



takbo

Takbo Group Holdings Limited
德寶集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code : 8436



Interim Report 2019

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of Takbo 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 (the “GEM Listing Rules”) of the Stock Exchange 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.

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CORPORATE INFORMATION

Executive Directors

Mr. Or Naam (*Chief Executive Officer*)
Ms. Chan Hoi Yan Polly
Mr. Or Huen

Independent Non-executive Directors

Mr. Tan Chong Huat (*Chairman*)
Mr. Sung Chi Keung
Mr. Wong, Irving Holmes Weng Hoong

Audit Committee

Mr. Sung Chi Keung (*Chairman*)
Mr. Tan Chong Huat
Mr. Wong, Irving Holmes Weng Hoong

Remuneration Committee

Mr. Tan Chong Huat (*Chairman*)
Mr. Sung Chi Keung
Mr. Or Naam

Nomination Committee

Mr. Wong, Irving Holmes Weng Hoong
(*Chairman*)
Mr. Sung Chi Keung
Mr. Or Huen

Company Secretary

Mr. Ng Chit Sing

Authorized Representatives

Mr. Or Naam
Ms. Chan Hoi Yan Polly

Compliance Officer

Ms. Chan Hoi Yan Polly

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

Room B, 35th Floor, EGL Tower
83 Hung To Road, Kwun Tong
Kowloon, Hong Kong

Independent Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong

Compliance Adviser

Lego Corporate Finance Limited
Room 1601, 16/F, China Building
29 Queen's Road Central
Central, Hong Kong

CORPORATE INFORMATION

Principal Bankers

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road, Hong Kong

Nanyang Commercial Bank Limited
151 Des Voeux Road Central
Central
Hong Kong

Principal share registrar and transfer office in the Cayman Islands

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Hong Kong branch share registrar and transfer office

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
(change of address with effect from 11 July 2019)

Stock Code

8436

Company Website

www.takbogroup.com



HIGHLIGHTS

Revenue of the Group for the six months ended 30 June 2019 amounted to approximately HK\$90.4 million, representing an increase of approximately 44.1% over the corresponding period of the previous year.

Gross profit of the Group for the six months ended 30 June 2019 amounted to approximately HK\$29.8 million, representing an increase of approximately 65.2% over the corresponding period of the previous year. The gross profit margin of the Group increased from approximately 28.7% for the six months ended 30 June 2018 to approximately 32.9% for the six months ended 30 June 2019.

Profit attributable to equity holders of the Company for the six months ended 30 June 2019 amounted to approximately HK\$7.9 million, while there was a loss of approximately HK\$1.0 million for the corresponding period in 2018.

Earnings per share for the six months ended 30 June 2019 was approximately HK2.0 cents, while there was a loss per share of approximately HK0.2 cent for the corresponding period in 2018.

The Board does not recommend the payment of any interim dividend for six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Market and Business Overview

The Group is principally engaged in (i) the design, development, manufacture and sale of beauty products; and (ii) the design, development and sale of beauty bags. The core business and revenue structure of the Group has remained unchanged during the six months ended 30 June 2019.

During the six months ended 30 June 2019, the Company has submitted a formal application to the Stock Exchange for the proposed transfer of listing from GEM to the Main Board (the "Proposed Transfer of Listing") of the Stock Exchange for the purpose of further improvement on the profile, brand and product awareness of the Group, which in turn will facilitate the Group to reach out to more potential customers and suppliers and hence beneficial to the long-term growth of the Group. The Company will publish further announcement in compliance with the GEM Listing Rules as and when appropriate, should there be any material development in connection with the Proposed Transfer of Listing.

Since most of the customers of the Group are from North America region, our growing business for the six months ended 30 June 2019 was attributable to the stable and even improving economy of the United States of America (the "US"), supporting solid and higher customer spending in the US. Though there are uncertainties from the trade war between the US and the PRC, the continuous negotiation meetings between the US and the PRC governments helped to release some of the concerns throughout the market. In addition, the duty imposed by the US had only minimal effect on our financial performance for the six months ended 30 June 2019 taking into account the proactive business strategy of the Group.

During the six months ended 30 June 2019, the Group has explored various marketing activities and enrolled different exhibitions such as China Beauty Expo 2019 in Shanghai and Makeup in Los Angeles in the US with an aim to develop and consolidate relationship with existing customers and potential buyers to enable the Group to secure more contracts in both local and international markets. In addition, the Group has offered strategic promotion of beauty bags and beauty products to its customers, and received favorable and remarkable responses with steady increase in revenue recorded during the reporting period, which contributed to the increase in profit for the six months ended 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Prospect

Looking forward, the Group will stay alert of the trade war and any changing business environment that may impact on its operations and its profitability. At the same time, the Group will continue to leverage its reputation, sound track records as well as competitive pricing strategy to promote sales and reduce costs on our products exported to the US.

Financial Review

The following table sets out a breakdown of revenue of the Group and the percentage contribution to total revenue by product category for the six months ended 30 June 2019 and 2018:

	For the six months ended 30 June			
	2019		2018	
	HK\$'000	%	HK\$'000	%
Beauty products	41,213	45.6	36,561	58.3
Beauty bags	49,146	54.4	26,153	41.7
Total	90,359	100	62,714	100

Revenue of the Group for the six months ended 30 June 2019 amounted to approximately HK\$90.4 million, representing an increase of approximately 44.1% over the correspondence period of the previous year. The increase is mainly attributable to more sales order received during the reporting period, which in turn due to the increasing recognition of its high quality as well as variety of overall products from its existing customers together with the successful marketing strategy in sourcing new customers.

The gross profit of the Group for the six months ended 30 June 2019 amounted to approximately HK\$29.8 million, representing an increase of approximately 65.2% over the correspondence period of the previous year. The gross profit margin of the Group increased from approximately 28.7% for the six months ended 30 June 2018 to approximately 32.9% for the six months ended 30 June 2019, which was mainly due to different product mix and relatively stable production cost with less fluctuation in Chinese Renminbi ("RMB") against HK\$ for the six months ended 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit attributable to equity holders of the Company for the six months ended 30 June 2019 amounted to approximately HK\$7.9 million, while there was a loss of approximately HK\$1.0 million for the corresponding period in 2018. Such change was mainly due to the strong sales demand from both existing and new customers, and improved overall gross profit margin, which was partially offset by the increased expenses incurred in relation to the Proposed Transfer of Listing of the Company.

Liquidity and Financial Resources

The Group practiced prudent financial management and maintained a strong and sound financial position during the six months ended 30 June 2019. The Group finances its daily operations through a combination of net funds generated and received from operations and net proceeds from the share offer. As at 30 June 2019, the Group had cash and cash equivalents of approximately HK\$99.9 million (31 December 2018: approximately HK\$103.6 million). The cash and cash equivalents maintained at a stable level.

The current ratio, calculated as the total current assets divided by total current liabilities, was approximately 3.9 times as at 30 June 2019 (31 December 2018: approximately 8.1 times). The decrease in current ratio is mainly as a result of our capital expense on the new factory in the PRC. As at 30 June 2019, the Group did not have any outstanding borrowing and other indebtedness and no gearing ratio is presented.

Administrative expenses

The administrative expenses of the Group increased by approximately HK\$2.9 million or approximately 21.7% from approximately HK\$13.3 million for the six months ended 30 June 2018 to approximately HK\$16.2 million for the six months ended 30 June 2019. The increase was mainly attributable to the one-off expenses and professional fees incurred in relation to the proposed transfer of listing of approximately HK\$2.4 million.

Selling expenses

The selling expenses of the Group remained stable at HK\$6.0 million for the six months ended 30 June 2018 and 2019. This was mainly attributable to the net off effect of increase in sample expenses for promoting sales orders and the slightly less freight and transportation costs incurred with relatively shorter distance to destinations for our products sold despite the increase in sales during the six months ended 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Exchange Exposure

The Group mainly operates in Hong Kong and the PRC and is exposed to foreign exchange risk, primarily with respect to US\$ and RMB denominated transactions arising from the sales of beauty products and bags to customers in the US and purchases from suppliers in the PRC. The Directors are of the opinion that the foreign exchange risk arising from US\$ against RMB of the Group is insignificant and manageable.

During the six months ended 30 June 2019, the Group has not entered into any agreement or commit to any financial instruments to hedge our exchange rate exposure relating to RMB and will continue to monitor its foreign exchange exposure. The Group will consider hedging significant foreign currency exposure should the need arises and no derivative financial instruments were held by the Group as at 30 June 2019 for speculative and investment purposes.

Contingent Liabilities and Capital Commitments

As at 30 June 2019, the Group did not have any material contingent liabilities (31 December 2018: Nil). The Group had capital commitment of approximately HK\$8.2 million in relation to expenditure on our factory expansion (31 December 2018: HK\$8.6 million) and operating leases of approximately HK\$0.2 million (31 December 2018: HK\$24.7 million) as at 30 June 2019. The decrease in operating leases commitments is mainly due to our adoption of HKFRS 16 “Leases” since 1 January 2019.

Pledge of Assets

The Group did not have pledged assets as at 30 June 2019 (31 December 2018: Nil).

Share Capital and Capital Structure

During the six months ended 30 June 2019, there has been no change on the shares in issue and capital structure of the Company. The capital of the Company comprises ordinary shares and capital reserve. The Group finances its operations, working capital, capital expenditures requirements and other liquidity requirements through a combination of net funds generated and received from operations and net proceeds from the share offer.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Dividend

The board of the Directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (30 June 2018: Nil).

Future Plans for Material Investment and Capital Assets

Save as disclosed above, the Group did not have any other plans for material investment and capital assets as at 30 June 2019.

Significant Investments Held

As at 30 June 2019, the Group did not have any significant investment in equity interest in any other company and did not own any properties (31 December 2018: Nil).

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

The Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2019.

Employees and Remuneration Policies

As at 30 June 2019, the Group had 144 full-time employees in Hong Kong and the PRC (31 December 2018: 139 employees), including the Directors. Total staff costs (including Directors' emoluments) were approximately HK\$8.1 million for the six months ended 30 June 2019 as compared to approximately HK\$7.3 million for the six months ended 30 June 2018. Such increase was mainly due to increase in headcount and general increase in salary of the PRC employees.

Remuneration is determined with reference to duties, responsibilities, experience and skills. On top of basic salaries, the Group provides discretionary bonuses to our senior management and key employees as incentive bonuses.

The board of Directors is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the three months and six months ended 30 June 2019 (the "Period"), which has been reviewed by the audit committee of the Company, together with the comparative unaudited figures for the corresponding period in 2018, as follows:

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Revenue	4	43,303	18,302	90,359	62,714
Cost of sales		(29,679)	(12,818)	(60,605)	(44,705)
Gross profit		13,624	5,484	29,754	18,009
Other income, net		166	3	404	450
Other gains/(losses)		710	141	931	(628)
Administrative expenses		(7,728)	(6,267)	(16,176)	(13,296)
Selling expenses		(3,090)	(2,640)	(6,006)	(5,974)
Finance income	5	422	124	851	228
Profit/(loss) before tax	6	4,104	(3,155)	9,758	(1,211)
Income tax (expense)/credit	7	(559)	681	(1,902)	275
Profit/(loss) for the period attributable to owners of the Company		3,545	(2,474)	7,856	(936)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Three months ended 30 June		Six months ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Other comprehensive income for the period					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange differences arising on translation of foreign operations		—	—	—	—
Total comprehensive income/ (loss) for the period attributable to owners of the Company		3,545	(2,474)	7,856	(936)
Earnings/(loss) per share					
Basic and diluted (in HK cents)	9	0.9	(0.6)	2.0	(0.2)

The above unaudited interim condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	33,975	25,549
Intangible asset		286	356
Right-of-use assets	10	19,509	—
Prepayments		10,106	9,059
Deferred income tax assets		1,025	1,249
		64,901	36,213
Current assets			
Inventories		24,418	9,161
Trade receivables	11	38,168	35,004
Prepayments, deposits and other receivables		11,044	5,368
Amounts due from related parties		—	332
Cash and cash equivalents		99,853	103,628
		173,483	153,493
Total assets		238,384	189,706
EQUITY			
Equity attributable to owners of the Company			
Share capital	13	4,000	4,000
Share premium		56,188	56,188
Other reserves		3,454	3,454
Retained earnings		114,659	106,803
		178,301	170,445

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
LIABILITIES			
Non-current liabilities			
Provision		393	393
Lease liabilities		15,570	—
		15,963	393
Current liabilities			
Trade payables	12	29,328	9,081
Lease liabilities		4,052	—
Accruals, provision and other payables		7,729	7,882
Amounts due to related parties		484	647
Current income tax liabilities		2,527	1,258
		44,120	18,868
Total liabilities		60,083	19,261
Total equity and liabilities		238,384	189,706

The above unaudited interim condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company (Unaudited)							
	Capital						Retained profits	Total
	Share capital	Share premium	and other reserve	Statutory reserve	Exchange reserve	HK\$'000		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2019 (audited)	4,000	56,188	46	1,086	2,322	106,803	170,445	
Profit for the period	—	—	—	—	—	7,856	7,856	
Total comprehensive income for the period	—	—	—	—	—	7,856	7,856	
At 30 June 2019	4,000	56,188	46	1,086	2,322	114,659	178,301	
At 1 January 2018 (audited)	4,000	56,188	46	544	3,128	75,096	139,002	
Loss for the period	—	—	—	—	—	(936)	(936)	
Total comprehensive expense for the period	—	—	—	—	—	(936)	(936)	
At 30 June 2018	4,000	56,188	46	544	3,128	74,160	138,066	

The above unaudited interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Net cash generated from/(used in) operating activities	7,675	(10,092)
Net cash used in investing activities	(9,284)	(2,458)
Net cash used in financing activities	(2,167)	—
Net decrease in cash and cash equivalents	(3,776)	(12,550)
Cash and cash equivalents at 1 January	103,629	96,412
Cash and cash equivalents at 30 June represented by bank balances, deposits and cash	99,853	83,862

The above unaudited interim condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. Statement of Compliance

The condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and the applicable disclosures required by the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (the “GEM Listing Rules”).

2. Basis of Preparation

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2018.

3. Application of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current interim period, the Group has applied all the new and revised HKFRSs including HKFRS 16 “Leases” issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements and effective for its accounting period beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); HKAS; and Interpretations.

Save as disclosed in note 10 for the effect of application of HKFRS 16 “Leases”, the application of these new and revised HKFRSs did not have material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

The Group has not applied the new HKFRSs that have been issued but are not yet effective, and is in the process of assessing their impact on the Group’s results and financial position.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. Revenue and Segment Information

(a) Revenue

The Group is principally engaged in the design, development, manufacture and sale of beauty products, and the design, development and sale of beauty bags. Since many of our products are produced for holiday season around year end, our sales in first half year would be generally lower compared to that of second half year. Revenue recognised during the period analysed by type of products is as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Revenue				
Sales of beauty products	14,385	7,840	41,213	36,561
Sales of beauty bags	28,918	10,462	49,146	26,153
	43,303	18,302	90,359	62,714

(b) Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker that are used for making strategic decisions. The chief operating decision-maker is identified as the executive directors of the Company. The executive directors consider the business from a product perspective and assess the performance of the operating segments based on a measure of gross profit for the purposes of allocating resources. No analysis of segment assets or segment liabilities is regularly provided to the chief operating decision-maker. These reports are prepared on the same basis as this consolidated financial statements.

The management has identified two operating segments based on the types of goods, namely (i) design, development, manufacture and sale of beauty products and (ii) design, development and sale of beauty bags.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. Revenue and Segment Information (Continued)

(b) Segment information (Continued)

The segment information provided to the executive directors are as follows:

	Design, development, manufacture and sale of beauty products HK\$'000	Design, development and sale of beauty bags HK\$'000	Total HK\$'000
For the six months ended 30 June 2019 (Unaudited)			
Segment revenue from external customers	41,213	49,146	90,359
Cost of sales	(24,925)	(35,680)	(60,605)
Gross profit	16,288	13,466	29,754
Other income, net			404
Other gains			931
Administrative expenses			(16,176)
Selling expenses			(6,006)
Finance income			851
Profit before income tax			9,758
Income tax expenses			(1,902)
Profit for the period			7,856
For the six months ended 30 June 2018 (Unaudited)			
Segment revenue from external customers	36,561	26,153	62,714
Cost of sales	(25,572)	(19,133)	(44,705)
Gross profit	10,989	7,020	18,009
Other income, net			450
Other losses			(628)
Administrative expenses			(13,296)
Selling expenses			(5,974)
Finance income			228
Loss before income tax			(1,211)
Income tax credit			275
Loss for the period			(936)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. Revenue and Segment Information (Continued)

(b) Segment information (Continued)

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Customer A (Design, development, manufacture and sale of beauty products and design, development and sale of beauty bags)	N/A ^(a)	14,383 ^(a)
Customer B (Design, development, manufacture and sale of beauty products and design, development and sale of beauty bags)	19,717	13,609
Customer C (Design, development and sale of beauty bags)	30,224	11,383
Customer D (Design, development, manufacture and sale of beauty products and design, development and sale of beauty bags)	13,791	8,330

Note:

- (a) The corresponding customer did not contribute over 10% of the total revenue of the Group for the six months ended 30 June 2019.

The Company is domiciled in the Cayman Islands. All non-current assets, other than deferred income tax assets of the Group as at 30 June 2019 are located in Hong Kong amounted to approximately HK\$5,781,000 (As at 31 December 2018: HK\$1,030,000) and the PRC amounted to approximately HK\$58,095,000 (As at 31 December 2018: HK\$24,627,000).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. Revenue and Segment Information (Continued)

(b) Segment information (Continued)

Revenue from external customers by country, based on the location to which the goods were delivered:

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
United States of America ("USA")	85,152	59,460
United Arab Emirates ("UAE")	—	3,009
PRC	3,647	163
Other countries	1,560	82
	90,359	62,714

5. Financial Income

	Three months ended 30 June		Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Finance income				
Bank interest income	422	124	851	228

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6. (Profit)/Loss before Tax for the Period

	Three months ended 30 June		Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
(Profit)/loss for the period has been arrived at after charging/(crediting):				
Amortisation of intangible assets	29	17	67	35
Depreciation of property, plant and equipment	334	244	662	535
Rental expense — depreciation of right-of-use assets	708	—	1,417	—
Rental expense — imputed interest of lease liabilities	42	—	73	—
Reversal of provision for impairment of trade receivables	—	(26)	—	(26)
Listing expenses for transfer of listing	204	—	2,400	—
and after charging/(crediting):				
Other income — sample income	(181)	—	(339)	(447)
Other expenses/(income) — others, net	15	(3)	(65)	(3)
Other (gains)/losses — exchange (gains)/losses	(710)	(141)	(931)	628

7. Income Tax Expense/(Credit)

	Three months ended 30 June		Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
The charge/(credit) comprises:				
Current tax				
Hong Kong	769	(315)	1,847	(111)
Other jurisdictions	(249)	(136)	(169)	(116)
Deferred tax	39	(230)	224	(48)
	559	(681)	1,902	(275)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7. Income Tax Expense/(Credit) (Continued)

Hong Kong profits tax from subsidiaries operating in Hong Kong has been provided at the rate of 16.5% on the estimated assessable profit for the relevant periods. Corporate income tax on profits from a subsidiary operating in the PRC have been calculated at 25% in accordance with the relevant PRC tax laws and regulations. No overseas profits tax has been calculated for subsidiaries of the Group that are incorporated in the BVI or the Cayman Islands as they are exempted from tax.

8. Dividends

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019.

No dividend has been paid or declared by the Company for the six months ended 30 June 2018 and 2019.

9. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the respective periods.

Diluted earnings per share is of the same amount as the basic earnings per share as there were no potentially dilutive ordinary share outstanding as at 30 June 2018 and 2019.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10. Movement in Property, Plant and Equipment, and Right-of-use assets

During the six months ended 30 June 2019, the Group recognised additions of property, plant and equipment of approximately HK\$9.1 million (2018: HK\$4.0 million) mainly due to expand and upgrade its production facilities.

The Group has adopted HKFRS16 “Leases” from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and adjustments of approximately HK\$21.6 million arising from the new leasing standard are therefore recognised in the opening balance sheet as right-of-use assets and lease liabilities on 1 January 2019.

Other than the above, the Group did not have additions of right-of-use assets during the six months ended 30 June 2019.

11. Trade and other receivables

Trade receivables represent income receivable from customers. The credit terms granted by the Group generally ranged between 30 to 90 days (2018: 30 to 90 days).

As at 30 June 2019 and 31 December 2018, the ageing analysis of trade receivables based on invoice date and net of allowance is as follows:

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
1 to 30 days	28,464	3,573
31 to 60 days	3,936	5,904
61 to 90 days	959	1,737
91 days to 120 days	4,343	12,267
Over 121 days	466	11,523
	38,168	35,004

The carrying amounts of trade receivables approximate their fair value.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12. Trade Payables

As at 30 June 2019 and 31 December 2018, the ageing analysis of trade payables presented based on the invoice date are as follows:

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Within 30 days	26,871	4,256
31–60 days	1,733	2,452
61–90 days	139	636
91 days to 120 days	4	254
Over 121 days	581	1,483
	29,328	9,081

13. Share Capital

	As at 30 June 2019 (Unaudited)		As at 31 December 2018 (Audited)	
	Number of shares	Value HK\$'000	Number of shares	Value HK\$'000
Authorised:				
Ordinary shares at HK\$0.01 each	10,000,000,000	100,000	10,000,000,000	100,000
Issued and fully paid:	400,000,000	4,000	400,000,000	4,000

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14. Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Property, plant and equipment	8,209	8,563

(b) Non-cancellable operating leases

As a lessee

As at the end of the reporting period, The Group leases office and residential premises under non-cancellable lease agreements with related companies. The leases terms are between 2 to 10 years (2018: 2 to 10 years) and are renewable at the end of the lease period at market rate.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14. Commitments (Continued)

(b) Non-cancellable operating leases (Continued)

As a lessee (Continued)

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
No later than one year	94	4,589
Later than one year and no later than five years	67	11,290
Later than five years	—	8,862
	161	24,741

15. Related Party Transactions

The directors of the Group are of the view that the following companies were related parties that had transactions with the Group as at and during the reporting period:

Name of related party	Relationship with the Group
Sky Choice Development Limited	Controlled by Mr. Or Naam and Ms. Chu Siu Fong
Smart Path Development Limited	Controlled by Mr. Or Naam and Ms. Chan Hoi Yan Polly
Shantou Baoma Processing Complex Company Limited	Controlled by Ms. Chu and Mr. Or Tak Ming, spouse of Ms. Chu Siu Fong

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15. Related Party Transactions (Continued)

(a) Transactions with related parties

The following transactions were undertaken by the Group with relate parties during the reporting period:

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Shantou Baoma Processing Complex Company Limited		
— Purchases	7,060	2,482
— Utility expenses	365	348
— Rental expenses	1,179	1,012
Sky Choice Development Limited		
— Rental expenses	544	523
Smart Path Development Limited		
— Rental expenses	605	600

All of the above transactions with related parties were conducted in the normal commercial terms of ordinary course of the business of the Group and have been disclosed pursuant to the GEM Listing Rules, if necessary.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15. Related Party Transactions (Continued)

(b) Key management compensation

Key management personnel are deemed to be the members of the Board of Directors of the Company who have responsibility for the planning, directing and controlling the activities of the Group.

The compensation paid or payable to key management personnel for employee services period is shown below:

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Salaries and bonuses	1,617	1,618
Other allowances and benefits in kind	722	713
Defined contribution pension costs	27	27
	2,366	2,358

SUPPLEMENTARY INFORMATION

Comparison between Business Objectives and Actual Business Progress

The following is a comparison between the Group's business plans as set out in the prospectus of the Company dated 13 October 2017 (the "Prospectus") and the Group's actual business progress for the six months ended 30 June 2019:

Business Plan	Business plan for the six months ended 30 June 2019	Actual business progress as at 30 June 2019
Expand the Hong Kong headquarters	— Costs incurred as rent and utility expenses for the new Hong Kong headquarters	— The Group has rented and renovated a new office premises for our showroom for displaying various beauty products and beauty bags for sales purpose since February 2018.
	— Costs incurred as remuneration payable to the additional staff recruited for the expansion	— The Group has recruited several experienced personnel for overseeing the overall operation of beauty products and beauty bags as well as senior officers for assisting the selling and marketing activities.
Participate in local and global exhibitions	— participation in two exhibitions in the PRC and one exhibitions overseas	— The Group participated the China Beauty Expo 2019 in Shanghai, Makeup in Los Angeles and Luxepack New York in the US.
		— The Group has developed relationship with various potential customers from the exhibitions through the participation.

Use of Listing Proceeds

The shares of the Company were listed on GEM of the Stock Exchange on 27 October 2017 (the "Listing Date") for which the Company issued 100,000,000 new shares at HK\$0.69 per share. The net listing proceeds received by the Company, after deducting underwriting fees and other related expenses, are approximately HK\$42.1 million. These proceeds are intended to be applied in the manner as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

SUPPLEMENTARY INFORMATION

The future plan and scheduled use of proceeds as disclosed in the Prospectus were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus, while the proceeds were applied with consideration of the actual development of business and market. As at 30 June 2019, the Group does not anticipate any change to the plan as to the use of listing proceeds. The majority of the unused net proceeds have been placed as interest bearing short-term demand deposits with licensed bank in Hong Kong.

As at 30 June 2019, the net listing proceeds has been applied and utilized as follows:

Use of net proceeds	Total net proceeds from share offer (HK\$'000)	Total remaining net proceeds available as at 1 January 2019 (HK\$'000)	Planned use of net proceeds for the six months ended 30 June 2019 (HK\$'000)	Utilised for the six months ended 30 June 2019 (HK\$'000)	Total remaining net proceeds available as at 30 June 2019 (HK\$'000)
Upgrade production hardware, and facilities and infrastructure	23,670	4,145	59	4,145	—
Expand the Hong Kong headquarters	11,245	9,378	2,500	1,780	7,598
Participate in local and global exhibitions	3,538	2,080	618	1,492	588
General working capital	3,665	1,570	800	1,295	275
Total	42,118	17,173	3,977	8,712	8,461

As disclosed in the annual report of the Company for the year ended 31 December 2018, the Group was in the progress to upgrade its production hardware and infrastructure. As at the date of this report, the upgrade has been substantially completed with approximately HK\$23.7 million has been utilized from the net proceeds from the share offer. Subject to the business development and operation needs of the Group, the remaining proceed is expected to be fully utilised in next 24 months.

Principal Risks and Uncertainties

The business operations and results of the Group may be affected by various factors, some of which are external causes and some are inherent to the business. Besides the trade war, the Board is aware that the Group is exposed to various risks and the principal risks and uncertainties are summarised below:

SUPPLEMENTARY INFORMATION

The sales and profitability of our products are dependent on our customers' business performance. We sell our products mainly to retailers, beauty products brand owners and trading companies. The business performance of our customers could underperform due to a number of factors, such as changes in business strategies, failure to develop successful marketing strategies, changes in the market demand for our customers' products and adverse market or economic conditions in the markets in which our customers operate, in particular, the US. If the business performance of our customers deteriorates, they could reduce the amount of their purchases for our products, or terminate their business relationship from us, which could have a material and adverse impact on our business, financial condition, results of operations and prospect.

Any shortage in labour, increase in labour costs, strikes, labour unrests or other adverse factors affecting our labour force may have a material adverse effect on our business operations.

As we expand our production capabilities and capacities, we will require more production personnel. There is no assurance that we will not experience any shortage of labour for our production. Given the economic growth in the PRC, competition for labour is substantial and labour costs have been increasing generally, and we cannot assure that we can retain and attract sufficient qualified employees and/or on commercially reasonable terms in the future. If we fail to retain and attract sufficient labour, we may not be able to effectively implement our expansion plans, our business, financial conditions and results of operations would be materially and adversely affected.

The economic, political and social conditions in the PRC, as well as government policies, laws and regulations, could affect our business, financial condition and results of operations.

The Group maintained substantial amount of business assets and operations in the PRC. Accordingly, our results of operations are subject to economic, political and legal developments in the PRC. Any changes in its regulations will definitely affect our business in this regional segment.

SUPPLEMENTARY INFORMATION

Share Option Scheme

The Company has conditionally adopted the share option scheme (“Share Option Scheme”), which was approved by written resolutions passed by its sole Shareholder on 29 September 2017 and became unconditional on 27 October 2017. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

The purpose of the Share Option Scheme is to advance the interests of the Company and the shareholders by enabling the Company to grant options to attract, retain and reward the eligible persons, namely directors, employees, consultants, advisers, any provider of goods and/or services to the Group; any customer of the Group and any person, who at the sole discretion of the Board, has contributed to the Group, and to provide the eligible persons an incentive or reward for their contribution to the Group and by enabling such persons’ contribution to further advance the interests of the Group. Pursuant to the Share Option Scheme, the Company may grant options to eligible persons to subscribe shares of the Company with a payment of HK\$1.00 upon each grant of options offered.

Unless the Company obtains a fresh approval from the shareholders pursuant to the conditions set out in the Share Option Scheme, the total 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 shall not in aggregate exceed 10% of the total number of shares in issue from time to time; and the total number of shares issued and to be issued upon exercise of the options granted to each eligible person (including both exercised and outstanding options under the Share Option Scheme) in any twelve-month period must not exceed 1% of the issued share capital of the Company.

The Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption to 28 September 2027, after which period no further options will be granted or offered.

SUPPLEMENTARY INFORMATION

The exercise price of the share option will be not less than the highest of:

- (a) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date;
- (b) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and
- (c) the nominal value of a Share on the offer date.

The share options are exercisable at any time during period of not more than 10 years from the date of grant, subject to the terms and conditions of the Share Option Scheme, or any conditions stipulated by the Board of Directors.

As at 30 June 2019, there was no option outstanding, granted, cancelled, exercised or lapsed.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed "13. Share Option Scheme" in section headed "Statutory and General Information" in Appendix IV to the Prospectus.

Rights to Acquire Shares or Debentures

Apart from the aforesaid Share Option Schemes, at no time during the six months ended 30 June 2019 was the Company or any associated corporation a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUPPLEMENTARY INFORMATION

Directors and Chief Executive's Interests and/or Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporation

As at 30 June 2019, the interests or short positions of Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were 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 they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(I) Long Position in the Ordinary Shares and Underlying Shares of the Company

(i) Interests in the Company

Name of director	Interests in ordinary shares				Total interests in underlying shares	Aggregate interests	% of the Company's issued voting shares
	Personal interests	Family interests	Corporate interests	Total interests in ordinary shares			
Mr. Or Naam ^{Note}	—	—	300,000,000	300,000,000	—	300,000,000	75.00%
Ms. Chan Hoi Yan Polly ^{Note}	—	—	300,000,000	300,000,000	—	300,000,000	75.00%

Note: The 300,000,000 shares are beneficially held by Classic Charm Investments Limited, which is legally and beneficially owned as to 50.8% by Mr. Or Naam, as to 39.7% by Ms. Chu Siu Fong and 9.5% by Ms. Chan Hoi Yan Polly. As Mr. Or Naam, Ms. Chu Siu Fong and Ms. Chan Hoi Yan Polly are parties acting in concert, they are deemed to be interested in 300,000,000 Shares held by Classic Charm Investments Limited by virtue of the SFO.

Save as disclosed above, as at 30 June 2019, none of the directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the standards of dealing by Directors as referred to in Rule 5.48 to 5.67 of the GEM Listing Rules.

SUPPLEMENTARY INFORMATION

Substantial shareholder's Interests and/or Short Position in Shares and Underlying Shares of the Company

As at 30 June 2019, the following persons/entities (not being Directors or chief executive of our Company) have an interest or a short position in the Shares or the underlying Shares which were disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO:

Long position in the ordinary shares and underlying shares of the Company

Name of shareholders	Capacity	Number of shares held	% of the Company's issued voting shares
Classic Charm Investments Limited	Beneficial owner	300,000,000	75.00%
Ms. Chu Siu Fong ^{Note}	Interest in controlled corporation	300,000,000	75.00%

Note: The 300,000,000 shares are beneficially held by Classic Charm Investments Limited, which is legally and beneficially owned as to 50.8% by Mr. Or Naam, as to 39.7% by Ms. Chu Siu Fong and 9.5% by Ms. Chan Hoi Yan Polly. As Mr. Or Naam, Ms. Chu Siu Fong and Ms. Chan Hoi Yan Polly are parties acting in concert, they are deemed to be interested in 300,000,000 Shares held by Classic Charm Investments Limited by virtue of the SFO.

Save as disclosed above, as at 30 June 2019, the Company had not been notified by any persons (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SUPPLEMENTARY INFORMATION

Interests in Competing Businesses

Each of the Mr. Or Naam, Ms. Chan Hoi Yan Polly, Ms. Chu Siu Fong and Classic Charm (the “Covenantor”) entered into a deed of non-competition (the “Deed of Non-competition”) dated 29 September 2017 in favour of the Company, mainly to the effect that at any time the Covenantor individually or collectively with any other Covenantor(s) are interested, directly or indirectly, in 30% or more of the issued shares of the Company, any Covenantor and his/her/its close associates and any company directly or indirectly controlled by the Covenantor shall not, and shall procure their close associates not to carry on, engage in, invest or be interested or otherwise involved in any business that is similar to or in competition with or is likely to be in competition with any business carried on or contemplated to be carried on by any member of the Group from time to time or in which any member of our Group is engaged or has invested or is otherwise involved in or which any member of our Group has otherwise publicly announced its intention to enter into, engage in or invest in (whether as principal or agent and whether directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement) in any territory that our Group carries on its business from time to time.

Conflict of Interests

Saved as disclosed above, during the six months ended 30 June 2019, none of the directors, the substantial shareholders or the controlling shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the business of the Group or has any other conflict of interests with the Group.

Code on Corporate Governance Practices

During the six months ended 30 June 2019, the Board considers that the Company has complied with all the provisions of the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as set out in Appendix 15 to the GEM Listing Rules.

SUPPLEMENTARY INFORMATION

Code of Conduct for Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by the directors, its employees, and the directors and employees of its subsidiaries and holding companies, who may likely possess inside information on the Company or its securities, on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company during the six months ended 30 June 2019.

Changes of Directors' Information Under Rule 17.50A(1) of the GEM Listing Rules

The Company is not aware of any changes in the Directors' information which are required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules as at 30 June 2019.

Purchase, Sale or Redemption of Listed Securities of the Company

The Company has not redeemed any of its shares during the six months ended 30 June 2019. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares for the six months ended 30 June 2019.

Interests of the Compliance Adviser

As notified by Lego Corporate Finance Limited, compliance adviser of our Company, neither Lego Corporate Finance Limited nor any of its close associates (as defined in the GEM Listing Rules) and none of the directors or employees of Lego Corporate Finance Limited had any interest in the share capital of the Company or any member of our Group (including options or rights to subscribe for such securities, if any) which is required to be notified to our Company pursuant to Rule 6A.32 of the GEM Listing Rules as at 30 June 2019.

SUPPLEMENTARY INFORMATION

Audit Committee

The Company established an audit committee on 29 September 2017 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and the CG Code as set out in Appendix 15 to the GEM Listing Rules. The revised terms of reference of the audit committee are available on the websites of the Company and the Stock Exchange.

The audit committee comprises three independent non-executive Directors, namely Mr. Sung Chi Keung (chairman), Mr. Tan Chong Huat and Mr. Wong, Irving Holmes Weng Hoong. Its main responsibilities are to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting, risk management and internal control principles and procedures, and to make recommendations to the Board on the appointment and dismissal of the external auditor.

The audit committee has reviewed the accounting principles and practices adopted by the Group and has discussed with the management regarding the auditing and financial reporting matters. The audit committee has discussed and reviewed the unaudited interim financial information and the interim report for the six months ended 30 June 2019.

Changes in Constitutional Document

Pursuant to Rule 17.102 of the GEM Listing Rules, the Company has published on the websites of the Company and the Stock Exchange its Memorandum and Articles of Association. During the six months ended 30 June 2019, there has been no changes in the constitutional documents of the Company.

Significant Event after the Reporting Period

Up to the date of this report, there was no significant event relevant to the business or financial performance of the Group that come to the attention of the Directors after the six months ended 30 June 2019.