

CEC-COILS® 759 阿信屋®

CEC國際控股有限公司
CEC INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

(Stock Code 股份代號: 759)

INTERIM REPORT 中期報告
2020/2021

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Corporate Information

DIRECTORS

Executive Directors

Ms. Tang Fung Kwan
(Chairman and Managing Director)
Mr. Ho Man Lee
Mr. Lam Kwok Chung

Independent Non-executive Directors

Mr. Au Son Yiu
Mr. Goh Gen Cheung
Mr. Chan Chiu Ying

AUDIT COMMITTEE

Mr. Chan Chiu Ying (Chairman)
Mr. Au Son Yiu
Mr. Goh Gen Cheung

REMUNERATION COMMITTEE

Mr. Au Son Yiu (Chairman)
Mr. Goh Gen Cheung
Ms. Tang Fung Kwan
Mr. Chan Chiu Ying

NOMINATION COMMITTEE

Ms. Tang Fung Kwan (Chairman)
Mr. Au Son Yiu
Mr. Goh Gen Cheung
Mr. Chan Chiu Ying

COMPANY SECRETARY

Ms. Ho Wing Yi

PRINCIPAL BANKERS

Standard Chartered Bank
(Hong Kong) Limited
The Hongkong and Shanghai
Banking Corporation Limited

REGISTERED OFFICE

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

2nd Floor, Hing Win Factory Building
110 How Ming Street
Kwun Tong, Kowloon
Hong Kong

HEADQUARTERS IN MAINLAND CHINA

Li Xin Jie, Yong An Lu
Dong Feng Zhen
Zhongshan
Guangdong
China

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

LEGAL ADVISERS

F. Zimmern & Co.
Appleby

SHARE REGISTRARS AND TRANSFER OFFICES

Bermuda Principal Share Registrar
MUGF Fund Services
(Bermuda) Limited
4th Floor North Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

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Computershare Hong Kong Investor
Services Limited
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Listed on The Stock Exchange
of Hong Kong Limited
Stock Code: 759

2020/2021 Interim Results

The Board of Directors (the “Board”) of CEC International Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 31 October 2020 and the unaudited condensed consolidated statement of financial position of the Group as at 31 October 2020.

Condensed Consolidated Income Statement

	Note	Six months ended 31 October	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	2	1,083,184	903,841
Cost of sales		(773,073)	(594,716)
Gross profit		310,111	309,125
Other income	3	41,163	–
Other (losses)/gains, net	4	(18,021)	4,327
Selling and distribution expenses		(236,032)	(241,224)
General and administrative expenses		(63,400)	(50,916)
Operating profit	5	33,821	21,312
Finance income		200	130
Finance costs		(10,170)	(16,238)
Finance costs, net	6	(9,970)	(16,108)
Profit before income tax		23,851	5,204
Income tax expense	7	(8,858)	(134)
Profit attributable to equity holders of the Company for the period		14,993	5,070
Earnings per share, basic and diluted, attributable to equity holders of the Company	8	HK2.25 cents	HK0.76 cents

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 31 October	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Profit for the period	14,993	5,070
Other comprehensive income/(loss)		
– items that may be reclassified to profit or loss		
Currency translation differences	13,581	(15,338)
– item that will not be reclassified to profit or loss		
Change in fair value of financial assets at fair value through other comprehensive income	(35)	(57)
Total comprehensive income/(loss) for the period	28,539	(10,325)

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Condensed Consolidated Statement of Financial Position

	Note	As at 31 October 2020 HK\$'000 (Unaudited)	As at 30 April 2020 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	10	350,490	369,744
Right-of-use assets		228,744	235,968
Investment properties		20,916	22,977
Financial assets at fair value through other comprehensive income		244	279
Rental deposits		35,836	36,678
Deferred tax assets		6,842	13,642
		643,072	679,288
Current assets			
Inventories		221,799	294,121
Accounts and bills receivable	11	20,507	20,429
Deposits, prepayments and other receivables		50,453	47,484
Tax recoverable		19	72
Pledged bank deposits		31,353	31,353
Cash and cash equivalents		58,839	62,259
		382,970	455,718
Total assets		1,026,042	1,135,006
EQUITY			
Share capital	12	66,619	66,619
Reserves		370,874	345,666
Total equity		437,493	412,285
LIABILITIES			
Non-current liabilities			
Lease liabilities		89,062	94,469
Deferred tax liabilities		6,881	5,481
Provision for reinstatement cost		3,490	3,565
		99,433	103,515
Current liabilities			
Lease liabilities		139,039	139,354
Borrowings	13	160,488	287,134
Accounts payable	14	129,823	136,014
Accruals and other payables		57,122	56,704
Taxation payable		500	–
Dividend payable		2,144	–
		489,116	619,206
Total liabilities		588,549	722,721
Total equity and liabilities		1,026,042	1,135,006

Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Share Capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Property revaluation reserve HK\$'000	Statutory reserves HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Balance at 1 May 2019	66,619	25,075	13,934	5,042	161	7,450	19,632	82,042	199,357	419,312
Profit for the period	-	-	-	-	-	-	-	-	5,070	5,070
Other comprehensive loss:										
Currency translation differences	-	-	-	-	-	-	-	(15,338)	-	(15,338)
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(57)	-	-	-	-	(57)
Total comprehensive loss	-	-	-	-	(57)	-	-	(15,338)	5,070	(10,325)
Balance at 31 October 2019	66,619	25,075	13,934	5,042	104	7,450	19,632	66,704	204,427	408,987
Balance at 1 May 2020	66,619	25,075	13,934	5,042	141	7,450	19,632	62,686	211,706	412,285
Profit for the period	-	-	-	-	-	-	-	-	14,993	14,993
Other comprehensive income/ (loss):										
Currency translation differences	-	-	-	-	-	-	-	13,581	-	13,581
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(35)	-	-	-	-	(35)
Total comprehensive income	-	-	-	-	(35)	-	-	13,581	14,993	28,539
Transaction with owners:										
2019/2020 final dividend	-	-	-	-	-	-	-	-	(3,331)	(3,331)
Balance at 31 October 2020	66,619	25,075	13,934	5,042	106	7,450	19,632	76,267	223,368	437,493

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Condensed Consolidated Statement of Cash Flows

	Six months ended	
	31 October	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash generated from operations	213,249	135,180
Overseas tax paid	(158)	(146)
Hong Kong tax refund	53	–
Net cash generated from operating activities	213,144	135,034
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,645)	(3,915)
Proceeds from disposal of property, plant and equipment	600	5,900
Net cash (used in)/generated from investing activities	(6,045)	1,985
Cash flows from financing activities		
Proceeds from borrowings	330,165	564,881
Repayments of borrowings	(456,811)	(569,528)
Increase in pledged bank deposits	–	(5,624)
Interest received	200	130
Interest paid	(4,306)	(9,217)
Payment of lease liabilities	(87,250)	(102,807)
Dividend paid	(1,186)	–
Net cash used in financing activities	(219,188)	(122,165)
(Decrease)/increase in cash and cash equivalents	(12,089)	14,854
Exchange difference	8,669	(10,032)
Cash and cash equivalents at the beginning of the period	62,259	47,771
Cash and cash equivalents at the end of the period	58,839	52,593

Notes to the Condensed Consolidated Financial Statements

1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial statements (the “Interim Financial Statements”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 30 April 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

The preparation of the Interim Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these Interim Financial Statements, the significant judgements made by management in applying the group’s accounting policies and key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 30 April 2020.

The Group’s operations are financed by both bank borrowings and internal resources. As at 31 October 2020, the Group’s current liabilities exceeded its current assets by HK\$106,146,000 (30 April 2020: HK\$163,488,000). This net current liabilities position was mainly attributable to (i) the adoption of HKFRS 16 “Leases” resulting in the recognition of lease liabilities of HK\$139,039,000 in current liabilities and HK\$89,062,000 in non-current liabilities, respectively, while the associated right-of-use assets amounting to HK\$213,209,000 were recognised in non-current assets; and (ii) as at 31 October 2020, the Group’s total borrowings amounted to HK\$160,488,000 (30 April 2020: HK\$287,134,000) and are repayable within twelve months from 31 October 2020. The total borrowings in current liabilities included bank borrowings of HK\$15,625,000, whilst contractually due for repayment after one year from the balance sheet date, contain a repayable on demand clause and therefore have been classified as current liabilities in accordance with HK Interpretation 5 “Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayable on Demand Clause”.

The Group’s cash and cash equivalents amounted to HK\$58,839,000 (30 April 2020: HK\$62,259,000) as at 31 October 2020.

Amidst the challenging business environment, the Group continues to make payment to suppliers of merchandise and renovation of stores according to predetermined payment terms, and continues to make scheduled repayment of bank borrowings and interests.

Notes to the Condensed Consolidated Financial Statements

1. Basis of preparation and accounting policies *(continued)*

The Executive Directors of the Group (“Management”) closely monitors the Group’s financial performance and liquidity position to assess the Group’s ability to continue as a going concern. In view of these circumstances, the management has been continuously implementing measures to improve profitability, control operating costs and contain capital expenditures in order to improve the Group’s operating performance and alleviate its liquidity risk. These measures include (i) continuously revisiting its marketing strategies and pricing policies, (ii) continuing its measures to control capital and operating expenditures, (iii) negotiating with the landlords for rental reduction upon renewal of relevant tenancy agreements, and (iv) monitoring the development of COVID-19 pandemic, evaluating its impact on the Group’s operation and taking proactive measures where appropriate, including but not limited to tightening of hygiene and epidemic prevention measures in the stores and application of support schemes provided by the HKSAR government. The management believes that these measures will further improve the Group’s operating profitability and the resulting cash flows. With respect to the Group’s bank financing, the Group maintains continuous communications with its banks. As at 31 October 2020, the Group had unutilised bank facilities of HK\$352,562,000 of which unutilised trade financing facilities amounted to HK\$334,762,000 and unutilised overdraft facilities amounted to HK\$17,800,000, which are available to be drawn by the Group during the next twelve months. Based on the latest communications with the banks, the directors of the Company are not aware of any intention of the principal banks to withdraw their bank facilities or require early repayment of the borrowings, and the directors believe that the existing bank facilities will be renewed when their current terms expire given the good track records and relationships the Group has with the banks.

The Company’s directors have reviewed the Group’s cash flow projections prepared by the management. The cash flow projections cover a period of not less than twelve months from 31 October 2020. Based on these cash flow projections, the Group will have sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from 31 October 2020. Management’s projections make key assumptions with regard to the anticipated cash flows from the Group’s operations, capital expenditures and the continuous availability of bank facilities. The Group’s ability to achieve the projected cash flows depends on management’s ability to successfully implement the aforementioned improvement measures on profitability and liquidity and the continuous availability of bank facilities from its banks. The directors, after making due enquiries and considering the basis of management’s projections described above and after taking into account the reasonably possible changes in the operational performance and the successful renewal and continuous availability of the bank facilities, believe that there will be sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from 31 October 2020. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 April 2020, as described in those annual financial statements.

Notes to the Condensed Consolidated Financial Statements

I. Basis of preparation and accounting policies *(continued)*

I) New and amended standards adopted by the Group

The following new standards and amendments are mandatory for the financial year beginning on 1 May 2020.

Amendments to HKAS 1 and HKAS 8	Definition of materials
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Hedge accounting
Amendments to HKFRS 3	Definition of a business
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting

The adoption of these amendments to standards did not have any significant impact on the preparation of these condensed consolidated interim financial information.

II) New and amended standards that have been issued but not yet effective

The following new standards and amendments have been issued but are not effective for the financial year beginning on or after 1 May 2020 and have not been early adopted by the Group.

Amendments to HKFRS 16	Covid-19-related rent concession ⁽¹⁾
Annual Improvements Project	Annual improvements to HKFRSs 2018-2020 ⁽²⁾
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments ⁽²⁾
Amendment to HKAS 1	Classification of liabilities as current or non-current ⁽³⁾
HKFRS 17	Insurance contracts ⁽³⁾
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ⁽⁴⁾

⁽¹⁾ Effective for the Group for annual period beginning on 1 May 2021.

⁽²⁾ Effective for the Group for annual period beginning on 1 May 2022.

⁽³⁾ Effective for the Group for annual period beginning on 1 May 2023.

⁽⁴⁾ Effective date to be determined.

The Group will apply the above new and amended standards when they become effective. The Group anticipates that the application of the above new and amended standards have no material impact on the results and the financial position of the Group.

Notes to the Condensed Consolidated Financial Statements

2. Segment information

Management reviews the Group's internal reports periodically in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Group has three reportable segments, namely (i) retail business, (ii) electronic components manufacturing, and (iii) investment property holdings. Segment information provided to Management for decision-making is measured in a manner consistent with that in the Interim Financial Statements.

	Retail business		Electronic components manufacturing		Investment property holdings		Eliminations		Total	
	Six months ended 31 October		Six months ended 31 October		Six months ended 31 October		Six months ended 31 October		Six months ended 31 October	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue										
External sales	1,043,044	863,841	39,576	39,381	564	619	-	-	1,083,184	903,841
Intersegment sales	-	-	-	-	792	792	(792)	(792)	-	-
	1,043,044	863,841	39,576	39,381	1,356	1,411	(792)	(792)	1,083,184	903,841
Segment results										
Operating profit/(loss)	96,332	20,885	(54,278)	4,946	(2,887)	(159)			39,167	25,672
Corporate expenses									(5,346)	(4,360)
Finance costs, net									(9,970)	(16,108)
Profit before income tax									23,851	5,204
Income tax expense									(8,858)	(134)
Profit for the period									14,993	5,070
Depreciation and amortisation	94,860	105,993	2,277	2,785	-	-			97,137	108,778
Provision for impairment of property, plant and equipment	-	-	16,031	-	-	-			16,031	-
Distribution expenses and administrative expenses	277,361	281,919	15,982	5,083	743	778			294,086	287,780

Notes to the Condensed Consolidated Financial Statements

2. Segment information (continued)

	Retail business		Electronic components manufacturing		Investment property holdings		Eliminations		Total	
	As at	As at	As at	As at	As at	As at	As at	As at	As at	
	31/10/2020	30/04/2020	31/10/2020	30/4/2020	31/10/2020	30/4/2020	31/10/2020	30/4/2020	31/10/2020	30/4/2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	848,633	905,673	152,137	195,719	21,951	23,734	(3,810)	(3,943)	1,018,911	1,121,183
Unallocated assets										
– Deferred income tax									6,842	13,642
– Corporate assets									289	181
Total assets									1,026,042	1,135,006
Segment liabilities	405,467	416,855	11,301	12,150	3,876	4,063	(3,810)	(3,943)	416,834	429,125
Borrowings									160,488	287,134
Unallocated liabilities										
– Deferred income tax									6,881	5,481
– Taxation payable									500	–
– Corporate liabilities									1,702	981
– Dividend payable									2,144	–
Total liabilities									588,549	722,721

Geographical information

	Revenue		Non-current assets	
	Six months ended		As at	
	31 October		As at	As at
	2020	2019	31/10/2020	30/4/2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC (including the Hong Kong Special Administrative Region)	1,071,190	889,356	643,040	679,247
Other countries/regions	11,994	14,485	32	41
	1,083,184	903,841	643,072	679,288

Revenue by geographical location is determined on the basis of the destination of shipment or place of sales to the customers.

Non-current assets by geographical location are determined based on the location of the relevant assets.

Notes to the Condensed Consolidated Financial Statements

3. Other income

During the six months ended 31 October 2020, these primarily represented government subsidies granted due to the COVID-19 pandemic which include subsidies of HK\$39,773,000 under the Employment Support Scheme and other subsidies of HK\$1,390,000 under the Anti-epidemic Fund of the Hong Kong Government.

4. Other (losses)/gains, net

	Six months ended	
	31 October	
	2020	2019
	HK\$'000	HK\$'000
Fair value loss on investment properties	(2,590)	–
Provision for impairment loss of property, plant and equipment	(16,031)	–
Net gain on disposals of property, plant and equipment	600	4,327
	(18,021)	4,327

5. Operating profit

Operating profit is stated after charging the following:

	Six months ended	
	31 October	
	2020	2019
	HK\$'000	HK\$'000
Cost of inventories recognised as expenses included in cost of sales	731,759	562,403
Depreciation of property, plant and equipment	13,737	13,447
Depreciation of right-of-use assets	83,400	95,331
Employee benefit expenses (including directors' emoluments)	135,040	128,556
Net impairment loss on financial assets	1,158	617
Write down of inventories	26,380	–

Notes to the Condensed Consolidated Financial Statements

6. Finance costs, net

	Six months ended	
	31 October	
	2020	2019
	HK\$'000	HK\$'000
Interest expense on bank borrowings	4,306	9,217
Interest expense on lease liabilities	5,864	7,021
Interest income from bank deposits	(200)	(130)
	9,970	16,108

7. Income tax expense

Income tax expense is recognised based on management's estimate of the annual income tax rate expected for the full financial year. The Company is incorporated in Bermuda and is exempted from taxation in Bermuda until 2035. Hong Kong profits tax has been provided at the estimated rate of 16.5% (2019: 16.5%) on the estimated assessable profit for the period. Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax rate at the estimated rate of 25% (2019: 25%) on their taxable income determined according to Mainland China tax laws. Other overseas taxation has been calculated on the estimated assessable profits for the period at the rates prevailing in the respective jurisdictions.

The amount of taxation charged to the condensed consolidated income statement represents:

	Six months ended	
	31 October	
	2020	2019
	HK\$'000	HK\$'000
Hong Kong taxation – current tax	500	–
Overseas taxation including Mainland China		
– current tax	158	129
Deferred taxation	8,200	5
	8,858	134

Notes to the Condensed Consolidated Financial Statements

8. Earnings per share

The calculation of basic earnings per share for the six months ended 31 October 2020 is based on the consolidated profit for the period of approximately HK\$14,993,000 (2019: HK\$5,070,000) and the weighted average number of 666,190,798 (2019: 666,190,798) shares in issue during the period.

For the six months ended 31 October 2020 and 31 October 2019, diluted earnings per share equals basic earnings per share as there was no dilutive potential share.

9. Dividend

The Board resolved not to declare any interim dividend in respect of the six months ended 31 October 2020 (2019: Nil).

10. Movements in property, plant and equipment

	<i>HK\$'000</i>
At 1 May 2020	369,744
Exchange differences	3,869
Additions	6,645
Depreciation	(13,737)
Impairment loss	(16,031)
	<hr/>
At 31 October 2020	<u>350,490</u>

11. Accounts and bills receivable

	As at 31 October 2020 <i>HK\$'000</i>	As at 30 April 2020 <i>HK\$'000</i>
Accounts receivable	26,400	23,884
Less: provision for impairment of receivables	(5,893)	(4,735)
	<hr/>	<hr/>
Accounts receivable – net	20,507	19,149
Bills receivable	–	1,280
	<hr/>	<hr/>
Accounts and bills receivable - net	<u>20,507</u>	<u>20,429</u>

Notes to the Condensed Consolidated Financial Statements

11. Accounts and bills receivable (continued)

The ageing analysis of accounts receivable, based on invoice date, is as follows:

	As at 31 October 2020 HK\$'000	As at 30 April 2020 HK\$'000
0-30 days	9,734	11,924
31-60 days	5,509	3,408
61-90 days	2,697	891
91-120 days	855	1,570
Over 120 days	7,605	6,091
	26,400	23,884
Less: loss allowance	(5,893)	(4,735)
	20,507	19,149

The Group offers an average credit period ranging from 30 to 120 days to its non-retail business customers.

12. Share capital

	As at 31 October 2020 HK\$'000	As at 30 April 2020 HK\$'000
Authorised:		
1,000,000,000 (As at 30 April 2020: 1,000,000,000) shares of HK\$0.10 each	100,000	100,000
Issued and fully paid:		
666,190,798 (As at 30 April 2020: 666,190,798) shares of HK\$0.10 each	66,619	66,619

13. Borrowings

As at 31 October 2020, bank borrowings of approximately HK\$15,625,000 (at 30 April 2020: HK\$23,500,000) contractually due for repayment after one year but contain a repayment on demand clause have been classified as current liabilities in accordance with the HK Interpretation 5, "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause".

Notes to the Condensed Consolidated Financial Statements

14. Accounts payable

The ageing analysis of accounts payable, based on invoice date, is as follows:

	As at 31 October 2020 HK\$'000	As at 30 April 2020 HK\$'000
0-30 days	86,535	99,163
31-60 days	30,797	27,993
61-90 days	12,115	8,550
91-120 days	200	–
Over 120 days	176	308
	129,823	136,014

15. Related party transactions

	Six months ended 31 October 2020 HK\$'000	2019 HK\$'000
(a) Rental expenses paid to a related company which is owned by directors of the Company	342	331
Rental expenses paid to a director of the Company	147	147
(b) Key management compensation		
Salaries, allowances and other benefits in kind	2,817	2,125
Pension costs – defined contribution plans	174	144
	2,991	2,269

Management Discussion and Analysis

The year of 2020/21 was a year full of challenges, in which the globe was affected by COVID-19 pandemic that changed the way of life. There was full of uncertainties in local economy. In the period under review, the Group continued to hold resource-saving as its basic principle, taking most prudent policy to strictly control the operation cost with a view to remain stable in the economic adversity so as to survive. The management firmly adhered to our “Quick Turnover with Lower Margin” policy in the pandemic. Driven by the demand of necessities of daily life especially on the rice category, the revenue recorded a growth in the period. For manufacturing business, the Group greatly and decisively adjusted the business that closing one of the large-sized production halls to further downsize the scale of the business. For the six months ended 31 October 2020, the Group’s consolidated revenue recorded HK\$1,083,184,000 (2019: HK\$903,841,000), increasing for 19.8% as compared with that of the same period in last year. The profit attributable to equity holders increased to HK\$14,993,000 (2019: HK\$5,070,000).

BUSINESS REVIEW

Retail Business

For the six months ended 31 October 2020, the Group’s retail business recorded a segment revenue of HK\$1,043,044,000 (2019: HK\$863,841,000), representing an increase of 20.7% as compared with that for the same period last year and accounting for approximately 96% (2019: 96%) of total revenue. In terms of gross profit, the segment gross profit during the period was HK\$331,929,000 (2019: HK\$298,478,000) and the segment gross profit margin was 31.8% (2019: 34.6%), representing a decrease of 2.8 percentage points as compared to that for the same period last year. The decrease in gross profit margin truly reflected the exact fact that 759 STORE still put “Quick Turnover with Lower Margin” policy into practice despite of the pandemic. Even though the import of products were affected by the double effect that built by sharp appreciations in the exchange rates of various countries and sharp increase of air freight and ocean freight, the Group still worked hard to maintain the selling prices stable. On top of that, the growth of demand during the period mainly came from the products of staple food categories with relatively low margins including rice, food groceries, egg and etc, while no growth was shown in the demand of snack and leisure food products. For the product supply, over 85% of products were imported on its own from approximately 60 countries and regions over the globe. Since overall product flow rate increased, as at 31 October 2020, the total inventory value of retail business decreased to HK\$203,431,000 (30 April 2020: HK\$244,118,000), as compared with that on the end date of last financial year.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Retail Business *(continued)*

In the period under review, the Group did not expand the scale of store network that the management renewed the store tenancy contracts according to the operation performance of that exact store and the rental level of the market, closing 9 stores and in the meantime newly opening 5 stores at other shop sites else found. As at 31 October 2020, the Group operated 173 stores (30 April 2020: 177), with a decrease of 4 stores in the total number of stores. At the same date, the total gross floor area of stores in operation was 358,000 square feet (30 April 2020: 359,000 square feet), with an average floor area per store of 2,069 square feet (30 April 2020: 2,028 square feet). The store network of 759 STORE is mainly distributed in residential areas, including shopping malls and shop units in public and private housing estates. In the period under review, the Group has chosen 3 sites for new stores which would start their operations in November and December 2020.

For frontline staff, 759 STORE always offered its staff market-competitive remuneration, with which its staff also worked efficiently as expected so that the average number of staff members per store was able to maintain at low level of about 4 persons for long period. The remuneration of frontline staff consisted of basic salary and sales commission, so that all staff members could widely share the benefit brought from the increase in company revenue. In the period under review, the labour cost of frontline staff was HK\$82,867,000 (2019: HK\$75,625,000), increased by 9.6% as compared with last year. Despite the higher labour cost, the selling and distribution expenses of the retail business dropped to HK\$235,681,000 (2019: HK\$240,554,000), representing a decrease of 2.0%, as the Group focused on cost control during the period. Segment administrative expenses amounted to HK\$41,680,000 (2019: HK\$41,365,000), which was similar to that for the same period last year. In the period under review, the Hong Kong government launched the Anti-epidemic Fund and the Employment Support Scheme to provide various subsidies to different business industries. The Group, in the period, had received subsidy of about HK\$41,163,000 in total, which was all paid as employee salaries according to the application requirement. Under the effect of the aforesaid factors, the Group recorded a segment profit of HK\$96,332,000 (2019: HK\$20,885,000) for the retail business in the period.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Electronic Component Manufacturing Business

Along with the change in global consumer electronics market, it had already been too difficult for the demand of passive electronic components including coil products to return back to its old level. In response of the persistent decrease in market demand, the Group had kept shrinking the scale of manufacturing business, systematically reducing manpower along with the gradual decrease of production capacity. Since the demand of electrical power transformer was greatly impacted further by the current practice that mobile phone was no longer sold with free charger, the Group had no alternative but to decide to fully close the production hall for power supply type coils in the period under review, including production lines of transformer assembly, manganese-zinc ferrite and related plastic frame. The decision resulted in a provision for impairment of assets, including production equipment and certain moulds for transformers and manganese-zinc ferrite, amounting to approximately HK\$16,031,000. On top of that, a one-off provision was also made for the inventories of the relevant business, which included raw materials and certain finished goods, with an amount of approximately HK\$26,380,000. The aforesaid power supply category related provisions gave no effect on cash flow.

In the period under review, the Group integrated the resources, actively striving for the orders of coil products outside of power supply category that maintained the revenue of manufacturing business in the period to HK\$39,576,000 (2019: HK\$39,381,000), almost the same level as that of the same period in last year. In respect of segment gross profit, the Group recorded a segment gross loss of HK\$22,264,000 (2019: segment gross profit of HK\$10,030,000) as a result of the aforesaid one-off provision for inventories. As at 31 October 2020, the value of inventories for the manufacturing business reduced to HK\$18,368,000 after the one-off provision. The management believes that the segment gross profit margin is likely to recover to a normal level in the second half of the year.

During the period, due to the significant appreciation of Renminbi, the administrative expenses of the manufacturing business incurred an unrealized exchange loss of HK\$5,739,000 (2019: an exchange gain of HK\$6,580,000), which had no actual impact on cash flow. Taking into account the above one-off asset impairment provision and the unrealized exchange loss, the Group's manufacturing business recorded a segment operating loss of HK\$54,278,000 (2019: segment operating profit of HK\$4,946,000) during the period. The segment depreciation and amortization of the manufacturing business during the period amounted to HK\$2,277,000 (2019: HK\$2,785,000).

Investment Properties

During the period under review, the Group recorded a decrease in the value of investment properties of approximately HK\$2,590,000, attributed mainly to the downturn in the shop and property markets in Hong Kong, which resulted in a decline in valuation.

Management Discussion and Analysis

FINANCIAL REVIEW

Fund Surplus and Liabilities

As at 31 October 2020, the Group's bank balances and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK\$90,192,000 (30 April 2020: HK\$93,612,000). As at the same date, the Group's aggregate banking facilities amounted to HK\$513,050,000 (30 April 2020: HK\$522,800,000), which included overdrafts, loans, trade financing, etc. Unused facilities amounted to approximately HK\$352,562,000 (30 April 2020: HK\$235,666,000). As at 31 October 2020, utilised banking facilities amounted to HK\$160,488,000 (30 April 2020: HK\$287,134,000), representing a significant decrease of 44% as compared to that at the previous financial year end. The above banking facilities were secured by charges on the Group's certain land and buildings, investment properties, bank deposits and inventories held under trade financing in Hong Kong. In addition, the Group is also required to comply with certain restrictive financial covenants with major financing banks, and, the Group had been complying with such financial covenants as at 31 October 2020. As at 31 October 2020, the Group's gearing ratio* was 0.14 (30 April 2020: 0.32), representing a decrease as compared to that at the previous financial year end. As at the same date, the Group did not have any contingent liabilities (30 April 2020: Nil).

* *The ratio of (total borrowings less bank balances and cash) over (total borrowings less bank balances and cash plus total equity)*

Assets

As at 31 October 2020, the Group's inventories amounted to HK\$221,799,000 (30 April 2020: HK\$294,121,000), representing a decrease of 24.6% in inventories as compared with the last financial year end. The Group's total prepayments, deposits and other receivables (including rental deposits for retail stores) as at 31 October 2020 amounted to HK\$86,289,000 (30 April 2020: HK\$84,162,000).

Lease Liabilities

At 31 October 2020, the long-term lease liabilities of the Group amounted to HK\$89,062,000 (30 April 2020: HK\$94,469,000) while the current lease liabilities amounted to HK\$139,039,000 (30 April 2020: HK\$139,354,000).

Interest Expenses

The Group's finance costs for the period was HK\$10,170,000 (2019: HK\$16,238,000), representing a decrease of 37% as compared to last year. In the period, the interest expenses of lease liabilities was approximately HK\$5,864,000 (2019: HK\$7,021,000). The actual bank interest expense for the period was HK\$4,306,000 (2019: HK\$9,217,000), of which 53% had been saved as compared with that of the same period in last year. This was mainly attributable to less utilization of banking facilities in the period. The Group expects that the interest expense in future will continue to fall in accordance with the utilization of bank borrowings.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Financial Resources and Capital Structure

The Group's net cash outflow was HK\$12,089,000 (2019: inflow of HK\$14,854,000) for the six months ended 31 October 2020. Net cash inflow from operating activities was HK\$213,144,000 (2019: HK\$135,034,000), greatly increased by 58% as compared to that for the same period last year. This was mainly attributable to improvements in the retail business and the effective measures implemented to increase revenue and cut costs. In addition, inventory turnover rates also improved in both the retail business and the manufacturing business. Net cash outflow from investing activities during the period was HK\$6,045,000 (2019: inflow of HK\$1,985,000), which was mainly attributable to the renovation for new stores, the remodeling of existing stores and the purchase of appropriate office equipment during the period. The Group did not purchase or sell investment properties during the period under review. During the period, since the management accelerated the reduction of the Group's bank borrowings, the net cash outflow from financing activities further increased to HK\$219,188,000 (2019: HK\$122,165,000) as compared with that for the same period last year.

Cash Flow Summary

	For the six months ended 31 October	
	2020 HK\$'000	2019 HK\$'000
Net cash inflow from operating activities	213,144	135,034
Net cash (outflow)/inflow from investing activities	(6,045)	1,985
Net cash outflow from financing activities	(219,188)	(122,165)
(Decrease)/increase in cash and cash equivalents	(12,089)	14,854

As at 31 October 2020, the net current liabilities of the Group was HK\$106,146,000 (30 April 2020: HK\$163,488,000) and the current ratio was 0.78 (30 April 2020: 0.74), both of which saw an improvement during the period.

Charges on Assets

As at 31 October 2020, certain assets of the Group with an aggregate carrying value of approximately HK\$499,956,000 (30 April 2020: HK\$547,840,000) were pledged to secure banking facilities of the Group.

Exchange Risks

The Group conducted its business mainly in Hong Kong, Mainland China and Southeast Asia. The currency for the income received were mainly Hong Kong dollar, Renminbi and US dollar; and the currency for the cost and expenditure spent were mainly Japanese Yen, US dollar, Euro, Hong Kong dollar and Renminbi. The Group will do its best to pay close attention on the price changes in exchange market, actively adjusting the combination of imported goods based on the place of origin, so as to in some extent offset the impact brought by the price changes of currencies. With regard to the current situation, the business model, that most of the products are directly brought in from overseas, will be much affected, in case US dollars greatly depreciate and Japanese Yen and EURO greatly appreciate. For this reason, the Group will pay close attention on the trends of price changes for US dollar, Japanese Yen and EURO.

Management Discussion and Analysis

EMPLOYEES

As at 31 October 2020, the Group employed approximately 1,600 staff (30 April 2020: 1,700). The remuneration of employees was set, most importantly according to market standard, with reference to individual performance, academic qualification and working experience, which were taken into account for promotion if required. Other employee benefits agreed included pension scheme, on-job training, education subsidy and others, like social insurance and holidays with pay, required by local law.

Social Responsibilities

The Group made use of diversified channels to actively fulfill corporate civic responsibility. Not only encouraging its staff to give effort in caring for the society, improving their mental and physical health and so as their balanced development, the Group also committed actions to actively take care non-profit organizations of various disadvantaged communities, religious groups and educational institutions, in contact with all walks of life to give support for relieving poverty and fighting against pandemic. From February to November 2020, the Group donated over 150,000 surgical masks, over 10 thousand sets of Thai rice package and cooking oil to various sectors of the community.

FUTURE PLAN AND OUTLOOK

Since the effect of COVID-19 pandemic had spread over the globe without pause for almost a year, it was still difficult in this moment to predict when the people would return back to their normal lives. The Group adopted self-import procurement model, under which the foreign suppliers were affected in various degrees by the pandemic that brought retail business even more challenges for sudden instability in product supply, sharp increase in shipping costs and fluctuations in international exchange rates. Despite these numerous uncertainties and the unclear economic prospects, 759 STORE will continue firmly sticking to its “Quick Turnover with Lower Margin” policy, riding out the difficult times with Hong Kong people. 759 STORE will keep on searching for much more high-quality products at good prices for the local customers, by making good use of the competitive edge in its maturely-developed supply chain, leveraging the procurement network that widely spread over 60 countries and regions around the globe to offset the risk of instability for various countries in product supply that hard to predict.

Since local market was right in a situation that hardly happened even in a century, the management will continue to take prudent operation policy and strict cost control in foreseeable future. For store network, though it is not suitable to be bold in this stage, the Group will still keep searching for suitable new shop sites in residential areas based on operation data. The Group will put good effort on the improvement of liquidity in company operation, lowering the whole level of debt and so raising cash level to increase its capital strength and be well-positioned to seize potential opportunities when they arise.

Other Information

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at 31 October 2020, the interests of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) were as follows:

(a) Shares of the Company

Name of director	Number of shares of HK\$0.10 each held			Percentage of issued share capital
	Personal interests (Note 2)	Trusts interests	Total interests	
Ms. Tang Fung Kwan	4,194,611	–	4,194,611	0.63%
Mr. Ho Man Lee	30,000	–	30,000	0.0045%
Mr. Lam Kwok Chung	–	442,295,660 (Note 3)	442,295,660 (Note 3)	66.39%
Mr. Au Son Yiu	1,501,440	–	1,501,440	0.23%

Notes:

- All the above interests in the shares of the Company were long positions.
- Personal interests were interests held by the relevant directors as beneficial owners.
- The 442,295,660 shares were held by Ka Yan China Development (Holding) Company Limited, a wholly-owned subsidiary of Ka Yan China Investments Limited. The entire issued share capital of Ka Yan China Development (Holding) Company Limited was ultimately held by HSBC International Trustee Limited as trustee of a discretionary trust (the “Trust”) founded by the late Mr. Lam Wai Chun, the founding chairman of the Company and a former director of the Company. In the capacity as a discretionary beneficiary of the Trust, Mr. Lam Kwok Chung was deemed to be interested in all the shares held by Ka Yan China Development (Holding) Company Limited for the purpose of the SFO.

Other Information

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES *(continued)*

(b) Shares of associated corporation(s) of the Company

Coils Electronic Co., Limited

Name of director	Number of non-voting deferred shares of HK\$1.00 each held		Percentage of issued non-voting deferred shares
		Trusts interests	
Mr. Lam Kwok Chung <i>(Notes 4 and 5)</i>		6,000,000	42.86%

Notes:

- 6,000,000 non-voting deferred shares were held by Ka Yan China Development (Holding) Company Limited, representing approximately 42.86% of the 14,000,000 non-voting deferred shares in the share capital of Coils Electronic Co., Limited, in which Coils International Holdings Limited, a direct wholly-owned subsidiary of the Company, held the entire issued ordinary share capital. Mr. Lam Kwok Chung was deemed to be interested in all these shares under the SFO by virtue of the reason set out in Note 3 to sub-paragraph (a) above.
- All the above interests in the non-voting deferred shares of Coils Electronic Co., Limited held or deemed to be held by Mr. Lam Kwok Chung were long positions.

Save as disclosed above, as at 31 October 2020, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered into the register kept by the Company pursuant to section 352 of the SFO, or 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 or the Model Code.

Save as disclosed above, as at 31 October 2020, neither the directors or chief executive of the Company nor their spouses or children under the age of 18 had been granted any rights to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), or had exercised such rights.

Other Information

INTERESTS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 October 2020, according to the register kept by the Company under section 336 of the SFO, the following persons, other than the directors or chief executive of the Company, had an interest or short position in the shares or 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:

Shares of the Company

Substantial shareholders (as defined in the Listing Rules)

Name	Number of shares of HK\$0.10 each held					Percentage of issued share capital
	Beneficial owner	Family interests	Corporate interests	Trusts interests	Total interests	
Ms. Law Ching Yee	-	29,955,188 (Note 2)	-	442,295,660 (Notes 2)	472,250,848 (Notes 2)	70.89%
Ka Yan China Development (Holding) Company Limited	442,295,660 (Notes 2 and 3)	-	-	-	442,295,660 (Notes 2 and 3)	66.39%
Ka Yan China Investments Limited	-	-	442,295,660 (Notes 2 and 3)	-	442,295,660 (Notes 2 and 3)	66.39%
HSBC International Trustee Limited	-	-	-	442,295,660 (Notes 2 and 3)	442,295,660 (Notes 2 and 3)	66.39%

Notes:

- All the above interests in the shares of the Company were long positions.
- The 442,295,660 shares were held by Ka Yan China Development (Holding) Company Limited, a wholly-owned subsidiary of Ka Yan China Investments Limited. The entire issued share capital of Ka Yan China Development (Holding) Company Limited was ultimately held by the Trust. In the capacity as a discretionary beneficiary of the Trust, Ms. Law Ching Yee was deemed to be interested in all the shares held by Ka Yan China Development (Holding) Company Limited for the purpose of the SFO. The 29,955,188 shares were held by the late Mr. Lam Wai Chun, the founding chairman of the Company and a former director of the Company, as beneficial owner. Ms. Law Ching Yee, being the spouse of the late Mr. Lam Wai Chun, was deemed to be interested in all the shares held by her spouse, for the purpose of the SFO.
- The interests in 442,295,660 shares held by Ka Yan China Investments Limited, the ultimate holding company of the Company, and HSBC International Trustee Limited refer to the same shares and duplicated with each other. Such shares formed the shares in which Ka Yan China Development (Holding) Company Limited was interested. As at 31 October 2020, the actual number of shares held by Ka Yan China Investments Limited, Ka Yan China Development (Holding) Company Limited and HSBC International Trustee Limited in the Company which duplicated with one another was 442,295,660 shares.

Other Information

INTERESTS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO *(continued)*

Shares of the Company *(continued)*

Save as disclosed above, the Company had not been notified of any other person (other than a director or a chief executive of the Company) who had an interest (whether direct or indirect) in 5% or more of the shares comprised in the relevant share capital or a short position which were required to be recorded in the register kept by the Company pursuant to section 336 of the SFO as at 31 October 2020.

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

The Company had not redeemed any of its listed shares during the six months ended 31 October 2020. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed shares during the six months ended 31 October 2020.

CORPORATE GOVERNANCE CODE

The Company has adopted the principles and complied with the applicable code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules for the six months ended 31 October 2020, except for the following deviation:

1. Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Since 29 September 2009, the roles of the Chairman of the Board and the chief executive officer of the Company (the "CEO") were performed by the late Mr. Lam Wai Chun, the founding Chairman of the Company. After the pass away of Mr. Lam Wai Chun, Ms. Tang Fung Kwan has been appointed as the Chairman of the Board and the Managing Director of the Company with effect from 19 August 2018 and has carried out the responsibilities of the Chairman and CEO since then. This constitutes a deviation from the code provision A.2.1 of the Code which stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Ms. Tang Fung Kwan has been the key management of the Group for over 25 years and has devoted herself and contributed greatly to the Group's development. She has been the executive director of the Company since its listing on the Stock Exchange in November 1999 and has engaged in directing the corporate strategies and operations of the Group. She possesses substantial and valuable experience in the industry and in the Group's operation. The Board believes that vesting the roles of the Chairman of the Board and the CEO in the same person will provide the Company with strong and consistent leadership and promote effective and efficient formulation and implementation of business decisions and strategies and considers that such structure is currently in the best interests of the Company and its shareholders at this stage.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") currently comprises three independent non-executive directors, namely Mr. Chan Chiu Ying (chairman of the Audit Committee), Mr. Au Son Yiu and Mr. Goh Gen Cheung. Regular meetings have been held by the Audit Committee since its establishment and it meets at least twice each financial year.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group, the internal control and risk management of the Group and the Interim Report for the six months ended 31 October 2020.

Other Information

REMUNERATION COMMITTEE

The Company established the Remuneration Committee (the “Remuneration Committee”) for the purpose of making recommendations to the Board on the Company’s policy and structure for all directors’ and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee also has the delegated responsibility to make recommendations to the Board on (i) the remuneration packages of individual executive directors and senior management including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment and (ii) the remuneration of non-executive directors. The Remuneration Committee currently comprises four members including one executive director, namely Ms. Tang Fung Kwan, and three independent non-executive directors, namely Mr. Au Son Yiu (chairman of the Remuneration Committee), Mr. Goh Gen Cheung and Mr. Chan Chiu Ying.

NOMINATION COMMITTEE

The Company established the Nomination Committee (the “Nomination Committee”) to review the structure, size, composition and diversity (including the skills, knowledge and experience) of the Board, to make recommendations on any proposed changes to the Board to complement the Company’s corporate strategy and to assess the independence of independent non-executive directors of the Company. The Nomination Committee currently comprises four members including one executive director, namely Ms. Tang Fung Kwan (chairman of the Nomination Committee), and three independent non-executive directors, namely Mr. Au Son Yiu, Mr. Goh Gen Cheung and Mr. Chan Chiu Ying.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions for the six months ended 31 October 2020. Following specific enquiry by the Company, all of the directors of the Company confirmed compliance with the required standard set out in the Model Code throughout the six months ended 31 October 2020. The Model Code also applies to the relevant employees of the Group.

By Order of the Board
Tang Fung Kwan
Chairman

Hong Kong, 23 December 2020

