Tycoon Group Holdings Limited
滿貫集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3390)

PROFIT WARNING

This announcement is made by Tycoon Group Holdings Limited ("**Company**", together with its subsidiaries, the "**Group**") pursuant to Rule 13.09 of the Rules ("**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") and the Inside Information Provisions (as defined under the Listing Rules).

A loss expected to be recorded by the Group for 2020H1

The board ("**Board**") of directors ("**Directors**") of the Company wishes to inform the shareholders and potential investors of the Company that, based on the preliminary assessment of the unaudited consolidated management accounts of the Group for the six months ended 30 June 2020 ("**2020H1**") and the information currently available, the Group expects to record, for 2020H1, (i) a substantial decrease in revenue by more than 50% (around HK$229 million) compared to the six months ended 30 June 2019 ("**2019H1**") and (ii) a loss of more than HK$45 million compared to a profit of approximately HK$45 million for 2019H1.

A more substantial than expected impact of COVID-19 on the Group's business, particularly, in the second quarter of 2020

Contrary to what the Directors and many others have wished that the outbreak of the coronavirus pandemic ("**COVID-19**") would be under control gradually and that the economy would improve in a few months' time or at the latest by the middle of 2020, it turns out that Hong Kong and the rest of the world are still under the severe and widespread threat of COVID-19 as at the date of this announcement which casts serious uncertainty as to when it will recede in the end, and a huge economic loss has been resulted on a worldwide scale to date.

On 30 March 2020, the Company published its prospectus in connection with the listing of its shares on the Main Board of the Stock Exchange ("**Prospectus**") when the Board was hopeful for the Group's business to recover from the large-scale protests in various districts in Hong Kong ("**Social Unrest**") in the second half of 2019 albeit the outbreak of COVID-19 at its early stage then. In the Prospectus, relevant risk factors and warning statements were highlighted in connection with the outbreak of COVID-19 which was yet to become as disastrous as it is today, and of which the Directors like many others had little knowledge as to what would happen next at that point in time. From the financial perspective, it was disclosed in the Prospectus that the outbreak of COVID-19 had had a minimal impact on the Group in view of the fact that the average revenue of the first two months of the financial year ending 31 December 2020 was broadly comparable with the average revenue of the last six months of the financial year ended 31 December 2019 ("**FY2019**") and, in particular, the Group recorded a narrowed decrease in monthly revenue for February 2020 in percentage terms as compared with the decrease in monthly revenue for January 2020 (in comparison with the amount for February and January 2019 respectively).

COVID-19, which is still spreading across the globe, has brought a more profound and prolonged than expected impact on the economy of Hong Kong and its impact on the Group's business became more evident in the months after the Prospectus was published. Against this backdrop, the Group's revenue and profitability plummeted in the second quarter of 2020 based on the preliminary assessment of the unaudited consolidated management accounts of the Group for 2020H1.

Reasons for the Group to record a loss for 2020H1

Based on the preliminary assessment of the unaudited consolidated management accounts of the Group for 2020H1, the Group is expected to record a loss for 2020H1 primarily due to:

(i) a more substantial than expected decrease in revenue

The Group's revenue is currently expected to record a decrease by more than 50% (around HK$229 million) compared to 2019H1.

The Group operates two major segments, namely (a) the distribution business; and (b) the retail business, in selling and distributing a suite of health and well-being related products through online and offline sales channels. The majority of the Group's revenue is derived from its distribution business on an offline basis.

Set out below is the audited consolidated financial information for the financial year ended 31 December 2018 ("**FY2018**") and FY2019 and the unaudited consolidated financial information of the Group for 2019H1:

	FY2018 *HK$'million* *(audited)*	**FY2019** *HK$'million* *(audited)*	**2019H1** *HK$'million* *(unaudited)*
Revenue	693	701	412
Profit for the year/period	101	55	45

The majority of the Group's revenue has been derived from the distribution and sales of consumer products to some leading and reputable chain retailers in Hong Kong in its offline distribution business. The Board considers that the Group's financial performance for 2019H1 stood at a relatively high level of base for comparison before the growth momentum of its business slowed down in the periods that followed. The business of the Group's major customers, being those leading and reputable chain retailers, has suffered from the Social Unrest in the second half of 2019 followed by the outbreak of COVID-19 in 2020H1. Hong Kong's tourism and retail industry has been badly hit in the same periods. Inevitably, the Group's business was, in turn, adversely affected by the weakened demand for its products, in particular, in the second quarter of 2020 as a result of the various stringent policies promulgated by the Hong Kong Government to combat COVID-19, such as stricter travel bans which resulted in a drastic decrease in the number of cross-border travelers coming to Hong Kong, in particular, in the second quarter of 2020, and the social distancing measures which inhibited consumer sentiments in general.

Furthermore and by reason of the foregoing, the Group received requests from its chain retailer customers to return certain products with short-shelf life and/or less popular products to the Group in the second quarter of 2020 due to the weakened demand from offline consumers and the steep plunge in the number of inbound travelers. In order to maintain the good business relationship with these customers, the Group has accommodated these requests even though the transactions with them are on a buy-and-sell basis.

Although the revenue attributable to the cross-border e-commerce sales to Mainland China is expected to increase substantially as the Group has leveraged its cross-border e-commerce capabilities to distribute and sell more products to its customers in Mainland China as a response to the changing market environment, the overall revenue recorded by the Group for 2020H1 is still expected to decrease substantially in this current market situation.

(ii) a more substantial than expected decrease in gross profit margin

The Group's gross profit margin is currently expected to record a decrease by approximately 8 percentage points to 20%, and its gross profit is expected to have decreased by approximately 68% (around HK$78 million), compared to 2019H1, as a result of the combined effect of a more substantial than expected decrease in the Group's revenue and gross profit margin.

The decrease in gross profit margin is primarily attributable to (a) the change in the mix of sales recorded as mentioned above, i.e. more sales by way of cross-border e-commerce instead of offline sales, which generated a lower gross profit margin due to the fierce competition in the e-commerce market; and (b) the change in the mix of products sold i.e. more anti-pandemic products were sourced and sold by the Group and due to the keen competition of these products on the market, these products were sold at a relatively competitive price which also resulted in a lower gross profit margin.

(iii) a more substantial than expected increase in operating costs notwithstanding a decrease in revenue and gross profit

Notwithstanding a decrease in revenue and gross profit, the Group's operating costs are currently expected to record an increase by approximately 49% (around HK$29 million) compared to 2019H1 due to, among other factors:

(a) a write-off of inventories of not more than HK$5 million (2019H1: nil) for products which are not merchantable or products with short-shelf life returned from chain retailer customers of the Group;

(b) a provision for inventories of around HK$11 million (2019H1: nil) primarily due to the expected decrease in demand for certain of the Group's health and well-being related products as a result of the assessment carried out by the Group's sales team at the end of the 2020H1 period, taking into account the on-going global spread of COVID-19 and the current extremely challenging business environment; and

(c) a one-off impairment on assets of not more than HK$7 million (2019H1: nil), including the leased assets as right-of-use assets associated with the store's remaining lease, and some property, plant and equipment, in relation to the imminent closure of one of the two brick-and-mortar retail stores in Macau in mid-July 2020. Having considered the location of the store in Macau, and the weak local tourism and retail industry in the second quarter of 2020 and the foreseeable future, the management of the Group came to a view that it is expedient for the Group to have such store closed for the time being.

Interim results to be finalised and published by late August 2020

The Company is still in the course of finalising its financial results for 2020H1. The information contained in this announcement is only based on the preliminary assessment made by the Board with reference to the unaudited consolidated management accounts of the Company and information currently available to the Board and may be subject to adjustment and change. All such unaudited consolidated management accounts and information currently available have not been reviewed by the auditors of the Company nor the audit committee of the Board. Shareholders and potential investors of the Company are advised to read the interim results of the Group in the announcement to be published by the Company in late August 2020.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

On behalf of the Board
Tycoon Group Holdings Limited
Wong Ka Chun Michael
Chairman and Chief Executive Officer

Hong Kong, 21 August 2020

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Wong Ka Chun Michael and Mr. Chan Fan Shing; four non-executive Directors, namely Mr. Yao Qingqi, Ms. Chong Yah Lien, Mr. Ng Wang Yu Gary and Ms. Li Ka Wa Helen; and three independent non-executive Directors, namely Mr. Wong Yuk Woo Louis, Mr. Chung Siu Wah and Ms. Chan Ka Lai Vanessa.