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TSIT WING INTERNATIONAL HOLDINGS LIMITED

捷榮國際控股有限公司*

(Incorporated under the laws of Bermuda with limited liability)

(Stock Code: 2119)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS ON CONTINUING OPERATIONS

- Revenue for the six months ended 30 June 2020 amounted to HK\$289.7 million, representing a decrease of 25.7% from HK\$390.1 million for the corresponding period in 2019.
- Gross profit for the six months ended 30 June 2020 amounted to HK\$118.6 million, representing a decrease of 19.9% from HK\$147.9 million for the corresponding period in 2019.
- Gross profit margin increased from 37.9% for the six months ended 30 June 2019 to 40.9% for the six months ended 30 June 2020.
- Profit for the six months ended 30 June 2020 from continuing operations amounted to HK\$28.8 million, representing a decrease of 21.7% from HK\$36.8 million for the corresponding period in 2019.
- Net profit margin from continuing operations increased from 9.4% for the six months ended 30 June 2019 to 10.0% for the six months ended 30 June 2020.

* *for identification purposes only*

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Tsit Wing International Holdings Limited (the “**Company**”) presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020, together with the comparative figures for the corresponding period in 2019 as set out below.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

| | | Six months ended 30 June | |
|---|-------|--------------------------|------------------|
| | | 2020 | 2019 |
| | | (Unaudited) | (Unaudited) |
| | Notes | HK\$'000 | HK\$'000 |
| CONTINUING OPERATIONS | | | |
| REVENUE | 4 | 289,678 | 390,069 |
| Cost of sales | | <u>(171,127)</u> | <u>(242,133)</u> |
| Gross profit | | 118,551 | 147,936 |
| Other income and gains, net | 4 | 3,554 | 2,657 |
| Selling and distribution expenses | | (47,826) | (58,248) |
| Administrative expenses | | (36,859) | (41,250) |
| Other expenses, net | | (1,999) | (2,624) |
| Finance costs | 5 | <u>(884)</u> | <u>(2,230)</u> |
| PROFIT BEFORE TAX FROM CONTINUING OPERATIONS | 6 | 34,537 | 46,241 |
| Income tax expense | 7 | <u>(5,706)</u> | <u>(9,441)</u> |
| PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS | | 28,831 | 36,800 |
| DISCONTINUED OPERATION | | | |
| PROFIT FOR THE PERIOD FROM A DISCONTINUED OPERATION | 8 | <u>—</u> | <u>2,720</u> |
| PROFIT FOR THE PERIOD | | <u>28,831</u> | <u>39,520</u> |

| | | Six months ended 30 June | |
|---|--------------|---------------------------------|------------------------|
| | | 2020 | 2019 |
| | | (Unaudited) | (Unaudited) |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit attributable to owners of the parent: | | | |
| — from continuing operations | | 28,831 | 36,800 |
| — from a discontinued operation | | — | 1,632 |
| | | <hr/> | <hr/> |
| Profit for the period attributable to owners of the parent | | 28,831 | 38,432 |
| | | <hr/> | <hr/> |
| Profit attributable to non-controlling interests: | | | |
| — from a discontinued operation | 8 | — | 1,088 |
| | | <hr/> | <hr/> |
| | | 28,831 | 39,520 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| | | <i>HK cents</i> | <i>HK cents</i> |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| | 10 | | |
| Basic | | | |
| — For profit for the period | | 3.83 | 5.04 |
| — For profit for the period from continuing operations | | 3.83 | 4.83 |
| Diluted | | | |
| — For profit for the period | | 3.82 | 5.03 |
| — For profit for the period from continuing operations | | 3.82 | 4.82 |
| | | <hr/> <hr/> | <hr/> <hr/> |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

| | Six months ended 30 June | |
|---|--------------------------|---------------|
| | 2020 | 2019 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| PROFIT FOR THE PERIOD | 28,831 | 39,520 |
| OTHER COMPREHENSIVE (LOSS)/INCOME | | |
| Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences: | | |
| Exchange differences on translation of foreign operations | (3,293) | 27 |
| Reclassification adjustments for deregistration of subsidiaries | — | 518 |
| OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD | (3,293) | 545 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 25,538 | 40,065 |
| Attributable to: | | |
| Owners of the parent | 25,538 | 38,977 |
| Non-controlling interests | — | 1,088 |
| | 25,538 | 40,065 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

| | | As at 30 June 2020 (Unaudited) <i>HK\$'000</i> | As at 31 December 2019 (Audited) <i>HK\$'000</i> |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 138,465 | 147,405 |
| Intangible assets | | 358 | 419 |
| Deposits paid for purchases of items of property, plant and equipment | | 14,170 | 10,324 |
| Prepayments, deposits and other receivables | | 6,892 | 5,024 |
| Deferred tax assets | | 2,188 | 2,460 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 162,073 | 165,632 |
| CURRENT ASSETS | | | |
| Inventories | 12 | 123,845 | 125,748 |
| Trade receivables | 13 | 85,278 | 118,855 |
| Prepayments, deposits and other receivables | | 19,243 | 12,852 |
| Derivative financial instruments | | 82 | — |
| Tax recoverable | | 447 | 205 |
| Cash and cash equivalents | | 267,516 | 315,211 |
| | | <hr/> | <hr/> |
| Total current assets | | 496,411 | 572,871 |
| CURRENT LIABILITIES | | | |
| Trade payables | 14 | 51,322 | 73,567 |
| Accruals and other payables | | 33,675 | 50,854 |
| Derivative financial instruments | | — | 568 |
| Interest-bearing bank borrowings | 15 | 14,366 | 26,154 |
| Lease liabilities | | 13,078 | 14,966 |
| Tax payable | | 5,558 | 3,655 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 117,999 | 169,764 |
| NET CURRENT ASSETS | | <hr/> 378,412 | <hr/> 403,107 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <hr/> 540,485 | <hr/> 568,739 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

As at 30 June 2020

| | | As at 30 June 2020 (Unaudited) <i>HK\$'000</i> | As at 31 December 2019 (Audited) <i>HK\$'000</i> |
|--|--------------|--|--|
| | <i>Notes</i> | | |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | | 7,109 | 12,709 |
| Deferred tax liabilities | | <u>6,285</u> | <u>6,295</u> |
| Total non-current liabilities | | <u>13,394</u> | <u>19,004</u> |
| Net assets | | <u><u>527,091</u></u> | <u><u>549,735</u></u> |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | 16 | 74,899 | 76,394 |
| Treasury shares | 16 | (4,804) | — |
| Reserves | | <u>456,996</u> | <u>473,341</u> |
| Total equity | | <u><u>527,091</u></u> | <u><u>549,735</u></u> |

1. CORPORATE AND GROUP INFORMATION

Tsit Wing International Holdings Limited (the “**Company**”) is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda. The principal place of business of the Company is located at Flats F-J, 11th Floor, Block 1, Kwai Tak Industrial Centre, 15–33 Kwai Tak Street, Kwai Chung, New Territories, Hong Kong.

The Company is an investment holding company. During the period, the Company’s subsidiaries were engaged in the following principal activities:

- processing and sales of coffee, tea and related complementary products
- sale of frozen processed food
- sale and rental of coffee and tea machines
- food and beverage store operations

2.1 BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standards (“**HKAS**”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

The unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2019. The unaudited condensed consolidated financial statements are presented in Hong Kong dollars (“**HKS**”) and all values are rounded to the nearest thousand except when otherwise indicated.

On 29 November 2019, the Group disposed of its frozen meat business in Hong Kong which represented a major line of the Group’s business in the food products segment in Hong Kong. Accordingly, this disposed frozen meat business was regarded as a discontinued operation of the Group in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (“**HKFRS 5**”) and the comparative condensed consolidated statement of profit or loss has been represented as if the operation had been discontinued at the beginning of the comparative period. Further details of the transactions are set out in note 8 below.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the condensed consolidated financial statements for the six months ended 30 June 2020 are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”), which are effective for the first time for the annual periods beginning on or after 1 January 2020.

Amendments to HKFRS 3
Amendments to HKFRS 7, HKFRS 9 and HKAS 39
Amendments to HKAS 1 and HKAS 8
Amendments to HKFRS 16

Definition of a Business
Interest Rate Benchmark Reform
Definition of Material
COVID-19-Related Rent Concession
(early adopted)

Except for the amendments included in Amendments to HKFRS 7, HKFRS 9 and HKAS 39, which are not relevant to the preparation of the Group's interim condensed consolidated financial statements, the nature and impact of the amendments are described below.

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's unaudited condensed consolidated interim financial information.
- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's office premises and warehouse have been reduced or waived by the lessors as a result of the covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK\$344,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- (a) the beverage solutions (“**Beverage Solutions**”) segment processes and distributes coffee, tea and related complementary products, sells food and beverages, coffee machines and other related products, operates food and beverage store and leases coffee and tea machines; and
- (b) the food products (“**Food Products**”) segment trades frozen processed food.

On 29 November 2019, the Group disposed of its frozen meat business in Hong Kong which was included in Food Products segment in the period ended 30 June 2019. Since the frozen meat business represented a major line of Food Products segment of the Group’s business in Hong Kong, the frozen meat business was regarded as a discontinued operation in accordance with HKFRS 5. Accordingly, the related financial information of the frozen meat business was not included in the operating segment information from the continuing operations and the comparative information was also reclassified to conform with the current period’s presentation. Further details of the discontinued operation are set out in note 8.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from continuing operations. The adjusted profit/loss before tax from continuing operations is measured consistently with the Group’s profit before tax from continuing operations except that interest income, head office and corporate expenses as well as non-lease-related finance costs are excluded from such measurement.

Segment assets exclude derivative financial instruments, cash and cash equivalents, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

| | Beverage Solutions HK\$'000 | Food Products HK\$'000 | Total HK\$'000 |
|---|--|---------------------------------------|---------------------------|
| Six months ended 30 June 2020 (unaudited) | | | |
| Segment revenue (note 4) | | | |
| Sales to external customers | <u>282,224</u> | <u>7,454</u> | <u>289,678</u> |
| Segment results | 40,141 | 831 | 40,972 |
| <i>Reconciliation:</i> | | | |
| Interest income | | | 2,411 |
| Corporate and unallocated expenses, net | | | (8,491) |
| Finance costs | | | <u>(355)</u> |
| Profit before tax from continuing operations | | | <u>34,537</u> |
| Other segment information: | | | |
| Depreciation and amortisation | 19,578 | — | 19,578 |
| Reversal of impairment of trade receivables | (83) | — | (83) |
| Impairment of trade receivables | 515 | 33 | 548 |
| Write-off of trade receivables | 922 | — | 922 |
| Write-down of inventories to net realisable value | 342 | — | 342 |
| Write-off of inventories | 19 | 45 | 64 |
| Loss on disposal of items of property, plant and equipment | 206 | — | 206 |
| Capital expenditure* | <u>16,149</u> | <u>—</u> | <u>16,149</u> |
| * The capital expenditure includes purchases of property, plant and equipment of HK\$10,595,000 and deposits for purchase of property, plant and equipment of HK\$5,554,000 incurred for continuing operations. | | | |
| As at 30 June 2020 (unaudited) | | | |
| Segment assets | 383,010 | 6,745 | 389,755 |
| <i>Reconciliation:</i> | | | |
| Corporate and unallocated assets | | | <u>268,729</u> |
| Total assets | | | <u>658,484</u> |
| Segment liabilities | 127,199 | 601 | 127,800 |
| <i>Reconciliation:</i> | | | |
| Corporate and unallocated liabilities | | | <u>3,593</u> |
| Total liabilities | | | <u>131,393</u> |

| | Beverage Solutions <i>HK\$'000</i> | Food Products <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|-------------------------------------|--------------------------|
| Six months ended 30 June 2019 (unaudited) | | | |
| Segment revenue (note 4) | | | |
| Sales to external customers | 380,004 | 10,065 | 390,069 |
| Segment results | 55,624 | 952 | 56,576 |
| <i>Reconciliation:</i> | | | |
| Interest income | | | 2,632 |
| Corporate and unallocated expenses, net | | | (10,737) |
| Finance costs | | | (2,230) |
| Profit before tax from continuing operations | | | 46,241 |
| Other segment information: | | | |
| Depreciation and amortisation | 16,455 | — | 16,455 |
| Reversal of impairment of trade receivables | (309) | (19) | (328) |
| Impairment of trade receivables | 478 | 8 | 486 |
| Write-off of trade receivables | 70 | — | 70 |
| Write-down of inventories to net realisable value | 167 | — | 167 |
| Write-off of inventories | 97 | 405 | 502 |
| Loss on disposal of items of property, plant and equipment | 108 | — | 108 |
| Capital expenditure* | 11,170 | — | 11,170 |
| * The capital expenditure includes purchases of property, plant and equipment of HK\$7,994,000 and deposits for purchase of property, plant and equipment of HK\$3,176,000 incurred for continuing operations. | | | |
| As at 31 December 2019 (audited) | | | |
| Segment assets | 390,144 | 30,875 | 421,019 |
| <i>Reconciliation:</i> | | | |
| Corporate and unallocated assets | | | 317,484 |
| Total assets | | | 738,503 |
| Segment liabilities | 182,413 | 1,134 | 183,547 |
| <i>Reconciliation:</i> | | | |
| Corporate and unallocated liabilities | | | 5,221 |
| Total liabilities | | | 188,768 |

Geographical information

(a) Revenue from external customers

| | Six months ended 30 June | |
|----------------|--|--|
| | 2020 (Unaudited) <i>HK\$'000</i> | 2019 (Unaudited) <i>HK\$'000</i> |
| Hong Kong | 206,743 | 245,539 |
| Mainland China | 78,696 | 136,345 |
| Others | 4,239 | 8,185 |
| | <u>289,678</u> | <u>390,069</u> |

The revenue information of continuing operations above is based on the locations of the customers.

(b) Non-current assets

| | As at 30 June 2020 (Unaudited) <i>HK\$'000</i> | As at 31 December 2019 (Audited) <i>HK\$'000</i> |
|----------------|--|--|
| | Hong Kong | 78,441 |
| Mainland China | 80,506 | 78,027 |
| | <u>158,947</u> | <u>160,936</u> |

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets and financial assets.

4. REVENUE AND OTHER INCOME AND GAINS, NET

An analysis of disaggregation of the Group's revenue from contracts with customers from continuing operations is as follows:

| | Beverage Solutions HK\$'000 | Food Products HK\$'000 | Total HK\$'000 |
|--|--|---------------------------------------|---------------------------|
| Six months ended 30 June 2020 (unaudited) | | | |
| Type of goods or service | | | |
| Sales of coffee, tea and other related complementary products | 272,011 | — | 272,011 |
| Sales of frozen processed food | — | 7,454 | 7,454 |
| Rental income from leasing of coffee and tea machines | 10,179 | — | 10,179 |
| Food and beverage store operations | 34 | — | 34 |
| | <u>282,224</u> | <u>7,454</u> | <u>289,678</u> |
| Total revenue from contracts with customers | <u>282,224</u> | <u>7,454</u> | <u>289,678</u> |
| Geographical markets | | | |
| Hong Kong | 199,542 | 7,201 | 206,743 |
| Mainland China | 78,443 | 253 | 78,696 |
| Others | 4,239 | — | 4,239 |
| | <u>282,224</u> | <u>7,454</u> | <u>289,678</u> |
| Total revenue from contracts with customers | <u>282,224</u> | <u>7,454</u> | <u>289,678</u> |
| Timing of revenue recognition | | | |
| Goods transferred at a point in time | 272,045 | 7,454 | 279,499 |
| Services transferred over time | 10,179 | — | 10,179 |
| | <u>282,224</u> | <u>7,454</u> | <u>289,678</u> |
| Total revenue from contracts with customers | <u>282,224</u> | <u>7,454</u> | <u>289,678</u> |

| | Beverage Solutions <i>HK\$'000</i> | Food Products <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|-------------------------------------|--------------------------|
| Six months ended 30 June 2019 (unaudited) | | | |
| Type of goods or service | | | |
| Sales of coffee, tea and other related complementary products | 367,547 | — | 367,547 |
| Sales of frozen processed food | — | 10,065 | 10,065 |
| Rental income from leasing of coffee and tea machines | 12,377 | — | 12,377 |
| Food and beverage store operations | 80 | — | 80 |
| | <u>380,004</u> | <u>10,065</u> | <u>390,069</u> |
| Total revenue from contracts with customers | <u>380,004</u> | <u>10,065</u> | <u>390,069</u> |
| Geographical markets | | | |
| Hong Kong | 236,243 | 9,296 | 245,539 |
| Mainland China | 135,576 | 769 | 136,345 |
| Others | 8,185 | — | 8,185 |
| | <u>380,004</u> | <u>10,065</u> | <u>390,069</u> |
| Total revenue from contracts with customers | <u>380,004</u> | <u>10,065</u> | <u>390,069</u> |
| Timing of revenue recognition | | | |
| Goods transferred at a point in time | 367,627 | 10,065 | 377,692 |
| Services transferred over time | 12,377 | — | 12,377 |
| | <u>380,004</u> | <u>10,065</u> | <u>390,069</u> |
| Total revenue from contracts with customers | <u>380,004</u> | <u>10,065</u> | <u>390,069</u> |

An analysis of other income and gains, net from continuing operations is as follows:

| | Six months ended 30 June | |
|--|---------------------------------|------------------------|
| | 2020 | 2019 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Other income, net | | |
| Bank interest income | 2,411 | 2,632 |
| Government subsidies | 310 | — |
| Others | 624 | 25 |
| | <u>3,345</u> | <u>2,657</u> |
| Other gains, net | | |
| Foreign exchange difference, net | 119 | — |
| Gain on change in fair value of derivative financial instruments | 90 | — |
| | <u>209</u> | <u>—</u> |
| | <u>3,554</u> | <u>2,657</u> |

5. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

| | Six months ended 30 June | |
|-------------------------------|--|--|
| | 2020 (Unaudited) <i>HK\$'000</i> | 2019 (Unaudited) <i>HK\$'000</i> |
| Interest on bank borrowings | 355 | 1,857 |
| Interest on lease liabilities | 529 | 373 |
| | <u>884</u> | <u>2,230</u> |

6. PROFIT BEFORE TAX

The Group's profit before tax from continuing operations is arrived at after charging/(crediting):

| | Six months ended 30 June | |
|--|--|--|
| | 2020 (Unaudited) <i>HK\$'000</i> | 2019 (Unaudited) <i>HK\$'000</i> |
| Cost of inventories sold [^] | 154,774 | 223,617 |
| Depreciation [^] : | | |
| Right-of-use assets | 7,801 | 4,883 |
| Other items of property, plant and equipment | 11,723 | 10,515 |
| | <u>19,524</u> | <u>15,398</u> |
| Amortisation of intangible assets | 54 | 57 |
| Lease payments not included in the measurement of lease liabilities | 192 | 1,466 |
| Foreign exchange differences, net* | (119) | 382 |
| Reversal of impairment of trade receivables* | (83) | (328) |
| Impairment of trade receivables* | 548 | 486 |
| Loss on disposal of items of property, plant and equipment* | 206 | 108 |
| (Gain)/loss on change in fair value of derivative financial instruments* | (90) | 203 |
| Loss on deregistration of subsidiaries* | — | 706 |
| Write-off of trade receivables* | 922 | 70 |
| Write-down of inventories to net realisable value* | 342 | 167 |
| Write-off of inventories* | 64 | 502 |

* These amounts are included in "Other income and gains, net" or "Other expenses, net" on the face of the condensed consolidated statement of profit or loss.

[^] The cost of sales for the six months ended 30 June 2020 amounted to HK\$171,127,000 (six months ended 30 June 2019: HK\$242,133,000) and included cost of inventories sold of HK\$154,774,000 (six months ended 30 June 2019: HK\$223,617,000), depreciation charge of HK\$7,809,000 (six months ended 30 June 2019: HK\$7,244,000) and employee benefit expenses of HK\$4,916,000 (six months ended 30 June 2019: HK\$6,525,000).

7. INCOME TAX

Pursuant to the rules and regulations of Bermuda, the Group is not subject to any income tax in Bermuda.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK\$2,000,000 of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable in Mainland China have been calculated at the rate of 25% (six months ended 30 June 2019: 25%).

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Current — Hong Kong | | |
| Charge for the period | 4,553 | 5,346 |
| Current — Mainland China | | |
| Charge for the period | 826 | 3,912 |
| Underprovision/(overprovision) in prior periods | 71 | (513) |
| Deferred | 256 | 696 |
| | <hr/> | <hr/> |
| Total tax charge for the period from continuing operations | 5,706 | 9,441 |
| Total tax charge for the period from a discontinued operation | — | 538 |
| | <hr/> | <hr/> |
| | 5,706 | 9,979 |
| | <hr/> <hr/> | <hr/> <hr/> |

8. DISCONTINUED OPERATION

On 29 November 2019, the Group disposed of its 60% equity interest in Whole Sun Limited (“**Whole Sun**”) to non-controlling shareholder of Whole Sun for a consideration of HK\$27,840,000. Whole Sun is engaged in trading of frozen meat in Hong Kong (the “**Disposed Frozen Food Business**”) which represented a major line of the Group’s business in the Food Products segment for operating segment information. Accordingly, the business of Whole Sun was regarded as a discontinued operation. The disposal is a part of the Group’s strategic plan to redirect its resources to fit its business plan.

The result of the Disposed Frozen Food Business for the six months ended 30 June 2019 is presented below:

| | Six months ended 30 June 2019 (Unaudited) <i>HK\$'000</i> |
|---|---|
| Revenue | 126,937 |
| Cost of sales | <u>(116,263)</u> |
| Gross profit | 10,674 |
| Other income | 1 |
| Selling and distribution expenses | (1,868) |
| Administrative expenses | (4,848) |
| Other expenses, net | (76) |
| Finance costs | <u>(625)</u> |
| Profit before tax from the discontinued operation | 3,258 |
| Income tax expense | <u>(538)</u> |
| Profit for the period from the discontinued operation | <u><u>2,720</u></u> |
| Attributable to: | |
| Owners of the parent | 1,632 |
| Non-controlling interests | <u>1,088</u> |
| | <u><u>2,720</u></u> |

9. DIVIDENDS

The dividends recognised and declared by the Company during the reporting period are as follows:

| | Six months ended 30 June | |
|---|---------------------------------|---------------|
| | 2020 | 2019 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Dividends recognised as distribution during the reporting period: | | |
| 2018 final dividend — HK5.78 cents per ordinary share | — | 44,066 |
| 2019 final dividend — HK3.33 cents per ordinary share | <u>24,916</u> | — |
| | <u>24,916</u> | <u>44,066</u> |
| Dividend declared after the end of the reporting period: | | |
| Interim dividend — HK1.58 cents (six months ended 30 June | | |
| 2019: HK2.52 cents) per ordinary share | <u>11,554</u> | <u>19,245</u> |

The interim dividend for the six months ended 30 June 2020 has been calculated by reference to 731,235,512 shares in issue on 25 August 2020.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount for the six months ended 30 June 2020 is based on the unaudited consolidated profit attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 753,517,000 (six months ended 30 June 2019: 762,263,000) in issue during the period.

The calculation of the diluted earnings per share amount for the period is based on the unaudited consolidated profit attributable to ordinary equity holders of the parent and (i) the weighted average number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and (ii) the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential share options into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

| | Six months ended 30 June | |
|--|---------------------------------|----------------|
| | 2020 | 2019 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation: | | |
| From continuing operations | 28,831 | 36,800 |
| From a discontinued operation | — | 1,632 |
| | <u>28,831</u> | <u>38,432</u> |
| | '000 | '000 |
| Shares | | |
| Weighted average number of ordinary shares in issue and issuable during the period, used in the basic earnings per share calculation | 753,517 | 762,263 |
| Effect of dilution — weighted average number of ordinary shares: | | |
| Share options | <u>1,249</u> | <u>2,346</u> |
| Weighted average number of ordinary shares, used in the diluted earnings per share calculation | <u>754,766</u> | <u>764,609</u> |

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired property, plant and equipment of HK\$12,210,000 (six months ended 30 June 2019: HK\$9,592,000) and recognised right-of-use assets of HK\$120,000 (six months ended 30 June 2019: HK\$10,533,000).

Items of property, plant and equipment with a net carrying amount of HK\$511,000 were disposed of by the Group during the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$224,000).

Right-of-use assets amounted to HK\$30,137,000 were included in property, plant and equipment as at 30 June 2020 (31 December 2019: HK\$38,063,000).

Included in prepaid land lease of the Group's right-of-use assets is a piece of leasehold land (the "**Leasehold Land**") situated in Mainland China under collective-owned land ownership (集體土地使用) with a carrying value of HK\$3,417,000 (31 December 2019: HK\$3,542,000). The Group also had items of property, plant and equipment attached to the Leasehold Land (the "**Attached Properties**") amounting to HK\$2,976,000 (31 December 2019: HK\$3,084,000). The Attached Properties, for which the Group was authorised to obtain the real estate ownership certificates, are mainly served as staff quarters of the Group. To facilitate the Group's future development plan, the Group applied to the relevant Mainland China authorities to change the ownership type of the Leasehold Land from collective-owned land ownership to state-owned land ownership (國有土地使用). In the prior years, as part of the procedures to change the ownership type of the Leasehold Land in accordance with the Mainland China regulations, the Group returned the land use right certificate for the collective-owned land ownership to the Mainland China government.

Subsequent to 30 June 2020, the Group obtained the state-owned land use right certificate from the Mainland China government.

12. INVENTORIES

| | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
|------------------|--|--|
| Raw materials | 68,693 | 62,176 |
| Work-in-progress | 747 | 1,082 |
| Finished goods | <u>54,405</u> | <u>62,490</u> |
| | <u>123,845</u> | <u>125,748</u> |

13. TRADE RECEIVABLES

| | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
|-------------------|--|--|
| Trade receivables | 93,695 | 126,940 |
| Impairment | <u>(8,417)</u> | <u>(8,085)</u> |
| | <u>85,278</u> | <u>118,855</u> |

The Group's trading terms with its customers are mainly on credit, except for new customers, where the Group normally trades in cash on delivery. The credit periods generally range from 30 to 120 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control team to minimise credit risk. Overdue balances are reviewed regularly by management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables based on the invoice date and net of loss allowance, is as follows:

| | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
|-----------------|--|--|
| Within 30 days | 40,767 | 63,637 |
| 31 to 60 days | 26,524 | 36,861 |
| 61 to 90 days | 10,169 | 10,556 |
| 91 to 120 days | 3,161 | 3,970 |
| 121 to 180 days | 2,903 | 1,261 |
| Over 180 days | 1,754 | 2,570 |
| | <u>85,278</u> | <u>118,855</u> |

14. TRADE PAYABLES

An ageing analysis of the trade payables based on the invoice date is as follows:

| | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
|----------------|--|--|
| Within 1 month | 46,554 | 70,653 |
| 1 to 2 months | 2,984 | 2,010 |
| 2 to 3 months | 705 | 3 |
| Over 3 months | 1,079 | 901 |
| | <u>51,322</u> | <u>73,567</u> |

The trade payables are non-interest-bearing and are normally settled within 30 to 60 days.

15. INTEREST-BEARING BANK BORROWINGS

| | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
|---------------------------------|--|--|
| Current | | |
| Trust receipt loans — unsecured | <u>14,366</u> | <u>26,154</u> |

16. SHARE CAPITAL AND TREASURY SHARES

| | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
|---|--|--|
| Authorised: 2,000,000,000 ordinary shares of HK\$0.10 each | <u>200,000</u> | <u>200,000</u> |
| Issued and fully paid: 744,106,312 (31 December 2019: 763,937,312) ordinary shares of HK\$0.10 each | 74,410 | 76,394 |
| Treasury shares: 4,888,000 (31 December 2019: Nil) ordinary shares of HK\$0.10 each | <u>489</u> | <u>—</u> |
| | <u>74,899</u> | <u>76,394</u> |

A summary of movements in the Company's authorised and issued share capital is as follows:

| | <i>Notes</i> | Number of shares | Share capital HK\$'000 |
|---|--------------|-----------------------------|---------------------------------------|
| Authorised: At 1 January 2019, at 31 December 2019, at 1 January 2020 and at 30 June 2020 | | <u>2,000,000,000</u> | <u>200,000</u> |
| Issued and fully paid: | | | |
| At 1 January 2019 | | 762,071,112 | 76,207 |
| Issue of shares upon exercise of share options | (a) | <u>1,866,200</u> | <u>187</u> |
| At 31 December 2019 and at 1 January 2020 | | 763,937,312 | 76,394 |
| Issue of shares upon exercise of share options | (b) | 1,563,000 | 156 |
| Repurchase and cancellation of shares | (c) | <u>(16,506,000)</u> | <u>(1,651)</u> |
| At 30 June 2020 | | <u>748,994,312</u> | <u>74,899</u> |

Notes:

- (a) During the year ended 31 December 2019, the subscriptions right attaching to 1,866,200 share options were exercised at the subscription price of HK\$0.594 per share, resulting in the issue of 1,866,200 ordinary shares of par value of HK\$0.10 each for a total cash consideration, before expenses, of HK\$1,109,000. An amount of HK\$3,440,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

- (b) During the six months ended 30 June 2020, the subscriptions right attaching to 1,563,000 share options were exercised at the subscription price of HK\$0.594 per share, resulting in the issue of 1,563,000 ordinary shares of par value of HK\$0.10 each for a total cash consideration, before expenses, of HK\$928,000. An amount of HK\$2,849,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.
- (c) During the six months ended 30 June 2020, the Company repurchased 21,394,000 shares on the Hong Kong Stock Exchange for a total consideration (before expenses) of HK\$24,681,000, among which 16,506,000 shares were cancelled and 4,888,000 shares are treasury shares.

17. SHARE-BASED PAYMENTS

The Company operates a pre-initial public offering share option scheme (the “**Pre-IPO Share Option Scheme**”) and a share option scheme (the “**Share Option Scheme**”) (collectively, the “**Schemes**”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The principal terms of the Pre-IPO Share Option Scheme are similar to the terms of the Share Option Scheme except that (i) no further options could be granted under the Pre-IPO Share Option Scheme prior to the date on which the shares of the Company were listed on the Stock Exchange, i.e. 11 May 2018; and (ii) the exercise price and the exercise period of the share options are different. Details of the Schemes are set out in the prospectus dated 30 April 2018 issued by the Company in relation to the listing of its shares on the Stock Exchange.

Eligible participants of the Schemes include the Company’s executive directors and other employees of the Group. The Scheme were approved and adopted on 15 December 2017 (“**Adoption Date**”). The Share Option Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from the Listing Date.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings of the Company.

The following share options under the Pre-IPO Share Option Scheme were outstanding during the period/year:

| | Six months ended 30 June 2020 | | Year ended 31 December 2019 | |
|--------------------------------------|--|----------------------|--|----------------------|
| | Weighted average exercise price <i>HK\$</i> <i>per share</i> | Number of options | Weighted average exercise price <i>HK\$</i> <i>per share</i> | Number of options |
| At beginning of the period/ year | 0.594 | 3,553,800 | 0.594 | 6,192,600 |
| Exercised during the period/ year | 0.594 | (1,563,000) | 0.594 | (1,866,200) |
| Forfeited during the period/ year | 0.594 | (98,000) | 0.594 | (772,600) |
| At end of the period/year | <u>0.594</u> | <u>1,892,800</u> | <u>0.594</u> | <u>3,553,800</u> |

During the six month ended 30 June 2020, no options have been granted or agreed to be granted under the Share Option Scheme.

The weighted average share price at the date of exercise for share options exercised for the period ended 30 June 2020 was HK\$1.06 (year ended 31 December 2019: HK\$1.37) per share.

18. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions, arrangements and balances detailed elsewhere in the interim financial information, the Group had the following transaction based on mutually agreed terms with the related party during the period:

| | Six months ended 30 June | |
|---|---------------------------------|------------------------|
| | 2020 | 2019 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Lease expenses paid to a related company (note) | <u>930</u> | <u>930</u> |

Notes: Mr. Wong Tat Tong, a director and the beneficial shareholder of the Company, is the controlling shareholder of the related company.

- (b) **Compensation of key management personnel of the Group**

| | Six months ended 30 June | |
|---|---------------------------------|------------------------|
| | 2020 | 2019 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Short term employee benefits | 8,159 | 8,309 |
| Equity-settled share option expense | 256 | 943 |
| Pension scheme contributions (defined contribution schemes) | <u>415</u> | <u>270</u> |
| | <u>8,830</u> | <u>9,522</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Tsit Wing International Holdings Limited (the “**Company**”), together with its subsidiaries (collectively, the “**Group**”), is a leading integrated B2B coffee and black tea solutions provider in Hong Kong, Macau and the PRC providing one-stop coffee and tea solutions to commercial customers that cover the entire coffee and tea procurement, processing and distribution value chain.

The first half of 2020 has been a tough time for all walks of life. The global economy has been adversely affected by the outbreak of COVID-19, which inevitably affected the economy of Hong Kong and the PRC. Thankfully, the Group has a strong and wide customer base to handle this difficult situation. More than 40% of the Group’s customers are international brands, chain stores and listed companies. Those customers have relatively higher endurance during the economic downturn and thus, there was no material increase in the Group’s receivables and bad debts attributable to them during the said period. Coupled with the contingency plans implemented by the Group’s risk management team during the COVID-19 period, the Group’s sales revenue in Hong Kong has remained stable for the six months ended 30 June 2020 and witnessed over 80% achievement as compared with the corresponding period in 2019.

However, the Group’s sales revenue in the PRC decreased in a more material extent for the six months ended 30 June 2020 which was mainly due to the outbreak of COVID-19 since January 2020. In order to control the spread of COVID-19, the PRC government and the local governments have imposed a number of measures including lock down of cities in the PRC, which has led to the closing down of a number of restaurants and thus affecting the sales of the Group. Hence, the decrease in the Group’s overall revenue was mainly due to the temporary sale lost in the PRC market for the first half of 2020.

For the six months ended 30 June 2020, the Group recorded a total revenue of HK\$289.7 million, representing a decrease of HK\$100.4 million, or 25.7%, from HK\$390.1 million for the six months ended 30 June 2019. Revenue from the beverage solutions segment decreased by HK\$97.8 million, or 25.7%, from HK\$380.0 million for the six months ended 30 June 2019 to HK\$282.2 million for the six months ended 30 June 2020, which was attributable to the decrease in revenue derived from Mainland China, and to a lesser extent, the decrease in revenue derived from Hong Kong. Revenue from the food products segment decreased by HK\$2.6 million, or 25.9%, from HK\$10.1 million for the six months ended 30 June 2019 to HK\$7.5 million for the six months ended 30 June 2020, which was attributable to the decrease in the revenue derived from Hong Kong. Gross profit amount matched with corresponding decrease in revenue and gross profit margin increased from 37.9% for the six months ended 30 June 2019 to 40.9% for the six months ended 30 June 2020.

BUSINESS PROSPECT

Since June 2020, the economy in the PRC is rebounding and recovering as the situation of COVID-19 in PRC is alleviating. With the improving condition in the PRC, it is optimistic that the Group's sales performance will recover gradually and the Group will, therefore, continue to focus its business in the PRC in the second half of the year.

However, the COVID-19 situation in Hong Kong is getting worse compared with early 2020. With the imposition of more stringent measures by the Hong Kong government, it is expected that more small-sized restaurants will close down in the second half of the year. With the uncertainty over the Hong Kong market ahead, the Group will strive to optimise the interest of its shareholders by adopting and implementing various measures as the risk management team may seem appropriate from time to time.

It has always been the Group's business strategy to have geographical and products diversification. For instance, it has been discussing with several international brands for the sale of their products in Hong Kong and the Greater Bay Area. With the outbreak of COVID-19, certain business plans have been put on hold. The Group will reassess and adjust its development plan when it seems necessary to suit its business growth. The pandemic has also changed the spending pattern of the consumers and has accelerated the growth of e-commerce. The Group will continue to utilise resources in this regard, amongst which it can execute one of its key strategies of shifting the business from Business to Business (B2B) to Business to Consumer (B2C) and Online to Offline (O2O).

As usual, the Group appreciates and values the contribution of every single staff. Notwithstanding that the gloomy market condition it has been facing, it has not implemented any lay-off or pay cut. With all the staff standing together and with the support of the other stakeholders, the Group believes that it can find a path through this turmoil situation and will get on better when the macro economy is improved.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by HK\$100.4 million, or 25.7%, from HK\$390.1 million for the six months ended 30 June 2019 to HK\$289.7 million for the six months ended 30 June 2020. The decrease was primarily due to the decrease in demand from the customers of the Group for its products as a result of the outbreak of COVID-19, which resulted in the decrease in sales volume of the products of the Group.

Cost of sales

The Group's cost of sales decreased by HK\$71.0 million, or 29.3%, from HK\$242.1 million for the six months ended 30 June 2019 to HK\$171.1 million for the six months ended 30 June 2020. The decrease in the cost of sales was primarily a result of the decrease in raw material costs for the beverage solutions products, which in turn was mainly caused by the decrease in overall sales volume and procurement price for the Group's major raw materials.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit decreased by HK\$29.3 million, or 19.9%, from HK\$147.9 million for the six months ended 30 June 2019 to HK\$118.6 million for the six months ended 30 June 2020. The Group's gross profit margin increased from 37.9% for the six months ended 30 June 2019 to 40.9% for the six months ended 30 June 2020.

Other income and gains, net

The Group's other income and gains, net increased by HK\$0.9 million or 33.8% from HK\$2.7 million for the six months ended 30 June 2019 to HK\$3.6 million for the six months ended 30 June 2020. The increase was primarily as a result of (i) rental waivers granted from lessors on the Group's various office premises and warehouses; and (ii) government subsidies received during the six months ended 30 June 2020.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by HK\$10.4 million, or 17.9%, from HK\$58.2 million for the six months ended 30 June 2019 to HK\$47.8 million for the six months ended 30 June 2020, primarily due to decrease in (i) marketing and promotion expenses, and (ii) logistics expenses, which were generally in line with the decrease in revenue.

Administrative expenses

The Group's administrative expenses decreased by HK\$4.4 million, or 10.6%, from HK\$41.3 million for the six months ended 30 June 2019 to HK\$36.9 million for the six months ended 30 June 2020. The decrease was primarily a result of decrease in staff costs, which reflected the decrease in bonus provision in connection with the Group's performance.

Other expenses, net

The Group's other expenses, net, decreased by HK\$0.6 million or 23.8% from HK\$2.6 million for the six months ended 30 June 2019 to HK\$2.0 million for the six months ended 30 June 2020. The decrease was primarily as a result of (i) non-recurring loss on deregistration of subsidiaries recognised during the six months ended 30 June 2019, and (ii) decrease in write-off of inventories, which was partially offset by increase in write-off of trade receivables.

Finance costs

The Group's finance costs decreased by HK\$1.3 million, or 60.4%, from HK\$2.2 million for the six months ended 30 June 2019 to HK\$0.9 million for the six months ended 30 June 2020. The decrease was primarily as a result of a reduction in the outstanding balance of interest-bearing bank borrowings.

Income tax expense

The Group's income tax expense decreased by HK\$3.7 million, or 39.6%, from HK\$9.4 million for the six months ended 30 June 2019 to HK\$5.7 million for the six months ended 30 June 2020, mainly due to the decrease in profit before tax in Mainland China. The Group's effective income tax rate decreased from 20.4% for the six months ended 30 June 2019 to 16.5% for the six months ended 30 June 2020.

Profit for the period from continuing operations and net profit margin

As a result of the foregoing, the Group's profit for the period from continuing operations decreased by HK\$8.0 million, or 21.7%, from HK\$36.8 million for the six months ended 30 June 2019 to HK\$28.8 million for the six months ended 30 June 2020. The Group's net profit margin increased mildly from 9.4% for the six months ended 30 June 2019 to 10.0% for the six months ended 30 June 2020.

Profit from a discontinued operation

Profit from a discontinued operation for the six months ended 30 June 2019 was HK\$2.7 million, represented the operating result from the frozen meat business, which was disposed by the Group in November 2019.

Capital Expenditure and Commitments

During the six months ended 30 June 2020, the Group incurred additions of property, plant and equipment of HK\$12.2 million (six months ended 30 June 2019: HK\$9.6 million). A substantial portion of the Group's capital expenditures were incurred in relation to the (i) purchase of coffee machines which were leased to the Group's customers, (ii) production machineries, and (iii) enhancement of facilities.

As at 30 June 2020, the Group had capital commitment of HK\$4.0 million (31 December 2019: HK\$6.2 million), mainly comprising the related contracts of capital expenditure in production machineries.

Borrowings

As at 30 June 2020, the Group had total interest-bearing bank borrowings of HK\$14.4 million (31 December 2019: HK\$26.2 million).

Contingent Liabilities

During the six months ended 30 June 2020, the Group was not able to obtain the real estate ownership certificate for two warehouses located in the Mainland China. As the Group completed the construction of the relevant warehouses and commenced usage without obtaining the necessary construction planning permit and construction commencement permit prior to the construction and did not complete the filing of the necessary construction completion reports with the relevant authorities, the Group may be requested by the relevant authorities to demolish the construction and is subject to a maximum penalty amounting to RMB1.3 million (equivalent to HK\$1.4 million) (31 December 2019: RMB1.3 million (equivalent to HK\$1.5 million)). On 15 December 2017, the Group obtained a temporary construction permit for a period of two years and obtained extension for one year on one of the warehouses. Having considered the approval of the temporary construction permit of the warehouse and the application status of the temporary construction permit of the remaining warehouse which was being processed by the relevant authorities and the advice from the Group's legal counsel, the directors believe that it is not probable that the relevant authorities will impose the penalty. Accordingly, no provision for the relevant liability has been made.

Gearing Ratio

As at 30 June 2020, on the basis of total interest-bearing bank borrowings divided by equity attributable to owners of the parent, the Group's gearing ratio was 2.7% (31 December 2019: 4.8%). The decrease in gearing ratio was mainly due to a reduction in the outstanding balance of interest-bearing bank borrowings.

Foreign Currency Risk

The Group has transactional currency exposures. Such exposures mainly arise from sales or purchases by operating units in currencies other than the unit's functional currencies. The majority of the Group's foreign currency purchase transactions are denominated in the United States dollars. On the other hand, the sales and disbursements are mainly denominated in Hong Kong dollars and Renminbi. The management is closely monitoring foreign exchange exposure of the Group. The Group will consider to adopt a foreign currency hedging policy for significant foreign currency exposures.

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rate. The Group monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Credit Risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and financial assets included in prepayments, deposits and other receivables arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity Risk

The Group's objective is to ensure there are adequate funds to meet its liquidity requirements in the short and longer terms. In the management of liquidity risk, the Group has been maintaining a cash pooling system where excess liquidity is equalised internally through inter-group accounts. Depending on the specific requirements of each funding agreement, funding for the Group's operating companies may be sourced directly from the Group's bankers or indirectly through the Company.

HUMAN RESOURCES

As at 30 June 2020, the Group employed 228 and 263 (30 June 2019: 239 and 274) employees in Hong Kong and the PRC, respectively.

Remuneration packages are generally structured in reference to qualifications, experience, performance and market term. The Company has also adopted share option schemes to motivate valued employees.

During the six months ended 30 June 2020, the Group provided various trainings to its employees range from operation skill such as occupational safety training and machine control training to professional knowledge including management system and business knowledge, to ensure the effective implementation of the Group's business strategy.

USE OF PROCEEDS FROM LISTING

The shares of the Company (the “**Shares**”) were listed on the Main Board of the Stock Exchange on 11 May 2018 (the “**Listing Date**”) (the “**Listing**”). After the full exercise of the Over-allotment Option (as defined in the prospectus dated 30 April 2018 issued by the Company in relation to the Listing) and after deducting underwriting commissions and all related expenses, the net proceeds from issuance and offer of the Shares in connection with the Listing (the “**Net Proceeds**”) amounted to HK\$232.6 million.

As at the date of this announcement, there has not been any material change to the plan as to the use of the Net Proceeds except that in light of the material change in market and economic condition, the Group will utilise the balance of fund in a more conservative manner. Should the Directors decide to reallocate the planned use of the Net Proceeds to other business plans and/or new projects of the Group to a material extent, the Company will make appropriate announcement(s) in due course.

During the period from the Listing Date to 30 June 2020, the utilisation of Net Proceeds and the expected timeline on the utilisation of the Net Proceeds as follows:

| | Original allocation <i>HK\$'000</i> | Actual utilised amount as at | | Unutilised amount as at | Expected timeline for utilising the remaining Net Proceeds (<i>Note</i>) |
|--|---|--|------------------------------------|------------------------------------|---|
| | | 31 December 2019 <i>HK\$'000</i> | 30 June 2020 <i>HK\$'000</i> | 30 June 2020 <i>HK\$'000</i> | |
| Strengthen business portfolio | 93,044 | 388 | 1,859 | 91,185 | Expected to be fully utilised on or before 31 December 2022 |
| Capital investments of machineries and equipment | 46,522 | 33,232 | 36,627 | 9,895 | Expected to be fully utilised on or before 31 December 2020 |
| Expansion into Southeast Asia | 23,261 | 242 | 283 | 22,978 | Expected to be fully utilised on or before 31 December 2022 |
| Product customisation and development | 23,261 | 3,363 | 6,289 | 16,972 | Expected to be fully utilised on or before 30 June 2022 |
| Support sales and marketing | 23,261 | 20,351 | 23,261 | — | N/A |
| General working capital | 23,261 | 23,261 | 23,261 | — | N/A |
| Total | <u>232,610</u> | <u>80,837</u> | <u>91,580</u> | <u>141,030</u> | |

Note: The expected timeline for utilising the remaining Net Proceeds is prepared based on the assumption of a continuing recovery from the effects of COVID-19 starting from the second quarter of 2020 taking into account, among others, the prevailing and future market conditions and business developments and need. In view of the significant effects of the economy and business environment, the Company shall update and re-visit its plan continuously and therefore is subject to change.

The unutilised Net Proceeds have been placed as bank balances/time deposits with licensed banks in Hong Kong as at the date of this announcement.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK1.58 cents per Share for the six months ended 30 June 2020 payable on Friday, 25 September 2020 to the shareholders of the Company whose names appear on the register of members of the Company on Wednesday, 9 September 2020. In order to determine the entitlement of the shareholders to receive the interim dividend, the register of members of the Company will be closed on Wednesday, 9 September 2020, during which no transfer of Shares will be registered. In order to be eligible to receive the interim dividend, all transfers of Shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 8 September 2020.

AUDIT COMMITTEE

The Company has established an audit committee of the Company (the "**Audit Committee**") on with terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules and code provision C.3 of the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (the "**CG Code**"). The Audit Committee consists of three independent non-executive Directors, namely Mr. Tang Kwai Chang (Chairman), Mr. Chow Alexander Yue Nong and Mr. Wong Man Fai. The Audit Committee reviewed with the management the accounting policies and practices adopted by the Company and discussed the auditing, internal control and financial reporting matters. The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2020 have been reviewed by the Audit Committee.

In addition, the Company's external auditor, Ernst & Young, has performed an independent review of the Group's interim financial information for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity".

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

During the period from 1 January 2020 and up to the date of this announcement, the Company repurchased a total of 34,460,000 shares on the Stock Exchange at a total consideration (before expense) of HK\$39,799,000, details are set out as follows:

| Month/Year of repurchase | No. of repurchased shares | Consideration per share | | Total consideration (before expenses) <i>HK\$'000</i> |
|--------------------------|---------------------------|-------------------------|-----------------------|--|
| | | Highest <i>HK\$</i> | Lowest <i>HK\$</i> | |
| January 2020 | 8,418,000 | 1.22 | 1.12 | 9,917 |
| February 2020 | 2,500,000 | 1.24 | 1.14 | 2,962 |
| March 2020 | 5,588,000 | 1.28 | 1.18 | 7,013 |
| June 2020 | 4,888,000 | 1.02 | 0.91 | 4,789 |
| July 2020 | <u>13,066,000</u> | 1.22 | 1.04 | <u>15,118</u> |
| | <u>34,460,000</u> | | | <u>39,799</u> |

All the repurchased shares were cancelled as at the date of this announcement and the issued share capital of the Company was reduced by the nominal value thereof.

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from 1 January 2020 and up to the date of this announcement.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this announcement, the Company maintained a sufficient public float of the issued Shares (i.e. at least 25% of the issued Shares in the public hands) as required under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period and up to the date of this announcement, the Group received HK\$5.2 million wage subsidies under the Employment Support Scheme of the Anti-epidemic Fund operated by the Hong Kong government.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to striving good corporate governance practices and emphasizing on transparency and accountability to its shareholders and stakeholders for enhancing investor confidence.

The Company has complied with the code provisions as set out in the CG Code during the six months ended 30 June 2020, ensuring that the Company is up to the requirements as being diligent, accountable and professional, except for a deviation from code provision A.2.1 of the CG Code in respect of the roles of chairman and chief executive officer of the Company.

Pursuant to code provision A.2.1 of CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Wong Tat Tong (“**Mr. Wong**”) is currently the chairman of the Board and chief executive officer of the Company, responsible for formulating the overall business development strategy and planning of the Group. In view of that Mr. Wong has been responsible for the overall management of the Group since 1978, the Board considered that vesting the roles of chairman and chief executive officer in the same person facilitates the execution of the Company’s business strategies and maximizes effectiveness of its operations.

The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstances arise. There are three independent non-executive Directors in the Board, each of them possesses adequate level of independence with diverse background and experience, and therefore the Board considers the Company has achieved a balance of power and authority, accountability and independent decision-making under the present arrangement and provided sufficient protection to its and its shareholders’ interests. Further, the Audit Committee has free and direct access to the Company’s external auditors and independent professional advisers when it considers necessary. Therefore, the Directors consider that the deviation from code provision A.2.1 of the CG Code is appropriate in such circumstances.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted its own Security Dealing Code (the “**Code**”) in terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. The Code is also applicable to the specified group of employees who may possess or have access to price sensitive information. Specific enquiries were made to all Directors, and all Directors have confirmed compliance with the required standard set out in the Code throughout the six months period ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.twcoffee.com). The interim report of the Company for the six months ended 30 June 2020 will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Tsit Wing International Holdings Limited
Mr. Wong Tat Tong
Chairman and Executive Director

Hong Kong, 25 August 2020

As at the date of this announcement, the Board comprises six Directors. The executive Directors are Mr. Wong Tat Tong, Mr. Wu Kam On Keith and Ms. Fan Yee Man. The independent non-executive Directors are Mr. Tang Kwai Chang, Mr. Chow Alexander Yue Nong and Mr. Wong Man Fai.