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SG Group Holdings Limited

樺欣控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8442)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 OCTOBER 2019

The board (the “**Board**”) of directors (the “**Directors**”) of SG Group Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries for the six months ended 31 October 2019. This announcement, containing the full text of the interim report for the six months ended 31 October 2019 of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**GEM Listing Rules**”) in relation to information to accompany preliminary announcement of the interim results.

By order of the Board
SG Group Holdings Limited
Choi King Ting, Charles
*Chairman, Chief Executive Officer
and Executive Director*

Hong Kong, 13 December 2019

As at the date of this announcement, the executive Directors are Mr. Choi King Ting, Charles and Mr. Choi Ching Shing; and the independent non-executive Directors are Mr. Lai Kwok Hung, Alex, Mr. Yeung Chuen Chow, Thomas and Mr. Cüneyt Bülent Bilâloğlu.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. 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 in this announcement misleading.

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Listed Company Information” page for at least seven days from the date of its posting and on the website of the Company at www.jcfash.com.

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is an apparel designing and sourcing service provider for branded fashion retailers and wholesalers. The revenue for the six months ended 31 October 2019 was derived from the supply of apparel products to branded fashion retailers and wholesalers and provision of consultation services.

Supply of apparel products to branded fashion retailers and wholesalers

For the six months ended 31 October 2019, the Group's revenue from the supply of apparel products increased by approximately 51.2% as compared with those for the corresponding period in 2018. Such increase was mainly attributable to the sales generated from two major customers. The Group continuously provides customised comprehensive services through efficient comprehensive apparel designing and sourcing services from design to delivery processes to the customers within a short lead time, it also enhances business exposure and performance by expanding showrooms to secure existing customers and strive for a growth in revenue.

Consultation services

The Group continued to engage its business in the provision of consultation services which generated revenue of approximately HK\$1.2 million during the six months ended 31 October 2019, as compared to revenue of approximately HK\$2.9 million during the corresponding period of 2018, representing a decrease of approximately 58.6% due to the absence of a non-recurring audit from a customer. This segment mainly includes providing consultation services to apparel and footwear manufacturers which include assisting them to comply with corporate social responsibility standards requirements, providing fashion trend forecast analysis as well as design specification and introducing potential customers to them.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's revenue increased to approximately HK\$143.1 million for the six months ended 31 October 2019 from approximately HK\$96.7 million for the six months ended 31 October 2018, representing an increase of approximately 48.0%. Such an increase in the Group's revenue was mainly attributable to the increase in sales generated from two major customers.

Cost of sales and services

The Group's cost of sales and services primarily consists of cost of goods sold and services provided and other direct costs. The cost of sales and services increased to approximately HK\$107.9 million for the six months ended 31 October 2019 from approximately HK\$73.8 million for the six months ended 31 October 2018, representing an increase of approximately 46.2%. The Group's cost of sales and services increased along with the growth in revenue for the six months ended 31 October 2019.

Gross profit and gross profit margin

The Group's gross profit increased to approximately HK\$35.1 million for the six months ended 31 October 2019 from approximately HK\$22.9 million for the six months ended 31 October 2018, representing an increase of approximately 53.3%. The Group's gross profit margin was approximately 24.5% for the six months ended 31 October 2019 and approximately 23.7% for the six months ended 31 October 2018. The increase in gross profit and gross profit margin were mainly attributable to the enhancement of sourcing services provided by the Group.

Other losses, net

The Group recorded other losses of approximately HK\$1.1 million for the six months ended 31 October 2019, as compared to other losses of approximately HK\$2.7 million for the six months ended 31 October 2018. Such losses were mainly due to foreign exchange loss as a result of the depreciation of Great British Pound ("GBP"). The Group has set up a comprehensive foreign currency risk management policy that the Group may adopt to manage the risks it faces. The Group will review such policy from time to time.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (CONTINUED)

Provision for impairment loss recognised on trade receivables, net of reversal

The Group recorded a provision for impairment loss recognised on trade receivables of approximately HK\$1.5 million for the six months ended 31 October 2019, as compared to the provision of approximately HK\$0.9 million for the six months ended 31 October 2018. The increase was mainly due to the change of credit risk exposures of the Group's trade receivables for the six months ended 31 October 2019.

Selling and distribution expenses

The Group's selling and distribution expenses increased to approximately HK\$7.9 million for the six months ended 31 October 2019 from approximately HK\$4.7 million for the six months ended 31 October 2018, representing an increase of approximately 68.1%. The increase in the Group's selling and distribution expenses mainly due to the increase in agency fee due to a US major customer and staff salaries for the six months ended 31 October 2019.

Administrative expenses

Administrative expenses primarily consist of employee benefit expenses, travelling expenses, depreciation of property, plant and equipment and other miscellaneous general and administrative expenses. Administrative expenses increased to approximately HK\$6.9 million for the six months ended 31 October 2019 from approximately HK\$5.0 million for the six months ended 31 October 2018, representing an increase of approximately 38.0%. Such an increase was mainly due to the increase in depreciation expense and staff salaries for the six months ended 31 October 2019.

Professional fee in relation to the Proposed Transfer of Listing

There was approximately HK\$1.9 million non-recurring professional fee in relation to the Proposed Transfer of Listing recognised for the six months ended 31 October 2019 whilst there was approximately HK\$5.1 million recognised for the six months ended 31 October 2018 representing a decrease of approximately 62.7%.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (CONTINUED)

Total comprehensive income attributable to owners of the Company

Total comprehensive income attributable to owners of the Company increased to approximately HK\$12.0 million for the six months ended 31 October 2019 from approximately HK\$2.1 million for the six months ended 31 October 2018, representing an increase of approximately 471.4%. Such increase was mainly attributable to the factors discussed above.

The underlying performance of the Group is better reflected by adjusting the total comprehensive income attributed to owners of the Company for the abovementioned non-recurring professional fee in relation to transfer of listing of approximately HK\$1.9 million, which was incurred during the six months ended 31 October 2019. This resulted in an adjusted total comprehensive income attributed to owners of the Company of approximately HK\$13.9 million for the six months ended 31 October 2019 representing an increase of approximately 93.1% compared to the adjusted total comprehensive income attributed to owners of the Company for the six months ended 31 October 2018.

Basic earnings per share

The Company's basic earnings per share for the six months ended 31 October 2019 was approximately HK\$0.40 (six months ended 31 October 2018: HK\$0.10), representing an increase of approximately HK\$0.30, or approximately 300.0%, which is in line with the total comprehensive income attributable to owners of the Company for the six months ended 31 October 2019, as compared to that for the six months ended 31 October 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 31 October 2019, the Group mainly financed its operations with its own working capital. As at 31 October 2019 and 30 April 2019, the Group had net current assets of approximately HK\$93.6 million and HK\$85.0 million, respectively, including cash and bank balances of approximately HK\$44.4 million and HK\$44.2 million, respectively. The Group's current ratio (current assets divided by current liabilities) decreased from approximately 3.4 as at 30 April 2019 to approximately 3.2 as at 31 October 2019. Such a decrease was mainly because of the increase in trade and other payables for the six months ended 31 October 2019.

Gearing ratio is calculated by dividing total debts by total equity as at the end of the reporting period. The total debts include obligations under finance lease and lease liabilities. The Group's gearing ratio was 0.0240 as at 31 July 2019 (30 April 2019: 0.0003).

TREASURY POLICIES

The Group adopts prudent treasury policies. The Group's management performs an ongoing credit evaluation of the financial conditions of the customers in order to reduce the Group's exposure of credit risk. In addition to these ongoing credit evaluations, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

FOREIGN EXCHANGE EXPOSURE

The Group exposed to foreign currency risk primarily related to HK\$ and GBP. As HK\$ is pegged to the functional currency of the Group, US\$, the Group does not expect significant exchange rate risk from HK\$. The management of the Group strives to change invoicing currency of sales from GBP to US\$ to minimise foreign exchange rate risk from fluctuation of GBP. The Group has set up a comprehensive foreign currency risk management policy that the Group may adopt to manage the risks it faces. The Group will review such policy from time to time. The Group currently does not undertake any foreign currency hedge.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

The shares were successfully listed on GEM on 21 March 2017 (the “Listing Date”). There has been no changes in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares.

As at 31 October 2019, the Company’s issued share capital was HK\$320,000 divided into 32,000,000 shares of HK\$0.01 each.

CAPITAL COMMITMENTS

As at 31 October 2019, the Group had capital commitments contracted for but not provided in the condensed consolidated financial statements amounted to approximately HK\$1.0 million (30 April 2019: HK\$1.7 million). Such commitments related to capital expenditure in respect of renovation of a leasehold property and acquisition of intangible asset of the Group.

DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 31 October 2019 (six months ended 31 October 2018: nil).

SIGNIFICANT INVESTMENTS

During the six months ended 31 October 2019, the Group did not hold any significant investments (six months ended 31 October 2018: nil).

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as those disclosed in the Prospectus, the Group currently has no other plan for material investments and capital assets.

CONTINGENT LIABILITIES

The Group did not have material contingent liabilities as at 31 October 2019 (30 April 2018: nil).

PLEDGE OF ASSETS

As at 31 October 2019, the Group did not have any leased assets secured by the lessor's title under a finance lease (30 April 2019: HK\$0.5 million).

EMPLOYEES AND REMUNERATION POLICIES

The total number of employees were 50 and 43 as at 31 October 2019 and 31 October 2018, respectively. The Group's employee benefit expenses mainly included salaries, wages, other staff benefits and contributions to retirement schemes. For the six months ended 31 October 2019 and 31 October 2018, the Group's total employee benefit expenses (including Directors' emoluments) amounted to approximately HK\$5.9 million and HK\$2.4 million, respectively. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. In addition to a basic salary, year-end bonuses would be discretionarily offered to those employees with outstanding performance.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPARISON OF BUSINESS STRATEGICS WITH ACTUAL BUSINESS PROGRESS

The following sets out a comparison of the business strategies as stated in the Prospectus with the Group's actual business progress up to the date of this report.

Business strategies as stated in the Prospectus

Actual business progress up to the date of this report

Further strengthening the relationships with the Group's existing customers and developing relationships with new customers

- Acquired a premises for setting up a flagship showroom in Hong Kong with planned budget
- Online platform expects to be implemented during the year ending 30 April 2020
- Recruited an assistant general manager who is in charge of the development and enhancement of the business relationships with customers, and the economic impact brought by Brexit

Further strengthening the design and development capabilities of the Group to enhance its business model

- Recruited two designers in the UK in May 2019

Expanding the geographical base of the third-party suppliers and diversifying the supplier base

- Established two PRC subsidiaries as sourcing offices in the PRC

Widening product offerings of the Group

- Received the first order for knitwear apparel products in May 2017

Enhancing the Group's corporate image to attract customer attention

- Planning to participate in trade shows to be held in the UK and Europe to approach potential customers in the third and fourth quarters of the year ending 30 April 2020

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

The shares have been successfully listed on GEM on the Listing Date. The actual net proceeds from the share offer, after deducting commission and expenses borne by the Company in connection with the share offer, were approximately HK\$44.4 million (the “Actual Net Proceeds”), which were higher than the estimated figure as stated in the Prospectus. Thus, the Company plans to apply the Actual Net Proceeds on the same business strategic plans as stated in the Prospectus for the period from the Listing Date to 31 October 2020 but with monetary adjustments to each business strategic plan on a pro-rata basis. The table below sets out an adjusted allocation of the Actual Net Proceeds, the actual usage of the Actual Net Proceeds and the unutilised Actual Net Proceeds as at 31 October 2019.

| Business strategies as set out in the Prospectus | Adjusted allocation of the Actual Net Proceeds HK\$'000 | Actual usage of the Actual Net Proceeds as at 31 October 2019 HK\$'000 | Unutilised Actual Net Proceeds as at 31 October 2019 HK\$'000 |
|---|--|---|--|
| Further strengthening the relationships with our existing customers and developing relationships with new customers | 27,464 | 22,910 | 4,554 |
| Further strengthening our design and development capabilities to enhance our business model | 4,703 | 2,249 | 2,454 |
| Expanding the geographical base of the third-party suppliers and diversifying our supplier base | 5,191 | 4,092 | 1,099 |
| Enhancing our corporate image to attract customer attention | 2,662 | 193 | 2,469 |
| General working capital | 4,392 | 4,392 | – |
| Total | 44,412 | 33,836 | 10,576 |

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PROSPECTS

The Group's comprehensive designing and sourcing services along the apparel supply chain which include design and development, sourcing of suppliers, production and logistics management and quality assurance face increasingly uncertainties arising from headwinds in the impact of Brexit, US-China trade war and downward pressures on the global economy.

The Group has successfully diversified its geographical coverage into more countries in order to reduce its reliance on its major customers. The Group has further expanded its customer base to the PRC and the US. The management of the Group believes such expansion could help enhance the Group's corporate image, capture customers' interests in cooperating with the Group so as to bring in potential business development, and broaden our revenue sources.

In light of the above, with the upgrade of the US-China trade war, notwithstanding that certain transactions may subject to the 15% tax, the Group has diversified its supplier network to different geographical locations like Cambodia to avoid the implication of the 15% tax on certain apparel products. Moreover, the Group has been implementing different strategies to mitigate such impact through diversifying its import origins and negotiating with its US customers to keep with the FOB shipping terms so that the financial impact of the 15% import tax is minimal to the Group.

Together with the enhancement of the future coming online showroom, design selection process by customers will be speeded up and more online retailers being attracted worldwide.

The Company has resubmitted a formal application to the Stock Exchange in 5 September 2019 for the Proposed Transfer of Listing from GEM to the Main Board. The Board believes that, if materialised, the listing of the Shares on the Main Board will further enhance the profile of the Group, strengthen its recognition among public investors and customers and be beneficial to the financing flexibility and future business development of the Group.

The Directors and the Group do not anticipate there will be any material adverse change to the purchase orders to be placed with us, nor will there be any changes to our business relationship with its major customers in the near future.

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL RISKS AND UNCERTAINTIES

There are certain other risks involved in the Group's current operations. In particular, the Group relies on several major customers and the Group does not enter into any long-term contracts with the customers and therefore they have no commitment to place future orders with the Group, which exposes the Group to the risk of uncertainty and potential volatility in the Group's revenue. The Group also faces business risks such as (i) customers' reliance on the Group's ability to respond to changes in end consumers' preference in a timely manner; (ii) if there is a significant decrease in the orders from our customers in the UK, the Group cannot guarantee that it would be able to make up the loss of sales from other markets; (iii) the Group operates in a competitive market and the intense competition it faces may lead to a decline in the Group's market share and lower profit margins; (iv) the Group is exposed to credit risk from our customers and the payments may not be collected from our customers in the future; (v) costs increase due to fluctuations in the price, availability and quality of raw materials which could affect the supplies of the Group; and (vi) some of our customers are sensitive to social responsibility and social compliance standards if our approved suppliers have or are perceived to have failed to comply with these standards, our reputation as a design and sourcing service provider could be adversely affected and customers may choose not to continue their business with us.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATIONS

As at 31 October 2019, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities & Futures Ordinance (the "SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

| Name of Director | Nature of interest | Number of shares held | Percentage of shareholding in the Company's issued share capital |
|---|------------------------------------|-------------------------|--|
| Mr. Choi King Ting, Charles ("Mr. Charles Choi") (Note 1) | Interest in controlled corporation | 23,000,000 (L) (Note 2) | 71.88% |

Notes:

- (1) Mr. Charles Choi directly owns 100% of JC Fashion International Group Limited ("JC International"), which in turn holds 71.88% of the issued share capital of the Company. Mr. Charles Choi is deemed, or taken to be interested in, all the shares held by JC International for the purpose of the SFO.
- (2) The letter "L" denotes the person's long position in the shares.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATIONS (CONTINUED)

Save as disclosed above, as at 31 October 2019, none of the Directors nor the chief executive of the Company has registered an interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the six months ended 31 October 2019 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and the chief executive, their respective spouses or children under the age of 18 to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATIONS

So far as the Directors are aware, as at 31 October 2019, the following persons (not being Directors or chief executive of the Company) will have or be deemed or taken to have an interest or short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO, and/or who are directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

| Name of shareholder | Nature of interest | Number of shares held | Percentage of shareholding in the Company's issued share capital |
|---------------------------|--------------------|----------------------------|--|
| JC International (Note 1) | Beneficial owner | 23,000,000 (L) (Note 2) | 71.88% |

Notes:

- (1) Mr. Charles Choi directly owns 100% of JC International, which in turn holds 71.88% of the issued share capital of the Company. Mr. Charles Choi is deemed, or taken to be interested in, all the shares held by JC International for the purpose of the SFO.
- (2) The letter "L" denotes the person's long position in the shares.

Save as disclosed above, as at 31 October 2019, the Directors were not aware of any other persons who had any interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO, and/or who are directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

OTHER INFORMATION

SHAREHOLDERS' INTERESTS IN SECURITIES OF SIGNIFICANCE

Other than the interests disclosed above in respect of the substantial shareholders, as at 31 October 2019, no other person is individually or collectively entitled to exercise or control the exercise of 5% or more of the voting power at the general meetings of the Company and are able, as a practicable manner, to direct or influence the management of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not redeem any of its shares listed and traded on GEM nor did the Company or any of its subsidiaries purchase or sell any such shares during the six months ended 31 October 2019.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Director's securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having been made a specific enquiry by the Company, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions throughout the six months ended 31 October 2019.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the business of the Group to which the Company, or any of its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the six months ended 31 October 2019 or at any time during the six months ended 31 October 2019, nor was there any transaction, arrangements or contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder (as defined in the GEM Listing Rules) or any of its subsidiaries for the six months ended 31 October 2019. There was also no contract of significance between the Company or one of the subsidiaries and the controlling shareholders or any of its subsidiaries.

OTHER INFORMATION

DIRECTOR'S INTERESTS IN COMPETING BUSINESS

During the six months ended 31 October 2019 and up to the date of this report, none of the Directors or the controlling shareholders or substantial shareholders (as defined in the GEM Listing Rules) of the Company or their respective close associates (as defined in the GEM Listing Rules) were considered to have any interests in a business which competed or was likely to complete, either directly or indirectly, with the business of the Group and/or caused, or was likely to cause any other conflicts of interest with the Group, as required to be disclosed under Rule 11.04 of the GEM Listing Rules.

NON-COMPETITION UNDERTAKING

The Company confirms that the non-competition undertaking of Mr. Charles Choi and JC International (details of which were set out in the Prospectus) has been fully complied and enforced since the Listing Date and up to 31 October 2019. The Board also confirms that there are no other matters in relation to the aforesaid undertaking which should be brought to the attention of the shareholders and the potential investors of the Company.

EVENTS AFTER THE REPORTING PERIOD

Up to the date of this report, there is no significant events occurred after the reporting period.

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company's corporate governance code is based on the principles of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules. The Company is committed to ensure a quality board and transparency and accountability to shareholders. The CG Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. Mr. Charles Choi is the chairman and chief executive officer of the Company, which constitutes a deviation from the code provision A.2.1.

Since Mr. Charles Choi has been operating and managing JC Fashion Group Limited (旺利多時裝集團有限公司), the main operating subsidiary of the Company since its incorporation, the Board believes that it is in the best interest of the Group to have Mr. Charles Choi taking up both roles for effective management and business development. Therefore, the Directors consider that the deviation from code provision A.2.1 of the CG Code is appropriate in such circumstance. The Directors also believe that a balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and professional individuals including three independent non-executive Directors. The Board shall nevertheless review the structure from time to time in light of prevailing circumstances.

The Company complied with all code provisions in the CG Code during the six months ended 31 October 2019, save for the code provision A.2.1.

OTHER INFORMATION

AUDIT AND RISK MANAGEMENT COMMITTEE

The Company set up Audit and Risk Management Committee on 21 February 2017 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and the CG Code. The duties of the Audit and Risk Management Committee are to review relationship with the Company's external auditors, review the Company's financial information, oversee the Company's financial reporting system and internal control procedures and oversee the Company's continuing connected transactions. The Audit and Risk Management Committee comprises all three independent non-executive Directors, namely Mr. Lai Kwok Hung, Alex, who is the chairman of the Audit and Risk Management Committee, Mr. Yeung Chuen Chow, Thomas and Mr. Cüneyt Bülent Bilâlođlu. The unaudited condensed consolidated financial statements of the Group for the Reporting Period have been reviewed by the Audit and Risk Management Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and adequate disclosures have been made.

By order of the Board
SG Group Holdings Limited
Choi King Ting, Charles
*Chairman, Chief Executive Officer
and Executive Director*

Hong Kong, 13 December 2019

As at the date of this report, the executive Directors are Mr. Choi King Ting, Charles and Mr. Choi Ching Shing; and the independent non-executive Directors are Mr. Lai Kwok Hung, Alex, Mr. Yeung Chuen Chow, Thomas and Mr. Cüneyt Bülent Bilâlođlu.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF SG GROUP HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of SG Group Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 21 to 52, which comprise the condensed consolidated statement of financial position as of 31 October 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The GEM of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and the Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
13 December 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND SIX MONTHS ENDED 31 OCTOBER 2019

| | NOTES | Three months ended 31 October | | Six months ended 31 October | |
|--|-------|----------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Revenue | 4 | 74,053 | 55,132 | 143,082 | 96,699 |
| Cost of sales and services | | (55,437) | (43,290) | (107,936) | (73,750) |
| Gross profit | | 18,616 | 11,842 | 35,146 | 22,949 |
| Other income | | 610 | 217 | 946 | 578 |
| Other gains and losses, net | 5 | 998 | (1,048) | (1,077) | (2,673) |
| Provision for impairment loss recognised on trade receivables, net of reversal | | (1,561) | (919) | (1,517) | (919) |
| Administrative expenses | | (3,322) | (2,493) | (6,857) | (4,983) |
| Selling and distribution expenses | | (3,742) | (2,300) | (7,897) | (4,740) |
| Finance costs | | (61) | (58) | (90) | (165) |
| Professional fee in relation to transfer of listing | | (198) | (2,738) | (1,905) | (5,135) |
| Profit before tax | 6 | 11,340 | 2,503 | 16,749 | 4,912 |
| Income tax expense | 7 | (2,648) | (765) | (3,978) | (1,793) |
| Profit for the period | | 8,692 | 1,738 | 12,771 | 3,119 |
| Other comprehensive income (expenses) for the period | | | | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | | | |
| Exchange difference arising on translation of financial statements of foreign operations | | 93 | (106) | (785) | (1,036) |
| Other comprehensive income (expenses) for the period | | 93 | (106) | (785) | (1,036) |
| Total comprehensive income for the period | | 8,785 | 1,632 | 11,986 | 2,083 |
| Earnings per share | | | | | |
| - basic (Hong Kong dollars) | 9 | 0.27 | 0.05 | 0.40 | 0.10 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 OCTOBER 2019

| | NOTES | 31 October 2019 HK\$'000 (unaudited) | 30 April 2019 HK\$'000 (audited) |
|---|-------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 10 | 22,168 | 18,422 |
| Right-of-use assets | 10 | 2,756 | – |
| Intangible assets | | 886 | 801 |
| Deposit paid for acquisition of an intangible asset | 11 | 2,000 | 2,000 |
| Deposit paid for renovation of a leasehold property | 11 | 2,292 | 3,450 |
| Deferred tax assets | | – | 55 |
| | | 30,102 | 24,728 |
| Current assets | | | |
| Inventories | | 4,443 | 2,993 |
| Trade and other receivables | 11 | 86,517 | 73,397 |
| Bank balances and cash | | 44,414 | 44,159 |
| | | 135,374 | 120,549 |
| Current liabilities | | | |
| Contract liabilities | | 1,253 | 632 |
| Trade and other payables | 12 | 29,034 | 27,900 |
| Lease liabilities/obligation under a finance lease | | 1,158 | 30 |
| Tax payables | | 10,582 | 6,962 |
| | | 42,027 | 35,524 |
| Net current assets | | 93,347 | 85,025 |
| Total assets less current liabilities | | 123,449 | 109,753 |
| Non-current liabilities | | | |
| Lease liabilities | | 1,763 | – |
| Deferred tax liabilities | | 61 | – |
| | | 1,824 | – |
| Net assets | | 121,625 | 109,753 |
| Capital and reserves | | | |
| Share capital | 13 | 320 | 320 |
| Reserves | | 121,305 | 109,433 |
| Total equity | | 121,625 | 109,753 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 OCTOBER 2019

| | Share capital HK\$'000 | Share premium HK\$'000 | Statutory reserve HK\$'000 (Note) | Exchange reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|---|---------------------------|---------------------------|---|------------------------------|------------------------------|-------------------|
| At 1 May 2018 (audited) | 320 | 39,201 | 65 | 641 | 51,886 | 92,113 |
| Profit and total comprehensive income for the period | - | - | - | (1,036) | 3,119 | 2,083 |
| At 31 October 2018 (unaudited) | 320 | 39,201 | 65 | (395) | 55,005 | 94,196 |
| At 30 April 2019 (audited) | 320 | 39,201 | 406 | (40) | 69,866 | 109,753 |
| Adjustment on initial application of Hong Kong Financial Reporting Standard 16 (Note 3) | - | - | - | - | (114) | (114) |
| At 1 May 2019 (restated) | 320 | 39,201 | 406 | (40) | 69,752 | 109,639 |
| Profit and total comprehensive income for the period | - | - | - | (785) | 12,771 | 11,986 |
| Transfer to statutory reserve | - | - | 139 | - | (139) | - |
| At 31 October 2019 (unaudited) | 320 | 39,201 | 545 | (825) | 82,384 | 121,625 |

Note: Amount represents statutory reserve of the subsidiary of the Company established in the People's Republic of China (the "PRC"). According to the relevant laws in the PRC, the subsidiary is required to transfer at least 10% of its net profit after taxation, as determined under the relevant accounting principles and financial regulations applicable to enterprises established in the PRC, to a non-distributable reserve fund until the reserve balance reaches 50% of its registered capital. The transfer to this reserve must be made before the distribution of a dividend to owners. Such reserve fund can be used to offset the previous years' losses, if any, and is non-distributable other than upon liquidation.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 OCTOBER 2019

| | Six months ended 31 October | |
|---|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Net cash generated from (used in) operating activities | 4,159 | (5,228) |
| Investing activities | | |
| Proceeds from disposal of property, plant and equipment | 711 | – |
| Interest received | 98 | 2 |
| Purchases of property plant and and equipment | (2,900) | (15,550) |
| Purchase of intangible assets | (185) | – |
| Deposit paid for acquisition of an intangible asset | – | (2,000) |
| Deposit paid for renovation of a leasehold property | (690) | – |
| Net cash used in investing activities | (2,966) | (17,548) |
| Financing activities | | |
| Repayment of lease liabilities/obligation under a finance lease | (546) | (182) |
| Interest paid | (90) | (160) |
| Net cash used in financing activities | (636) | (342) |
| Net increase (decrease) in cash and cash equivalents | 557 | (23,118) |
| Cash and cash equivalents at beginning of the period | 44,159 | 62,658 |
| Effect of foreign exchange rate changes | (302) | (400) |
| Cash and cash equivalents at end of the period | 44,414 | 39,140 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

SG Group Holdings Limited (the “Company”) was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 8 October 2015. The shares of the Company have been listed on The GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The addresses of the head office and the principal place of business of the Company are Unit B, 9/F., Mai Wah Industrial Building, 1-7 Wah Sing Street, Kwai Chung, New Territories, Hong Kong. The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the supply of apparel products with design and sourcing services to fashion retailers and the provision of consultation services.

The condensed consolidated financial statements are presented in Hong Kong dollar (“HK\$”), which is different from the functional currency of the Company, being United States dollars (“US\$”). The directors of the Company consider that presenting the financial information in HK\$ is preferable as the principal place of business of the Company and its subsidiaries is in Hong Kong.

2. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on The GEM of Stock Exchange (the “GEM Rules”).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 October 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 30 April 2019.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 May 2019 for the preparation of the Group’s condensed consolidated financial statements:

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

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases"

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

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transitional provisions of HKFRS 16.

Definition of a lease

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

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of showroom that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" (continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 "Financial Instruments" ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Lease liabilities (continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and
- the exercise price of a purchase option reasonably certain to be exercised by the Group.

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

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" (continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Lease modifications

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

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

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

Taxation

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16

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 this standard 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 May 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 May 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” as an alternative of impairment review;
- ii. 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; and
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK\$2,150,000 and right-of-use assets of HK\$2,564,000 at 1 May 2019.

When recognising the lease liabilities for lease previously classified as operating lease, the Group has applied incremental borrowing rates of the relevant group entity at the date of initial application. The incremental borrowing rate applied by the relevant group entity is 7%.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

| | NOTE | At 1 May 2019 HK\$'000 |
|---|------|------------------------------|
| | | <u> </u> |
| Operating lease commitments disclosed as at 30 April 2019 | | 2,828 |
| Lease liabilities discounted at relevant incremental borrowing rate | | 2,151 |
| Less: Recognition exemption - short-term lease | | (31) |
| Lease liability relating to operating leases recognised upon application of HKFRS 16 as at 1 May 2019 | | 2,120 |
| Add: Obligation under a finance lease recognised at 30 April 2019 | (a) | 30 |
| Lease liabilities as at 1 May 2019 | | <u>2,150</u> |
| Analysed as: | | |
| Current | | 227 |
| Non-current | | 1,923 |
| | | <u>2,150</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

The carrying amount of right-of-use assets as at 1 May 2019 comprises the following:

| | NOTES | Right-of-use assets HK\$'000 |
|---|-------|---|
| | | <hr/> |
| Right-of-use asset relating to operating leases recognised upon application of HKFRS 16 | | 2,006 |
| Amount included in property, plant and equipment under HKAS 17 | | |
| – Assets previously under a finance lease | (a) | 533 |
| Adjustments on rental deposit at 1 May 2019 | (b) | 25 |
| | | <hr/> |
| | | 2,564 |
| By class: | | |
| Land and building | | 2,031 |
| Motor vehicle | | 533 |
| | | <hr/> |
| | | 2,564 |
| | | <hr/> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

The following table summarises the impacts of transition to HKFRS 16 on retained profits at 1 May 2019.

| | Impacts of adopting HKFRS 16 at 1 May 2019 HK\$'000 Increase (decrease) |
|---|---|
| Retained profits | |
| Right-of-use asset relating to operating leases recognised upon application of HKFRS 16 | 2,006 |
| Lease liability relating to operating leases recognised upon application of HKFRS 16 | (2,120) |
| Impacts at 1 May 2019 | (114) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

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

| | NOTES | Carrying amounts previously reported at 30 April 2019 HK\$'000 | Adjustments HK\$'000 | Carrying amounts under HKFRS 16 at 1 May 2019 HK\$'000 |
|----------------------------------|-------|---|-------------------------|---|
| Non-current assets | | | | |
| Property, plant and equipment | (a) | 18,422 | (533) | 17,889 |
| Right-of-use assets | | - | 2,564 | 2,564 |
| Current assets | | | | |
| Trade and other receivables | (b) | 73,397 | (25) | 73,372 |
| Capital and reserves | | | | |
| Retained profits | | (69,866) | 114 | (69,752) |
| Current liabilities | | | | |
| Obligation under a finance lease | (a) | (30) | 30 | - |
| Lease liabilities | | - | (227) | (227) |
| Non-current liability | | | | |
| Lease liability | | - | (1,923) | (1,923) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

Notes:

- (a) In relation to assets previously under finance lease, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 May 2019 amounting to HK\$533,000 as right-of-use assets. In addition, the Group reclassified the obligation under a finance lease of HK\$30,000 to lease liabilities as current liabilities at 1 May 2019.
- (b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK\$25,000 and HK\$25,000 were adjusted to right-of-use assets and refundable rental deposit paid, respectively.
- (c) For the purpose of reporting cash flows for the six months ended 31 October 2019, movements have been computed based on opening condensed consolidated statement of financial position as at 1 May 2019 as disclosed above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising on supply of apparel products and provision of consultation services.

The Group determines its operating segments based on the reports reviewed by the executive directors, being the chief operating decision makers (the “CODMs”), which are used to make strategic decisions for the purposes of resource allocation and assessment of segment performance. The Group mainly sells apparel products with designing and sourcing services to fast fashion clothing retailers and provides consultation services. The details of the Group’s each reportable segment are as follows:

- | | | |
|-------|--------------------------|--|
| (i) | Online Fashion Retailers | Supply of apparel products with designing and sourcing services to online fashion retailers, representing six customers namely ASOS.com Limited (“ASOS”), zLabels GmbH (“Zalando”), Customer 1, Customer 2, Customer 3 and Customer 4 (six months ended 31 October 2018: three customers namely ASOS, Lost Ink Ltd., Zalando). |
| (ii) | Fashion Retailers | Supply of apparel products with designing and sourcing services to fashion retailers other than “Online Fashion Retailers” as defined above. |
| (iii) | Consultation Services | Income from provision of consultation services to the manufacturers which mainly include (a) assisting them to comply with corporate social responsibility standards requirements; (b) providing fashion trend forecast analysis; (c) design specification; and (d) introducing potential customers. |

These operating segments also represent the Group’s reportable segments. No operating segments identified by the CODMs have been aggregated in arriving at the reportable segments of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenues and results

For the six months ended 31 October 2019

| | Online Fashion Retailers HK\$'000 (unaudited) | Fashion Retailers HK\$'000 (unaudited) | Sub-total HK\$'000 (unaudited) | Consultation Services HK\$'000 (unaudited) | Consolidated HK\$'000 (unaudited) |
|---|---|---|--------------------------------------|---|---|
| Segment revenue | | | | | |
| Womenswear | 78,026 | 58,126 | 136,152 | - | 136,152 |
| Childrenswear | - | 5,730 | 5,730 | - | 5,730 |
| Consultation service | - | - | - | 1,200 | 1,200 |
| | <u>78,026</u> | <u>63,856</u> | <u>141,882</u> | <u>1,200</u> | <u>143,082</u> |
| Segment profit | <u>11,894</u> | <u>9,382</u> | <u>21,276</u> | <u>867</u> | <u>22,143</u> |
| Unallocated income | | | | | 197 |
| Unallocated gains and losses, net | | | | | (417) |
| Unallocated expenses | | | | | (3,179) |
| Unallocated finance costs | | | | | (90) |
| Professional fee in relation to transfer of listing | | | | | <u>(1,905)</u> |
| Profit before tax | | | | | <u>16,749</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (continued)

For the six months ended 31 October 2018

| | Online Fashion Retailers HK\$'000 (unaudited) | Fashion Retailers HK\$'000 (unaudited) | Sub-total HK\$'000 (unaudited) | Consultation Services HK\$'000 (unaudited) | Consolidated HK\$'000 (unaudited) |
|---|---|---|--------------------------------------|---|---|
| Segment revenue | | | | | |
| Womenswear | 36,958 | 47,167 | 84,125 | - | 84,125 |
| Childrenswear | 234 | 9,355 | 9,589 | - | 9,589 |
| Menswear | 93 | - | 93 | - | 93 |
| Consultation services | - | - | - | 2,892 | 2,892 |
| | <u>37,285</u> | <u>56,522</u> | <u>93,807</u> | <u>2,892</u> | <u>96,699</u> |
| Segment profit | <u>7,191</u> | <u>10,312</u> | <u>17,503</u> | <u>2,295</u> | <u>19,798</u> |
| Unallocated income | | | | | 77 |
| Unallocated gains and losses, net | | | | | (3,592) |
| Unallocated expenses | | | | | (6,231) |
| Unallocated finance costs | | | | | (5) |
| Professional fee in relation to transfer of listing | | | | | <u>(5,135)</u> |
| Profit before tax | | | | | <u>4,912</u> |

Segment profit represents the profit earned by each segment without allocation of unallocated expenses and income mainly including certain depreciation on property, plant and equipment, depreciation on right-of-use assets, general office expenses, selling and distribution expenses, professional fee in relation to transfer of listing, finance costs and net exchange losses. This is consistent with the measure reported to the CODMs of the Group for the purposes of resource allocation and performance assessment.

There were no inter-segment sales for both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Revenue by type of products/services

| | Six months ended 31 October | |
|---|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| At a point in time: | | |
| Womenswear: | | |
| Online Fashion Retailers | 78,026 | 36,958 |
| Fashion Retailers | 58,126 | 47,167 |
| | 136,152 | 84,125 |
| Childrenswear: | | |
| Online Fashion Retailers | – | 234 |
| Fashion Retailers | 5,730 | 9,355 |
| | 5,730 | 9,589 |
| Menswear: | | |
| Online Fashion Retailers | – | 93 |
| Subtotal for the supply of apparel products | 141,882 | 93,807 |
| Overtime: | | |
| Consultation services | 1,200 | 2,892 |
| | 143,082 | 96,699 |

Revenue from the supply apparel products is recognised at a point in time. Revenue from the supply apparel products is recognised when control of the goods has transferred, being when the goods have been shipped to the designated location (delivery) and the control has passed to the customers.

Revenue from consultation services is recognised over time using the output method. The customers simultaneously receive and consume the benefits when the service is provided throughout the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODMs of the Group.

5. OTHER GAINS AND LOSSES, NET

| | Three months ended 31 October | | Six months ended 31 October | |
|--|----------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Net exchange gains (losses) | 710 | (1,048) | (1,365) | (2,673) |
| Gain from disposal of property, plant and equipment | 288 | - | 288 | - |
| | 998 | (1,048) | (1,077) | (2,673) |

6. PROFIT BEFORE TAX

| | Three months ended 31 October | | Six months ended 31 October | |
|--|----------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Profit before taxation has been arrived at after charging: | | | | |
| Depreciation of property, plant and equipment | 250 | 119 | 535 | 236 |
| Depreciation of right-of-use assets | 298 | - | 609 | - |
| Amortisation of intangible assets | 50 | - | 100 | - |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. INCOME TAX EXPENSE

| | Three months ended 31 October | | Six months ended 31 October | |
|--|----------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| The charge comprises: | | | | |
| Hong Kong Profits Tax | 2,457 | 1,093 | 3,787 | 2,112 |
| PRC Enterprise Income Tax ("EIT") | 253 | 232 | 253 | 241 |
| Over provision in respect of prior years | (184) | – | (184) | – |
| | 2,526 | 1,325 | 3,856 | 2,353 |
| Deferred tax expense (credit) | 122 | (560) | 122 | (560) |
| | 2,648 | 765 | 3,978 | 1,793 |

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime is insignificant to the condensed consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods.

PRC EIT is calculated based on the statutory rate of 25% of the assessable profit of a subsidiary established in the PRC, as determined in accordance with the relevant enterprise income tax law, implementation rules and notices in the PRC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. DIVIDEND

The board of directors does not recommend the payment of any dividend for the six months ended 31 October 2019 (six months ended 31 October 2018: nil).

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

| | Three months ended 31 October | | Six months ended 31 October | |
|--|----------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Earnings: | | | | |
| Earnings for the purpose of calculating basic earnings per share (profit for the period) | 8,692 | 1,738 | 12,771 | 3,119 |
| | '000 | '000 | '000 | '000 |
| Number of shares: | | | | |
| Number of ordinary shares for the purpose of calculating basic earnings per share | 32,000 | 32,000 | 32,000 | 32,000 |

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the six months ended 31 October 2019, additions to property, plant and equipment, which mainly comprised additions to land and building, motor vehicle, amounted to HK\$2,900,000 (for the six months ended 30 June 2018: mainly comprised additions to land and building, fixtures and furniture of HK\$15,550,000).

During the six months ended 31 October 2019, the Group entered into new lease agreement for the use of leasehold land and buildings for 17 months. The Group is required to make fixed monthly payments. The Group recognised HK\$1,471,000 of right-of-use assets and HK\$1,460,000 of lease liabilities since the lease commencement date.

During the six months ended 31 October 2019, additions to construction in progress amounted to HK\$1,848,000 (for the six months ended 30 June 2018: nil) for the renovation of a leasehold property.

As at 30 April 2019, the carrying amount of motor vehicle of the Group includes an amount of HK\$533,000 in respect of assets held under a finance lease and such lease liabilities as at 1 May 2019 after the initial application of HKFRS 16 is fully repaid in the current period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE AND OTHER RECEIVABLES

| | 31 October 2019 HK\$'000 (unaudited) | 30 April 2019 HK\$'000 (audited) |
|--|---|---|
| Trade receivables | 58,826 | 57,100 |
| Less: allowance for credit losses | (2,958) | (1,441) |
| | 55,868 | 55,659 |
| Other receivables | | |
| – Deposits and prepayments | 26,807 | 15,073 |
| – Prepayment for professional fee in relation to transfer of listing | 2,761 | 2,325 |
| – Deposit paid for acquisition of an intangible asset | 2,000 | 2,000 |
| – Deposit paid for renovation of a leasehold property | 2,292 | 3,450 |
| – Others | 1,081 | 340 |
| | 34,941 | 23,188 |
| Total trade and other receivables | 90,809 | 78,847 |
| Analysis for reporting purpose as | | |
| Non-current assets | 4,292 | 5,450 |
| Current assets | 86,517 | 73,397 |
| | 90,809 | 78,847 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

For customers with good credit quality and payment history, the Group allows credit periods of no longer than 90 days (30 April 2019: 90 days). For other customers, the Group requests an advance deposit payment and demands for full settlement upon delivery of the goods.

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 reporting period, which approximates the revenue recognition dates:

| | 31 October 2019 HK\$'000 (unaudited) | 30 April 2019 HK\$'000 (audited) |
|-----------------|---|---|
| Within 60 days | 47,348 | 34,947 |
| 61 to 180 days | 7,316 | 14,926 |
| 181 to 365 days | 1,008 | 5,416 |
| Over 365 days | 196 | 370 |
| | 55,868 | 55,659 |

The management of the Group closely monitors the credit quality of trade receivables and considers the debts that are neither past due nor impaired are of a good credit quality. Before accepting any new customer, the Group has assessed the potential customer's credit quality and defined credit rating limits for each customer. Limits attributed to customers are reviewed once a year. Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no history of default.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. TRADE AND OTHER PAYABLES

| | 31 October 2019 HK\$'000 (unaudited) | 30 April 2019 HK\$'000 (audited) |
|---------------------------------------|---|---|
| Trade payables | 24,758 | 23,513 |
| Other payables | 1,911 | 1,999 |
| Accrued expenses | 2,365 | 2,388 |
| Total trade and other payables | 29,034 | 27,900 |

The credit period of trade payables ranges from 30 to 90 days for both year/period.

The following is an aged analysis of trade payables based on the invoice date at the end of each reporting period.

| | 31 October 2019 HK\$'000 (unaudited) | 30 April 2019 HK\$'000 (audited) |
|-----------------|---|---|
| Within 60 days | 22,880 | 18,957 |
| 61 to 180 days | 395 | 3,713 |
| 181 to 365 days | 1,309 | 657 |
| Over 365 days | 174 | 186 |
| | 24,758 | 23,513 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. SHARE CAPITAL

Details of movements of authorised and issued capital of the Company are as follow:

| | Number of shares | Share capital HK\$ |
|---|-----------------------------|-------------------------------|
| | <hr/> | <hr/> |
| Ordinary share of HK\$0.01 each | | |
| Authorised: | | |
| At 1 May 2018, 31 October 2018, 1 May 2019 and 31 October 2019 | <hr/> 200,000,000 | <hr/> 2,000,000 |
| Issued and fully paid: | | |
| At 1 May 2018, 31 October 2018, 1 May 2019 and 31 October 2019 | <hr/> 32,000,000 | <hr/> 320,000 |

There were no changes in both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. RELATED PARTY DISCLOSURES

In addition to the transactions, balances and commitments disclosed elsewhere in the condensed consolidated financial statements, the Group had entered into the following related party transactions:

| Relationships | Nature of balances/ transactions | As at/For the six months ended 31 October | |
|--------------------------------|---|---|---------------------------------|
| | | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| A related company ¹ | Rental payments | – | 41 |
| A related party ² | Rental payments | 93 | 171 |
| | Interest expenses on lease liability | 70 | – |
| | Lease liability | 1,898 | – |

1. An entity controlled by a close family member of Mr. Choi King Ting Charles (“Mr. Charles Choi”), the controlling shareholder of the Company, for the lease of office premises in Hong Kong.
2. A relative of Mr. Charles Choi, for the lease of office premises in Shenzhen, the PRC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. CAPITAL COMMITMENTS

| | 31 October 2019 HK\$'000 | 30 April 2019 HK\$'000 |
|---|---|------------------------------|
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements: | | |
| – the acquisition of an intangible asset | 500 | 500 |
| – the renovation of a leasehold property | 460 | 1,150 |
| | 960 | 1,650 |

16. FAIR VALUE MEASUREMENTS

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flows analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.