

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
2021/2022

Contents

1	Corporate Information
2	Condensed Consolidated Income Statement
3	Condensed Consolidated Statement of Comprehensive Income
4	Condensed Consolidated Statement of Financial Position
5	Condensed Consolidated Statement of Changes in Equity
6	Condensed Consolidated Statement of Cash Flows
7	Notes to the Condensed Consolidated Financial Statements
17	Management Discussion and Analysis
23	Other Information

Corporate Information

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Mr. Goh Gen Cheung
Mr. Chan Chiu Ying
Mr. Au Son Yiu
(retired on 29 September 2021)

AUDIT COMMITTEE

Mr. Chan Chiu Ying (Chairman)
Mr. Goh Gen Cheung
Mr. Au Son Yiu
(resigned on 29 September 2021)

REMUNERATION COMMITTEE

Mr. Goh Gen Cheung (Chairman)
(appointed on 29 September 2021)
Ms. Tang Fung Kwan
Mr. Chan Chiu Ying
Mr. Au Son Yiu
(resigned on 29 September 2021)

NOMINATION COMMITTEE

Ms. Tang Fung Kwan (Chairman)
Mr. Goh Gen Cheung
Mr. Chan Chiu Ying
Mr. Au Son Yiu
(resigned on 29 September 2021)

COMPANY SECRETARY

Ms. Ho Wing Yi

PRINCIPAL BANKERS

The Hongkong and Shanghai
Banking Corporation Limited
Bank of China (Hong Kong) 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

Grandall Zimmern Law Firm
Appleby

SHARE REGISTRARS AND TRANSFER OFFICES

Bermuda Principal Share Registrar
MUFG Fund Services
(Bermuda) Limited
4th Floor North Cedar House
41 Cedar Avenue
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Hong Kong Branch Share Registrar
Computershare Hong Kong Investor
Services Limited
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Listed on The Stock Exchange
of Hong Kong Limited
Stock Code: 759

2021/2022 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 2021 and the unaudited condensed consolidated statement of financial position of the Group as at 31 October 2021.

Condensed Consolidated Income Statement

	Note	Six months ended 31 October	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	2	971,637	1,083,184
Cost of sales		(634,719)	(773,073)
Gross profit		336,918	310,111
Other income		–	41,163
Other gains/(losses), net	3	1,201	(18,021)
Selling and distribution expenses		(238,987)	(236,032)
General and administrative expenses		(68,474)	(63,400)
Operating profit	4	30,658	33,821
Finance income		1,151	200
Finance costs		(6,635)	(10,170)
Finance costs, net	5	(5,484)	(9,970)
Profit before income tax		25,174	23,851
Income tax expense	6	(6,376)	(8,858)
Profit attributable to equity holders of the Company for the period		18,798	14,993
Earnings per share, basic and diluted, attributable to equity holders of the Company	7	HK2.82 cents	HK2.25 cents

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 31 October	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Profit for the period	18,798	14,993
Other comprehensive income/(loss)		
– items that may be reclassified to profit or loss		
Currency translation differences	3,193	13,581
– item that will not be reclassified to profit or loss		
Change in fair value of financial assets at fair value through other comprehensive income	(59)	(35)
Total comprehensive income for the period	21,932	28,539

INTERIM REPORT 2021/2022

Condensed Consolidated Statement of Financial Position

	Note	As at 31 October 2021 HK\$'000 (Unaudited)	As at 30 April 2021 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9	337,440	344,753
Right-of-use assets		203,932	206,362
Investment properties		22,639	22,493
Financial assets at fair value through other comprehensive income		190	249
Rental deposits		33,832	33,305
Deferred tax assets		5,645	5,765
		603,678	612,927
Current assets			
Inventories		174,688	194,162
Accounts and bills receivable	10	24,649	21,494
Deposits, prepayments and other receivables		57,849	53,058
Tax recoverable		18	25
Pledged bank deposits		21,433	31,390
Cash and cash equivalents		73,911	70,362
		352,548	370,491
Total assets		956,226	983,418
EQUITY			
Share capital	11	66,619	66,619
Reserves		417,685	401,749
Total equity		484,304	468,368
LIABILITIES			
Non-current liabilities			
Lease liabilities		83,655	76,574
Deferred tax liabilities		7,251	7,051
Provision for reinstatement cost		7,676	7,526
Borrowings	12	3,966	–
		102,548	91,151
Current liabilities			
Borrowings	12	91,266	129,760
Accounts payable	13	89,141	106,701
Lease liabilities		114,905	126,075
Accruals and other payables		54,226	53,568
Taxation payable		13,840	7,795
Dividend payable		5,996	–
		369,374	423,899
Total liabilities		471,922	515,050
Total equity and liabilities		956,226	983,418

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 2021	66,619	25,075	13,934	5,042	111	7,450	19,632	89,806	240,699	468,368
Profit for the period	-	-	-	-	-	-	-	-	18,798	18,798
Other comprehensive (loss)/ income:										
Currency translation differences	-	-	-	-	-	-	-	3,193	-	3,193
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(59)	-	-	-	-	(59)
Total comprehensive (loss)/income	-	-	-	-	(59)	-	-	3,193	18,798	21,932
2020/2021 final dividend	-	-	-	-	-	-	-	-	(5,996)	(5,996)
Balance at 31 October 2021	66,619	25,075	13,934	5,042	52	7,450	19,632	92,999	253,501	484,304
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:										
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 loss	-	-	-	-	(35)	-	-	13,581	14,993	28,539
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

INTERIM REPORT 2021/2022

Condensed Consolidated Statement of Cash Flows

	Six months ended	
	31 October	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash generated from operations	115,670	213,249
Overseas tax paid	(5)	(158)
Hong Kong tax refund	–	53
Net cash generated from operating activities	115,665	213,144
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,786)	(6,645)
Proceeds from disposal of property, plant and equipment	121	600
Net cash used in investing activities	(6,665)	(6,045)
Cash flows from financing activities		
Proceeds from borrowings	110,147	330,165
Repayments of borrowings	(144,675)	(456,811)
Decrease in pledged bank deposits	9,957	–
Interest received	59	200
Interest paid	(1,568)	(4,306)
Payment of lease liabilities	(79,377)	(87,250)
Dividend paid	–	(1,186)
Net cash used in financing activities	(105,457)	(219,188)
Increase/(decrease) in cash and cash equivalents	3,543	(12,089)
Exchange difference	6	8,669
Cash and cash equivalents at the beginning of the period	70,362	62,259
Cash and cash equivalents at the end of the period	73,911	58,839

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 2021, 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 2021.

As at 31 October 2021, the Group’s current liabilities exceeded its current assets by HK\$16,826,000 (30 April 2021: HK\$53,408,000). This net current liabilities position was mainly attributable to the recognition of lease liabilities of HK\$114,905,000 (30 April 2021: HK\$126,075,000) in current liabilities and HK\$83,655,000 (30 April 2021: HK\$76,574,000) in non-current liabilities, respectively, while the associated right-of-use assets amounting to HK\$203,932,000 (30 April 2021: HK\$206,362,000) were recognised in non-current assets in accordance with HKFRS 16 “Leases”.

As at 31 October 2021, the Group’s total borrowings, mainly comprising import and trust receipt loans, amounted to HK\$95,232,000 (30 April 2021: HK\$129,760,000). The borrowings amounting to HK\$91,266,000 are repayable within twelve months from 31 October 2021, while the Group’s cash and cash equivalents amounted to HK\$73,911,000 (30 April 2021: HK\$70,362,000) only.

Notes to the Condensed Consolidated Financial Statements

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

The Group's operations are financed by both bank borrowings and internal resources. Management closely monitors the Group's financial performance and liquidity position to assess the Group's ability to continue as a going concern. With respect to the Group's bank financing, the Group maintains continuous communications with its banks and has successfully renewed the bank facilities with its principal banks during the year. As at 31 October 2021, the Group had aggregated bank facilities totalling HK\$400,221,000 (30 April 2021: HK\$503,300,000) of which unutilised bank facilities amounted to HK\$304,989,000 comprising unutilised trade financing facilities of HK\$304,689,000 and unutilised term loan and overdraft facilities of HK\$300,000, 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 relationship 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 minimum period of twelve months from 31 October 2021. Management's projections have incorporated key assumptions with regard to the continuous availability of bank facilities as well as operating cashflows generated from its operations. The Group's ability to achieve the projected cash flows depends on 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 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 2021. 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 2021, 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 2021.

HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest rate benchmark reform – phase 2
HKFRS 16 (Amendments)	COVID-19-related rent concessions

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 and interpretation that have been issued but not yet effective

The following new standards, amendments to standards and interpretation have been issued but are not effective for the financial year beginning on or after 1 May 2021 and have not been early adopted by the Group.

HKAS 16 (Amendments)	Property, plant and equipment: Proceeds before intended use ⁽¹⁾
HKAS 37 (Amendments)	Onerous contracts – Cost of fulfilling a Contract ⁽¹⁾
AG 5 (revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations ⁽¹⁾
HKAS 3 (Amendments)	Reference to the Conceptual Framework ⁽¹⁾
Annual Improvements Project	Annual improvements to HKFRS standards 2018-2020 ⁽¹⁾
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments ⁽¹⁾
Amendment to HKAS 1	Classification of liabilities as current or non-current ⁽²⁾
HKFRS 17	Insurance Contracts ⁽²⁾
HK-Interpretation 5 (2020)	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause ⁽²⁾
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of accounting policies ⁽²⁾
HKAS 8 (Amendments)	Definition of accounting estimates ⁽²⁾
HKAS 12 (Amendments)	Deferred tax related to assets and liabilities arising from a single transaction ⁽²⁾
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ⁽³⁾

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

⁽²⁾ Effective for the Group for annual period beginning on 1 May 2023.

⁽³⁾ 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	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue										
External sales	926,094	1,043,044	45,197	39,576	346	564	-	-	971,637	1,083,184
Intersegment sales	-	-	-	-	792	792	(792)	(792)	-	-
	926,094	1,043,044	45,197	39,576	1,138	1,356	(792)	(792)	971,637	1,083,184
Segment results										
Operating profit/(loss)	43,810	96,332	(6,608)	(54,278)	(625)	(2,887)			36,577	39,167
Corporate expenses									(5,919)	(5,346)
Finance costs, net									(5,484)	(9,970)
Profit before income tax									25,174	23,851
Income tax expense									(6,376)	(8,858)
Profit for the period									18,798	14,993
Depreciation and amortisation	92,740	94,860	1,294	2,277	-	-			94,034	97,137
Provision for impairment of property, plant and equipment	-	-	-	16,031	-	-			-	16,031
Total distribution costs and administrative expenses	288,970	277,361	11,660	15,982	912	743			301,542	294,086

Notes to the Condensed Consolidated Financial Statements

2. Segment information (continued)

	Retail business		Electronic component manufacturing		Investment property holdings		Eliminations		Total	
	As at	As at	As at	As at	As at	As at	As at	As at	As at	
	31/10/2021	30/04/2021	31/10/2021	30/04/2021	31/10/2021	30/04/2021	31/10/2021	30/04/2021	31/10/2021	30/04/2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	773,544	800,049	156,848	157,853	23,364	22,973	(3,345)	(3,462)	950,411	977,413
Unallocated assets										
– Deferred income tax									5,645	5,765
– Corporate assets									152	215
– Tax recoverable									18	25
Total assets									956,226	983,418
Segment liabilities	334,718	357,354	13,025	11,896	3,458	3,268	(3,345)	(3,462)	347,856	369,056
Borrowings									95,232	129,760
Unallocated liabilities										
– Deferred income tax									7,251	7,051
– Taxation payable									13,840	7,795
– Corporate liabilities									1,747	1,388
– Dividend payable									5,996	–
Total liabilities									471,922	515,050

Geographical information

	Revenue		Non-current assets	
	Six months ended		As at	
	31 October		31/10/2021	30/04/2021
	2021	2020	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC (including the Hong Kong Special Administrative Region)	958,099	1,071,190	603,353	612,597
Other countries/regions	13,538	11,994	325	330
	971,637	1,083,184	603,678	612,927

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 gains/(losses), net

	Six months ended	
	31 October	
	2021	2020
	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
Gain on lease modification	1,201	–
	1,201	(18,021)

4. Operating profit

Operating profit is stated after charging the following:

	Six months ended	
	31 October	
	2021	2020
	HK\$'000	HK\$'000
Cost of inventories recognised as expenses included		
in cost of sales	600,790	731,759
Depreciation of property, plant and equipment	14,989	13,737
Depreciation of right-of-use assets	79,045	83,400
Employee benefit expenses (including directors' emoluments)	142,693	135,040
Net impairment loss on financial assets	233	1,158
Provision for impairment of inventories	–	26,380

Notes to the Condensed Consolidated Financial Statements

5. Finance costs, net

	Six months ended	
	31 October	
	2021	2020
	HK\$'000	HK\$'000
Interest expense on bank borrowings	1,568	4,306
Interest expense on lease liabilities	5,067	5,864
Interest income from bank deposits	(59)	(200)
Net exchange gains	(1,092)	–
	5,484	9,970

6. 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 rate of 8.25% on the first HK\$2 million of estimated assessable profits and 16.5% on the estimated assessable profit above HK\$2 million for the period (2020: same). Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax rate at the estimated rate of 25% (2020: 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	
	2021	2020
	HK\$'000	HK\$'000
Hong Kong taxation – current tax	6,045	500
Overseas taxation including Mainland China - current tax	11	158
Deferred taxation	320	8,200
	6,376	8,858

Notes to the Condensed Consolidated Financial Statements

7. Earnings per share

The calculation of basic earnings per share for the six months ended 31 October 2021 is based on the consolidated profit for the period of approximately HK\$18,798,000 (2020: HK\$14,993,000) and the weighted average number of 666,190,798 (2020: 666,190,798) shares in issue during the period.

For the six months ended 31 October 2021 and 31 October 2020, diluted earnings per share equals basic earnings per share as there was no dilutive potential share.

8. Dividend

The Board resolved not to declare any interim dividend in respect of the six months ended 31 October 2021 (2020: Nil).

9. Movements in property, plant and equipment

	<i>HK\$'000</i>
At 1 May 2021	344,753
Exchange differences	966
Additions	6,786
Disposal	(76)
Depreciation	(14,989)
At 31 October 2021	<u>337,440</u>

10. Accounts and bills receivable

	As at 31 October 2021 <i>HK\$'000</i>	As at 30 April 2021 <i>HK\$'000</i>
Accounts receivable	29,606	23,757
Less: loss allowance	(5,279)	(5,046)
Accounts receivable – net	24,327	18,711
Bills receivable	322	2,783
Accounts and bills receivable - net	<u>24,649</u>	<u>21,494</u>

Notes to the Condensed Consolidated Financial Statements

10. Accounts and bills receivable (continued)

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

	As at 31 October 2021 HK\$'000	As at 30 April 2021 HK\$'000
0-30 days	13,713	10,692
31-60 days	5,674	4,629
61-90 days	3,658	2,121
91-120 days	1,121	963
Over 120 days	5,440	5,352
	29,606	23,757
Less: loss allowance	(5,279)	(5,046)
	24,327	18,711

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

11. Share capital

	As at 31 October 2021 HK\$'000	As at 30 April 2021 HK\$'000
Authorised:		
1,000,000,000 (As at 30 April 2021: 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 2021: 666,190,798) shares of HK\$0.10 each	66,619	66,619

12. Borrowings

As at 31 October 2021, bank borrowings of approximately HK\$3,000,000 (at 30 April 2021: HK\$9,000,000) 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

13. Accounts payable

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

	As at 31 October 2021 HK\$'000	As at 30 April 2021 HK\$'000
0-30 days	69,006	74,878
31-60 days	16,963	29,290
61-90 days	2,032	2,306
91-120 days	970	53
Over 120 days	170	174
	89,141	106,701

14. Related party transactions

	Six months ended 31 October 2021 HK\$'000	2020 HK\$'000
(a) Rental expenses paid to a related company which is owned by directors of the Company	342	342
Rental expenses paid to a director of the Company	147	147
(b) Key management compensation		
Salaries, allowances and other benefits in kind	3,510	2,817
Pension costs – defined contribution plans	204	174
	3,714	2,991

Management Discussion and Analysis

In the year of 2021/22, the globe still continued to be affected by COVID-19 pandemic. The Group kept taking safe and effective approach to the business in response to different kinds of changes that emerged in the global and local markets. Looking back at last year when Hong Kong was affected by waves of COVID-19 outbreak and strict social distancing measures kept Hong Kong citizens at home for long period, the demand for living necessities especially on the items in rice category sharply rose that the revenue for retail business of the Group in last year reached new record high. However, as COVID-19 pandemic in Hong Kong came under control in 2021 where zero case of local infection had long maintained, the modes of living for Hong Kong citizens had gradually come back to normal that the demand for rice, frozen foods and food groceries had also returned to the level before pandemic. For the six months ended 31 October 2021, the Group's consolidated revenue recorded HK\$971,637,000 (2020: HK\$1,083,184,000), representing a decrease of 10.3% as compared to that of the same period last year. In the same period, the Group adjusted its product mix according to the change of demand in local retail market, increasing the weighting of snack and leisure foods and substituting some weighting of food groceries that had lower gross profit margin. The performance of the manufacturing business also improved significantly in the period. As a result, the profit attributable to equity holders increased by 25.4% to HK\$18,798,000 (2020: HK\$14,993,000) as compared to that of the same period last year.

BUSINESS REVIEW

Retail Business

For the six months ended 31 October 2021, the Group's retail business recorded a segment revenue of HK\$926,094,000 (2020: HK\$1,043,044,000), representing a decrease of 11.2% as compared with that for the same period last year and accounting for approximately 95% (2020: 96%) of total revenue. The decrease in revenue during the period was mainly attributable to the significant drop in demand for the staple food categories, especially for eggs, frozen food, rice, instant noodles and canned food. In terms of gross profit, the segment gross profit during the period was HK\$331,580,000 (2020: HK\$331,929,000) and the segment gross profit margin was 35.8% (2020: 31.8%), representing an increase of 4.0 percentage points as compared to that for the same period last year, which had returned to the level before the outbreak of COVID-19 pandemic. The increase in gross profit margin was mainly due to the change in retail product mix. The management believes that the COVID-19 pandemic will eventually recede, and the demand of frozen foods, staple foods and eggs, which have lower gross profit margins, will very likely decrease with the abatement of COVID-19 pandemic. On the other hand, many frozen meat shops newly joined last year in the streets of Hong Kong sold food groceries also in their shops. Since this phenomenon would very likely make related products engage in vicious competition, 759 STORE in the period under review shifted its product mix much towards snack, leisure foods and drinks categories, increasing the numbers of items in such categories to reach better balance among their weightings in the overall product mix that the segment gross profit margin for the year had also been improved.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Retail Business *(continued)*

For product supply, the retail business had nearly 90% of products imported on its own that its procurement network had covered approximately 60 countries and regions over the globe. A wide range of products were imported, including snacks and leisure food, drinks, rice, noodle, dairy product, frozen food, cooking oil, alcohol, sanitary paper product and detergent. Even though there was some decrease in the demand of staple foods, the Group in the period under review appropriately adjusted the procurement shares of products in different categories that improvement in overall product turnover rate was recorded. As at 31 October 2021, the total inventory value of retail business decreased to HK\$152,963,000 (30 April 2021: HK\$174,898,000), as compared with that at the previous financial year end.

The management, with reference to the actual operation figures of each shop and rental level of the market, make its decisions on whether to renew shop tenancy contracts, where in the period under review 8 shops were closed and 5 new shops were opened at other sites. As at 31 October 2021, the Group operated 171 shops (30 April 2021: 174), with a decrease of 3 shops in total. At the same date, the total gross floor area of shops in operation was 342,000 square feet (30 April 2021: 354,000 square feet), with average floor area per shop of 2,000 square feet (30 April 2021: 2,034 square feet). The shop 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 chose 3 sites for new shops which had been opened in November and December 2021. 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 shop was able to maintain at a low level of about 4 persons for long period. In the period under review, selling and distribution expenses and segment administrative expenses of the retail business increased by 1.3% and 20.7% to HK\$238,650,000 (2020: HK\$235,681,000) and HK\$50,320,000 (2020: HK\$41,680,000) respectively. Hong Kong government in the year did not launch the Anti-epidemic Fund and the Employment Support Scheme, in which the Group received in the same period last year a subsidy of about HK\$41,163,000 in total. In the period under review, segment profit of retail business recorded HK\$43,810,000 (2020: HK\$96,332,000), decreasing by 55% as compared with that in the same period of last year.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Electronic Component Manufacturing Business

The large-scaled decisive reshaping that electronic component manufacturing business of the Group came through last year had gradually shown good effects, in which the Group in same period of last year announced its full withdrawal of power supply type coils and related manganese-zinc ferrite business, making one-off provisions for the equipment impairment of approximately HK\$16,031,000 and the inventories impairment of approximately HK\$26,380,000. In the period under review, the Group integrated its resources to develop non-power supply type coils, deepening the cooperation with its business partners that had worked together for years, in the same time carrying out improvement projects in production halls to improve the overall production capacity that in the period under review the segment revenue of electronic components manufacturing business recorded increase to HK\$45,197,000 (2020: HK\$39,576,000), increasing by 14.2% as compared with that of last year. Segment gross profit returned to a normal level of HK\$5,052,000 (2020: gross loss of HK\$22,264,000) with a gross profit margin of 11.2% (2020: -56.3%). The Group continued to strictly control manufacturing cost, making the segment operating loss reduce to HK\$6,608,000 (2020: HK\$54,278,000).

Investment Properties

Rental income of the Group for the year amounted to HK\$346,000 (2020: HK\$564,000). In the period under review, no fair value loss at investment properties was recorded for the Group (2020: HK\$2,590,000).

FINANCIAL REVIEW

Fund Surplus and Liabilities

As at 31 October 2021, the Group's bank balances and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK\$95,344,000 (30 April 2021: HK\$101,752,000). As at the same date, the Group's aggregate banking facilities amounted to HK\$400,221,000 (30 April 2021: HK\$503,300,000), which included overdrafts, loans, trade financing, etc. Unused facilities amounted to approximately HK\$304,989,000 (30 April 2021: HK\$373,540,000). As at 31 October 2021, utilised banking facilities amounted to HK\$95,232,000 (30 April 2021: HK\$129,760,000), representing a decrease of 26.6% 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 was 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 2021. As at 31 October 2021, net cash of the Group was positive that net gearing ratio* was zero (30 April 2021: 0.06). Besides, the Group at the same date did not have any contingent liabilities (30 April 2021: Nil).

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

Management Discussion and Analysis

FINANCIAL REVIEW *(continued)*

Assets

As at 31 October 2021, the Group's inventories amounted to HK\$174,688,000 (30 April 2021: HK\$194,162,000), representing a decrease of 10.0% in inventories as compared with the last financial year end. The Group's total prepayments, deposits and other receivables (including rental deposits for retail shops) as at 31 October 2021 amounted to HK\$91,681,000 (30 April 2021: HK\$86,363,000).

Lease Liabilities

At 31 October 2021, the long-term lease liabilities of the Group amounted to HK\$83,655,000 (30 April 2021: HK\$76,574,000) while the current lease liabilities amounted to HK\$114,905,000 (30 April 2021: HK\$126,075,000).

Interest Expenses

The Group's finance costs for the period was HK\$6,635,000 (2020: HK\$10,170,000), representing a decrease of 35% as compared to last year. After deducting the interest expenses of lease liabilities, the actual bank interest expense for the period was HK\$1,568,000 (2020: HK\$4,306,000), of which 64% had been saved as compared with that of the same period last year. This was mainly attributable to the lowered utilization of banking facilities in the period. The Group expected that the interest expense in future would keep falling with the lowered utilization of bank borrowings.

Financial Resources and Capital Structure

Net cash inflow of the Group was HK\$3,543,000 (2020: outflow of HK\$12,089,000) for the six months ended 31 October 2021. Net cash inflow from operating activities was HK\$115,665,000 (2020: HK\$213,144,000), representing a decrease of 46% as compared with that for the same period last year. The management was of the opinion that the cash inflow from operating activities in the period under review was highly satisfactory, in the light of the extreme high cash inflow in the same period last year that was mainly attributed to the various subsidies in total of HK\$41,163,000 provided by the government, and the extreme high revenue brought by waves of panic buying for staple food and living necessities in the same period last year when the situation of pandemic came worse. Net cash outflow from investing activities in the period was HK\$6,665,000 (2020: HK\$6,045,000), which was mainly attributable to renovation for new shops, revamping of existing shops and purchase of office equipment as appropriate during the period. The Group did not purchase or sell investment properties during the period under review. During the period, since the management continued the reduction of the Group's bank borrowings, the Group continued to record net cash outflow from financing activities of HK\$105,457,000 (2020: HK\$219,188,000).

Management Discussion and Analysis

FINANCIAL REVIEW *(continued)*

Financial Resources and Capital Structure *(continued)*

Cash Flow Summary

	For the six months ended 31 October	
	2021 HK\$'000	2020 HK\$'000
Net cash inflow from operating activities	115,665	213,144
Net cash outflow from investing activities	(6,665)	(6,045)
Net cash outflow from financing activities	(105,457)	(219,188)
Increase/(decrease) in cash and cash equivalents	3,543	(12,089)

As at 31 October 2021, the net current liabilities of the Group was HK\$16,826,000 (30 April 2021: HK\$53,408,000) and the current ratio was 0.95 (30 April 2021: 0.87), both of which saw a significant improvement during the period.

Charges on Assets

As at 31 October 2021, certain assets of the Group with an aggregate carrying value of approximately HK\$354,678,000 (30 April 2021: HK\$401,583,000) 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 would 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 2021, the Group employed approximately 1,600 staff (30 April 2021: 1,600). 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 social 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.

FUTURE PLAN AND OUTLOOK

The COVID-19 pandemic rages on in unpredictable way. On the one hand, the pandemic in Hong Kong has been under control and the daily life of citizens has almost returned to normal, except that the travel restrictions remain stringent; on the other hand, the pandemic is still serious in most countries around the world and the global supply chain, the industrial production of food and supplies and shipping industry are significantly impacted that the risk of shortage in stock for retailer greatly increased. The management expects that the retail business will face much more unknown challenges. Looking into the future, 759 STORE will make good use of its supplier network that well established for years. Since our suppliers widely spread over more than 60 countries and regions around the globe, we can well diversify the impact brought by shipment delay or shortage of supply of any single country or region. On top of that, the data in our procurement team's hand for the demand of each product is highly accurate that our procurement team can give purchase orders to our suppliers in much steady way across much longer period, making our suppliers possible to maintain stable supply in such difficult moment, to ensure that 759 STORE can continue to offer our customers sufficient choices of high quality products at good prices in such chaotic moment.

The management expects that the market will temporarily remain volatile, believing that the Group in this moment is still proper to move forward in a relatively prudent way. Looking into the future, short-term target of the Group is to further improve its overall operating ability to ensure that the Group can make its way through such turbulent moment stably. After getting through improvement actions on its operation in recent years, the Group has achieved significant improvements on also its cash flow, liability level and financial liquidity that the management will continue to provide good management to the Group, further improving these operating indicators to stay ready for long-term and much proactive development project to conduct when uncertainties in external business environment relatively reduce.

Other Information

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at 31 October 2021, 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%

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 2021, 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 2021, 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 2021, 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 2021, 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.

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 2021.

Other Information

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 2021. 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 2021.

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 2021, 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.

RETIREMENT OF AN INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Au Son Yiu ("Mr. Au") retired as an independent non-executive director of the Company with effect from 29 September 2021. He also resigned as the chairman of the remuneration committee and a member of the audit committee, nomination committee and accounts receivable supervisory committee of the Company, all with effect from 29 September 2021. Following the retirement of Mr. Au, the Company only has two independent non-executive directors and two audit committee members which do not meet the minimum requirements under Rules 3.10(1) and 3.21 of the Listing Rules respectively. For further details, please refer to the announcement of the Company dated 24 September 2021. The Board is looking for a suitable candidate and will appoint sufficient numbers of independent non-executive directors and audit committee members in accordance with the Listing Rules. Further announcement on the appointment will be made in due course.

Other Information

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) currently comprises two independent non-executive directors, namely Mr. Chan Chiu Ying (chairman of the Audit Committee) and Mr. Goh Gen Cheung after the resignation of Mr. Au on 29 September 2021.

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 2021.

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 three members including one executive director, namely Ms. Tang Fung Kwan, and two independent non-executive directors, namely Mr. Goh Gen Cheung (appointed as the chairman of the Remuneration Committee on 29 September 2021 following the resignation of Mr. Au) and Mr. Chan Chiu Ying after the resignation of Mr. Au on 29 September 2021.

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 three members including one executive director, namely Ms. Tang Fung Kwan (chairman of the Nomination Committee), and two independent non-executive directors, namely Mr. Goh Gen Cheung and Mr. Chan Chiu Ying after resignation of Mr. Au on 29 September 2021.

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 2021. 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 2021. The Model Code also applies to the relevant employees of the Group.

By Order of the Board
Tang Fung Kwan
Chairman

