

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



2019 Interim Report

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*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.*



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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. So Chi Ming

Authorized representatives

Mr. Wong Wai Chit

Mr. So Chi Ming

Compliance officer

Mr. Wong Wai Chit

Registered office

PO Box 1350

Clifton House, 75 Fort Street

Grand Cayman KY1-1108

Cayman Islands

CORPORATE INFORMATION (CONTINUED)

**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

CORPORATE INFORMATION (CONTINUED)

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

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Three months ended		Six months ended	
		30.6.2019	30.6.2018	30.6.2019	30.6.2018
		HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Revenue					
Sales of goods	3	48,327	47,714	99,679	87,853
Total revenue		48,327	47,714	99,679	87,853
Cost of sales		(35,889)	(36,912)	(73,923)	(70,227)
Gross profit		12,438	10,802	25,756	17,626
Other income	4	146	255	323	285
Other gains	5	126	157	216	134
Selling and distribution expenses		(4,154)	(1,208)	(8,338)	(2,460)
Administrative expenses		(9,016)	(7,689)	(18,234)	(14,242)
Listing expenses		-	(242)	-	(965)
Finance costs	6	(653)	(504)	(1,238)	(952)
(Loss) profit before tax		(1,113)	1,571	(1,515)	(574)
Income tax expense	7	(360)	(448)	(438)	(428)
(Loss) profit for the period	8	(1,473)	1,123	(1,953)	(1,002)
Other comprehensive (expense) income					
Items that may be classified subsequently to profit or loss:					
Fair value loss on:					
Debt instruments measured at fair value through other comprehensive income		(118)	(40)	(181)	(148)

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

For the six months ended 30 June 2019

	Notes	Three months ended		Six months ended	
		30.6.2019 HK\$'000 (unaudited)	30.6.2018 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)	30.6.2018 HK\$'000 (unaudited)
Other comprehensive (expense) income for the period		(118)	(40)	(181)	(148)
Total comprehensive (expense) income for the period		(1,591)	1,083	(2,134)	(1,150)
(Loss) profit for the period attribute to owners of the Company		(1,473)	1,123	(1,953)	(1,002)
Total comprehensive (expense) income for the period attributable to owners of the Company		(1,591)	1,083	(2,134)	(1,150)
(Loss) earnings per share, basic (<i>HK cents</i>)	10	(0.13)	0.14	(0.18)	(0.12)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.6.2019 HK\$'000 (unaudited)	31.12.2018 HK\$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	16,774	13,538
Prepaid lease payments		–	3,757
Prepayment for a land use right		13,000	13,000
Deposits for acquisition of property, plant and equipment		–	1,525
Financial assets at fair value through profit or loss		17	17
Debt instruments at fair value through other comprehensive income		1,129	1,682
Deferred tax assets		359	366
Right-of-use assets		5,494	–
Pledged bank deposits	14	11,691	8,875
		48,464	42,760
CURRENT ASSETS			
Inventories	12	41,188	32,349
Right-of-use assets		2,738	–
Financial assets at fair value through other comprehensive income		372	–
Trade and other receivables	13	48,499	35,767
Prepaid lease payments		–	137
Tax recoverable		–	134
Bank balances and cash	14	37,188	54,945
		129,985	123,332
CURRENT LIABILITIES			
Trade and other payables	15	26,780	22,940
Contract liabilities	16	408	204
Bank borrowings – due within one year	17	33,629	27,177
Obligations under finance leases		–	146
Lease liabilities		2,764	–
Tax payable		297	–
		63,878	50,467
NET CURRENT ASSETS		66,107	72,865
TOTAL ASSETS LESS CURRENT LIABILITIES		114,571	115,625

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	30.6.2019 <i>HK\$'000</i> (unaudited)	31.12.2018 <i>HK\$'000</i> (audited)
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	17	5,848	6,206
Obligations under finance leases		–	139
Other non-current liabilities		167	168
Lease liabilities		1,578	–
		7,593	6,513
NET ASSETS			
		106,978	109,112
CAPITAL AND RESERVES			
Share capital	18	11,000	11,000
Reserves		95,978	98,112
TOTAL EQUITY			
		106,978	109,112

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company						Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Fair value through other comprehensive income ("FVTOCI") reserve HK\$'000	Other reserve HK\$'000	Retained earnings HK\$'000	
At 31 December 2017 (audited)	-	-	281	-	20,605	17,734	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
Loss for the period	-	-	-	-	-	(1,002)	(1,002)
Fair value loss on debt instruments through other comprehensive income	-	-	-	(148)	-	-	(148)
Loss and total comprehensive expense for the period	-	-	-	(148)	-	(1,002)	(1,150)
As at 30 June 2018 (unaudited)	-	-	-	129	20,605	16,736	37,470
At 1 January 2019 (audited)	11,000	54,954	-	41	20,605	22,512	109,112
Loss for the period	-	-	-	-	-	(1,953)	(1,953)
Fair value loss on debt instruments through other comprehensive income	-	-	-	(181)	-	-	(181)
Loss and total comprehensive expense for the period	-	-	-	(181)	-	(1,953)	(2,134)
As at 30 June 2019 (unaudited)	11,000	54,954	-	(140)	20,605	20,559	106,978

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended	
	30.6.2019 <i>HK\$'000</i> (unaudited)	30.6.2018 <i>HK\$'000</i> (unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(13,929)	(8,992)
INVESTING ACTIVITIES		
Repayment from a director	–	3,716
Interest income on debt instruments at fair value through other comprehensive income	29	29
Interest income from banks	253	6
Purchase of property, plant and equipment	(4,828)	(1,225)
Advance to a director	–	(528)
Placement of pledged bank deposits	(2,816)	(6)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(7,362)	1,992
FINANCING ACTIVITIES		
New bank borrowings raised	54,480	51,144
Repayment of bank borrowings	(48,386)	(43,705)
Issue costs paid	–	(839)
Interest paid	(1,238)	(952)
Repayment to directors	–	(238)
Repayment of obligations under finance leases	–	(70)
Repayment of lease liabilities	(1,322)	–

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)*For the six months ended 30 June 2019*

	Six months ended	
	30.6.2019	30.6.2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH FROM FINANCING ACTIVITIES	3,534	5,340
NET DECREASE IN CASH AND CASH EQUIVALENTS	(17,757)	(1,660)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	54,945	3,404
CASH AND CASH EQUIVALENTS AT 30 JUNE	37,188	1,744
Represented by:		
Bank balances and cash	37,188	6,707
Bank overdrafts	–	(4,963)
	37,188	1,744

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. GENERAL AND BASIS OF PREPARATION

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 (the “**Shares**”) have been listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 19 July 2018 (the “**Listing**”). 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 and Mr. Wong Wai Chit, 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.

The condensed consolidated financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622) and the GEM Listing Rules.

The condensed consolidated financial statements of the Group have been prepared under the historical cost basis, except for certain financial instrument which have been measured at fair values.

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES

Application of new and amendments to HKFRSs

The principal accounting policies 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 report for the year ended 31 December 2018, except for the following new and amendments to HKFRSs issued by the HKICPA that are adopted for the first time for the current accounting period of the Group:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("**HKAS 17**") and the related interpretations.

The Group has applied HKFRS 16 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2019. 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, 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 17 and 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 elects 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition; and required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

Right-of-use assets are presented as separate line item

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment; and
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

Applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Summary of effects arising from initial application of HKFRS 16

The following tables summarise the impacts of applying HKFRS 16 on the Group's consolidated statement of financial position as at 30 June 2019 and its consolidated statement of profit or loss for the current interim period for each of the line items affected.

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 June 2019

Impact on the condensed consolidated statement of profit or loss

	Six months ended
	30.6.2019
	HK\$'000
	(unaudited)
<i>Impact on loss for the period</i>	
Increase in depreciation expense	(1,221)
Increase in finance costs	(67)
Decrease in administrative expense	1,319
	31
<i>Impact on loss per share</i>	
Decrease in loss per share, basic (<i>HK cents</i>)	0.003

Impact on the condensed consolidated statement of financial position

	31	Impact on	1 January
	December	adoption of	2019
	2018	HKFRS 16	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current Assets			
Property, plant and equipment	318	(318)	–
Prepaid lease payments	3,757	(3,757)	–
Right-of-use assets	–	6,935	6,935
Current Assets			
Prepaid lease payments	137	(137)	–
Right-of-use assets	–	2,658	2,658
Current Liabilities			
Obligations under finance leases	146	(146)	–
Lease liabilities	–	2,739	2,739
Non-current Liabilities			
Obligations under finance leases	139	(139)	–
Lease liabilities	–	2,927	2,927

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 June 2019

3. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

	Three months ended		Six months ended	
	30.6.2019 HK\$'000 (unaudited)	30.6.2018 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)	30.6.2018 HK\$'000 (unaudited)
Sale of candle products				
Daily-use candles	23,075	16,880	35,944	31,965
Scented candles	15,380	26,379	45,625	44,180
Decorative candles	4,107	2,512	6,378	6,021
Others (included diffusers)	5,765	1,943	11,732	5,687
Total	48,327	47,714	99,679	87,853
Timing of revenue recognition				
At a point in time	48,327	47,714	99,679	87,853

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.

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 June 2019

Segment information

Information reported to the executive Directors, 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

	Three months ended		Six months ended	
	30.6.2019 <i>HK\$'000</i> (unaudited)	30.6.2018 <i>HK\$'000</i> (unaudited)	30.6.2019 <i>HK\$'000</i> (unaudited)	30.6.2018 <i>HK\$'000</i> (unaudited)
Geographical markets				
United States of America	39,212	35,742	84,392	60,864
United Kingdom	4,391	5,064	8,180	13,724
Others	4,724	6,908	7,107	13,265
Total	48,327	47,714	99,679	87,853

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

The information about the Group's non-current assets (exclude financial assets and deferred tax assets) by geographical locations of the assets are details below:

Non-current assets

	30.6.2019 <i>HK\$'000</i> (unaudited)	31.12.2018 <i>HK\$'000</i> (audited)
Hong Kong	500	595
Vietnam	33,208	29,700
	33,708	30,295

4. OTHER INCOME

	Three months ended		Six months ended	
	30.6.2019 <i>HK\$'000</i> (unaudited)	30.6.2018 <i>HK\$'000</i> (unaudited)	30.6.2019 <i>HK\$'000</i> (unaudited)	30.6.2018 <i>HK\$'000</i> (unaudited)
Interest income from debt instruments at FVTOCI	29	29	29	29
Interest income from banks	92	4	253	6
Sample income	-	61	-	66
Sundry income	25	161	41	184
	146	255	323	285

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 June 2019

5. OTHER GAINS

	Three months ended		Six months ended	
	30.6.2019 HK\$'000 (unaudited)	30.6.2018 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)	30.6.2018 HK\$'000 (unaudited)
Exchange gain, net	126	157	216	135
Fair value loss on financial assets at FVTPL	-	-	-	(1)
	126	157	216	134

6. FINANCE COSTS

	Three months ended		Six months ended	
	30.6.2019 HK\$'000 (unaudited)	30.6.2018 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)	30.6.2018 HK\$'000 (unaudited)
Interest on bank borrowings	615	500	1,167	945
Interest on obligations under finance leases	-	4	-	7
Interest expenses on lease liabilities	38	-	71	-
	653	504	1,238	952

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 June 2019

7. INCOME TAX EXPENSE

	Three months ended		Six months ended	
	30.6.2019 HK\$'000 (unaudited)	30.6.2018 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)	30.6.2018 HK\$'000 (unaudited)
Current tax:				
Hong Kong profits tax	-	-	-	-
Vietnam corporate income tax	431	408	431	408
	431	408	431	408
Deferred taxation:				
Current period	(71)	40	7	20
	360	448	438	428

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 subsidiary incorporated in Vietnam, the statutory corporate tax rates are 20% for the six months ended 30 June 2019 and 2018.

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 June 2019

8. (LOSS) PROFIT FOR THE PERIOD

	Three months ended		Six months ended	
	30.6.2019 HK\$'000 (unaudited)	30.6.2018 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)	30.6.2018 HK\$'000 (unaudited)
(Loss) profit for the period has been arrived at after charging:				
Directors' remuneration	1,334	1,846	2,668	2,170
Other staff costs:				
– salaries and allowances	8,877	7,579	17,784	15,212
– discretionary bonus	200	288	634	506
– retirement benefits scheme contributions, excluding Directors	689	611	1,391	1,226
Total staff costs	11,100	10,324	22,477	19,114
Less: capitalized in inventories	(5,860)	(5,442)	(11,272)	(9,518)
	5,240	4,882	11,205	9,596
Auditor's remuneration	525	594	586	673
Depreciation of property, plant and equipment:				
– owned assets	650	537	1,272	1,129
– assets held under finance lease contracts	–	35	–	70
Total depreciation	650	572	1,272	1,199
Less: capitalized in inventories	(479)	(378)	(930)	(813)
	171	194	342	386
Cost of inventories recognized as expense	35,889	36,912	73,923	70,227
Amortization of prepaid lease payments	–	34	–	69
(Reversal of allowance) allowance of inventories (included in cost of sales)	44	–	(25)	137
Donations	–	–	11	–
Depreciation of right-of-use assets	731	–	1,361	–

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 June 2019

11. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment amounting to HK\$4,827,000 (for the six months ended 30 June 2018: HK\$1,225,000) for the purpose of the Group's operation.

As of 1 January 2019, the Group's property, plant and equipment included motor vehicles held under lease are reclassified to right-of-use assets with carrying amount of HK\$318,000.

12. INVENTORIES

	30.6.2019 <i>HK\$'000</i> (unaudited)	31.12.2018 <i>HK\$'000</i> (audited)
Raw materials	22,316	17,368
Work in progress	3,280	3,240
Finished goods	9,677	8,711
Goods in transit	6,946	4,081
	42,219	33,400
Less: Allowance for inventories	(1,031)	(1,051)
	41,188	32,349

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 June 2019

13. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period ranging from 30 to 120 days to its trade customers.

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximated the revenue recognition date, net of allowance for doubtful debts:

	30.6.2019 <i>HK\$'000</i> (unaudited)	31.12.2018 <i>HK\$'000</i> (audited)
Trade receivables:		
0–30 days	19,214	10,816
31–60 days	5,710	12,414
61–90 days	4,322	5,638
91–180 days	14,370	4,263
Trade receivables	43,616	33,131
Deposits and prepayments	4,850	2,636
Other receivables	33	–
Total	48,499	35,767

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consists of a large number of customers which share common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Based on the judgement of the management of the Group, the exposure to credit risk and expected credit loss for trade receivables which are assessed collectively based on provision matrix is negligible at 30 June 2019.

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. No additional credit loss allowance is recognized on these debtors for the current interim period.

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 June 2019

14. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The pledged bank deposits of the Group are pledged to banks for securing bank borrowings (Note 17). 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.

15. TRADE AND OTHER PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date.

	30.6.2019 <i>HK\$'000</i> (unaudited)	31.12.2018 <i>HK\$'000</i> (audited)
Trade payables:		
1–30 days	9,717	8,779
31–60 days	5,721	2,596
61–90 days	1,830	2,950
91–180 days	570	810
	17,838	15,135
Other payables	3,494	2,178
Accrued expenses	5,448	5,627
	26,780	22,940

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

16. CONTRACT LIABILITIES

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

17. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to HK\$54,480,000 (31 December 2018: HK\$51,144,000). The bank loans carry interest at variable market rates of 4.5% to 9.6% per annum. The proceeds were used to finance the daily operation of the Group.

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 June 2019

18. SHARE CAPITAL

The Company

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised		
At 31 December 2018 and 30 June 2019	5,000,000,000	50,000
Issued and fully paid		
At 31 December 2018 and 30 June 2019	1,100,000,000	11,000

19. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Directors.

Key management personnel remuneration was as follow:

	Six months ended 30 June	
	2019 <i>HK\$'000</i> (unaudited)	2018 <i>HK\$'000</i> (unaudited)
Salaries, allowance and bonus	2,645	2,152
Retirement benefits	23	18
	2,668	2,170

**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 June 2019

20. 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 and financial liabilities 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 categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

	Fair value as at			Valuation technique and key inputs	Significant unobservable inputs and relationship of unobservable inputs to fair value
	30 June 2019	31 December 2018	Fair value hierarchy		
Financial assets at fair value through profit or loss	Listed equity securities in Hong Kong: HK\$17,000	Listed equity securities in Hong Kong: HK\$17,000	Level 1	Quoted price in active market.	N/A
Debt instruments at fair value through other comprehensive income	Unlisted bonds investments in Hong Kong: HK\$1,501,000	Unlisted bonds investments in Hong Kong: HK\$1,682,000	Level 3	Based on the reference prices of respective unlisted bonds provided by financial institution which is determined by using discounted cash flow with discount rate 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, level 2 and level 3 during the six months ended 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

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. The major customers of the Group are mostly U.S. and U.K. department store operators and buying agents.

The Group mainly manufactures candle products based on the requirements and specifications from its customers. The Group would also assess the design and specifications and put forward suggestions to its customers. The Group offer a wide variety of services to its 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, the Group 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 is 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 six months ended 30 June 2019 is set out in Note 3 to the condensed consolidated financial statements, where scented candles is still the most selling product of the Group during the period, the sales of scented candles has increased by approximately HK\$1.4 million or 3.3% as compared with the same period in 2018 that reflects the trend of preference for candle products with scent and coloured additives is increasing recently in the U.S. market. Meanwhile, the demand of diffusers is increasing during the period, the sale of others product that mainly constituted by diffusers, has increased by approximately HK\$6.1 million or 106.3% as compared with the same period in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 the 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 the competitors of the Group 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 of 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.

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

FINANCIAL REVIEW

Revenue

Revenue for the six months ended 30 June 2019 amounted to approximately HK\$99.7 million, representing an increase of approximately HK\$11.8 million or 13.4% as compared with that of approximately HK\$87.9 million for the same period in 2018. There were deferred sales of goods of approximately HK\$11.0 million to third quarter of 2019 that originally scheduled the shipment in the second quarter of 2019.

The increase was mainly due to the increase in sales of daily-use candles for approximately HK\$4.0 million and others products (include diffusers) for approximately HK\$6.1 million for the six months ended 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross profit and gross profit margin

Gross profit for the six months ended 30 June 2019 amounted to approximately HK\$25.8 million, representing an increase of approximately HK\$8.2 million or 46.6% as compared with that of approximately HK\$17.6 million for the same period in 2018.

The gross profit margin increased to approximately 25.9% for the six months ended 30 June 2019 as compared with that of 20.1% for the same period in 2018. The increase was mainly due to the increase in sales of scented candles as well as the increase in gross profit margin of scented candles from 20.9% for the six months ended 30 June 2018 to 29.4% for the six months ended 30 June 2019.

Other income and other gains

Other income for the six months ended 30 June 2019 were approximately HK\$323,000, representing an increase of approximately HK\$38,000 or 13.3% as compared with that of approximately HK\$285,000 for the same period in 2018. The increase was mainly due to the increase in bank interest income from short term deposits.

Other gains for the six months ended 30 June 2019 were approximately HK\$216,000, representing an increase of approximately HK\$82,000 or 61.2% as compared with that of approximately HK\$134,000 for the same period in 2018. The increase was mainly due to the exchange gain generated from inter-bank fund transfer.

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2019 amounted to approximately HK\$8.3 million, representing an increase of approximately HK\$5.8 million or 232.0% as compared with that of approximately HK\$2.5 million for the same period in 2018.

The increase was mainly due to (i) increase in transportation and declarations expenses of approximately HK\$235,000 which was in line with the increase in sales; and (ii) increase in marketing and promotion cost of approximately HK\$5.0 million which include the commission to sales representatives for introducing new orders from customers in U.S. for approximately HK\$1.5 million and the consultation service fee of approximately HK\$3.0 million in relation to U.S. market consultation which is beneficial to the business growth of the Group.

Administrative expenses

Administrative expenses for the six months ended 30 June 2019 amounted to approximately HK\$18.2 million, representing an increase of approximately HK\$4.0 million or 28.2% as compared with that of approximately HK\$14.2 million for the same period in 2018.

The increase was mainly due to the increase in salaries and allowance of approximately HK\$1.7 million caused by increase in number of administrative and finance personnel; and increase in professional fee including audit fee, compliance advisory fee, insurance fee, legal advisory fee and printing fee of approximately HK\$1.5 million.

Finance costs

Finance costs for the six months ended 30 June 2019 amounted to approximately HK\$1.2 million, representing an increase of approximately HK\$248,000 or 26.1% as compared with that of approximately HK\$952,000 for the same period in 2018.

The increase was mainly due to the increase in using bank borrowings to cope with revenue growth and the interest expenses on lease liabilities.

Listing expenses

During the six months ended 30 June 2018, the Group recognized non-recurring listing expenses of approximately HK\$965,000 in connection with the Listing on GEM.

Loss for the period

The Group incurred net loss of approximately HK\$1.9 million for the six months ended 30 June 2019, representing an increase of approximately HK\$0.9 million or 90.0% as compared with the net loss of approximately HK\$1.0 million for the same period in 2018.

The Group's net loss after excluding non-recurring listing expenses would be approximately HK\$1.9 million, representing an increase of loss of approximately HK\$1.8 million or 4,864.9% as compared with that of approximately HK\$37,000 for the same period in 2018. Such increase was the combined effect of (i) increase in gross profit of approximately HK\$8.2 million; and (ii) increase in other income and other gains for HK\$0.1 million; and offset by (a) the increase in administrative expenses for HK\$4.0 million; (b) increase in selling and distribution expenses for HK\$5.8 million; and (c) increase in finance costs for HK\$0.3 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Liquidity and Financial Resources

As at 30 June 2019 and 31 December 2018, the Group had cash and cash equivalents of approximately HK\$37.1 million and HK\$54.9 million respectively.

As at 30 June 2019 and 31 December 2018, the Group had unutilised banking facilities of approximately HK\$44.3 million and HK\$37.2 million respectively.

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

The gearing ratio, which is calculated by dividing total debt by total equity, the total debts are defined to include payables incurred not in the ordinary course of business, was 36.9% as at 30 June 2019 (31 December 2018: 30.8%).

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 minimize the cost of funds, the Group's treasury activities are centralized and cash is generally deposited with leading licensed banks in Hong Kong and denominated in Hong Kong dollars.

Capital Structure

The 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. The capital structure of the Group comprises of issued share capital and reserves. The Directors review the Group's capital structure regularly.

As at 30 June 2019, 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.

Future Plans for Material Investments and Capital Assets

Save as disclosed in the Prospectus and this report, the Group did not have any plans for material investments or capital assets as of 30 June 2019.

Pledge of Assets

As at 30 June 2019 and 31 December 2018, the Group had pledged certain assets with carrying amounts of HK\$23.9 million and HK\$22.3 million respectively to secure the Group's bank loans.

Foreign Currency Exposure

The majority transactions 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 six months ended 30 June 2019, 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 30 June 2019, the Group had capital commitments of approximately HK\$3.2 million (30 June 2018: Nil) in respect of the land use right in Vietnam.

Contingent Liabilities

As at 30 June 2019, the Group did not have any contingent liabilities (30 June 2018: Nil).

Employees and Remuneration Policies

As at 30 June 2019, the Group employed approximately 1,200 (30 June 2018: approximately 1,000) staff (including executive Directors). The Group determines 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 report, the Group did not have any significant investments, material acquisitions and disposals of subsidiaries and capital assets during the six months ended 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

EVENT AFTER THE END OF REPORTING PERIOD

There are no significant events affecting the Group after the reporting period and up to date of this report.

DIVIDEND

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

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 30 June 2019, 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 the date of Listing (i.e. 19 July 2018) to 30 June 2019 is set out below:

	Approximate amount of net proceeds	Approximate actual utilised as at 30 June 2019	Unused amount of net proceeds as at 30 June 2019
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
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	2.3	6.9
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	21.6	22.9

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 six months ended 30 June 2019. As at 30 June 2019, 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 2020.

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 30 June 2019, 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. For 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 in the second half of 2019, and the completion of building construction of new production facility within 2020.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Acquisition of new machinery

During the six months ended 30 June 2019, the Group paid a deposit of approximately HK\$1.5 million for the balance of machineries for the expected increasing purchase orders from its customers in the year of 2019. The Group expects the acquisition of rest of machinery in 2020.

Installation of ERP systems

During the six months ended 30 June 2019, the Group had planned to use approximately HK\$2.0 million of the installation of an ERP system. As at 30 June 2019, 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 year of 2020.

Partial repayment of bank loans

The Group repaid the balance of bank loans in Hong Kong and Vietnam of 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 for short-term deposits.

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2019, 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 Director	Nature of interests	Numbers 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%

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

Notes:

1. These 643,500,000 Shares are held by AWW International Limited (“**AWW**”) 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 AWW is interested under the SFO.
2. Ms. long Man Lai is the spouse of Mr. Wong Wai Chit. Ms. long 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 30 June 2019, none of the Directors or Chief Executives 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.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraphs headed “DIRECTORS AND CHIEF EXECUTIVES’ INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURE” and “SHARE OPTION SCHEME” in this report, at no time during the six months ended 30 June 2019 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

DIRECTORS’ INTERESTS IN CONTRACTS

None of the Directors nor their respective close associates had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the six months ended 30 June 2019.

SUBSTANTIAL SHAREHOLDERS IN THE SHARES

So far as the Directors and the Chief Executives are aware, as at 30 June 2019, 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 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

Name of shareholder	Nature of interests	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%

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

Name of shareholder	Nature of interests	Number of Shares held	Approximate % of the total number of Shares in issue
Ms. Zheng Xiaochun <i>(Note 2)</i>	Interest in controlled corporation	181,500,000	16.5%
Mr. Guan Le <i>(Notes 2 & 3)</i>	Interest of spouse	181,500,000	16.5%
Mr. Chan Sheung Chi <i>(Notes 2 & 6)</i>	Interest of spouse	181,500,000	16.5%
Ms. long Man Lai <i>(Notes 1 & 4)</i>	Interest of spouse	643,500,000	58.5%
Ms. Tse Sheung <i>(Notes 1 & 5)</i>	Interest of spouse	643,500,000	58.5%

Notes:

1. AWW 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 AWW is interested under the SFO.
2. Vibes Enterprises Company Limited ("**Vibes Enterprises**") is wholly owned by Vibes Management Company Limited ("**Vibes Management**"). Vibes Management 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. long Man Lai is the spouse of Mr. Wong Wai Chit. Ms. long 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.
6. Mr. Chan Sheung Chi is the spouse of Ms. Li Yin Ping. Mr. Chan Sheung Chi is deemed to be interested in the same number of Shares in which Ms. Li Yin Ping is interested by virtue of the SFO.

Save as disclosed above, as at 30 June 2019, 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 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 or Part XV of the SFO.

SHARE OPTION SCHEME

The Company adopted the share option scheme (the **"Share Option Scheme"**) on 23 June 2018 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 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 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 Group must not exceed 110,000,000, representing 10% of the total number of Shares in issue on the date of Listing and the date of this report unless the Company seeks the approval of the shareholders of the Company 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

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 six months ended 30 June 2019, none of the Directors, the substantial 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.

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.

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 for the six months ended 30 June 2019. No incident of non-compliance was noted by the Company for the six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities after Listing and up to the date of this report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to achieve high standards of corporate governance to safeguard the interests of the shareholders of the Company and enhance its corporate value. The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code in Appendix 15 to the GEM Listing Rules (the "**CG Code**"). During the six months ended 30 June 2019, to the best knowledge of the Board, the Company had complied with the code provisions in the CG Code.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) has been established with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and code provision C.3.3 of the CG Code. The Audit Committee currently comprises three independent non-executive Directors and is chaired by Mr. Chan Cheong Tat. The other members are Mr. Yu Pui Hang and Mr. Ho Chi Wai. The primary duties of the Audit Committee are to review and supervise the Company’s financial reporting process, the internal control systems of the Group and the monitoring of continuing connected transactions. All members of the Audit Committee are appointed by the Board.

The Audit Committee had reviewed the unaudited consolidated results of the Group for the six months ended 30 June 2019 and is of the opinion that such results complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

REVIEW OF THIS REPORT

This report for the six months ended 30 June 2019 has not been audited, but has been reviewed by the Audit Committee.

As at the date of this report, the Directors are:

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

Hong Kong, 8 August 2019