

Sling Group Holdings Limited

森浩集團股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8285)

THIRD QUARTER RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

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THIRD QUARTERLY RESULTS

The board of Directors (the “**Board**”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “**Group**” or “**our Group**”) for the three months and nine months ended 30 September 2019 together with comparative figures for the corresponding periods in 2018 as follows:

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

For the three months and nine months ended 30 September 2019

	Note	Three months ended		Nine months ended	
		30 September		30 September	
		2019	2018	2019	2018
		RMB'000	RMB'000	RMB'000	RMB'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	3	42,158	32,761	111,706	112,718
Cost of sales		<u>(20,967)</u>	<u>(15,720)</u>	<u>(53,987)</u>	<u>(51,245)</u>
Gross profit		21,191	17,041	57,719	61,473
Other revenue and income		1,766	1,548	5,210	4,085
Government grants		21	180	2,921	2,841
Selling and distribution costs		(19,048)	(14,254)	(52,057)	(46,489)
Administrative and other operating expenses		(6,752)	(6,486)	(19,048)	(19,201)
Listing expenses		—	—	—	(102)
Finance costs		<u>(190)</u>	<u>(54)</u>	<u>(441)</u>	<u>(175)</u>
(Loss)/Profit before income tax	6	(3,012)	(2,025)	(5,696)	2,432
Income tax credit/(expense)	5	<u>327</u>	<u>1,065</u>	<u>(859)</u>	<u>(715)</u>
(Loss)/Profit for the period		<u>(2,685)</u>	<u>(960)</u>	<u>(6,555)</u>	<u>1,717</u>
Other comprehensive income					
<i>Item that may be reclassified subsequently to the profit or loss:</i>					
Exchange differences on translation of foreign operations		<u>479</u>	<u>692</u>	<u>505</u>	<u>2,567</u>
Total comprehensive (expense)/income for the period		<u>(2,206)</u>	<u>(268)</u>	<u>(6,050)</u>	<u>4,284</u>

	Three months ended 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
Note	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/Profit for the period attributable to:				
Equity holders of the Company	(3,332)	(960)	(7,270)	1,717
Non-controlling interests	<u>647</u>	<u>—</u>	<u>715</u>	<u>—</u>
	<u>(2,685)</u>	<u>(960)</u>	<u>(6,555)</u>	<u>1,717</u>
Total comprehensive (expense)/income for the period attributable to:				
Equity holders of the Company	(2,853)	(268)	(6,765)	4,284
Non-controlling interests	<u>647</u>	<u>—</u>	<u>715</u>	<u>—</u>
	<u>(2,206)</u>	<u>(268)</u>	<u>(6,050)</u>	<u>4,284</u>
	<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>
(Loss)/Earnings per share for (loss)/profit attributable to equity holders of the Company				
Basic and diluted	8	<u>(0.60)</u>	<u>(0.17)</u>	<u>(1.30)</u>
				<u>0.31</u>

The Group has initially applied Hong Kong Financial Reporting Standard (“HKFRS”) 16 as at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying HKFRS 16 is recognised in “Retained profits” at the date of initial application. See note 2.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30 September 2019

	Attributable to equity holders of the Company						Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	
	As at 1 January 2018	9	—	10,520	220	(656)	
Profit for the period	—	—	—	—	—	1,717	1,717
<i>Other comprehensive income:</i>							
Exchange differences on translation of foreign operations	—	—	—	—	2,567	—	2,567
Total comprehensive income for the period	—	—	—	—	2,567	1,717	4,284
Issuance of ordinary shares pursuant to the Share Offer	1,117	46,935	—	—	—	—	48,052
Issuance of ordinary shares pursuant to the Capitalisation Issue	3,344	(3,344)	—	—	—	—	—
Expenses incurred in connection with the issuance of ordinary shares	—	(8,565)	—	—	—	—	(8,565)
Transactions with equity holders	4,461	35,026	—	—	—	—	39,487
As at 30 September 2018 (Unaudited)	4,470	35,026	10,520	220	1,911	21,596	73,743

Attributable to equity holders of the Company

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Translation reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Sub-total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2019 (Audited)	4,470	35,026	10,520	788	2,194	12,987	65,985	—	65,985
Adjustment from the adoption of HKFRS 16	—	—	—	—	—	(53)	(53)	—	(53)
Adjusted as at 1 January 2019	<u>4,470</u>	<u>35,026</u>	<u>10,520</u>	<u>788</u>	<u>2,194</u>	<u>12,934</u>	<u>65,932</u>	<u>—</u>	<u>65,932</u>
(Loss)/Profit for the period	—	—	—	—	—	(7,270)	(7,270)	715	(6,555)
<i>Other comprehensive income:</i>									
Exchange differences on translation of foreign operations	—	—	—	—	505	—	505	—	505
Total comprehensive income/ (expense) for the period	—	—	—	—	505	(7,270)	(6,765)	715	(6,050)
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	490	490
As at 30 September 2019 (Unaudited)	<u><u>4,470</u></u>	<u><u>35,026</u></u>	<u><u>10,520</u></u>	<u><u>788</u></u>	<u><u>2,699</u></u>	<u><u>5,664</u></u>	<u><u>59,167</u></u>	<u><u>1,205</u></u>	<u><u>60,372</u></u>

The Group has initially applied HKFRS 16 as at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying HKFRS 16 is recognised in “Retained profits” at the date of initial application. See note 2.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of the Cayman Islands on 6 January 2017. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is Unit 1, 21st Floor, Yen Sheng Centre, 64 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

The Company is an investment holding company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the design and sale of women’s handbags, small leather goods, luggage and travel goods.

The Company’s immediate and ultimate holding company is Yen Sheng Investment Limited (“**Yen Sheng BVI**”), a company incorporated in the British Virgin Islands and controlled by Mr. Yau Tai Leung Sammy, Mr. Yau Sonny Tai Nin, Mr. Yau Frederick Heng Chung, Mr. Yau Nicholas Heng Wah and Ms. Hiang Siu Wei Cecilia.

The Company’s shares are listed on the GEM of the Exchange on 16 January 2018.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the three months and nine months ended 30 September 2019 have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of the GEM Listing Rules.

The unaudited condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2018. The accounting policies used in the preparation of the unaudited condensed consolidated financial statements are consistent with those adopted in the annual consolidated financial statements of the Group for the year ended 31 December 2018, except for the accounting policies as disclosed below:

Leases

The Group as a lessee

Applicable from 1 January 2019

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as “a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration”. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contracts contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct “how and for what purpose” the asset is used throughout the period of use.

For contracts 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 and non-lease component on the basis of their relative stand-alone prices.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the condensed consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in the profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

On the condensed consolidated statement of financial position, right-of-use assets have been included in property, plant and equipment, the same line as it presents the underlying assets of the same nature that it owns.

Applicable before 1 January 2019

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the profit or loss as an integral part of the aggregate net lease payments made. Contingent rental is charged to the profit or loss in the accounting period in which they are incurred.

As at the date of authorisation of the unaudited condensed consolidated financial statements, HKICPA has issued a number of new and amended HKFRSs. For those which are effective for accounting period beginning on 1 January 2019, the impact of the adoption of HKFRS 16 is disclosed below. Other than HKFRS 16, the adoption of these new and amended HKFRSs had no material impact on how the results and financial position of the Group for the current and prior periods have been prepared and presented.

HKFRS 16 “Leases”

HKFRS 16 “Leases” replaces HKAS 17 “Leases” along with three Interpretations (HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease”, HK(SIC) Int-15 “Operating Leases-Incentives” and HK(SIC) Int-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”). HKFRS 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting HKFRS 16 being recognised in equity as an adjustment to the opening balance of “Retained profits” for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from HKAS 17 and HK(IFRIC)-Int 4 and has not applied HKFRS 16 to arrangements that were previously not identified as lease under HKAS 17 and HK(IFRIC)-Int 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of HKFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at its carrying amount as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee’s incremental borrowing rate at the date of initial application.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of HKFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to HKFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under HKFRS 16 ranged from 4.75% to 5.13%.

The following is a reconciliation of total operating lease commitments as at 31 December 2018 to the lease liabilities recognised as at 1 January 2019:

	<i>RMB'000</i>
Total operating lease commitments disclosed as at 31 December 2018	6,963
Recognition exemptions:	
• Leases with remaining lease term of less than 12 months	<u>(2,734)</u>
Operating leases liabilities before discounting	4,229
Discounting using incremental borrowing rate as at 1 January 2019	<u>(82)</u>
Total lease liabilities recognised under HKFRS 16 as at 1 January 2019	<u><u>4,147</u></u>
Classified as:	
Current lease liabilities	2,275
Non-current lease liabilities	<u>1,872</u>
	<u><u>4,147</u></u>

The following table summarises the impact of transition to HKFRS 16 on the Group's condensed consolidated statement of financial position as at 1 January 2019:

	<i>RMB'000</i>
Increase in right-of-use assets presented in property plant and equipment	4,094
Increase in lease liabilities	4,147
Decrease in retained profits	<u><u>(53)</u></u>

The Group has not adopted early any new and amended HKFRSs that are relevant to the Group have been issued but are not yet effective for the current accounting period.

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial asset which is stated at fair value.

The unaudited condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is the functional currency of the Company and its major subsidiaries, and all values are rounded to the nearest thousand (“**RMB'000**”) except when otherwise indicated.

The preparation of the unaudited condensed consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the accounting policies of the Group. The accounting estimates and assumptions used in the preparation of the unaudited condensed consolidated financial statements are consistent with those adopted in the annual consolidated financial statements of the Group for the year ended 31 December 2018.

The condensed consolidated financial statements for the nine months ended 30 September 2019 have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

3. REVENUE

Revenue represents the fair value of consideration received and receivable from sale of women's handbags, small leather goods, luggage and travel goods by the Group to external customers.

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods at a point in time through different channels were analysed as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Online retail sales	32,943	18,280	79,175	69,802
Offline retail sales	915	978	2,874	4,203
Wholesale to offline retailers	3,938	7,148	11,997	18,970
Wholesale to online retailers	4,362	6,355	17,660	19,743
	<u>42,158</u>	<u>32,761</u>	<u>111,706</u>	<u>112,718</u>

4. SEGMENT INFORMATION

The Group's operating activities are attributable to a single reportable and operating segment focusing primarily on the wholesale and retail of women's handbags, small leather goods, luggage and travel goods. This operating segment has been identified on the basis of internal management reports reviewed by the chief operating decision maker (the "CODM"), being the executive directors of the Company. The CODM mainly reviews revenue derived from the wholesale and retail of women's handbags, small leather goods, luggage and travel goods. The CODM reviews the overall results of the Group as a whole to make decisions about resources allocation. Accordingly other than the entity-wide disclosure, no segment analysis is presented.

Geographical information

The following tables set out information about the geographical location of (i) the Group’s revenue from external customers and (ii) the Group’s property, plant and equipment and intangible assets (“**specified non-current assets**”). The geographical location of customers is based on the location at which the goods are delivered. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment, and the location of the operations to which they are allocated, in the case of intangible assets.

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers				
The People’s Republic of China (the “PRC”) (excluding Hong Kong)	42,158	32,761	111,706	112,717
Hong Kong	—	—	—	1
	<u>42,158</u>	<u>32,761</u>	<u>111,706</u>	<u>112,718</u>

	As at	
	30 September	31 December
	2019	2018
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Audited)
Specified non-current assets		
The PRC (excluding Hong Kong)	9,177	5,271
Hong Kong	<u>811</u>	<u>287</u>
	<u>9,988</u>	<u>5,558</u>

Information about major customers

During the three months and nine months ended 30 September 2019 and 2018, none of the Group’s customers contributed more than 10% of the Group’s revenue.

5. INCOME TAX (CREDIT)/EXPENSE

PRC Enterprise Income Tax (the “**PRC EIT**”) in respect of the Group’s operations in the PRC has been calculated at the rate of 25% on the estimated assessable profit for the three months and nine months ended 30 September 2019 and 2018 arising from the PRC.

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax				
The PRC EIT				
— Current period	—	—	859	715
— Over-provision in respect of prior periods	(327)	(1,065)	—	—
	<u>(327)</u>	<u>(1,065)</u>	<u>859</u>	<u>715</u>

6. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/Profit before income tax is arrived at after charging/(crediting):

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Auditor’s remuneration	—	27	24	27
Cost of inventories recognised as an expense	20,785	15,657	53,442	50,620
Amortisation of intangible assets	76	55	222	138
Depreciation of property, plant and equipment				
— Owned assets	231	158	668	625
— Right-of-use assets	826	—	2,447	—
Staff costs (including directors’ emoluments)				
— Salaries, allowances and other benefits	4,183	3,533	11,400	10,885
— Contributions to retirement benefit schemes	469	445	1,626	1,376
Lease charges:				
— Premises held under operating leases	—	813	—	2,804
— Short-term leases and leases with lease term shorter than 12 months as at initial application of HKFRS 16	422	—	1,621	—
— Variable lease payments (<i>note</i>)	70	433	466	1,528
Exchange losses, net	<u>745</u>	<u>813</u>	<u>836</u>	<u>1,387</u>

Note: The variable lease payments refer to the lease rentals based on pre-determined percentages to realised sales less the basic rentals of the respective leases.

7. DIVIDENDS

The Board does not recommend the payment of an Interim dividend for the nine months ended 30 September 2019 and 2018.

8. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share attributable to equity holders of the Company is based on the following:

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/Earnings				
(Loss)/Profit for the period attributable to equity holders of the Company	<u>(3,332)</u>	<u>(960)</u>	<u>(7,270)</u>	<u>1,717</u>
Number of shares				
Weighted average number of ordinary shares (in thousands)	<u>560,000</u>	<u>560,000</u>	<u>560,000</u>	<u>552,821</u>

The weighted average number of ordinary shares used to calculate the basic loss per share for the nine months ended 30 September 2019 represents 560,000,000 shares in issue throughout the period.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the nine months ended 30 September 2018 includes (i) 1,000,000 ordinary shares in issue throughout the period; (ii) the 419,000,000 new ordinary shares issued pursuant to the Capitalisation Issue (note), as if all these shares had been in issue throughout the period; and (iii) 132,821,000 shares, representing the weighted average of 140,000,000 new ordinary shares issued pursuant to the Share Offer (note).

There were no dilutive potential ordinary shares during the nine months ended 30 September 2019 and 2018 and therefore, diluted (loss)/earnings per share equals to basic (loss)/earnings per share.

Note: On 15 January 2018, 140,000,000 shares of HK\$0.01 each of the Company were allotted and issued at a price of HK\$0.43 per share by way of public offer and placing (the “Share Offer”).

Subject to the share premium account of the Company being credited as a result of the Share Offer, the Directors were authorised to allot and issue a total of 419,000,000 shares credited as fully paid at par to Yen Sheng BVI and Summit Time Resources Limited by way of capitalisation of the sum of HK\$4,190,000 (equivalent to approximately RMB3,344,000) standing to the credit of the share premium account of the Company (the “Capitalisation Issue”). The Capitalisation Issue was completed on 16 January 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the nine months ended 30 September 2019, the Group recorded a revenue of RMB111.7 million which represents the decrease by 0.9% as compared to the same period of last year. While the revenue in the first quarter and second quarter dropped by 25.0% and 1.6% respectively, the sales in third quarter rose by approximately 28.7%. The main reason for the worse-than-expected result was attributable to weak performance in women's handbag business in China. On the other hand, the Group has started to design and sale of luggage and travel accessories through online retail platforms in China in the second quarter and has been encouraging with increased sales in the third quarter. Total sales in luggage and travel accessories amounted to RMB30.8 million, compared to RMB11.8 million in the second quarter. Once higher sales volume and greater marketing efficiency are achieved, we expect increased profit contribution from the sales of luggage and travel accessories.

In the past, the Group's performance on women's handbag online sales was much dependent on our performance with the No.1 leading B2C e-commerce platform in China. Due to the change of business strategy in this platform affecting online free traffic, increasing competition from other product providers, and softening consumer market, the demands for our brand products in online retail sales have been weak. With the inclusion of sales of luggage and travel accessories, total online retail sales have increased from RMB69.8 million to RMB79.2 million, representing 13.5% increase.

Offline retail sales dropped by 31.6% to approximately RMB2.9 million for the nine months ended 30 September 2019. The Group has a total of 4 self-operated retail points. After streamlining directly operated offline retail points in the past three years and reshuffling our retail stores based on their performance, the Group selectively opens new stores for marketing purpose. Operating costs has increased accordingly.

Wholesale to offline retailers has dropped by 36.8% compared to the same period of last year. The number of retailer-operated retail points reduced by 5 to 89, including 4 net retail points reduction under ELLE and 1 net retail point reduction under Jessie & Jane. Given sluggish consumer market in China, third party retailers have been cautious about expanding stores. The Group continues to standby subsidy incentive to them for new store opening when they consider suitable time.

Our wholesale to online retailers distribution channel have exhibited endurance. The revenue has dropped by 10.6%, lessor extent than offline retail sales and wholesale to offline retailers for the nine months ended 30 September 2019. The Group has initiated marketing plans to collaborate with a number of existing major online platforms, including more merchandise display. All these aim to increase our sales and acquire new customers through this online wholesale distribution channel.

In terms of revenue among the brands of ELLE and Jessie & Jane, the distribution mix is approximately 79.9% and 20.1% respectively for the nine months ended 30 September 2019, compared to 66.1% and 33.9% in the same period of 2018. While the additional sales of ELLE luggage raise

ELLE brand amount, the sales of Jessie & Jane continue to suffer set back. The sales in Jessie & Jane has dropped by RMB15.7 million to RMB22.4 million. As a result, their sale portion has changed in the period.

Besides the design and distribution of women's handbags and luggage, the Group has offered marketing services in online market to other retailers by utilizing our knowledge, experience and business relation. The Group continues to deploy internal resources to market on the target platform operators. Service income generated from the work with the retailers has increased our other income by RMB4.9 million for the period.

FUTURE PROSPECTS

The remaining of the second half of 2019 remains challenging. The uncertainty arising from Sino-US trade dispute deeply dampen market sentiment and affect consumer spending. While the Group has to compete for marketing resources in online sale platforms, the competition from other brands have been increasing. To cope with these, the Group is required to be responsive to changing environment and work with business partners to win our target customers.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately RMB1.0 million, or 0.9%, from approximately RMB112.7 million for the nine months ended 30 September 2018 to approximately RMB111.7 million for the nine months ended 30 September 2019. For the third quarter, the Group's revenue increased by approximately RMB9.4 million, or 28.7%, from approximately RMB32.8 million for the three months ended 30 September 2018 to approximately RMB42.2 million for the same period in 2019. The increase in the Group's total revenue in the third quarter was contributed from the sales of luggage and travel goods, which commenced in the second quarter. For the nine months ended 30 September 2019, our offline retail sales, wholesale to offline retailers and wholesale to online retailers declined by approximately 31.6%, 36.8%, and 10.6%, respectively. Benefited by additional sales in luggage and travel goods, online retailer sales recorded a growth of 13.5%.

Gross Profit and Gross Profit Margin

The Group's gross profit decreased by approximately RMB3.8 million, or 6.2%, from approximately RMB61.5 million for the nine months ended 30 September 2018 to approximately RMB57.7 million for the nine months ended 30 September 2019. The drop was largely attributable to the 2.8% reduction in gross profit margin in the period.

Our gross profit margin for the nine months ended 30 September 2019 and 2018 were approximately 51.7% and 54.5% respectively.

Selling and Distribution Costs

The Group's selling and distribution costs increased by approximately RMB5.6 million, or 12.0%, from approximately RMB46.5 million for the nine months ended 30 September 2018 to approximately RMB52.1 million for the nine months ended 30 September 2019. The increase was mainly attributable to (i) additional selling expenses related to sale of luggage and travel goods, (ii) increased staff costs from running retail shops, and (iii) increased depreciation costs relating to the incentive offered to third party retailers and self-operated stores.

Administrative and Other Operating Expenses

The Group's administrative and other operating expenses decreased by approximately RMB0.2 million, or 1.0%, from approximately RMB19.2 million for the nine months ended 30 September 2018 to approximately RMB19.0 million for the nine months ended 30 September 2019, which was mainly attributable to the decreases in exchange loss and local travel costs. The Group has been attentive in controlling costs in all aspects.

Income Tax Expense

The Group's income tax expense increased by approximately RMB0.2 million, or 28.6%, from approximately RMB0.7 million for the nine months ended 30 September 2018 to approximately RMB0.9 million for the nine months ended 30 September 2019.

(Loss)/Profit for the period

The loss of RMB6.6 million for the nine months ended 30 September 2019 was incurred, compared to approximately RMB1.7 million profit for the nine months ended 30 September 2018. The loss was primarily attributable to the decline in gross profit margin and additional marketing costs in distributing luggage and travel goods.

CONTINGENT LIABILITIES

As at 30 September 2019, the Group did not have any significant contingent liabilities.

SIGNIFICANT INVESTMENTS

As at 30 September 2019, the Group did not hold any significant investments.

INDEBTEDNESS AND CHARGES ON GROUP'S ASSETS

As at 30 September 2019, the Group did not have any assets pledged to secure general banking facilities.

FOREIGN CURRENCY EXPOSURE

The Group's businesses are solely operated in China. The sales and purchases are mainly denominated in RMB and customers rarely request to settle our billing by other foreign currencies such as United States dollar or Hong Kong dollar (“**HKD**”). Except for the bank borrowings and a portion of operating expenses in the office of Hong Kong, the Group's assets, liabilities and transactions were mainly denominated in RMB in the year. The HKD borrowings were at short-term nature.

The Directors are of the view that the Group's operating cash flow and liquidity are not subject to significant foreign exchange rate risk. Therefore, no hedging arrangements are made. However, the Group will review and monitor the relevant foreign exchange risk from time to time based on its business development requirements and may enter into foreign exchange hedging arrangements when applicable.

HUMAN RESOURCES

As at 30 September 2019, the Group had 79 employees (30 September 2018: 88) in Hong Kong and the PRC. We believe that hiring, motivating and retaining qualified employees are crucial to our success as an online and offline distributor. Total staff costs (including Directors' emoluments) were RMB13.0 million for the nine months ended 30 September 2019 (nine months ended 30 September 2018: RMB12.3 million). The remuneration policies of the Group are formulated based on the Group's operating results, employees' individual performance, working experience, respective responsibilities, merit, qualifications and competence, as well as comparable to the prevailing market practice, standards and statistics. The remuneration policies of the Group are reviewed by the management of the Group regularly.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Group was listed on GEM of the Exchange on 16 January 2018.

As at the date of this announcement, the Group has applied RMB20.7 million proceeds in the designated areas. The target marketing investment in social media was fully utilized in the first half of 2019 to expose our brands and products in the consumer market. To better utilize and realize the proceeds, the investment in design and new product category and offline store opening and refurbishment, have been proceeded cautiously. Directors do not anticipate any significant change to the use of net proceeds. The Group will apply the proceeds in the same manner and proportion as set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus.

The use of IPO proceeds for the nine months ended 30 September 2019 are shown as below:

	Net proceeds	Utilised amount from the listing date up to 30 September 2019	Unutilised amount as at 30 September 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(1) Marketing investment in social media events	13,610	13,610	—
(2) Design and new product category	4,185	1,044	3,141
(3) Physical shop opening and refurbishment	6,250	4,221	2,029
(4) IT system purchase and upgrade	6,862	1,854	5,008
	<u>30,907</u>	<u>20,729</u>	<u>10,178</u>
Total use of net proceeds	<u>30,907</u>	<u>20,729</u>	<u>10,178</u>

EVENTS AFTER THE BALANCE SHEET DATE

As from 30 September 2019 to the date of this announcement, save as disclosed in this announcement, the Board is not aware of any significant events requiring disclosure that have occurred.

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2019 (2018: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2019.

CORPORATE GOVERNANCE

The Group is committed to ensuring high standards of corporate governance and business practices. The Company's corporate governance practices are based on the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules. During the nine months ended 30 September 2019, the Company has complied with the applicable code provisions of the CG Code.

DIRECTORS AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

None of the Directors and controlling shareholders of the Company or any of their respective close associates as defined in the GEM Listing Rules has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or had any other conflict of interests with the Group during the nine months ended 30 September 2019.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct (“**Code of Conduct**”) regarding securities transactions by the Directors. The Company has confirmed, having made specific enquiry of the Directors that all the Directors have complied with the Code of Conduct for the nine months ended 30 September 2019 and up to the date of the announcement.

INTERESTS OF COMPLIANCE ADVISER

Save for the compliance adviser agreement entered into between the Company and Kingsway Capital Limited, neither Kingsway Capital Limited nor any of its directors or employees or close associates had any interest in relation to the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules at as 30 September 2019.

AUDIT COMMITTEE

The Company had established the audit committee (“**Audit Committee**”) on 15 December 2017 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and risk management and internal control systems of the Company, make recommendations to the Board on the appointment, reappointment and removal of the independent auditors, and review the Company’s financial information.

The Audit Committee comprises three members, all being Independent Non-executive Directors, namely Mr. Won Chik Kee (chairman of the Audit Committee), Mr. Feng Dai and Ms. Sit Ting Fong. It has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing and financial reporting matters, including review of the unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2019.

By order of the Board
Sling Group Holdings Limited
Yau Frederick Heng Chung
Chairman

Hong Kong, 13 November 2019

As at the date of this announcement, the executive Directors are Mr. Yau Frederick Heng Chung (Chairman), Mr. Lee Tat Fai Brian and Mr. Yip Chun Wai; the non-executive Directors are Mr. Yau Sonny Tai Nin and Mr. Yau Tai Leung Sammy; and the independent non-executive Directors are Mr. Won Chik Kee, Mr. Feng Dai and Ms. Sit Ting Fong.