

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

**Third Quarterly
Report**

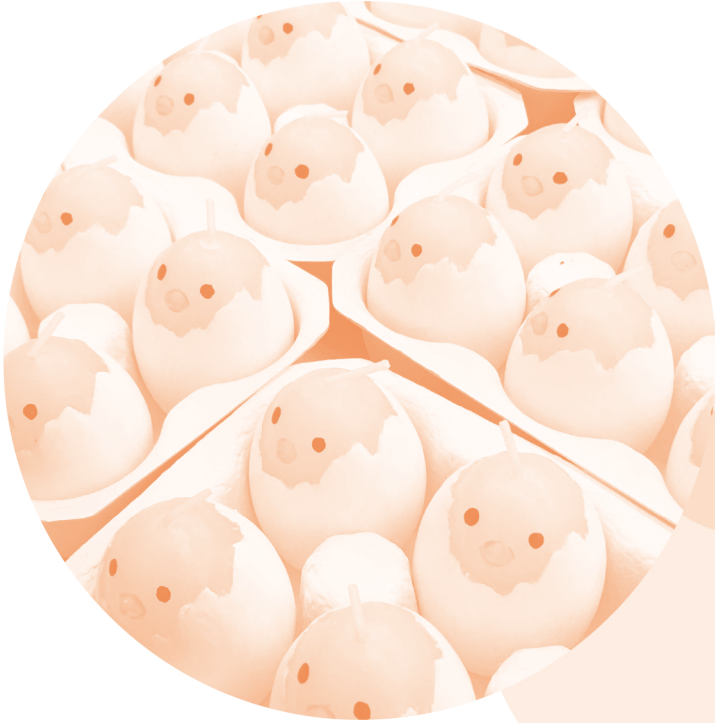
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*This report, for which the directors (the “**Directors**”) of Hyfusin Group Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing 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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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2019

	Notes	Three months ended		Nine months ended	
		30.9.2019	30.9.2018	30.9.2019	30.9.2018
		HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Revenue					
Sales of goods	3	112,873	68,105	212,552	155,958
Total revenue		112,873	68,105	212,552	155,958
Cost of sales		(78,822)	(51,589)	(152,745)	(121,816)
Gross profit		34,051	16,516	59,807	34,142
Other income	4	87	178	410	463
Other gains (losses)	5	32	(263)	248	(129)
Selling and distribution expenses		(7,059)	(2,001)	(15,397)	(4,461)
Administrative expenses		(11,687)	(8,179)	(29,921)	(22,422)
Listing expenses		-	-	-	(965)
Finance costs	6	(755)	(487)	(1,993)	(1,439)
Profit before tax		14,669	5,764	13,154	5,189
Income tax expense	7	(2,952)	(998)	(3,390)	(1,426)
Profit for the period	8	11,717	4,766	9,764	3,763
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		(29)	(118)	(210)	(266)

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

For the nine months ended 30 September 2019

	Notes	Three months ended		Nine months ended	
		30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)
Other comprehensive (expense) income for the period		(29)	(118)	(210)	(226)
Total comprehensive income for the period		11,688	4,648	9,554	3,497
Profit for the period attribute to owners of the Company		11,717	4,766	9,764	3,763
Total comprehensive income for the period attributable to owners of the Company		11,688	4,648	9,554	3,497
Earnings per share, basic (<i>HK cents</i>)	10	1.07	0.43	0.89	0.34

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 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 (audited)	-	-	-	277	20,605	17,738	38,620
Profit for the period	-	-	-	-	-	3,763	3,763
Fair value loss on debt instruments through other comprehensive income	-	-	-	(266)	-	-	(266)
Profit and total comprehensive (expense) income for the period	-	-	-	(266)	-	3,763	3,497
Capitalisation issue of shares	8,250	(8,250)	-	-	-	-	-
Issue of shares pursuant to public offering	2,750	78,375	-	-	-	-	81,125
Transaction costs attributable to issue of new ordinary shares	-	(15,171)	-	-	-	-	(15,171)
At 30 September 2018 (unaudited)	11,000	54,954	-	11	20,605	21,501	108,071
At 1 January 2019 (audited)	11,000	54,954	-	41	20,605	22,512	109,112
Profit for the period	-	-	-	-	-	9,764	9,764
Fair value loss on debt instruments through other comprehensive income	-	-	-	(210)	-	-	(210)
Profit and total comprehensive expense for the period	-	-	-	(210)	-	9,764	9,554
As at 30 September 2019 (unaudited)	11,000	54,954	-	(169)	20,605	32,276	118,666

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 condensed consolidated statement of profit or loss for the nine months ended 30 September 2019 for each of the line items affected.

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

For the nine months ended 30 September 2019

Impact on the condensed consolidated statement of profit or loss

	Nine months ended
	30.9.2019
	HK\$'000
	(unaudited)
<hr/>	
<i>Impact on profit for the period</i>	
Increase in depreciation expense	(1,871)
Increase in finance costs	(103)
Decrease in administrative expense	2,026
	<hr/>
Increase in profit for the period	52
	<hr/>
<i>Impact on profit per share</i>	
Increase in profit per share, basic (HK cents)	0.005
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**NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

For the nine months ended 30 September 2019

3. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

	Three months ended		Nine months ended	
	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)
Sale of candle products				
Daily-use candles	31,341	26,206	67,285	58,171
Scented candles	53,903	33,244	99,528	77,424
Decorative candles	17,603	5,422	23,981	11,444
Others (included diffusers)	10,026	3,233	21,758	8,919
Total	112,873	68,105	212,552	155,958
Timing of revenue recognition				
At a point in time	112,873	68,105	212,552	155,958

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 nine months ended 30 September 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		Nine months ended	
	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)
Geographical markets				
United States of America	73,465	39,629	157,857	100,493
United Kingdom	35,940	22,345	44,120	36,068
Others	3,468	6,131	10,575	19,397
Total	112,873	68,105	212,552	155,958

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

For the nine months ended 30 September 2019

4. OTHER INCOME

	Three months ended		Nine months ended	
	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)
Interest income from debt instruments at FVTOCI	-	-	29	29
Interest income from banks	57	93	310	100
Sample income	30	9	30	76
Sundry income	-	76	41	258
	87	178	410	463

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2019

5. OTHER GAINS (LOSSES)

	Three months ended		Nine months ended	
	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)
Written off of trade receivable	(14)	–	(14)	–
Exchange gain (loss), net	47	(262)	263	(127)
Fair value loss on financial assets at fair value through profit or loss	(1)	(1)	(1)	(2)
	32	(263)	248	(129)

6. FINANCE COSTS

	Three months ended		Nine months ended	
	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)
Interest on bank borrowings	717	484	1,884	1,429
Interest on obligations under finance leases	–	3	–	10
Interest expenses on lease liabilities	38	–	109	–
	755	487	1,993	1,439

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

For the nine months ended 30 September 2019

7. INCOME TAX EXPENSE

	Three months ended		Nine months ended	
	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)
Current tax:				
Hong Kong profits tax	829	152	829	152
Vietnam corporate income tax	2,321	991	2,752	1,399
Over provision in prior year	(73)	(64)	(73)	(64)
	3,077	1,079	3,508	1,487
Deferred taxation:				
Current period	(125)	(81)	(118)	(61)
	2,952	998	3,390	1,426

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 nine months ended 30 September 2019 and 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2019

8. PROFIT FOR THE PERIOD

	Three months ended		Nine months ended	
	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)
Profit for the period has been arrived at after charging:				
Directors' remuneration	1,330	1,242	3,998	3,412
Other staff costs:				
– salaries and allowances	14,036	9,910	31,820	25,122
– discretionary bonus	1,693	226	2,327	732
– retirement benefits scheme contributions, excluding Directors	719	637	2,110	1,863
Total staff costs	17,778	12,015	40,255	31,129
Less: capitalized in inventories	(10,564)	(6,787)	(21,836)	(16,305)
	7,214	5,228	18,419	14,824
Auditor's remuneration	250	82	836	755
Depreciation of property, plant and equipment:				
– owned assets	758	598	2,030	1,727
– assets held under finance lease contracts	–	35	–	106
Total depreciation	758	633	2,030	1,833
Less: capitalized in inventories	(584)	(434)	(1,514)	(1,247)
	174	199	516	586
Written off of trade receivable	14	–	14	–
Cost of inventories recognized as expense	78,822	51,589	152,745	121,816
Amortization of prepaid lease payments	–	34	–	103
Allowance of inventories (included in cost of sales)	145	196	120	236
Donations	–	50	11	50
Depreciation of right-of-use assets	772	–	2,133	–

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

For the nine months ended 30 September 2019

9. DIVIDENDS

No dividends were paid, declared or proposed for the nine months ended 30 September 2019 and 2018.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	Three months ended		Nine months ended	
	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)	30.9.2019 HK\$'000 (unaudited)	30.9.2018 HK\$'000 (unaudited)
Earnings				
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	11,717	4,766	9,764	3,763

	Three months ended		Nine months ended	
	30.9.2019 (unaudited)	30.9.2018 (unaudited)	30.9.2019 (unaudited)	30.9.2018 (unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,100,000,000	1,100,000,000	1,100,000,000	1,100,000,000

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been adjusted, respectively for the effect of (i) the group reorganization and the capitalization issue of 824,999,800 Shares that are deemed to have become effective since 1 January 2017; and (ii) issue of 275,000,000 Shares pursuant to the Share Offer (as defined in the prospectus of the Company dated 29 June 2018 (the “**Prospectus**”)), on 19 July 2018.

No diluted earnings per share for the both periods was presented as there were no potential ordinary shares in issue during both periods.

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 nine months ended 30 September 2019 is set out in Note 3 to the condensed consolidated financial statements, where scented candles are still the best selling product of the Group during the period, the sales of scented candles increased by approximately HK\$22.1 million or 28.6% 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.

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 nine months ended 30 September 2019 amounted to approximately HK\$212.6 million, representing an increase of approximately HK\$56.6 million or 36.3% as compared with that of approximately HK\$156.0 million for the same period in 2018.

The increase was mainly due to the increase in sales of scented candles for approximately HK\$22.1 million and decorative candles for approximately HK\$12.5 million for the nine months ended 30 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross profit and gross profit margin

Gross profit for the nine months ended 30 September 2019 amounted to approximately HK\$59.8 million, representing an increase of approximately HK\$25.7 million or 75.4% as compared with that of approximately HK\$34.1 million for the same period in 2018.

The gross profit margin increased to approximately 28.1% for the nine months ended 30 September 2019 as compared with that of 21.9% 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 22.4% for the nine months ended 30 September 2018 to 29.5% for the nine months ended 30 September 2019.

Other income, gains or losses

Other income for the nine months ended 30 September 2019 were approximately HK\$410,000, representing a decrease of approximately HK\$53,000 or 11.4% as compared with that of approximately HK\$463,000 for the same period in 2018. The decrease was mainly due to the decrease in sundry income.

Other gains for the nine months ended 30 September 2019 were approximately HK\$248,000, representing an increase of approximately HK\$377,000 or 292.2% as compared with other losses of approximately HK\$129,000 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 nine months ended 30 September 2019 amounted to approximately HK\$15.4 million, representing an increase of approximately HK\$10.9 million or 242.2% as compared with that of approximately HK\$4.5 million for the same period in 2018.

The increase was mainly due to (i) increase in transportation and declarations expenses of approximately HK\$748,000 which was in line with the increase in sales; and (ii) increase in marketing and promotion cost of approximately HK\$8.0 million which include the commission to sales representatives for introducing new orders from customers in U.S. for approximately HK\$2.7 million and the consultation service fee of approximately HK\$4.0 million in relation to U.S. market consultation which is beneficial to the business growth of the Group.

Administrative expenses

Administrative expenses for the nine months ended 30 September 2019 amounted to approximately HK\$30.0 million, representing an increase of approximately HK\$7.6 million or 33.9% as compared with that of approximately HK\$22.4 million for the same period in 2018.

The increase was mainly due to the increase in salaries and allowance of approximately HK\$4.1 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\$1.8 million.

Finance costs

Finance costs for the nine months ended 30 September 2019 amounted to approximately HK\$2.0 million, representing an increase of approximately HK\$0.6 million or 42.9% as compared with that of approximately HK\$1.4 million 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 nine months ended 30 September 2018, the Group recognized non-recurring listing expenses of approximately HK\$965,000 in connection with the Listing on GEM.

Profit for the period

The Group generated net profit of approximately HK\$9.8 million for the nine months ended 30 September 2019, representing an increase of approximately HK\$6.0 million or 157.9% as compared with approximately HK\$3.8 million for the same period in 2018.

The Group's net profit after excluding non-recurring listing expenses for the nine months ended 30 September 2019 would be approximately HK\$9.8 million, representing an increase of approximately HK\$5.1 million or 108.5% as compared with that of approximately HK\$4.7 million for the same period in 2018. Such increase was the combined effect of increase in gross profit of approximately HK\$25.7 million; and offset by (a) the increase in administrative expenses for HK\$7.6 million; (b) increase in selling and distribution expenses for HK\$10.9 million; and (c) increase in income tax expenses for HK\$2.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 nine months ended 30 September 2019.

EVENT AFTER THE END OF REPORTING PERIOD

Change of Auditor

Subsequent to the reporting period, Deloitte Touche Tohmatsu (“**Deloitte**”) has resigned as the auditor of the Company and its subsidiary incorporated in Hong Kong with effect from 21 October 2019. Deloitte, in its letter of resignation, confirmed that there were no matters in connection with its resignation that needed to be brought to the attention of holders of securities or creditors of the Company. The Board and the audit committee of the Company (the “**Audit Committee**”) also confirmed that there was no disagreements or unresolved matters between the Company and Deloitte.

The Company has appointed BDO Limited as the auditor of the Company and its subsidiary incorporated in Hong Kong with effect from 21 October 2019 to fill the casual vacancy following the resignation of Deloitte and hold office until the conclusion of the next annual general meeting of the Company.

DIVIDEND

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 September 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 <i>(Notes 1 & 2)</i>	Interest in controlled corporation	643,500,000	58.5%
Mr. Wong Man Chit <i>(Notes 1 & 3)</i>	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 September 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 nine months ended 30 September 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 nine months ended 30 September 2019.

SUBSTANTIAL SHAREHOLDERS IN THE SHARES

So far as the Directors and the Chief Executives are aware, as at 30 September 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 September 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 nine months ended 30 September 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 nine months ended 30 September 2019. No incident of non-compliance was noted by the Company for the nine months ended 30 September 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 nine months ended 30 September 2019, to the best knowledge of the Board, the Company had complied with the code provisions in the CG Code.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

AUDIT COMMITTEE

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 nine months ended 30 September 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.

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, 6 November 2019