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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

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

*This announcement, 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 announcement 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 announcement misleading.*

The board of Directors (the "**Board**") of the Company is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2019 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** ***HK$'000***	2018 *HK$'000*
Revenue	*3*	**307,546**	215,434
Cost of sales		**(216,273)**	(166,819)
Gross profit		**91,273**	48,615
Other income	*4*	**764**	858
Other gains and losses	*5*	**(309)**	290
Selling and distribution expenses		**(18,385)**	(7,553)
Administrative expenses		**(39,565)**	(32,296)
Listing expenses		**–**	(965)
Finance costs	*6*	**(2,864)**	(1,916)
Profit before income tax		**30,914**	7,033
Income tax expense	*7*	**(6,251)**	(2,259)
Profit for the year attributable to the owners of the Company		**24,663**	4,774
Other comprehensive income/(expense) for the year			
Item that may be reclassified subsequently to profit or loss:			
Fair value gain/(loss) on debt instruments measured at fair value through other comprehensive income		**13**	(236)
		13	(236)
Total comprehensive income for the year attributable to the owners of the Company		**24,676**	4,538
Earnings per share			
– Basic and diluted (HK cents)	*8*	**2.24**	0.50

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment		**14,412**	13,538
Right-of-use assets		**22,976**	–
Prepaid lease payments		**–**	3,757
Prepayment for a land use right		**–**	13,000
Deposits for the acquisition of property, plant and equipment		**1,676**	1,525
Financial assets at fair value through profit or loss		**17**	17
Debt instruments at fair value through other comprehensive income		**1,695**	1,682
Deferred tax assets		**437**	366
Pledged bank deposits		**11,733**	8,875
Total non-current assets		**52,946**	42,760
CURRENT ASSETS			
Inventories	*10*	**52,749**	32,349
Trade and other receivables	*11*	**94,506**	35,767
Prepaid lease payments		**–**	137
Tax recoverable		**–**	134
Bank balance and cash		**30,039**	54,945
Total current assets		**177,294**	123,332
Total assets		**230,240**	166,092
CURRENT LIABILITIES			
Contract liabilities	*13*	**183**	204
Trade and other payables	*12*	**42,686**	22,940
Bank borrowings	*14*	**40,555**	27,177
Lease liabilities		**2,890**	–
Obligations under finance leases		**–**	146
Tax payable		**3,178**	–
Total current liabilities		**89,492**	50,467

	Notes	2019 HK$'000	2018 HK$'000
NET CURRENT ASSETS		**87,802**	72,865
TOTAL ASSETS LESS CURRENT LIABILITIES		**140,748**	115,625
NON-CURRENT LIABILITIES			
Bank borrowings	*14*	**6,453**	6,206
Lease liabilities		**322**	–
Obligations under finance leases		**–**	139
Other non-current liabilities		**185**	168
Total non-current liabilities		**6,960**	6,513
Total liabilities		**96,452**	56,980
NET ASSETS		**133,788**	109,112
EQUITY			
Equity attributable to owners of the Company			
Share capital		**11,000**	11,000
Reserves		**122,788**	98,112
TOTAL EQUITY		**133,788**	109,112

NOTES

1. GENERAL INFORMATION

Hyfusin Group Holdings Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as amended, supplemented or otherwise modified from time to time) of the Cayman Islands on 5 July 2017. The shares of the Company have been listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 19 July 2018 (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 ("**Mr. Andrew Wong**") and Mr. Wong Wai Chit ("**Mr. Vincent Wong**"), who are brothers and act in concert over AVW and the companies now comprising the Group (the "**Controlling Shareholders**").

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2019

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations ("**the new HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2019:

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

Other than as noted below, the adoption of the new HKFRSs has no material impact on the Group's consolidated financial statements.

HKFRS 16 – Leases

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

Definition of a lease

The Group has elected 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 HKFRS 16 to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised the lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group has elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application as the practical expedient to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts.

In addition, as the practical expedient, the Group also applied a single discount rate to portfolio of lease with reasonably similar characteristics.

Reconciliation of operating lease commitment to lease liabilities

	HK$'000
Operating lease commitment as of 31 December 2018	2,489
Less: short-term leases for which lease terms end within 31 December 2019	(130)
Less: future interest expenses	(147)
Add: finance lease liabilities of 31 December 2018	285
Total lease liabilities of 1 January 2019	2,497

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities is 6.12%.

Impact on the consolidated statement of financial position

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	31 December 2018	**Impact on adoption of HKFRS 16**	**1 January 2019**
	HK$'000	*HK$'000*	*HK$'000* (restated)
Non-current assets			
Property, plant and equipment	318	(318)	–
Prepaid lease payments	3,757	(3,757)	–
Right-of-use assets	–	6,424	6,424
Current assets			
Prepaid lease payments	137	(137)	–
Current liabilities			
Obligations under finance leases	146	(146)	–
Lease liabilities	–	1,197	1,197
Non-current liabilities			
Obligations under finance leases	139	(139)	–
Lease liabilities	–	1,300	1,300

Impact on the consolidated statement of financial position

(i) Upfront payments for leasehold lands in Vietnam for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$137,000 and HK$3,757,000 respectively were reclassified to right-of-use assets.

(ii) In relation to motor vehicles previously under finance leases, the Group reclassified the carrying amount of the motor vehicles which were still under lease as at 1 January 2019 amounting to HK$318,000 as right-of-use assets.

In addition, the Group reclassified the obligations under finance leases of HK$146,000 and HK$139,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

HKFRS 17	Insurance Contracts[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 3	Definition of Business[1]
Amendments to HKFRS 9, HKAS 29 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2020.

2 Effective for annual periods beginning on or after 1 January 2021.

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

The Group is in the process of making an assessment of what the impact of these new or revised HKFRSs is expected to be in the period of initial application. So far the directors of the Company (the "**Directors**") concluded that the adoption of the new HKFRSs will have no material impact on the Group's consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

(i) Disaggregated revenue information

	2019	2018
	HK$'000	*HK$'000*
Sale of candle products		
Daily-use candles	**84,671**	78,817
Scented candles	**149,577**	106,170
Decorative candles	**29,838**	16,851
Others (included diffusers)	**43,460**	13,596
Total	**307,546**	215,434
Timing of revenue recognition		
A point in time	**307,546**	215,434

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

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.

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

	2019	2018
	HK$'000	*HK$'000*
United States of America	**238,089**	133,158
United Kingdom	**55,559**	52,737
Others	**13,898**	29,539
Total	**307,546**	215,434

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

Non-current assets

	2019	2018
	HK$'000	*HK$'000*
Hong Kong	**3,377**	595
Vietnam	**34,011**	29,700
Total	**37,388**	30,295

Information about major customers

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

	2019	2018
	HK$'000	*HK$'000*
Customer A	**89,245**	*
Customer B	*	42,198
Customer C	**39,587**	34,076
Customer D	*	27,198

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

4. OTHER INCOME

	2019	2018
	HK$'000	*HK$'000*
Bank interest income	**432**	205
Interest income on debt instruments at fair value through other comprehensive income	**58**	57
Sample income	**30**	87
Surcharge income	**167**	464
Sundry income	**77**	45
	764	858

5. OTHER GAINS AND LOSSES

	2019	2018
	HK$'000	*HK$'000*
Net foreign exchange gains	**333**	293
Gain on disposal of property, plant and equipment	**137**	–
Loss from changes in fair value of financial assets at fair value through profit or loss	**–**	(3)
Write off of trade receivables	**(41)**	–
Impairment loss on trade receivables	**(738)**	–
	(309)	290

6. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Interest on bank borrowings	**2,617**	1,904
Interest on obligations under finance leases	**–**	12
Interest on lease liabilities	**247**	–
	2,864	1,916

7. INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'000*
Current tax:		
– Hong Kong Profits Tax	**3,745**	632
– Vietnam Corporate Income Tax	**2,650**	1,753
– Over-provision in respect of prior years	**(73)**	(64)
	6,322	2,321
Deferred tax	**(71)**	(62)
	6,251	2,259

Under the two-tier profits tax regime, Hong Kong Profits Tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million for Fleming International Limited. No provision for Hong Kong Profits Tax for Britain Link Limited has been made as there is no assessable profit for the years ended 31 December 2019 and 2018.

For Fleming International Vietnam Limited, the subsidiary incorporated in Vietnam, the statutory corporate tax rates are 20% for years ended 31 December 2019 and 2018.

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

	2019	2018
	HK$'000	*HK$'000*
Profit before income tax	**30,914**	7,033
Tax at the Hong Kong Profits Tax rate of 16.5% (2018: 16.5%) *(Note)*	**5,101**	1,160
Tax effect of expenses not deductible for tax purposes	**1,020**	956
Tax effect of income not taxable for tax purpose	**(84)**	(16)
Over-provision in respect of prior years	**(73)**	(64)
Income tax at concessionary rate	**(165)**	(165)
Effect of different tax rates of subsidiaries operating in different jurisdiction	**429**	258
Others	**23**	130
Income tax expense	**6,251**	2,259

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

8. EARNINGS PER SHARE

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

	2019	2018
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**24,663**	4,774

	2019	2018
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,100,000,000**	950,068,493

For year ended 31 December 2018, 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 reorganisation and the capitalisation issue of 824,999,800 shares of the Company that are deemed to have become effective since 1 January 2017; and (ii) issue of 275,000,000 shares of the Company pursuant to the initial public offering (as defined in the prospectus of the Company dated 29 June 2018) on 19 July 2018.

No diluted earnings per share for both 2019 and 2018 were presented as there were no potential ordinary shares in issue for both 2019 and 2018.

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company for years ended 31 December 2019 and 2018, nor has any dividend been proposed since the end of the reporting period.

10. INVENTORIES

	2019	2018
	HK$'000	*HK$'000*
Raw materials	**30,582**	17,368
Work in progress	**3,801**	3,240
Finished goods	**12,789**	8,711
Goods in transit	**7,020**	4,081
	54,192	33,400
Less: Allowance for inventories	**(1,443)**	(1,051)
	52,749	32,349

11. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables, gross	**92,385**	33,131
Less: Allowance for credit losses	**(738)**	–
Trade receivables, net	**91,647**	33,131
Deposits and prepayments	**2,859**	2,636
Total	**94,506**	35,767

As at 31 December 2019 and 2018, trade receivables from contracts with customers amounted to HK$91,647,000 and HK$33,131,000, respectively.

The Group allows credit period ranging from 30 to 120 days to its trade customers. The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on the invoice date at the end of the year:

	2019	2018
	HK$'000	*HK$'000*
0-30 days	**32,981**	10,816
31-60 days	**19,575**	12,414
61-90 days	**18,988**	5,638
91-180 days	**19,645**	4,263
Over 180 days	**458**	–
	91,647	33,131

The ageing analysis of trade receivables, net of loss allowance for credit losses, as of the end of reporting period, based on past due dates, is as follows:

	2019	2018
	HK$'000	*HK$'000*
Past due over		
Neither past due nor impaired	**79,383**	23,495
1-30 days	**11,254**	7,267
31-60 days	**473**	1,812
61-90 days	**523**	557
91-180 days	**7**	–
Over 180 days	**7**	–
	91,647	33,131

The movements in loss allowance of trade receivables were as follows:

	HK$'000
At 1 January 2018, 31 December 2018 and 1 January 2019	–
Loss allowance recognised during the year	738
At 31 December 2019	738

12. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables:		
1-30 days	**18,473**	8,779
31-60 days	**11,745**	2,596
61-90 days	**1,358**	2,950
91-180 days	**459**	810
Over 180 days	**6**	–
	32,041	15,135
Other payables	**1,974**	2,178
Accrued expenses *(Note)*	**8,671**	5,627
	42,686	22,940

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

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

	2019	2018
	HK$'000	*HK$'000*
HK$	**–**	75
VND	**9,721**	4,738

Note: Included in accrued expenses are the refunded liabilities for sales rebate of HK$886,000 (2018: HK$691,000) and refund for defective goods of HK$1,061,000 (2018: Nil).

13. CONTRACT LIABILITIES

	2019	2018
	HK$'000	*HK$'000*
Sales of candle products	**183**	204

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

The movements in the Group's contract liabilities are as follows:

	2019	2018
	HK$'000	*HK$'000*
At beginning of the year	**204**	204
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**(155)**	(153)
Increase due to cash received, excluding amounts recognised during the year	**134**	153
At end of the year	**183**	204

14. BANK BORROWINGS

	2019	2018
	HK$'000	*HK$'000*
Bank loans	**23,979**	24,075
Import and export loans	**23,029**	9,308
	47,008	33,383

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

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

	2019	2018
	HK$'000	*HK$'000*
Carrying amounts repayable (based on scheduled repayable terms):		
Within one year	**40,055**	26,481
More than one year, but not more than two years	**970**	931
More than two years, but not more than five years	**5,983**	5,971
	47,008	33,383
Less: Amounts due shown under current liabilities		
– due within one year	**(764)**	(735)
– due within one year (contain a repayable on demand clause)	**(39,291)**	(25,746)
– due after one year (contain a repayable on demand clause)	**(500)**	(696)
	(40,555)	(27,177)
Amounts shown under non-current liabilities	**6,453**	6,206

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

At 31 December 2019, the bank borrowings are guaranteed by (i) the corporate guarantees by the Company and/or the Company and Fleming Group International Limited; and secured by (i) debt instruments at fair value through other comprehensive income of HK$1,144,000; (ii) pledged bank deposits; (iii) certain Group's property, plant and equipment located in Vietnam with aggregate carrying amount of HK$6,740,000; and (iv) the Group's leasehold land under right-of-use assets of HK$19,807,000.

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

The variable-rate bank borrowings are carried interest at Hong Kong Prime Rate quoted by the lending banks less 0.5% per annum, prevailing HIBOR quoted by the lending banks plus 1% per annum.

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

	2019	2018
Effective interest rates (per annum):		
Variable-rate bank borrowings	**2.64%-10.1%**	4.98%-9.5%

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

	2019	2018
	HK$'000	*HK$'000*
Denominated in HK$	**27,224**	13,688
Denominated in VND	**6,820**	662

15. RELATED PARTY DISCLOSURES

Compensation of key management personnel.

The Directors were considered to be the key management personnel of the Company.

BUSINESS REVIEW

The Group principally engages in the manufacturing and sale of candle products with headquarters in Hong Kong and operations in Vietnam. The Group mainly manufactures and sells daily-use candles, scented candles, decorative candles and other products such as diffusers. 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 our 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 expected to reach approximately US$195.6 million and approximately US$15.6 million, respectively.

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

The analysis of product segment of the Group for the year ended 31 December 2019 is set out in Note 3 in this announcement, where the scented candles are still the best selling products of the Group during the year ended 31 December 2019, the sales of scented candles increased by approximately HK$43.4 million or 40.9% 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.

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, introduced sales representatives in candle industry in the U.S. market, introduced a designer to accelerate the negotiation between the Group and the sales representatives for the potential orders and cooperation and coordinating the communication among each other with the synergy effect during the year ended 31 December 2019.

From 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. The management of the Group gladly to cooperate with sales representatives and expects the potential orders introduced by sales representatives in future.

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

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2019 amounted to approximately HK$307.5 million (2018: approximately HK$215.4 million), representing an increase of approximately HK$92.1 million or 42.8% as compared with last year. The increase in revenue was mainly due to the increase in sales of scented candles for approximately HK$43.4 million and others products (included diffusers) for approximately HK$29.9 million.

Cost of sales

Cost of sales for the year ended 31 December 2019 amounted to $216.3 million (2018: approximately HK$166.8 million), representing an increase of approximately HK$49.5 million or 29.7% as compared with last year. The increase in cost of sales in line with the increase in revenue.

Gross profit and gross profit margin

Gross profit for the year ended 31 December 2019 amounted to approximately HK$91.2 million, representing an increase of approximately HK$42.6 million or 87.7% as compared with that of approximately HK$48.6 million for the same period in 2018.

The gross profit margin increased to approximately 29.7% for the year ended 31 December 2019 as compared with that of 22.6% 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 23.1% for the year ended 31 December 2018 to 30.3% for the year ended 31 December 2019.

Other income and other gains and losses

Other income for the year ended 31 December 2019 was approximately HK$764,000 representing a decrease of approximately HK$94,000 or 11.0% as compared to approximately HK$858,000 for the same period in 2018. The decrease mainly due to decrease in surcharge income from customers.

Other losses for the year ended 31 December 2019 amounted to approximately HK$309,000, representing a decrease of approximately HK$599,000 or 206.6% as compared to other gains of approximately HK$290,000 for the same period in 2018. The decrease was mainly due to the impairment loss on trade receivable of approximately HK$738,000 recognised for the year ended 31 December 2019.

Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2019 amounted to approximately HK$18.4 million, representing an increase of approximately HK$10.8 million or 142.1% as compared to approximately HK$7.6 million for the same period in 2018. The increase was mainly due to (i) the increase in transportation and declarations expenses of approximately HK$1.4 million which was in line with the increase in sales; and (ii) the increase in marketing and promotion cost of approximately HK$9.9 million which included the commission to sales representatives for introducing new orders from customers for approximately HK$4.1 million and the consultation service fee of approximately HK$4.0 million in relation to U.S. market consultation which is beneficial to our business growth.

Administrative expenses

Administration expenses for the year ended 31 December 2019 amounted to approximately HK$39.6 million, representing an increase of approximately HK$7.3 million or 22.6% as compared to approximately HK$32.3 million for the same period in 2018. The increase was mainly due to the increase in salary and allowance of approximately HK$4.8 million caused by increase in staff costs; and the increase in travelling and office expenses of approximately HK$1.1 million.

Finance costs

Finance costs for the year ended 31 December 2019 amounted to approximately HK$2.9 million representing an increase of approximately HK$1.0 million or 52.6% as compared to approximately HK$1.9 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 year ended 31 December 2018, the Group recognised non-recurring listing expenses of approximately HK$965,000 in connection with the Listing on GEM.

Income tax expense

Income tax expense for the year ended 31 December 2019 amounted to approximately HK$6.3 million (2018: approximately HK$2.3 million), representing an increase of approximately HK$4.0 million or 173.9% as compared with last year. The increase primarily due to the increase in profit before taxation in Hong Kong and Vietnam.

Profit for the year

The Group recorded net profit of approximately HK$24.7 million for the year ended 31 December 2019, representing an increase in profit of approximately HK$19.9 million or 414.6% as compared to approximately of HK$4.8 million for the same period in 2018.

The Group's net profit after excluding non-recurring expenses would be approximately HK$24.7 million, representing an increase in profit of approximately of HK$19.0 million or 333.3% as compared to approximately of HK$5.7 million for the same period in 2018. Such increase was the combined effect of increase in gross profit of approximately HK$42.6 million; and offset by (a) the increase in administrative expenses for HK$7.3 million; (b) the increase in selling and distribution expenses for HK$10.8 million; and (c) the increase in finance costs for HK$1.0 million.

Dividend

The Board does not recommend the payment of any dividend for the year ended 31 December 2019. The detail is disclosed in Note 9 in this announcement.

Liquidity and Financial Resources

As at 31 December 2019, the Group had total assets of approximately HK$230.2 million (2018: approximately HK$166.1 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK$96.5 million (2018: approximately HK$57.0 million) and approximately HK$133.8 million (2018: approximately HK$109.1 million), respectively.

The total interest-bearing borrowings of the Group as at 31 December 2019 were approximately HK$47.0 million (31 December 2018: approximately HK$33.4 million), and current ratio as at 31 December 2019 was approximately 2.0 times (31 December 2018: approximately 2.4 times) mainly due to the increase in short term bank borrowing to finance the daily operation.

The Group's gearing ratio, which is calculated by dividing total debt by total equity as at the end of each of the financial year, increased from approximately 30.8% as at 31 December 2018 to approximately 37.5% as at 31 December 2019, primarily due to the increase in the level of bank borrowings and recognition of lease liabilities.

As at 31 December 2019 and 2018, the Group has unutilised banking facilities of approximately HK$43.4 million and HK$37.2 million respectively.

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

Treasury Policy

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

Capital Structure

The Company's shares were successfully listed on GEM on 19 July 2018. There has been no change in the Company's capital structure since 19 July 2018 to 31 December 2019. The capital structure of the Group comprises of issued share capital and reserves. The Directors review the Group's capital structure regularly.

As at 31 December 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.

Pledge of Assets

As at 31 December 2019 and 2018, the Group had pledged certain assets including property, plant and equipment, right-of-use assets (2018: prepaid lease payments), debt instruments at fair value through other comprehensive income, pledged bank deposits and corporate guarantees with carrying amounts of HK$39.4 million and HK$22.3 million respectively to secure the Group's bank borrowings.

Future Plans for Material Investments or Capital Assets

Save as disclosed in the prospectus of the Company dated 29 June 2018 (the "**Prospectus**") and this announcement, the Group did not have any other plans for material investment and capital assets as at 31 December 2019.

Foreign Currency Exposure

The majority transactions of expenditure of the Group are denominated in foreign currencies which are different from the functional currency of the Group, i.e. US dollar. The Group is mainly exposed to foreign exchange risk arising from transactions that are denominated in Hong Kong dollar and Vietnamese dong. During the year ended 31 December 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 31 December 2019, the Group do not have any capital commitments in respect of property, plant and equipment and land use right in Vietnam (2018: approximately HK$6.5 million).

Contingent Liabilities

As at 31 December 2019, the Group did not have any contingent liabilities (2018: Nil).

Employees and Remuneration Policies

As at 31 December 2019, the Group employed approximately 1,050 (2018: approximately 830) staff (including executive Directors). We determine the employees' remuneration based on factors such as qualification, duty, contributions and years of experience. In addition, the Group provides comprehensive training programs to its employees or sponsors the employees to attend various job-related training courses.

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

Other than disclosed as elsewhere in this announcement, the Group did not have any significant investments, material acquisitions and disposals of subsidiaries and capital assets during the year ended 31 December 2019.

PRINCIPAL RISKS AND UNCERTAINTIES

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

OUTLOOK

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

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

USE OF PROCEEDS

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

The following sets forth a summary of the allocation of the net proceeds and its utilisation as at 31 December 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 the Listing (i.e. 19 July 2018) to 31 December 2019 is set out below:

	Approximate amount of net proceeds	**Approximate actual utilised as at 31 December 2019**	**Unused amount of net proceeds as at 31 December 2019**
	HK$ million	*HK$ million*	*HK$ million*
Upgrade existing production facilities	6.2	–	6.2
Acquisition of new production facilities	18.1	10.2	7.9
Purchase of new machinery	9.2	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 year ended 31 December 2019. As at 31 December 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 and completed the acquisition of the new land during the year ended 31 December 2019, 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 2019, the Group completed the acquisition of the new land for new production facility. As at 31 December 2019, the Group paid approximately HK$10.2 million by part of net proceeds allocated for acquisition of new premises. The building construction of new production facility is under the tender process, the Group expects the completion of building construction of new production facility within 2020.

Acquisition of new machinery

During the year ended 31 December 2019, the Group paid 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 year ended 31 December 2019, the Group is planning to use approximately HK$2.0 million of the installation of an ERP system. As at 31 December 2019, a total of approximately HK$0.1 million was spent on new computers and related hardware peripherals. The Group is planning to install ERP systems for production and warehouse management and customer relationship management. 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 announcement.

EVENT AFTER THE REPORTING PERIOD

There are no significant events affecting the Group after the year ended 31 December 2019 and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

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 year ended 31 December 2019, to the best knowledge of the Board, the Company had complied with the code provisions in the CG Code.

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 year ended 31 December 2019. No incident of non-compliance was noted by the Company for the year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the consolidated financial statements of the Group for the year ended 31 December 2019 including critical accounting policies, estimation uncertainty and significant judgement adopted by the Group.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

ANNUAL GENERAL MEETING AND PUBLICATION OF ANNUAL REPORT

The annual general meeting ("**AGM**") for the financial year 2019 of the Company will be held on Thursday, 28 May 2020. A notice of the AGM together with the annual report for the year ended 31 December 2019 will be published on the Company's website at *www.fleming-int.com* and the GEM website at *www.hkgem.com* and despatched to the shareholders of the Company in due course.

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

EXECUTIVE DIRECTORS

Mr. Wong Wai Chit
Mr. Wong Man Chit

NON-EXECUTIVE DIRECTOR

Ms. Wong Fong

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Hong Kong, 18 March 2020

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and will also be published on the Company's website at www.fleming-int.com.