or reward for their contribution to the Group.

Under the Share Option Scheme, the Board may make an offer to the Eligible Participants. The limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group must not exceed 30% of the total number of Shares in issue from time to time.

Unless approved by the Shareholders at the general meeting, the total number of Shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the Share Option Scheme and any other share option schemes of the Group to each Eligible Participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant of the options must not exceed 1% of the Shares in issue.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 110,000,000, representing 10% of the total number of Shares in issue on the Listing Date and the date of this report unless the Company seeks the approval of the Shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Group will not be counted for the purpose of calculating 10% limit.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed "Share Option Scheme" in section headed "Statutory and General Information" in Appendix V to the Prospectus. The principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 23 June 2018 and remains in force until 23 June 2028. The Company may, by ordinary resolution in general meeting or, such date as the Board determined, terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination.

The exercise price per Share for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of:

(1) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the offer date of the option which must be a trading day;

(2) the average of the closing prices of the Shares as shown in the daily quotations sheets issued by the Stock Exchange for the five consecutive business days immediately preceding the offer date of the option; and

(3) the nominal value of the Shares on the offer date of the option.

Upon acceptance of the options, the Eligible Participant shall pay HK$1.00 to the Company as consideration for the grant. The acceptance of an offer of the grant of the option must be made within the date as specified in the offer letter (which shall not be later than 21 days from, and inclusive of, the date of offer) issued by the Company. The exercise period of any option granted under the Share Option Scheme shall not be longer than 10 years commencing on the date of grant and expiring on the last day of such 10-year period subject to the provisions for early termination as contained in the Share Option Scheme.

COMPETING INTERESTS

For the year ended 31 December 2018, none of the Directors, the substantial Shareholders or controlling shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the Directors, the Company has maintained the sufficient public float as required under the GEM Listing Rules as at the date of this annual report.

ANNUAL GENERAL MEETING

The AGM will be held on Wednesday, 12 June 2019. A notice convening the meeting will be issued and sent to the Shareholders in due course.

EVENT AFTER THE REPORTING PERIOD

There are no significant events affecting the Group after the year ended 31 December 2018 and up to the date of this annual report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been audited by Messrs. Deloitte Touche Tohmatsu, Certified Public Accountants ("**Deloitte**"). A resolution will be proposed at the forthcoming AGM of the Company to re-appoint Deloitte as the auditor of the Company.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 6 June 2019 to Wednesday, 12 June 2019 (both dates inclusive) during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the AGM, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on Wednesday, 5 June 2019.

By order of the Board
Hyfusin Group Holdings Limited
Wong Wai Chit
Executive Director and Chairman

Hong Kong, 21 March 2019

Deloitte. 德勤

TO THE SHAREHOLDERS OF HYFUSIN GROUP HOLDINGS LIMITED
凱富善集團控股有限公司
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Hyfusin Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 127, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Provision of expected credit losses for trade receivables	
We identified the provision of expected credit losses for trade receivables as a key audit matter due to the significant management judgement involved in assessing the expected credit losses of trade receivables. As disclosed in note 5 to the consolidated financial statements, in determining the provision of expected credit losses for trade receivables, management considers the internal credit rating of the debtors based on the historical default rates of the debtors on an individual basis, taking into consideration of forward-looking information that is reasonable and supportable without undue costs or effort. Forward-looking information considered includes the current operation size of respective debtors and future prospects of the industry in which the Group's debtors operate. At every reporting date, the internal credit rating and historical observed default rates are reassessed and changes in the forward-looking information are considered. As disclosed in notes 22 and 34(b) to the consolidated financial statements, the carrying amount of the Group's trade receivables is HK$33,131,000. Management considered impairment on trade receivables is insignificant that therefore no expected credit loss is recognised in profit or loss for the year ended 31 December 2018.	Our procedures in relation to provision of expected credit losses for trade receivables included: • Obtaining an understanding of management's process of assessing the expected credit losses of trade receivables; • Evaluating the reasonableness of management's determination and reassessment of the internal credit rating of individual debtors based on of the historical default rates applied for individual debtor and examining documents that reflect debtors' historical default rates for a selection of debtors; • Evaluating the forward-looking information provided by management to supporting documents, including credit search on debtors; and • Evaluating management's calculation of the expected credit losses for trade receivables, based on the internal credit rating of the debtors and forward looking information.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matter. We describe this matter in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Yuen Wing Hang.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Revenue			
Sales of goods	6	215,434	162,525
Total revenue		215,434	162,525
Cost of sales		(166,819)	(121,402)
Gross profit		48,615	41,123
Other income	7	858	284
Other gains and losses	8	290	28
Selling and distribution expenses		(7,553)	(5,079)
Administrative expenses		(32,296)	(24,210)
Listing expenses		(965)	(19,499)
Finance costs	9	(1,916)	(1,633)
Profit (loss) before tax		7,033	(8,986)
Income tax expense	10	(2,259)	(2,071)
Profit (loss) for the year	11	4,774	(11,057)
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Fair value (loss) gain on:			
Available-for-sale investments		—	503
Debt instruments measured at fair value through other comprehensive income		(236)	—
Other comprehensive (expense) income for the year		(236)	503
Total comprehensive income (expense) for the year		4,538	(10,554)
Profit (loss) for the year attributable to:			
Owners of the Company		4,774	(9,855)
Non-controlling interests		—	(1,202)
		4,774	(11,057)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**4,538**	(9,358)
Non-controlling interests		**—**	(1,196)
		4,538	(10,554)
		HK cents	*HK cents*
Earning (loss) per share, basic	13	**0.50**	(1.41)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**13,538**	14,105
Prepaid lease payments	16	**3,757**	3,894
Prepayment for a land use right	17	**13,000**	—
Deposits for acquisition of property, plant and equipment		**1,525**	—
Available-for-sale investments	18	**—**	1,938
Financial assets at fair value through profit or loss	19	**17**	—
Debt instruments at fair value through other comprehensive income	20	**1,682**	—
Deferred tax assets	30	**366**	304
Pledged bank deposits	24	**8,875**	8,866
		42,760	29,107
CURRENT ASSETS			
Inventories	21	**32,349**	24,368
Trade and other receivables	22	**35,767**	37,503
Prepaid lease payments	16	**137**	137
Amount due from a director	23	**—**	5,396
Tax recoverable		**134**	511
Bank balances and cash	24	**54,945**	8,382
		123,332	76,297
CURRENT LIABILITIES			
Trade and other payables	25	**22,940**	32,023
Contract liabilities	26	**204**	—
Amount due to a director	23	**—**	2,446
Bank borrowings — due within one year	27	**27,177**	30,366
Obligations under finance leases	28	**146**	142
		50,467	64,977
NET CURRENT ASSETS		**72,865**	11,320
TOTAL ASSETS LESS CURRENT LIABILITIES		**115,625**	40,427
NON-CURRENT LIABILITIES			
Bank borrowings — due after one year	27	**6,206**	1,370
Obligations under finance leases	28	**139**	285
Other non-current liabilities	29	**168**	152
		6,513	1,807
NET ASSETS		**109,112**	38,620

As at 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
CAPITAL AND RESERVES			
Share capital	31	11,000	—
Reserves		98,112	38,620
Equity attributable to owners of the Company		109,112	38,620
TOTAL EQUITY		109,112	38,620

The consolidated financial statements on pages 43 to 127 were approved and authorised for issue by the Board of Directors on 21 March 2019 and are signed on its behalf by:

MR. WONG WAI CHIT
DIRECTOR

MR. WONG MAN CHIT
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company								
	Share capital	Share premium	Investment revaluation reserve	Fair value through other comprehensive income ("FVTOCI") reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	4,536	–	(216)	–	–	27,589	31,909	3,265	35,174
Loss for the year	–	–	–	–	–	(9,855)	(9,855)	(1,202)	(11,057)
Fair value gain on available-for-sale investments	–	–	497	–	–	–	497	6	503
Total comprehensive (expense) income for the year	–	–	497	–	–	(9,855)	(9,358)	(1,196)	(10,554)
Capital contribution from non-controlling interests of a subsidiary	–	–	–	–	6,478	–	6,478	7,522	14,000
Adjustments arising from Group Reorganisation	(4,536)	–	–	–	14,127	–	9,591	(9,591)	–
At 31 December 2017	–	–	281	–	20,605	17,734	38,620	–	38,620
Reclassification from available-for-sale investments to financial assets at fair value through profit or loss	–	–	(281)	277	–	4	–	–	–
At 1 January 2018 (restated)	–	–	–	277	20,605	17,738	38,620	–	38,620
Profit for the year	–	–	–	–	–	4,774	4,774	–	4,774
Fair value loss on debt instruments through other comprehensive income	–	–	–	(236)	–	–	(236)	–	(236)
Total comprehensive (expense) income for the year	–	–	–	(236)	–	4,774	4,538	–	4,538
Capitalisation issue of shares	8,250	(8,250)	–	–	–	–	–	–	–
Issue of shares pursuant to initial public offering	2,750	78,375	–	–	–	–	81,125	–	81,125
Transaction costs attributable to issue of new ordinary shares	–	(15,171)	–	–	–	–	(15,171)	–	(15,171)
At 31 December 2018	11,000	54,954	–	41	20,605	22,512	109,112	–	109,112

Note: Other reserves represent (i) the deemed gain arising from the capital contribution from non-controlling interests of a subsidiary of HK$6,478,000 and (ii) the combined share capital of Fleming International Limited and its subsidiaries and Britain Link Limited attributable to Controlling Shareholders (as defined in Note 1) of the Company and adjusting the non-controlling interests at the time of the Group Reorganisation (as defined in Note 2).

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES		
Profit (loss) before tax	7,033	(8,986)
Adjustments for:		
Depreciation of property, plant and equipment	2,482	2,768
Amortisation of prepaid lease payments	137	137
Gain on disposal of property, plant and equipment	—	(17)
Interest income on debt instruments at fair value through other comprehensive income	(57)	—
Allowance of inventories	18	220
Dividend and interest income from available-for-sale investments	—	(57)
Loss from changes in fair value of financial assets at fair value through profit or loss	3	—
Interest income from banks	(205)	(42)
Finance costs	1,916	1,633
Operating cash flows before movements in working capital	11,327	(4,344)
Increase in inventories	(7,999)	(14,870)
Increase in trade and other receivables	(3,064)	(3,691)
(Decrease) increase in trade and other payables	(8,879)	18,548
Increase in other non-current liabilities	16	35
Cash used in operations	(8,599)	(4,322)
Income tax paid	(1,944)	(1,459)
NET CASH USED IN OPERATING ACTIVITIES	(10,543)	(5,781)
INVESTING ACTIVITIES		
Repayment from a director	3,716	526
Interest income from banks	205	42
Interest income on debt instruments at fair value through other comprehensive income	57	—
Deposits for acquisition of property, plant and equipment	(1,525)	—
Purchases of property, plant and equipment	(1,915)	(951)
Prepayment for a land use right	(13,000)	—
Placement of pledged bank deposits	(9)	(41)
Repayment from related companies	—	1,237
Advance to related companies	—	(141)
Dividend and interest received from available-for-sale investments	—	57
Proceeds from disposal of property, plant and equipment	—	17
Advance to a director	(528)	(2,679)
NET CASH USED IN INVESTING ACTIVITIES	(12,999)	(1,933)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2018

	2018 *HK$'000*	2017 *HK$'000*
FINANCING ACTIVITIES		
New bank borrowings raised	**108,545**	60,757
Issue of shares pursuant to initial public offering	**81,125**	—
Repayment of bank borrowings	**(101,920)**	(63,808)
Issued costs paid	**(10,371)**	(4,464)
Interest paid	**(1,916)**	(1,633)
Repayment to directors	**(238)**	(5,158)
Repayment of obligations under finance leases	**(142)**	(199)
Dividend paid	**—**	(300)
Advance from directors	**—**	508
Capital contribution from non-controlling interests of a subsidiary	**—**	14,000
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**75,083**	(297)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**51,541**	(8,011)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**3,404**	11,415
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**54,945**	3,404
Represented by:		
Bank balances and cash	**54,945**	8,382
Bank overdrafts	**—**	(4,978)
	54,945	3,404

1. GENERAL

Hyfusin Group Holdings Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as amended, supplemented or otherwise modified from time to time) of the Cayman Islands on 5 July 2017. The shares of the Company have been listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 19 July 2018. Its registered office is located at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands and principal place of business is located at Unit Nos. 4-8, 2/F, Aberdeen Marina Tower, 8 Shum Wan Road, Aberdeen, Hong Kong.

The Company is an investment holding company and its subsidiaries (the "**Group**") are principally engaged in manufacturing and sale of candle products. Its parent and ultimate holding company is AVW International Limited ("**AVW**"), a private company incorporated in the British Virgin Islands (the "**BVI**"). Its ultimate controlling shareholders are Mr. Wong Man Chit ("**Mr. Andrew Wong**") and Mr. Wong Wai Chit ("**Mr. Vincent Wong**"), who are brothers and act in concert over AVW and the companies now comprising the Group (the "**Controlling Shareholders**").

The functional currency of the Company and its subsidiaries is United States Dollar ("**US$**") while the presentation currency of the consolidated financial statements is Hong Kong dollars ("**HK$**") as the directors of the Company (the "**Directors**") consider that HK$ is preferable in presenting the operating results and financial position of the Group, which is more beneficial to the users of the consolidated financial statements.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In the preparation for the listing of the Company's shares on GEM of the Stock Exchange, the companies now comprising the Group underwent a group reorganisation (the "**Group Reorganisation**").

Prior to the group reorganisation, Fleming International Limited ("**Fleming Hong Kong**") and its subsidiaries including Fleming International Vietnam Limited ("**Fleming Vietnam**"), Success Glory Worldwide Limited ("**Success Glory**") and 泛明工藝禮品(深圳)有限公司("**Fleming China**") were wholly owned by the Controlling Shareholders before the transfer and issuance of shares of Fleming Hong Kong pursuant to the Step (1) and (2) below and Britain Link Limited ("**Britain Link**") which was held by Mr. Chau Pong on trust for and on behalf of Mr. Andrew Wong and Mr. Vincent Wong. The group underwent the following reorganisation steps:

(1) On 16 December 2016, pursuant to an agreement for sale and purchase and subscription for shares in Fleming Hong Kong (the "**Pre-IPO Investment Agreement**") dated 7 November 2016 entered into among Mr. Andrew Wong and Mr. Vincent Wong as vendors, Vibes Management Company Limited ("**Vibes**") as purchaser, each of Mr. Andrew Wong and Mr. Vincent Wong transferred 40 shares of Fleming Hong Kong to Vibes at an aggregate cash consideration of HK$8,000,000. As a result, Fleming Hong Kong is wholly and beneficially held as to approximately 45.35%, 45.35% and 9.3% by Mr. Andrew Wong, Mr. Vincent Wong and Vibes, respectively and Fleming Hong Kong is still controlled by the Controlling Shareholders whereas Vibes became an non-controlling interest. Vibes is a company incorporated in Hong Kong with limited liability on 30 May 2016 with total issued share capital of HK$10,000 wholly owned by Pioneer Unicorn Limited ("**Pioneer**") which is wholly and beneficially owned by Ms. Li Yin Ping and Ms. Zheng Xiaochun, independent third parties, in equal shares. Vibes and Pioneer is an investment holding company incorporated in the BVI, principally engaged in investment holding.

For the year ended 31 December 2018

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(2) On 7 February 2017, pursuant to the Pre-IPO Investment Agreement, Vibes further subscribed for 140 shares (the "**Subscription**") of Fleming Hong Kong at an aggregate cash consideration of HK$14,000,000. Upon completion of the Subscription, Fleming Hong Kong is wholly and beneficially owned as to 39%, 39% and 22% by Mr. Andrew Wong, Mr. Vincent Wong and Vibes, respectively and Fleming Hong Kong is still controlled by the Controlling Shareholders whereas Vibes became a non-controlling interest.

(3) On 28 August 2017, one new ordinary share of Britain Link was allotted and issued to Mr. Chau Pong who held the share as trustee for and on behalf of Mr. Andrew Wong and Mr. Vincent Wong in equal shares. On the same day, Mr. Chau Pong (as transferor) and Mr. Andrew Wong and Mr. Vincent Wong (each as transferee) entered into an instrument of transfer, pursuant to which Mr. Chau Pong transferred to each of Mr. Andrew Wong and Mr. Vincent Wong one share in Britain Link, which Mr. Chau Pong held on trust for and on behalf of Mr. Andrew Wong and Mr. Vincent Wong at nil consideration. On 28 August 2017, Mr. Andrew Wong and Mr. Vincent Wong (as transferor) and Fleming Hong Kong (as transferee) entered into a sale and purchase agreement, pursuant to which each Mr. Andrew Wong and Mr. Vincent Wong transferred 1 share in Britain Link to Fleming Hong Kong at a sum of HK$1.00 per share. After the aforesaid transfer, the legal and beneficial interests in Britain Link became wholly-owned by Fleming Hong Kong.

(4) AVW International Limited ("**AVW**") was incorporated in the BVI with limited liability on 4 July 2017. The authorised share capital of AVW is US$50,000 divided into 50,000 shares of US$1.00 each, of which one share was allotted and issued fully paid to each of Mr. Andrew Wong and Mr. Vincent Wong on incorporation. As a result, Mr. Andrew Wong and Mr. Vincent Wong are the shareholders of AVW, each holding 50% of the issued share capital of AVW. AVW is principally engaged in investment holding and became the parent and ultimate holding company of the Company upon completion of the Group Reorganisation.

(5) Vibes Enterprises Company Limited ("**Vibes Enterprises**") was incorporated in the BVI with limited liability on 4 July 2017. The authorised share capital of Vibes Enterprises is US$50,000 divided into 50,000 shares of US$1.00 each, of which one share was allotted and issued fully paid to Vibes on its incorporation. As a result, Vibes is the sole shareholder of Vibes Enterprises, holding the entire issued share capital of Vibes Enterprises. Vibes Enterprises is principally engaged in investment holding and became a non-controlling shareholder of the Company upon the completion of the Group Reorganisation.

(6) Fleming Group International Limited ("**Fleming International**") was incorporated in the BVI with limited liability on 5 July 2017. The authorised share capital of Fleming International is US$50,000 divided into 50,000 shares of US$1.00 each (the "**Fleming International's Share**"). One Fleming International's Share was allotted and issued fully paid to AVW on incorporation at par. As a result, AVW is the sole shareholder of Fleming International, holding the entire issued share capital of Fleming International.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(7) The Company was incorporated in the Cayman Islands on 5 July 2017. The authorised share capital of the Company upon incorporation is HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each. Upon its incorporation, one subscriber share was allotted and issued as fully paid to the first subscriber, which was subsequently transferred to AVW. Further, 99 additional shares were issued as fully paid, in which 77 shares were allotted to AVW while 22 shares were allotted to Vibes Enterprises at par.

(8) The Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) on 30 August 2017.

(9) On 8 September 2017, Fleming International acquired the entire issued share capital of Fleming Hong Kong (1,000 shares) from Mr. Andrew Wong, Mr. Vincent Wong and Vibes, respectively. The consideration for the acquisition was satisfied by the allotment and issue of 77 and 22 Fleming International's Shares respectively to AVW (at the direction of Mr. Andrew Wong and Mr. Vincent Wong) and to Vibes Enterprises (at the direction of Vibes), all credited as fully paid.

(10) On 13 September 2017, the Company acquired the entire issued share capital of Fleming International (100 shares) from AVW and Vibes Enterprises, respectively. The consideration for the acquisition was satisfied by the allotment and issue of 78 and 22 shares of the Company to AVW and Vibes Enterprises respectively, all credited as fully paid. As a result, Fleming International is wholly owned by the Company while the Company continues to be owned as to 78% by AVW and 22% by Vibes Enterprises.

Upon completion of the Group Reorganisation on 13 September 2017, Fleming International became a directly wholly-owned subsidiary of the Company and Fleming Hong Kong and its subsidiaries including Fleming Vietnam, Success Glory and Britain Link became indirectly wholly-owned subsidiaries of the Company. The Company has also become the holding company of the companies now comprising the Group on 13 September 2017. The Company and those subsidiaries have been under the common control of Mr. Andrew Wong and Mr. Vincent Wong throughout the year ended 31 December 2017 or since their respective dates of incorporation, where there is a shorter period, and before and after the Group Reorganisation. The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2017 include the results, changes in equity and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the year ended 31 December 2017.

For the year ended 31 December 2018

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As Fleming Hong Kong and its subsidiaries were under the common control of the Controlling Shareholders, equity interest held by Vibes Management Company Limited ("**Vibes**") in Fleming Hong Kong as at 31 December 2016 and for the period from 1 January 2017 up to the date of the completion of the Group Reorganisation on 13 September 2017 is presented as non-controlling interests in the consolidated financial statements.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective in the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and Amendments to HKFRSs that are mandatorily effective in the current year *(Continued)*

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognised revenue from sales of candle products.

Information about the Group's performance obligations and the accounting policies resulting from the application of HKFRS 15 are disclosed in Notes 6 and 4, respectively.

Summary of effects arising from initial application of HKFRS 15

The application on HKFRS 15 has no material impact on the Group's retained earnings at 1 January 2018. The following adjustment was made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	**Reclassification**	**Carrying amounts under HKFRS 15 at 1 January 2018**
	HK$'000 (audited)	*HK$'000* *(Note)*	*HK$'000*
Trade and other payables	32,023	(204)	31,819
Contract liabilities	–	204	204
	32,023	–	32,023

Note: As at 1 January 2018, trade deposits received from customers of HK$204,000 previously included in trade and other payables were reclassified to contract liabilities.

For the year ended 31 December 2018

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and Amendments to HKFRSs that are mandatorily effective in the current year *(Continued)*

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

Summary of effects arising from initial application of HKFRS 15 (Continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included. The application on HKFRS 15 has no impact on the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

Impact on the consolidated statement of financial position

	As reported *HK$'000*	**Adjustments** *HK$'000*	**Amounts without application of HKFRS 15** *HK$'000*
CURRENT LIABILITIES			
Trade and other payables	22,940	204	23,144
Contract liabilities	204	(204)	–

Impact on the consolidated statement of cash flows

	As reported *HK$'000*	**Adjustments** *HK$'000*	**Amounts without application of HKFRS 15** *HK$'000*
OPERATING ACTIVITIES			
Decrease in trade and other payables	(8,879)	–	(8,879)

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and Amendments to HKFRSs that are mandatorily effective in the current year *(Continued)*

HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities; (2) expected credit losses ("**ECL**") for financial asset and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between the carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 4.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Note	**Available-for-sale ("AFS") investments** *HK$'000*	**Financial assets at fair value through profit or loss ("FVTPL") required by HKFRS 9** *HK$'000*	**Debt instruments at fair value through other comprehensive income ("FVTOCI")** *HK$'000*	**Investment revaluation reserve** *HK$'000*	**FVTOCI reserve** *HK$'000*	**Retained earnings** *HK$'000*
Closing balance at 31 December 2017 – HKAS 39		1,938	–	–	281	–	17,734
Effect arising from initial application of HKFRS 9:							
Reclassification							
From AFS investments	*(a)*	(1,938)	20	1,918	(281)	277	4
Opening balance at 1 January 2018		–	20	1,918	–	277	17,738

The Group's other financial assets and financial liabilities continued to carry at amortised cost as at 1 January 2018.

For the year ended 31 December 2018

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and Amendments to HKFRSs that are mandatorily effective in the current year *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

(a) AFS investments

From AFS investments to financial assets at FVTPL

At the date of initial application of HKFRS 9, the Group's equity investments of HK$20,000 were reclassified from AFS investments to financial assets at FVTPL. The fair value gains of HK$4,000 relating to those investments previously carried at fair value were transferred from investment revaluation reserve to retained earnings.

From AFS debt investments to debt instruments at FVTOCI

Unlisted debt securities investments with a fair value of HK$1,918,000 were reclassified from AFS investments to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related fair value gains of HK$277,000 was transferred from investment revaluation reserve to FVTOCI reserve as at 1 January 2018.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Trade receivables have been assessed individually for debtors by considering the internal credit rating of debtors based on the historical default rates of the trade debtors, taking into consideration of forward-looking information, includes the current operation size of these debtors and future prospects of the industry in which the Group's debtors operate.

ECL for other financial assets at amortised cost, including other receivables, pledged bank deposits and bank balances, are assessed on 12-month ECL ("**12m ECL**") basis as there had been no significant increase in credit risk since initial recognition.

All of the Group's debt instruments at FVTOCI are unlisted debt investments that are graded in the top credit rating. Therefore, these investments are considered to be low credit risk investments and the loss allowance is assessed on 12m ECL basis.

The Directors considered that the measurement of ECL has no material impact to the Group's retained earnings as at 1 January 2018.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the individual line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (audited) *HK$'000*	HKFRS 15 *HK$'000*	HKFRS 9 *HK$'000*	**1 January 2018 (Restated)** *HK$'000*
NON-CURRENT ASSETS				
Financial assets at FVTPL	—	—	20	**20**
Debt instruments at FVTOCI	—	—	1,918	**1,918**
AFS investments	1,938	—	(1,938)	**—**
CURRENT LIABILITIES				
Trade and other payables	32,023	(204)	—	**31,819**
Contract liabilities	—	204	—	**204**
CAPITAL AND RESERVES				
FVTOCI reserve	—	—	277	**277**
Retained earnings	17,734	—	4	**17,738**
Investment revaluation reserve	281	—	(281)	**—**

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

For the year ended 31 December 2018

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective *(Continued)*

[1] Effective for annual periods beginning on or after 1 January 2019

[2] Effective for annual periods beginning on or after a date to be determined

[3] Effective for annual periods beginning on or after 1 January 2021

[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

[5] Effective for annual periods beginning on or after 1 January 2020

Except for the new HKFRS mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance with the nature as appropriate.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 16 Leases (Continued)

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$2,489,000 as disclosed in Note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable deposits paid of HK$542,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK (IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17and HK (IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements includes applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("**Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-Based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interest's proportion interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's interests in existing subsidiaries (Continued)

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Merger accounting for business combination involving business under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 3)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 3) *(Continued)*

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable, net of rebates.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments in recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Borrowing costs

Borrowing costs which are not capitalised to qualifying assets are recognised in profit or loss in the period in which they are incurred.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful life to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible assets *(Continued)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first in, first out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Retirement benefit costs

Payments to the defined contribution retirement benefit plans including the Mandatory Provident Fund Scheme in Hong Kong and state pension scheme in Vietnam are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS require or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurement are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investment in a subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3) (Continued)

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("**OCI**") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significant reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, amount due from a director, pledged bank deposits and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3) (Continued)

(i) Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3) (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3) (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these debt instruments.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(i) AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a director, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period ranging from 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, amount due to a director, bank borrowings are subsequently measured at amortised cost, using the effective interest method.

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfer nor retains substantially all the risks and rewards of ownership and continued to control the transferred assets, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the Directors is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provision of ECL for trade receivables

Before the application of HKFRS 9 on 1 January 2018, when there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Upon the application of HKFRS 9, the Group assessed trade debtors individually for the expected credit losses, by considering the internal credit rating of the debtors based on the Group's historical default rates of the debtors on an individual basis, taking into consideration forward-looking information that is reasonable and supportable without undue costs or effort. Forward-looking information considered includes the current operation size of respective debtors and future prospects of the industry in which the Group's debtors operate. At every reporting date, the internal credit rating and historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Notes 34(b) and 22.

Allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. In cases where the net realisable value of inventories assessed are less than expected, recognition of a material allowance for inventories may arise which would be recognised in profit or loss in the period in which such recognition takes place. The carrying amounts of inventories, net of allowance for slow-moving and obsolete inventories, were approximately HK$32,349,000 as at 31 December 2018 (2017: HK$24,368,000).

For the year ended 31 December 2018

6. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

	2018 *HK$'000*	2017 *HK$'000*
Sale of candle products		
Daily-use candles	**78,817**	74,787
Scented candles	**106,170**	53,212
Decorative candles	**16,851**	24,690
Others (included Diffusers)	**13,596**	9,836
Total	**215,434**	162,525
Timing of revenue recognition		
A point in time	**215,434**	162,525

The Group's market were department stores and buying agents headquartered in United States of America and United Kingdom.

The contracts for sales of goods to external customers are short-term and the contract prices are fixed and agreed with the customers.

(ii) Performance obligations for contracts with customers

Sale of candle products (revenue recognised at one point in time)

The Group sells candle products to external customers in which the revenue is recognised when the control of the goods has transferred to the customers, being when the goods have been shipped to the external customers' specific location.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All performance obligations for sale of candle products are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

For the year ended 31 December 2018

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information

Information reported to the executive directors of the Company, being the chief operating decision maker ("**CODM**"), regularly review revenue analysis by product type as set out in the revenue analysis above for the purpose of resource allocation and assessment of performance. However, other than revenue analysis, no operating results and other discrete financial information is regularly reviewed by the CODM for the purpose of resource allocation and assessment of performance of respective businesses. The CODM reviews the operating results (excluding listing expenses) of the Group as a whole to make decisions about resource allocation and for assessment of performance. The operation of the Group constitutes one single operating and reportable segment under HKFRS 8 Operating Segments and accordingly no separate segment information is presented.

Geographical Information

The Group's operations are located in Hong Kong and Vietnam.

Information about the Group's revenue from external customers is presented based on the location of the destination points of the customers.

Revenue from external customers

	2018 *HK$'000*	2017 *HK$'000*
United States of America	133,158	93,544
United Kingdom	52,737	49,758
Others	29,539	19,223
Total	215,434	162,525

Information about the Group's non-current assets (exclude financial assets and deferred tax assets) is presented based on the geographical location of the assets.

Non-current assets

	2018 *HK$'000*	2017 *HK$'000*
Hong Kong	595	655
Vietnam	29,700	17,344
	30,295	17,999

For the year ended 31 December 2018

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2018 HK$'000	2017 HK$'000
Customer A	42,198	*
Customer B	34,076	35,478
Customer C	27,198	20,221
Customer D	*	20,612

* The corresponding revenue did not contribute over 10% of the total revenue of the Group for the respective years.

7. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Dividend and interest income from available-for-sale investments	—	57
Interest income on debt instruments at FVTOCI	57	—
Interest income from banks	205	42
Sample income	87	54
Surcharge income	464	—
Sundry income	45	131
	858	284

8. OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Net foreign exchange gains	293	11
Gain on disposal of property, plant and equipment	—	17
Loss from changes in fair value of financial assets at FVTPL	(3)	–
	290	28

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank borrowings	1,904	1,614
Interest on obligations under finance leases	12	19
	1,916	1,633

10. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
Current tax:		
Hong Kong Profits Tax	632	889
Vietnam Corporate Income Tax	1,753	1,437
Overprovision in prior years	(64)	(57)
	2,321	2,269
Deferred taxation:		
Current year *(Note 30)*	(62)	(198)
	2,259	2,071

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

For the year ended 31 December 2018

10. INCOME TAX EXPENSE *(Continued)*

Accordingly, starting from the current year, the Hong Kong Profits Tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million for Fleming Hong Kong. No provision for Hong Kong Profits Tax for Britain Link has been made as there is no assessable profit for the years ended 31 December 2018 and 2017.

For the subsidiary incorporated in Vietnam, the statutory corporate tax rates are 20% for both years.

The income tax expense for the year can be reconciled to the profit (loss) before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	2018 *HK$'000*	2017 *HK$'000*
Profit (loss) before tax	**7,033**	(8,986)
Tax at the Hong Kong Profits Tax rate of 16.5% (2017: 16.5%) *(Note)*	**1,160**	(1,483)
Tax effect of expenses not deductible for tax purpose	**956**	3,343
Tax effect of income not taxable for tax purpose	**(16)**	(2)
Overprovision in respect of prior years	**(64)**	(57)
Utilisation of tax losses previously not recognised	**—**	(9)
Income tax at concessionary rate	**(165)**	—
Effect of different tax rates of subsidiaries operating in different jurisdiction	**258**	279
Others	**130**	—
Income tax expense for the year	**2,259**	2,071

Note: The domestic tax rate (which is Hong Kong Profits Tax rate) in the jurisdiction where the operation of the Group is substantially based is used.

For the year ended 31 December 2018

11. PROFIT (LOSS) FOR THE YEAR

	2018 *HK$'000*	2017 *HK$'000*
Profit (loss) for the year has been arrived at after charging (crediting):		
Directors' remuneration *(Note 12)*	4,685	4,319
Other staff costs		
— salaries and allowances	33,615	28,288
— discretionary bonus	1,079	319
— retirement benefit scheme contributions, excluding directors	2,528	2,166
Total staff costs	41,907	35,092
Less: capitalised in inventories	(21,462)	(18,450)
	20,445	16,642
Auditor's remuneration	1,000	725
Depreciation of property, plant and equipment		
— Owned assets	2,341	2,627
— Assets held under finance lease contracts	141	141
Total depreciation	2,482	2,768
Less: capitalised in inventories	(1,693)	(1,954)
	789	814
Cost of inventories recognised as an expense	166,819	121,402
Amortisation of prepaid lease payments	137	137
Allowance of inventories (included in cost of sales)	18	220

For the year ended 31 December 2018

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors and chief executive

Mr. Andrew Wong and Mr. Vincent Wong were appointed as executive directors of the Company on 5 July 2017 and Mr. Andrew Wong was appointed as the chief executive officer of the Company on the same date.

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

Year ended 31 December 2018

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Other benefits *HK$'000*	Total *HK$'000*
EXECUTIVE DIRECTORS					
Mr. Andrew Wong	–	1,458	18	891	2,367
Mr. Vincent Wong	–	1,458	18	514	1,990
NON-EXECUTIVE DIRECTOR					
Ms. Wong Fong	81	–	4	–	85
INDEPENDENT NON-EXECUTIVE DIRECTORS					
Mr. Chan Cheong Tat*	81	–	–	–	81
Mr. Yu Pui Hang*	81	–	–	–	81
Mr. Ho Chi Wai*	81	–	–	–	81
Total	324	2,916	40	1,405	4,685

Year ended 31 December 2017

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Other benefits *HK$'000*	Total *HK$'000*
EXECUTIVE DIRECTORS					
Mr. Andrew Wong	–	1,458	18	887	2,363
Mr. Vincent Wong	–	1,458	18	480	1,956
NON-EXECUTIVE DIRECTOR					
Ms. Wong Fong#	–	–	–	–	–
Total	–	2,916	36	1,367	4,319

* Appointed on 23 June 2018

Appointed on 29 August 2017

12. DIRECTOR'S, CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors and chief executive *(Continued)*

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

During the years ended 31 December 2018 and 2017, the Group leased living quarters and carparks from outsiders and provided to Mr. Andrew Wong and Mr. Vincent Wong at rent-free and the amounts included in other benefits represent the market rental expenses paid to the landlords of the leased quarters and carparks and the utilities expenses.

Employees

The five highest paid individuals of the Group during the year included two (2017: two) directors, details of their emoluments are set out above. The emoluments of the remaining three (2017: three) individuals are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and allowances	1,732	1,557
Discretionary bonus	261	84
Retirement benefit scheme contributions	54	54
	2,047	1,695

Their emoluments were fell within the following bands:

	No. of employees	
	2018	2017
Nil to HK$1,000,000	3	3

During the year ended 31 December 2018 and 2017, no emoluments were paid by the Group to the Directors or any of the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the years ended 31 December 2018 and 2017.

For the year ended 31 December 2018

13. EARNING (LOSS) PER SHARE

The calculation of the basic earning (loss) per share attributable to the owners of the Company is based on the following data:

	2018 *HK$'000*	2017 *HK$'000*
Earning (loss)		
Profit (loss) for the year attributable to owners of the Company for the purpose of basic earning (loss) per share	4,774	(9,855)

	2018	2017
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earning (loss) per share	950,068,493	700,684,932

The weighted average number of ordinary shares for the purpose of calculating basic earning (loss) per share has been adjusted, respectively for the effect of (i) the Group Reorganisation and the capitalisation issue of 824,999,800 shares of the Company that are deemed to have become effective since 1 January 2017; and (ii) issue of 275,000,000 shares of the Company pursuant to the initial public offering on 19 July 2018.

No diluted earning (loss) per share for both 2018 and 2017 were presented as there were no potential ordinary shares in issue for both 2018 and 2017.

14. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company for both years ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant and machinery	Motor vehicles	Furniture and fixtures	Office equipment	Computer equipment	Yacht	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST								
At 1 January 2017	20,517	13,493	3,071	756	898	859	180	39,774
Additions	207	491	–	–	193	60	–	951
Disposals	–	(100)	–	–	–	–	–	(100)
At 31 December 2017	20,724	13,884	3,071	756	1,091	919	180	40,625
Additions	–	1,307	369	29	147	63	–	1,915
At 31 December 2018	20,724	15,191	3,440	785	1,238	982	180	42,540
ACCUMULATED DEPRECIATION								
At 1 January 2017	9,558	10,903	1,634	677	666	360	54	23,852
Provided for the year	1,080	1,085	333	35	88	129	18	2,768
Eliminated on disposals	–	(100)	–	–	–	–	–	(100)
At 31 December 2017	10,638	11,888	1,967	712	754	489	72	26,520
Provided for the year	1,086	812	329	25	118	94	18	2,482
At 31 December 2018	11,724	12,700	2,296	737	872	583	90	29,002
CARRYING VALUES								
At 31 December 2018	9,000	2,491	1,144	48	366	399	90	13,538
At 31 December 2017	10,086	1,996	1,104	44	337	430	108	14,105

The above items of property, plant and equipment are depreciated over their estimate useful lives and after taking into account their estimated residual values, using the straight-line basis at the following rates per annum:

Leasehold land and buildings	6% to 20%
Plant and machinery	14% to 33%
Motor vehicles	20%
Furniture and fixtures	10% to 25%
Office equipment	10% to 20%
Computer equipment	30%
Yacht	10%

For the year ended 31 December 2018

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying value of properties shown above comprises:

	2018 *HK$'000*	2017 *HK$'000*
Buildings on leasehold land outside Hong Kong under medium-term lease	**9,000**	10,086

As at 31 December 2018, certain property, plant and equipment located in Vietnam with aggregated carrying amount of approximately HK$7,836,000 (2017: HK$8,986,000) were pledged to secure bank borrowings (Note 27) and general bank facilities granted to the subsidiaries of the Company.

The Group's property, plant and equipment included motor vehicles held under finance leases with carrying amount of HK$318,000 (2017: HK$459,000).

16. PREPAID LEASE PAYMENTS

	2018 *HK$'000*	2017 *HK$'000*
COST		
At the beginning and end of the year	**5,447**	5,447
AMORTISATION		
At the beginning of the year	**1,416**	1,279
Provided for the year	**137**	137
At the end of the year	**1,553**	1,416
CARRYING VALUES		
At the end of the year	**3,894**	4,031
Analysis by:		
Current portion	**137**	137
Non-current portion	**3,757**	3,894
	3,894	4,031

The Group's prepaid lease payments comprise leasehold interests in a land situated in Vietnam and held under medium-term lease.

The prepaid lease payments were pledged to secure bank borrowings (Note 27) and general bank facilities granted to the subsidiaries of the Company.

17. PREPAYMENT FOR A LAND USE RIGHT

	2018 *HK$'000*	2017 *HK$'000*
Prepayment for a land use right in Vietnam	**13,000**	—

The amount represents the prepayment of HK$13,000,000 (2017: Nil) for the land use right in Vietnam. On 12 October 2018, a deposit agreement was entered into by Fleming Vietnam, an indirectly wholly-owned subsidiary of the Company and the vendor, an independent third party, for the acquisition of the land use right of the land located in Vietnam at a cash consideration of VND48,717,900,000 (equivalent to approximately HK$16,218,000). A prepayment of VND38,974,320,000 (equivalent to approximately HK$13,000,000) was paid by the Group during the year ended 31 December 2018 and the remaining contractual amount of VND9,743,580,000 (equivalent to approximately HK$3,218,000) is to be paid upon the signing of a formal agreement and fulfilment of the conditions as stated in the announcement of the Company dated 15 October 2018.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2017 *HK$'000*
Listed investments (Level 1):	
— Equity securities listed in Hong Kong	20
Unlisted investments (Level 3):	
— Debt securities	1,918
	1,938

At 31 December 2017, the unlisted AFS investments of HK$1,918,000 were pledged to secure the bank borrowings (Note 27).

The investments in unlisted debt securities and listed equity securities are stated at fair value. Disclosures of the fair value measurement are set out in Note 34(c).

For the year ended 31 December 2018

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

	2018 *HK$'000*
Listed securities:	
— Equity securities listed in Hong Kong	17
Analysed for reporting purposes as:	
Non-current assets	17

20. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 *HK$'000*
Investments in unlisted bonds, with fixed interest of 7.45% and maturity date on 24 November 2033	1,053
Investments in perpetual unlisted bonds, with fixed interest of 7.45% per annum	629
Total	1,682

At 31 December 2018, the debt instruments at FVTOCI of HK$1,682,000 were pledged to secure the bank borrowings (Note 27).

Details of impairment assessment of debt instruments at FVTOCI for the year ended 31 December 2018 are set out in Note 34.

21. INVENTORIES

	2018 *HK$'000*	2017 *HK$'000*
Raw materials	17,368	10,700
Work in progress	3,240	2,496
Finished goods	8,711	7,970
Goods in transit	4,081	4,235
	33,400	25,401
Less: Allowance for inventories	(1,051)	(1,033)
	32,349	24,368

22. TRADE AND OTHER RECEIVABLES

	2018 *HK$'000*	2017 *HK$'000*
Trade receivables	33,131	30,230
Less: Allowance for credit losses	—	—
	33,131	30,230
Deposits and prepayments	2,636	1,727
Prepayments for listing expenses	—	593
Deferred listing expenses	—	4,800
Other receivables	—	153
Total	35,767	37,503

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$33,131,000 and HK$30,230,000, respectively.

The Group allows credit period ranging from 30 to 90 days to its trade customers. The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on the invoice date at the end of the year:

	2018 *HK$'000*	2017 *HK$'000*
0–30 days	10,816	13,743
31–60 days	12,414	9,849
61–90 days	5,638	3,009
91–180 days	4,263	2,452
Over 180 days	—	1,177
	33,131	30,230

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$9,637,000 which are past due as at the reporting date. No balance has been past due over 90 days or more.

As at 31 December 2017, included in the Group's trade receivables were debtors with a carrying amount of HK$6,061,000 which were past due at the end of reporting period but are regarded as not impaired as there had not been a significant change in credit quality and amounts were still considered recoverable based on historical experience. The Group did not hold any collateral over these balances.

For the year ended 31 December 2018

22. TRADE AND OTHER RECEIVABLES *(Continued)*

Aging of trade receivables that are past due but not impaired

	2017 *HK$'000*
Overdue:	
1–30 days	3,398
31–60 days	847
61–90 days	63
Over 90 days	1,753
	6,061

As at 31 December 2017, the majority of the Group's trade receivables that are past due but not impaired are from customers with good credit quality with reference to respective settlement history. The Group does not hold any collateral over these balances.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of each of the reporting period.

Details of impairment assessment of trade receivables for the year ended 31 December 2018 are set out in Note 34.

23. AMOUNT(S) DUE FROM (TO) A DIRECTOR

			Maximum amount outstanding during	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amount due from a director				
Mr. Vincent Wong *(Note)*	**–**	5,396	**5,901**	5,406
Amount due to a director				
Mr. Andrew Wong *(Note)*	**–**	2,446		

The amount due from a director as at 31 December 2017 was denominated in HK$, which was currency other than functional currency of the relevant group entities.

The amount due to a director as at 31 December 2017 that was denominated in currencies other than functional currency of the relevant group entities were as follows:

	2017
	HK$'000
HK$	1,618
Vietnamese Dong ("**VND**")	828

Note: The amounts were non-trade related, unsecured, non-interest bearing and they were fully settled/repaid during the year ended 31 December 2018.

For the year ended 31 December 2018

24. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The pledged bank deposits of the Group are pledged to banks for securing long-term bank borrowings (Note 27) and therefore, the bank deposits are classified as non-current assets. The bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The pledged bank deposits/bank balances carry interest at market rates as follows:

	2018	2017
Range of interest rate per annum:		
Pledged bank deposits	**0.20%–0.25%**	0.10%–0.20%
Bank balances	**0.001%–2.30%**	0.001%–0.50%

The carrying amounts of the Group's pledged bank deposits and bank balances and cash denominated in currencies other than functional currency of the relevant group entities are as follows:

	2018 ***HK$'000***	2017 *HK$'000*
HK$	**13,484**	4,180
VND	**423**	179

Details of impairment assessment of pledged bank deposits for the year ended 31 December 2018 are set out in Note 34.

25. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date:

	2018	2017
	HK$'000	*HK$'000*
Trade payables:		
1–30 days	**8,779**	11,777
31–60 days	**2,596**	3,602
61–90 days	**2,950**	430
91–180 days	**810**	303
	15,135	16,112
Other payables	**2,178**	1,665
Deposits received from customers *(Note)*	**—**	204
Accrued expenses	**5,627**	2,451
Accruals for listing expenses	**—**	11,591
	22,940	32,023

The credit period on purchases of goods is 0 to 90 days.

Note: The amount was reclassified to contract liabilities for the year ended 31 December 2018 as disclosed in Note 26.

The Group's trade payables that are denominated in currencies other than functional currency of relevant group entities are as follows:

	2018	2017
	HK$'000	*HK$'000*
HK$	**75**	127
VND	**4,738**	2,429

26. CONTRACT LIABILITIES

	31 December 2018	1 January 2018*
	HK$'000	*HK$'000*
Sales of candle products	**204**	204

* The amount in this column is after the adjustment from the application of HKFRS 15.

The amount represents the trade deposits received from customers, which will be recognised as the Group's revenue when the control of the goods transferred to customers.

For the year ended 31 December 2018

27. BANK BORROWINGS

	2018 *HK$'000*	2017 *HK$'000*
Bank loans	**24,075**	21,186
Import and export loans	**9,308**	5,572
Bank overdrafts	**—**	4,978
	33,383	31,736

All of the Group's borrowings are guaranteed and secured and carried variable rate of interest.

The variable-rate secured bank borrowings are repayable as follows:

	2018 *HK$'000*	2017 *HK$'000*
Carrying amounts repayable (based on scheduled repayable terms):		
Within one year	**26,481**	29,636
More than one year, but not more than two years	**931**	774
More than two years, but not more than five years	**5,971**	1,326
	33,383	31,736
Less: Amounts due shown under current liabilities		
— due within one year	**(735)**	(366)
— due within one year (contain a repayable on demand clause)	**(25,746)**	(29,270)
— due after one year but contain a repayable on demand clause	**(696)**	(730)
	(27,177)	(30,366)
Amounts shown under non-current liabilities	**6,206**	1,370

The banking facilities contain various covenants which include the maintenance of certain financial ratios and restrictions on the maximum amounts due from directors and related companies. The Directors have reviewed the covenants compliance and confirmed there were not aware of any breach during both years.

At 31 December 2018, the bank borrowings are guaranteed by the corporate guarantees by the Company and/or the Company and Fleming International; and secured by (i) debt instruments at FVTOCI of HK$1,682,000 (Note 20); (ii) pledged bank deposits; (iii) certain Group's property, plant and equipment located in Vietnam with aggregate carrying amount of HK$7,836,000; and (iv) the Group's prepaid lease payments of HK$3,894,000.

27. BANK BORROWINGS *(Continued)*

At 31 December 2017, the bank borrowings were guaranteed by personal guarantees from Mr. Andrew Wong and Mr. Vincent Wong; and secured by (i) unlisted debt securities of HK$1,918,000 (Note 18); (ii) pledged bank deposits; (iii) certain Group's property, plant and equipment located in Vietnam with aggregate carrying amount of HK$8,986,000; and (iv) the Group's prepaid lease payments of HK$4,031,000.

The variable-rate bank borrowings are carried interest at Hong Kong Prime Rate quoted by the lending banks less 1.5% per annum, Hong Kong Prime Rate quoted by the lending banks plus 0.25% per annum and Singapore Interbank Offered Rate plus 2.5% to 4.6% per annum.

The effective interest rates (which are also equal to contracted interest rates) of the Group's borrowings are as follow:

	2018	2017
Effective interest rates (per annum):		
Variable-rate bank borrowings	**4.98%–9.5%**	3.75%–9.00%

The carrying amounts of the Group's bank borrowings that are denominated in currencies other than functional currency of the relevant group entities at each of the reporting date are as follows:

	2018 ***HK$'000***	2017 *HK$'000*
HK$	**13,688**	15,751
VND	**662**	799

For the year ended 31 December 2018

28. OBLIGATIONS UNDER FINANCE LEASES

	2018 HK$'000	2017 HK$'000
Analysed for reporting purposes as:		
Current liabilities	146	142
Non-current liabilities	139	285
	285	427

The Group leases motor vehicles under finance leases. The average lease term is 4.5 years for the year ended 31 December 2018 (2017: 4.5 years). Interest rates underlying all obligations under finance leases are fixed at 4.35% (2017: 4.35%) per annum for the year ended 31 December 2018.

	Minimum lease payments		Present value of minimum lease payments	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Obligations under finance leases payable:				
Within one year	154	154	146	142
More than one year, but not more than two years	141	154	139	146
More than two years, but not more than five years	—	141	—	139
	295	449	285	427
Less: future finance charges	(10)	(22)	—	—
Presented value of lease obligations	285	427	285	427
Less: Amount due for settlement within 12 months (shown under current liabilities)			(146)	(142)
Amount due for settlement after 12 months			139	285

Finance lease obligations are denominated in HK$, which are currency other than functional currency of the relevant group entities.

For the year ended 31 December 2018

29. OTHER NON-CURRENT LIABILITIES

	2018	2017
	HK$'000	*HK$'000*
Provision for severance allowance for employees	**168**	152

The amount represents the provision for severance payment set aside for the retirement of employees whose were employed by Fleming Vietnam before 2009. During the years ended 31 December 2017 and 2018, the Group contributes 5% of relevant payroll costs to those staff employed by Fleming Vietnam before 2009.

The movement of the provision for severance allowance during the year ended 31 December 2018 and 2017 is set out as below:

	2018	2017
	HK$'000	*HK$'000*
Carrying amount at the beginning of the year	**152**	117
Additions	**16**	35
Carrying amount at the end of the year	**168**	152

For the year ended 31 December 2018

30. DEFERRED TAX ASSETS

The deferred tax assets recognised and the movements thereon during the current and prior years:

	Accelerated accounting depreciation *HK$'000*
At 1 January 2017	106
Credit to profit or loss *(Note 10)*	198
At 31 December 2017	304
Credit to profit or loss *(Note 10)*	62
At 31 December 2018	366

31. SHARE CAPITAL

The share capital as at 1 January 2017 represented the aggregate amount of the share capital of Fleming Hong Kong attributable to the owners of the Company of HK$4,535,778 and Britain Link of HK$1.

On 4 November 2016, 850 ordinary shares of Fleming Hong Kong were allotted with 425 shares each to Mr. Andrew Wong and Mr. Vincent Wong at an aggregate consideration of HK$850. At 31 December 2016, the amount of the issued and fully paid share capital of Fleming Hong Kong of HK$5,000,858 and Britain Link of HK$1. Upon the transfer of 9.3% equity interest in Fleming Hong Kong to non-controlling interest as stated in Note 2, the share capital represented the aggregate amount of the share capital of Fleming Hong Kong attributable to the owners of the Company of HK$4,535,778 and Britain Link of HK$1.

On 7 February 2017, 140 new shares of Fleming Hong Kong were issued and allotted to Vibes at an aggregate consideration of HK$14,000,000 and the amount of the issued share capital of Fleming Hong Kong and Britain Link were HK$19,000,858 and HK$1 respectively. Upon the completion of the allotment of new shares to the non-controlling interest of Fleming Hong Kong, the share capital represented the aggregate amount of the share capital of Fleming Hong Kong attributable to Controlling Shareholders of the Company of HK$14,820,669 and Britain Link of HK$1 as at 8 September 2017. On the same date, Fleming International acquired the entire issued share capital of Fleming Hong Kong (1,000 shares) from Mr. Andrew Wong, Mr. Vincent Wong and Vibes, respectively, by issuing and allotting 77 and 22 Fleming International's shares respectively to AVW and to Vibes Enterprises, all credited as fully paid. As a result, the non-controlling interests in Fleming Hong Kong, held by Vibes Enterprises, was subsequently taken up by the owners of the Company on 8 September 2017. The share capital of the Group as at 31 December 2017 represented the issued share capital of the Company.

31. SHARE CAPITAL *(Continued)*

The share capital at 31 December 2017 and 2018 represents the issued share capital of the Company as detailed below.

	Number of shares	Share capital
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised		
At 5 July 2017 (date of incorporation) and 31 December 2017 *(Note a)*	38,000,000	380
Addition of authorised share capital *(Note b)*	4,962,000,000	49,620
At 31 December 2018	5,000,000,000	50,000
Issued and fully paid		
Issue of shares at 5 July 2017 (date of incorporation) *(Note c)*	100	—
Issue of shares on 13 September 2017 *(Note d)*	100	—
At 31 December 2017	200	—
Capitalisation issue of shares *(Note e)*	824,999,800	8,250
Issue of shares on 19 July 2018 *(Note f)*	275,000,000	2,750
At 31 December 2018	1,100,000,000	11,000

Notes:

(a) At 5 July 2017, date of incorporation, the Company's authorised share capital was HK$380,000 divided into 38,000,000 shares of HK$0.01 each.

(b) Pursuant to the written resolution of the shareholders of the Company passed on 23 June 2018, the authorised share capital of the Company was increased from HK$380,000 to HK$50,000,000 divided into 5,000,000,000 shares by the creation of additional 4,962,000,000 shares.

(c) Upon its incorporation, one subscriber share was allotted and issued as fully paid to the first subscriber in which was subsequently transferred to AVW. Further, 99 additional shares were issued as fully paid, in which 77 shares were allotted to AVW while 22 shares were transferred to Vibes at par.

(d) On 13 September 2017, the Company issued and allotted 78 new shares and 22 new shares to AVW and Vibes Enterprises at par, respectively as the consideration for the acquisition of the entire issued share capital of Fleming International from AVW and Vibes Enterprises, respectively.

31. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(e) Pursuant to the written resolutions of all shareholders of the Company passed on 23 June 2018, conditional on the share premium account of the Company being credited as a result of the share offer, the Directors were authorised to capitalise an amount of HK$8,249,998 standing to the credit of the share premium account of the Company and to appropriate such amount as capital to pay up in full at par 824,998,800 shares for allotment and issue to the shareholders at close of business on the date this resolution was passed, on a pro rata basis.

(f) On 19 July 2018, the Company issued 275,000,000 new shares at HK$0.01 per share at an offer price of HK$0.295 each for a total gross proceeds of approximately HK$81,125,000 by way of initial public offering of the Company on GEM of the Stock Exchange.

The shares allotted and issued during the year ended 31 December 2018 rank pari passu in all respects with the then existing shares of the Company.

32. SHARE BASED PAYMENT TRANSACTIONS

Share Option Scheme

The Company adopted the share option scheme on 23 June 2018 (the "**Share Option Scheme**") for the purpose to provide the Company with a flexible means of giving incentive and reward to employee, advisor, customer, service provider, agent, customer, partner or joint-venture partner of the Group (including a director of the Group) (the "**Eligible Participants**") for incentive or reward for their contribution to the Group. Under the Share Option Scheme, the board of directors (the "**Board**") may make an offer to the Eligible Participants. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group must not exceed 30% of the total number of Shares in issue from time to time.

Unless approved by the shareholders of the Company at the general meeting, the total number of shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the Share Option Scheme and any other share option schemes of the Group to each Eligible Participant (including both exercised and outstanding options) in any 12-month period up to and including the date on grant of the options must not exceed 1% of the shares in issue.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 110,000,000, representing 10% of the total number of shares in issue on 19 July 2018 (the date of listing of the Company's shares to the Stock Exchange) and the date of this report unless the Company seeks the approval of the shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Group will not be counted for the purpose of calculating 10% limit.

32. SHARE BASED PAYMENT TRANSACTIONS *(Continued)*

Share Option Scheme *(Continued)*

The Share Option Scheme was adopted for a period of 10 years commencing from 23 June 2018 and remains in force until 23 June 2028. The Company may, by ordinary resolution in general meeting or, such date as the Board determined, terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination. The exercise price per Share for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of (i) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the offer date of the option which must be a trading day; (ii) the average of the closing prices of the Shares as shown in the daily quotations sheets issued by the Stock Exchange for the five consecutive business days immediately preceding the offer date of the option; and (iii) the nominal value of the shares on the offer date of the option.

As at 31 December 2018 and 2017, no options have been granted under the Share Option Scheme.

33. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the secured bank borrowings, amount due to a director and obligations under finance leases, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

The Directors review the capital structure from time to time. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares, new debt or the redemption of existing debts.

34. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2018 ***HK$'000***	2017 *HK$'000*
Financial assets		
Financial assets at FVTPL	**17**	—
Debt instruments at FVTOCI	**1,682**	—
Financial assets at amortised cost	**97,580**	—
Loans and receivables (including cash and cash equivalents)	**—**	53,207
AFS investments	**—**	1,938
Financial liabilities		
Amortised cost	**50,696**	51,959

For the year ended 31 December 2018

34. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, debt instruments at FVTOCI, AFS investments, trade and other receivables, amount due from a director, pledged bank deposits, bank balances and cash, trade and other payables, amount due to a director and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

The Group's activities expose it primarily to the financial risks of changes in interest rates, foreign currency exchange rates and equity price. Details of each type of market risks are described as follows:

(i) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to its fixed-rate debt instruments at FVTOCI (2017: AFS investments).

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, pledged bank deposits and secured bank borrowings. The Group currently does not enter into any hedging instrument for cash flow interest rate risk. The Group monitors interest rate risk exposure and will consider hedging significant interest rate risk should the need arises.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank balances, pledged bank deposits and secured bank borrowings at the end of the reporting period. The analysis is prepared assuming amounts of these financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease represents management's assessment on the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower for variable rate bank balances and pledged bank deposits, with all other variables held constant, the Group's profit for the year ended 31 December 2018 would increase/decrease by HK$265,000 (loss for the year ended 31 December 2017 would decrease/increase by HK$72,000).

If interest rates had been 50 basis points higher/lower for variable rate bank borrowings, with all other variables held constant, the Group's profit for the year ended 31 December 2018 would decrease/increase by HK$136,000 (loss for the year ended 31 December 2017 would increase/decrease by HK$130,000).

34. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Market risks *(Continued)*

(i) Interest rate risk management (Continued)

Sensitivity analysis (Continued)

No sensitivity analysis for the decrease in interest rate of financial assets at FVTOCI is presented as the impact is insignificant as at 31 December 2018.

(ii) Foreign currency risk

Certain transactions of the Group are denominated in foreign currencies which are different from the functional currency of the respective relevant entities. The Group is mainly exposed to foreign exchange risk arising from transactions that are denominated in HK$ and VND. The Group currently does not have a foreign currency hedging policy. However, the management manages its foreign currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arises.

The carrying amounts of the foreign currency denominated monetary assets and liabilities at the reporting period are as follows:

	Assets		**Liabilities**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The Group				
HK$	**14,065**	9,576	**14,153**	18,442
VND	**488**	332	**7,188**	5,202

For the year ended 31 December 2018

34. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Market risks *(Continued)*

(ii) Foreign currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuations in US$ against VND and HK$.

As HK$ is pegged to US$, the exposures to fluctuations in exchange rate of US$ against HK$ are considered insignificant and are not considered in the sensitivity analysis.

The following table details the Group's sensitivity to a 5% increase and decrease in the entity's respective functional currency against VND, excluding HK$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the Directors' assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A positive (negative) number below indicates increase (decrease) in profit for the year for the year ended 31 December 2018 and (increase) decrease in loss for the year ended 31 December 2017 where US$ strengthens against the relevant currency. For a 5% weakening of US$ against the relevant currency, there would be an equal and opposite impact on the results for the year.

	2018	2017
	HK$'000	*HK$'000*
Profit (loss) for the year		
— VND	**268**	195

34. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Market risks *(Continued)*

(iii) Other price risk

The Group is exposed to price risk through its financial assets at FVTPL (2017: AFS investments). The Directors manage this exposure by maintaining a portfolio of investments with different risks.

No sensitivity analysis is presented for the other price risk on the Group's financial assets at FVTPL for the year ended 31 December 2018 as the carrying amount of financial assets at FVTPL is considered as insignificant to the Group.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents as well as undrawn banking facilities deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from weighted average interest rate at the end of the reporting period.

For the year ended 31 December 2018

34. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Market risks *(Continued)*

(iii) Other price risk

Liquidity risk (Continued)

	Weighted average interest rate	Repayable on demand/less than 1 year	1 to 2 years	Over 2 years	Total undiscounted cash flows	Carrying amounts
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2018						
Trade and other payables	–	17,313	–	–	17,313	17,313
Bank borrowings	7.42	27,177	790	6,313	34,279	33,383
Obligations under finance leases	4.35	154	141	–	295	285
		44,644	931	6,313	51,887	50,981
At 31 December 2017						
Trade and other payables	–	17,777	–	–	17,777	17,777
Amount due to a director	–	2,446	–	–	2,446	2,446
Bank borrowings	7.16	30,366	391	1,361	32,118	31,736
Obligations under finance leases	4.35	154	154	141	449	427
		50,743	545	1,502	52,790	52,386

Bank borrowings are included in the "repayable on demand or less than 1 year" time band in the above maturity analysis as certain of the Group's borrowings contain a repayment on demand clause. Taking into account the Group's financial position, the management of the Group does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management of the Group believes that these bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

34. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Market risks *(Continued)*

(iii) Other price risk

Liquidity risk (Continued)

For the purpose of managing liquidity risk, the Directors reviews the expected cash flows information of the Group's bank borrowings based on the scheduled repayment dates set out in the bank borrowing agreements as set out in the table below:

Bank borrowings	Weighted average effective interest rate	Within 1 year	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2018	7.42	25,746	211	577	26,534	26,442
At 31 December 2017	7.16	29,270	437	370	30,077	30,000

Credit risk and impairment provision

As at 31 December 2018 and 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of respective financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets. There is no significant changes in the quality of that collateral as a result of deterioration or changes in the collateral policies of the entity during both reporting periods.

Trade receivables from sales of candle products

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Debt instruments at FVTOCI

The Group only invests in debt securities with low credit risk. The Group's debt instruments at FVTOCI mainly comprise unlisted bonds that are graded in the top investment grade as per globally understood definitions and therefore are considered to be low credit risk investments. During the year ended 31December 2018, the expected credit losses on debt instruments at FVTOCI was considered insignificant.

For the year ended 31 December 2018

34. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment provision *(Continued)*

Pledged bank deposits and bank balances and cash

The Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on other receivables, pledged bank deposits and bank balances and cash based on 12m ECL.

The credit risk on pledged bank deposits and bank balances and cash is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Based on the Group's internal credit rating, no material impairment loss allowance is recognised for pledged bank deposits and bank balances and cash.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers that are spread across different countries.

The tables below is the internal credit policy of the Group:

Internal credit rating	Description	Trade receivables	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL — not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

34. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment provision *(Continued)*

The tables below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

2018	*Notes*	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amounts *HK$'000*
Financial assets at amortised cost					
Trade receivables from sales of candle products	*22*	N/A	(Note)	Lifetime ECL	33,131
Deposits paid	*22*	N/A	Low risk	12m ECL	629
Pledged bank deposits	*24*	AA+	N/A	12m ECL	8,875
Bank balances and cash	*24*	AA+	N/A	12m ECL	54,728
Other item					
Debt instruments at FVTOCI	*20*	AA+	N/A	12m ECL	1,682

Note:

For trade receivables from sales of candle products, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL.

Trade receivables have been assessed individually for debtors by considering the internal credit rating of debtors based on the historical default rates of the trade debtors, taking into consideration forward-looking information includes the current operation size of respective debtors and future prospects of the industry in which the Group's debtors operate. The Group determines the expected credit losses on trade receivables by using internal credit rating.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

During the year ended 31 December 2018, management considered impairment on trade receivables from sales of candle products is insignificant and therefore, no expected credit loss is recognised to profit or loss.

For the year ended 31 December 2018

34. FINANCIAL INSTRUMENTS *(Continued)*

c. Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets.

The Directors consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used) as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial assets

	Fair value as at				
	31 December 2018 *HK$'000*	**31 December 2017** *HK$'000*	**Fair value hierarchy**	**Valuation technique and key inputs**	**Relationship of unobservable inputs to fair value**
Financial assets at FVTPL (2017: listed AFS investments)	17 *(Note 19)*	20 *(Note 18)*	Level 1	Quoted price in active market.	N/A
Debt instruments at FVTOCI (2017: unlisted AFS investments)	1,682 *(Note 20)*	1,918 *(Note 18)*	Level 3	Based on the reference prices of respective unlisted bonds provided by financial institution which is reflecting the credit risk of the issuers.	A slight increase in discount rate used would result in significant decrease in fair value measurement to the unlisted bonds investments and vice versa.

Note: There were no transfers between level 1 and level 2 during the year ended 31 December 2018.

34. FINANCIAL INSTRUMENTS *(Continued)*

c. Fair value measurements of financial instruments *(Continued)*

Fair value of the Group's financial assets that are measured at fair value on a recurring basis *(Continued)*

Financial assets (Continued)

Reconciliation of level 3 fair value measurements:

	Debt instruments at FVTOCI 2018 ***HK$'000***	Unlisted AFS investments 2017 *HK$'000*
Opening balance	**1,918**	1,421
Fair value (loss) gain in other comprehensive (expense) income	**(236)**	497
Closing balance	**1,682**	1,918

For the year ended 31 December 2018

35. OPERATING LEASES

The Group as lessee

	2018 HK$'000	2017 HK$'000
Minimum lease payments under operating leases during the year:		
— office premises and warehouses	1,309	1,069
— quarters and carparks for directors (included in directors' remuneration)	1,367	1,367
— office equipment	40	37
	2,716	2,473

At the end of each reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of rented office premises and warehouses, quarters and carparks for directors, and office equipment which fall due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	1,287	1,451
In the second to fifth year inclusive	1,202	116
	2,489	1,567

Leases are negotiated for lease terms ranging from 1 to 2 years and rentals are fixed throughout the lease period.

36. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Capital expenditure of contracted for but not provided in the consolidated financial statements in respect of the acquisition:		
— property, plant and equipment	3,242	—
— a land use right in Vietnam *(Note 17)*	3,218	—
	6,460	—

37. RETIREMENT BENEFIT SCHEMES

	2018	2017
	HK$'000	*HK$'000*
Contributions made during the year	**2,568**	2,202

The employees of the Group's subsidiary in Vietnam are members of a state-managed retirement benefit scheme operated by the local government. The subsidiary is required to contribute 5% of the relevant payroll costs to those staff employed before 2009 (details in Note 29) and a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group's subsidiary in Vietnam with respect to the retirement benefit scheme is to make the specified contributions. The total contribution to the state-managed retirement benefit scheme and charged to profit or loss amounted to HK$2,239,000 for the year ended 31 December 2018 (2017: HK$1,919,000).

The Group operates a scheme under Mandatory Provident Fund Scheme (the "**MPF Scheme**") established under the Mandatory Provident Fund Schemes Ordinance in December 2000 for the Group's Hong Kong employees. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. For employees who are members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme subject to a maximum of HK$1,500 per month, which contribution is matched by the employee. The total contribution to MPF Scheme and charged to profit or loss amounted to HK$329,000 for the year ended 31 December 2018 (2017: HK$283,000).

38. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2018, Mr. Andrew Wong agreed to waive the amount owed by the Group to him amounted to HK$2,208,000 and offsetted to the amount owed by Mr. Vincent Wong to the Group in the same amount.

During the year ended 31 December 2017, deposits paid for properties of HK$4,516,000 was transferred to Mr. Andrew Wong and Mr. Vincent Wong, directors of the Company in which HK$2,043,000 was set off the amount due to a director and HK$2,473,000 was included in amount due from a director.

For the year ended 31 December 2018

39. RELATED PARTY DISCLOSURES

(i) Details of balances with related parties are set out in Note 23.

(ii) During the year ended 31 December 2017, Mr. Andrew Wong and Mr. Vincent Wong provided personal guarantees to secure the repayment obligations under banking facilities granted to the Group as disclosed in Note 27. These personal guarantees had been released and/or replaced by corporate guarantees provided by the Company during the year ended 31 December 2018.

(iii) Compensation of key management personnel

The Directors were considered to be the key management personnel of the Company. The remuneration of the Directors is set out in Note 12.

40. PARTICULARS OF SUBSIDIARIES

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid up share capital	Equity interest attributable to the Company		Principal activities
			2018	2017	
Directly held:					
Fleming International	BVI 5 July 2017	Ordinary shares US$100	100%	100%	Investment holding
Indirectly held:					
Fleming Hong Kong	Hong Kong 29 June 1993	Ordinary shares HK$19,000,858	100%	100%	Trading of candle products and investment holding
Fleming Vietnam	Vietnam 12 October 2004	Ordinary shares US$1,800,000 (equivalent to HK$13,968,000)	100%	100%	Design, manufacture and trading of candle products
Success Glory	BVI 2 March 2004	Ordinary shares S$5,000	100%	100%	Investment holding
Britain Link	Hong Kong 1 August 2011	Ordinary shares HK$2	100%	100%	Trading of candle products and in the process of liquidation in 2018

None of the subsidiaries had issued any debt securities at the end of the year.

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

			Non-cash changes		
	As at 1 January 2018	**Financing cash flow[i]**	**Set off current account[iii]**	**Other changes[ii]**	**As at 31 December 2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings, excluding bank overdrafts *(Note 27)*	26,758	6,625	–	–	33,383
Amount due to a director *(Note 23)*	2,446	(238)	(2,208)	–	–
Accrued interests	–	(1,916)	–	1,916	–
Obligations under finance leases *(Note 28)*	427	(142)	–	–	285
Issued cost deferred/accrued	–	(10,371)	–	10,371	–
	29,631	(6,042)	(2,208)	12,287	33,668

			Non-cash changes		
	As at 1 January 2017	**Financing cash flow[i]**	**Transfer of deposits paid for properties to directors**	**Other changes[ii]**	**As at 31 December 2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings, excluding bank overdrafts *(Note 27)*	29,809	(3,051)	–	–	26,758
Amount due to a director *(Note 23)*	9,139	(4,650)	(2,043)	–	2,446
Accrued interests	–	(1,633)	–	1,633	–
Dividend payable to shareholders	300	(300)	–	–	–
Obligations under finance leases *(Note 28)*	626	(199)	–	–	427
Issued cost deferred/accrued	–	(4,464)	–	4,464	–
	39,874	(14,297)	(2,043)	6,097	29,631

(i) The cash flows from bank borrowings and amount due to a director, make up the net amount of proceeds from borrowings and repayments of borrowings, advance from and repayment to a director in the consolidated statement of cash flows, respectively.

(ii) Other changes represented the accrued finance costs and issued cost during the year ended 31 December 2018 and 2017.

(iii) Non-cash changes represented the balance in amount due to a director was set off the balance in amount due from a director during the year ended 31 December 2018.

For the year ended 31 December 2018

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2018 *HK$'000*	2017 *HK$'000*
Non-current assets		
Investment in a subsidiary	45,435	45,435
Amounts due from subsidiaries	32,648	–
	78,083	45,435
Current assets		
Prepayments	150	–
Deferred listing expenses	–	4,800
Bank balances and cash	9,332	–
	9,482	4,800
Current liabilities		
Amounts due to subsidiaries	1	13,886
Accrued expenses	1,072	10,665
	1,073	24,551
Net current assets (liabilities)	41,057	(19,751)
Total assets less current liabilities	86,492	25,684
Capital and reserves		
Share capital	11,000	–
Reserves *(Note)*	75,492	25,684
Total equity	86,492	25,684

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

	Share premium *HK$'000*	Special reserve *HK$'000* *(Note)*	Accumulated losses *HK$'000*	Total *HK$'000*
At 5 July 2017 (date of incorporation)	–	–	–	–
Loss for the period and total comprehensive expense for the period	–	–	(19,750)	(19,750)
Adjustments arising from Group Reorganisation	–	45,434	–	45,434
At 31 December 2017	–	45,434	(19,750)	25,684
Loss for the year and total comprehensive expense for the year	–	–	(5,146)	(5,146)
Capitalisation issue of shares	(8,250)	–	–	(8,250)
Issue of shares pursuant to initial public offering	78,375	–	–	78,375
Transaction costs attributable to issue of new ordinary shares	(15,171)	–	–	(15,171)
At 31 December 2018	54,954	45,434	(24,896)	75,492

Note: Special reserve represents the difference between the nominal amount of the share capital issued by the Company and the net assets value of a subsidiary acquired by the Company pursuant to the Group Reorganisation in preparation for the listing of the Company's shares on GEM of the Stock Exchange.

FINANCIAL SUMMARY

A Summary of the results and of assets and liabilities of the Group for the last three financial years, extracted from the audited financial statements in this annual report and the Prospectus of the Company dated 29 June 2018, is as follows:

RESULTS

	For the year ended 31 December			
	2018	2017	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**215,434**	162,525	158,434	146,006
Profit (loss) before tax	**7,033**	(8,986)	11,112	14,200
Income tax expense	**2,259**	(2,071)	(2,339)	(3,168)
Profit (loss) for the year	**4,774**	(11,057)	8,773	11,032

ASSETS AND LIABILITIES

	For the year ended 31 December			
	2018	2017	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**166,092**	105,404	93,620	81,897
Total liabilities	**(56,980)**	(66,784)	(58,446)	(46,660)
Total equity	**109,112**	38,620	35,174	35,237