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 2018/2019

Our Boss, Forever and Ever

--- In Memory of Mr. Lam Wai Chun, Founder of CEC International Holdings

Time flies on winged feet. With little awareness, it has already been a hundred days since we lost our respected and beloved Mr. Lam.

We have the fortune to work for Mr. Lam for a number of years. As I recall, Mr. Lam had always held a low-profile with down-to-earth pragmatism. Every time when I browse through my most treasured photo album on my computer, where snapshots of his life and work records are kept, I recall those moments we had shared and cannot help my feelings of gratitude and incessant melancholy.

We all miss Mr. Lam, the boss who feared nothing in front of difficulties and never hesitated in bringing in new ideas.

During the long-forgotten years when it was the beginning of the reform and opening-up of China, Mr. Lam founded Coils Electronic (高雅電業), the earliest business of the Group, single-handedly. With the unrelenting stamina of a greenhorn, he had set up a model in the coils industry.

Under the leadership of Mr. Lam, the Group actively invested in the mainland and established a coils manufacturing base with respectable size in Zhongshan, Guangdong. Since the completion of the manufacturing base, Mr. Lam had been committed to the vertical integration of the Group by progressively investing in the production lines of various raw materials to reduce operating costs.

In the late 90's, when most people were still taking advantage of low labour costs and accelerating the speed of setting up factories in the mainland, Mr. Lam had already started to invest in the automation of production lines for electronic coils, which had gained valuable time and made room for the continuing operation of the Group.

Mr. Lam feared nothing in front of difficulties and never hesitated in bringing in new ideas. After making precise assessments of situations, he had the courage to take early preemptive steps ahead of time.

We all miss Mr. Lam, a boss who cared for his staff and regarded his staff as his family members.

The founding of 759 STORE was itself the epitome of his caring for and understanding of the thoughts and concerns of the staff.

As the helmsman of the Group, Mr. Lam had to attend to a myriad of affairs every day. He made painstaking efforts for and devoted all his energies to the operation and development of the Group.

Despite his busy itineraries, it is commendable that he had never ignored the importance of communicating with his staff and listening to their voices. He himself administered different instant messaging groups in Hong Kong as well as in the mainland, through which the staff could communicate with him just about anything, from anywhere, at any time.

Quite a number of colleagues in various departments of the Group are old-timers who had worked for many years under the leadership of Mr. Lam. During those years, Mr. Lam had kept many photo albums, capturing the happy moments he had with the employees. In the remembrance service of the late Mr. Lam, when our colleagues were watching the short video “In Memory of Our Boss” compiled by our colleagues, they were absorbed in sorrowful thoughts and their eyes were wet with heartfelt tears, pondering on the truthfulness of the saying that “only the good die young”.

We all miss Mr. Lam, a boss with great love in his heart.

Throughout his life, Mr. Lam had actively supported charitable causes in Hong Kong and Zhongshan, including the provision of financial assistance to numerous students who were in distress, showing them the love and care that the society could give.

In Hong Kong, 759 STORE, founded under the policy of “quick turnover with lower margin”, was the best illustration of Mr. Lam’s committed obligations to his staff and the society. He also lived by his words and showed up in many social activities in which he candidly and generously shared his experiences in entrepreneurship, work and study with the young people, hoping to influence their lives by setting a good example.

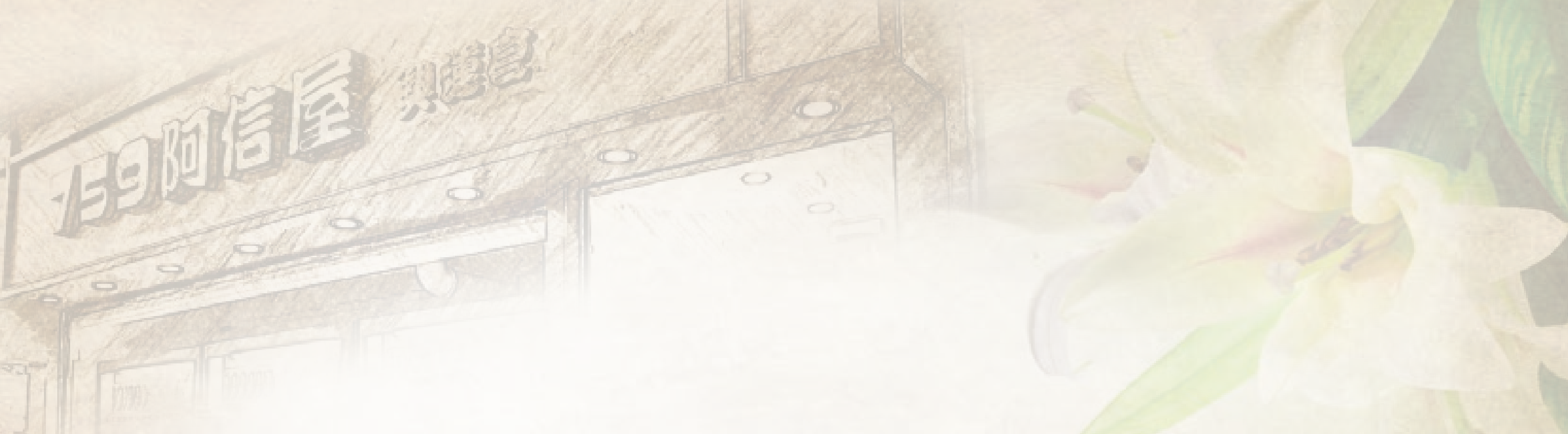
This was our boss, a man with great love in his heart.

Yes, Mr. Lam Wai Chun, our boss, you will remain in our hearts as our boss forever. You will be missed forever.

While our esteemed and beloved Mr. Lam has departed, as men and women of Coils Electronic, we strongly believe that:

Coils Electronic, which you had founded single-handedly, will continue to march forward under the leadership of the management, which has become big and strong with your guidance, with unwavering footsteps and steadfast confidence.

The whole staff of the Group knows it very well, this is the only way to be, in memory of you.



永遠的老闆

— 懷念CEC國際控股創辦人林偉駿先生

時光荏苒、白駒過隙，不知不覺間，敬愛的林生已經離開我們百日有多了。

有幸跟隨林生工作多年，記憶中的林生，是一位行事低調並很踏實的老闆，打開珍藏在電腦裏的他昔日工作紀錄、生活影集，重拾一些記憶中的往事，感恩懷念之情油然而生，內心唏噓不已。

我們懷念林生，他是一位不畏荊棘、勇於開拓創新的老闆。

追溯至國家改革開放之初那段遙遠的歲月，他親手創建集團公司最早的高雅電業，然後以初生牛犢的衝勁，在線圈行業中樹立了華資企業的榜樣。

在林生的帶領下，集團公司積極在內地投資，於廣東中山市建立了規模相當的電子線圈生產基地。基地建成後，林生致力於自身的縱向整合，按步就班地投資各類原材料生產線，降低經營成本。

九十年代後期，在眾人仍以國內人工低廉而加快建廠之際，林生已著手投資於電子線圈生產線自動化，為集團的持續經營贏取了寶貴的時間與空間。

林生，不畏荊棘、勇於開拓創新，在對事情作出精準的判斷後，敢於先行一步。

我們懷念林生，他是一位關愛員工、視員工為親人的老闆。

759阿信屋的創建，就是他關愛員工，想員工所想、憂員工所憂的一個縮影。

林生作為集團公司的掌舵人，為集團公司的經營發展嘔心瀝血、鞠躬盡瘁，每日需要處理的事務繁多，可謂日理萬機。

難能可貴的是，百忙中，他也從來沒有忽視與集團員工的交流，聆聽員工的各類心聲，他本人主持有中港兩地不同的通訊交流群組，員工與他可以是「全天候，全方位」交流。

集團公司各個部門，很多員工都是跟著林生打拼了多年的「老臣子」。多年的工作生活中，林生留下了許多「與員工同樂」的影集，林生的追思會上，同事們看著自家製作的短片「懷念我們的老闆」，百感交集淚滿襟，情由心生，徒嘆天妒英才。

我們懷念林生，他是一位心中有大愛的老闆。

林生有生之年，積極支持香港和中山兩地的公益慈善事業，出資助學，讓不少困境中的莘莘學子感受到社會對他們沉甸甸的關愛。

在香港，以薄利多銷為原則下開創的759阿信屋是林生對社會，對員工承擔的最佳寫照。同時，他亦身體力行地出席了不少社會活動，將他創業、工作、學習的各種心得體會，坦誠、無私地與年輕人分享，希望以生命影響生命。

這就是我們的老闆，一位心中有大愛的人。

是的，林偉駿先生，我們的老闆，永遠的老闆，您值得我們永久懷念。

雖然敬愛的林生已經離開了我們，但作為高雅線圈人，我們堅信：

您親手創立的高雅線圈，在深受您教悔下共同成長的管理層領導下，必將以堅定的腳步，更加自信、更加穩定地繼續前行。

因為集團公司全體同仁都深深地知道，唯有這樣，才是對您最好的懷念。

Contents

Corporate Information

DIRECTORS

Executive Directors
Ms. Tang Fung Kwan
(Chairman and Managing Director with effect from 19 August 2018)
Mr. Ho Man Lee
Mr. Lam Kwok Chung *(appointed on 28 September 2018)*
Mr. Lam Wai Chun *(passed away on 18 August 2018)*

Independent Non-executive Directors
Mr. Au Son Yiu
Mr. Goh Gen Cheung
Mr. Chan Chiu Ying

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Ms. Tang Fung Kwan *(Chairman)*
(appointed on 19 August 2018)
Mr. Au Son Yiu
Mr. Goh Gen Cheung
Mr. Chan Chiu Ying
Mr. Lam Wai Chun *(passed away on 18 August 2018)*

COMPANY SECRETARY

Ms. Ho Wing Yi

PRINCIPAL BANKERS

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

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
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

LEGAL ADVISERS

F. Zimmern & Co.
Appleby

SHARE REGISTRARS AND TRANSFER OFFICES

Bermuda Principal Share Registrar
MUFG Fund Services
(Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong Branch Share Registrar
Computershare Hong Kong Investor
Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
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Listed on The Stock Exchange of Hong Kong Limited
Stock Code: 759

2018/2019 Interim Results

The Board of Directors (the "Board") of CEC International Holdings Limited (the "Company") would like 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 2018 and the unaudited condensed consolidated statement of financial position of the Group as at 31 October 2018.

Condensed Consolidated Income Statement

		Six months ended 31 October	
		2018	2017
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	2	**914,204**	932,117
Cost of sales		**(601,211)**	(560,585)
Gross profit		**312,993**	371,532
Other losses, net	3	**(1,204)**	(3,354)
Selling and distribution expenses		**(249,309)**	(299,433)
General and administrative expenses		**(51,097)**	(78,235)
Operating profit/(loss)	4	**11,383**	(9,490)
Finance income		**12**	28
Finance costs		**(9,941)**	(11,912)
Finance costs, net	5	**(9,929)**	(11,884)
Profit/(loss) before income tax		**1,454**	(21,374)
Income tax (expense)/credit	6	**(23)**	519
Profit/(loss) attributable to equity holders of the Company for the period		**1,431**	(20,855)
Earnings/(loss) per share, basic and diluted, attributable to equity holders of the Company	7	**0.21 cents**	(3.13 cents)

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 31 October	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit/(loss) for the period	**1,431**	(20,855)
Other comprehensive (loss)/income		
– items that may be reclassified to profit or loss		
Change in fair value on available-for-sale financial assets	**–**	4
Currency translation differences	**(32,294)**	12,323
– item that will not be reclassified to profit or loss		
Change in fair value on financial assets at fair value through other comprehensive income	**(142)**	–
Total comprehensive loss for the period	**(31,005)**	(8,528)

Condensed Consolidated Statement of Financial Position

	Note	As at 31 October 2018 HK$'000 (Unaudited)	As at 30 April 2018 HK$'000 (Audited)
ASSETS			
Non-current assets			
Land use rights		17,267	18,240
Property, plant and equipment		417,702	438,018
Investment properties		31,721	41,308
Available-for-sale financial assets		–	362
Financial assets at fair value through other comprehensive income		220	–
Rental deposits		39,487	35,034
Deferred tax assets		17,363	17,227
		523,760	550,189
Current assets			
Inventories		368,519	395,117
Accounts and bills receivable	9	25,626	24,497
Deposits, prepayments and other receivables		52,836	63,575
Pledged bank deposits		19,629	12,949
Cash and cash equivalents		56,353	51,456
		522,963	547,594
Total assets		1,046,723	1,097,783
EQUITY			
Share capital	10	66,619	66,619
Reserves		357,760	388,765
Total equity		424,379	455,384
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		4,336	4,237
Provision for reinstatement cost		2,186	1,846
		6,522	6,083
Current liabilities			
Borrowings	11	416,734	432,684
Accounts payable	12	132,613	132,847
Accruals and other payables		66,410	70,658
Taxation payable		65	127
		615,822	636,316
Total liabilities		622,344	642,399
Total equity and liabilities		1,046,723	1,097,783

Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Share Capital	Share premium	Capital reserve	Capital redemption reserve	Investment revaluation reserve	Property revaluation reserve	Statutory reserves	Exchange reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 May 2018	**66,619**	**25,075**	**13,934**	**5,042**	**224**	**7,450**	**19,632**	**102,179**	**215,229**	**455,384**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,431**	**1,431**
Other comprehensive loss:										
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(32,294)**	**–**	**(32,294)**
Change in fair value of financial assets at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**(142)**	**–**	**–**	**–**	**–**	**(142)**
Total comprehensive loss	**–**	**–**	**–**	**–**	**(142)**	**–**	**–**	**(32,294)**	**1,431**	**(31,005)**
Balance at 31 October 2018	**66,619**	**25,075**	**13,934**	**5,042**	**82**	**7,450**	**19,632**	**69,885**	**216,660**	**424,379**
Balance at 1 May 2017	66,619	25,075	13,934	5,042	179	34,968	19,632	70,924	220,580	456,953
Loss for the period	–	–	–	–	–	–	–	–	(20,855)	(20,855)
Other comprehensive income:										
Currency translation differences	–	–	–	–	–	–	–	12,323	–	12,323
Change in fair value of available-for-sale financial assets	–	–	–	–	4	–	–	–	–	4
Total comprehensive income/(loss)	–	–	–	–	4	–	–	12,323	(20,855)	(8,528)
Balance at 31 October 2017	66,619	25,075	13,934	5,042	183	34,968	19,632	83,247	199,725	448,425

Condensed Consolidated Statement of Cash Flows

	Note	Six months ended 31 October 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Cash flows from operating activities			
Cash generated from/(used in) operations	13 (a)	**55,549**	(33,432)
Overseas tax paid		**(118)**	(66)
Net cash generated from/(used in) operating activities		**55,431**	(33,498)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(4,985)**	(4,037)
Proceeds from disposal of investment properties		**6,680**	–
Proceeds from disposal of property, plant and equipment		**476**	515
Net cash generated from/(used in) investing activities		**2,171**	(3,522)
Cash flows from financing activities			
Proceeds from borrowings		**561,785**	540,502
Repayments of borrowings		**(552,893)**	(531,771)
(Increase)/decrease in pledged bank deposits		**(6,680)**	24,919
Interest received		**12**	28
Interest paid		**(9,941)**	(11,912)
Net cash (used in)/generated from financing activities		**(7,717)**	21,766
Increase/(decrease) in cash and cash equivalents		**49,885**	(15,254)
Exchange difference		**(20,146)**	7,060
Cash and cash equivalents at the beginning of the period		**13,006**	13,308
Cash and cash equivalents at the end of the period	13 (b)	**42,745**	5,114

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 2018, 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 2018.

The Group's operations are financed by both bank borrowings and internal resources. As at 31 October 2018, the Group's current liabilities exceeded its current assets by HK$92,859,000 (30 April 2018: HK$88,722,000). This liquidity shortfall was attributable to (i) certain of the Group's non-current assets including property, plant and equipment and long term rental deposits had been financed mainly by the Group's internal funding and utilisation of the Group's available banking facilities, and (ii) bank borrowings amounting to HK$24,250,000 which is contractually due for repayment after one year contain a repayable on demand clause being classified as current liabilities in accordance with HK Interpretation 5, "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayable on Demand Clause". As at 31 October 2018, the Group's total borrowings, including the above borrowing amount of HK$24,250,000 with repayment on demand clause and original maturity beyond 31 October 2019, amounted to HK$416,734,000 (30 April 2018: HK$432,684,000) and are repayable within twelve months from 31 October 2018. The Group's cash and cash equivalents (net of bank overdrafts) amounted to HK$42,745,000 as at 31 October 2018 (30 April 2018: HK$13,006,000).

Amid the challenging business environment, the Group had to continue to make payment to suppliers of merchandise and renovation of stores according to predetermined schedule, and scheduled repayment of bank borrowings.

Notes to the Condensed Consolidated Financial Statements

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

The management closely monitors the Group's financial performance and liquidity position. In view of these circumstances, the management has been implementing measures to improve profitability, control operating costs and contain capital expenditures in order to improve the Group's operating performance and alleviate its liquidity risk. These measures include (i) continuously implementing suitable marketing strategies and pricing policies, (ii) continuously determining the suitable product mix of its retail stores, (iii) negotiating with the landlords for rental reduction upon renewal of relevant tenancy agreements, and (iv) terminating certain underperforming stores upon the expiry of relevant tenancy agreements. The management believes that these measures will result in further improvement in operating profitability and the resulting cash flows. Also, the management will maintain cautious about expansion of the Group's retail network in order to contain additional capital expenditures. As at 31 October 2018, the Group had unutilised bank facilities of HK$114,616,000, in which unutilised trade financing facilities amounted to HK$110,424,000 and unutilised term loan and overdraft facilities amounted to HK$4,192,000. The Group maintains continuous communication with its banks. Based on the latest communications with the banks, the directors of the Company are not aware of any intention of the principal banks to withdraw their bank facilities or require early repayment of the borrowings, and the directors believe that the existing bank facilities will be renewed when their current terms expire given the good track records and relationships the Group has with the banks.

The Company's directors have reviewed the Group's cash flow projections prepared by the management. The cash flow projections cover a period of not less than twelve months from 31 October 2018. Based on these cash flow projections, the Group will have sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from 31 October 2018. Management's projections make key assumptions with regard to the anticipated cash flows from the Group's operations, capital expenditures and the continuous availability of bank facilities. The Group's ability to achieve the projected cash flows depends on management's ability to successfully implement the aforementioned improvement measures on profitability and liquidity, and the continuous availability of bank facilities from its banks. The directors, after making due enquiries and considering the basis of management's projections described above and after taking into account the reasonably possible changes in the operational performance and the successful renewal and continuous availability of the bank facilities, believe that there will be sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from 31 October 2018. Accordingly, the Interim 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 2018, as described in those annual financial statements.

Notes to the Condensed Consolidated Financial Statements

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

(a) New and amended standards adopted by the Group

In the current period, the Group has adopted the following amendments to standards issued by the HKICPA which are mandatory and relevant to the Group's operations for the accounting period beginning on 1 May 2018.

HKFRS 1 and HKAS 28 (Amendments)	Annual Improvements 2014-2016 Cycle
HKFRS 2 (Amendment)	Classification and Measurement of Share-Based Payment Transactions
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendment)	Clarifications to HKFRS 15
HKAS 40 (Amendment)	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

The impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" are disclosed below. The other new or amended standards did not have any significant impact on the Group's accounting policies and did not require retrospective adjustments.

Notes to the Condensed Consolidated Financial Statements

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

(a) New and amended standards adopted by the Group *(continued)*

HKFRS 9 "Financial instruments"

(i) Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 "Financial Instruments: Recognition and Measurement" that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group adopted HKFRS 9 from 1 May 2018. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

On 1 May 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial assets into the appropriate HKFRS 9 categories. The majority of the Group's financial assets include:

- investments in a listed company previously classified as available-for-sale financial assets was reclassified to financial assets at fair value through other comprehensive income under HKFRS 9; and

- loans and receivables previously measured at amortised cost which meet the conditions for classification at amortised cost under HKFRS 9.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. The Group has accounts and bills receivable and deposits and other receivables that are subject to HKFRS 9's new ECL model.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings as at 1 May 2018 was immaterial.

The following table shows the impact on each individual line item. Line items that were not affected by the changes have not been included.

	As at 30 April 2018	Impact on initial adoption of HKFRS 9	As at 1 May 2018
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Available-for-sale financial assets	362	(362)	–
Financial assets at fair value through other comprehensive income	–	362	362

Notes to the Condensed Consolidated Financial Statements

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

(a) **New and amended standards adopted by the Group** *(continued)*

HKFRS 9 "Financial instruments" (continued)

(ii) Summary of significant accounting policies

Classification

From 1 May 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Notes to the Condensed Consolidated Financial Statements

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

(a) New and amended standards adopted by the Group *(continued)*

HKFRS 9 "Financial instruments" (continued)

(ii) Summary of significant accounting policies *(continued)*

Measurement (continued)

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in other gains/(losses) in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

Impairment

From 1 May 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Impairment losses are presented in the"General and administrative expenses".

For accounts receivable, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment on deposits and other receivables is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime ECL.

Notes to the Condensed Consolidated Financial Statements

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

(a) New and amended standards adopted by the Group *(continued)*

HKFRS 15 "Revenue from Contracts with Customers"

(i) Impact of adoption

HKFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the Group's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and related interpretations. The new accounting policies are set out in "Summary of significant accounting policies" below. The Group's revenue streams are not significantly impacted by the new standard.

(ii) Summary of significant accounting policies

Sale of goods – retail

The Group sells food and beverage, household and personal care products through chain of retail stores. Revenue from the sale of goods is recognised when a group entity sells and has delivered a product to the customer and the Group received sales and acceptance confirmations, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Payment of the transaction price is due immediately when the customer purchases the goods.

Sale of goods – electronic components manufacturing

The Group manufactures and sells a range of coils, ferrite powder and other electronic components. Revenue is recognised when control of the products has transferred, being when the products are delivered to the customer at a point in time, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Rental income from investment properties

Rental income from investment properties is recognised on a straight-line basis over the period of the respective leases.

Notes to the Condensed Consolidated Financial Statements

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

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

The following new and amended standards and interpretations and amendments to existing standards have been issued but are not mandatory for the year ended 30 April 2019:

Annual Improvements Project	Annual Improvements 2015-2017 Cycle [(1)]
HKAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement [(1)]
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures [(1)]
HKFRS 9	Prepayment Features with Negative Compensation [(1)]
HKFRS 16	Leases [(1)]
HKFRS 17	Insurance Contracts [(2)]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments [(1)]
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate and Joint Venture [(3)]

(1) Effective for the Group for annual period beginning on 1 May 2019.
(2) Effective for the Group for annual period beginning on 1 May 2021.
(3) Effective date to be determined.

None of the above new standards and amendments to existing standards is expected to have a significant impact on the results and financial position of the Group, except those set out below:

HKFRS 16 "Leases"

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$337,550,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for the Group's financial years commencing on or after 1 May 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

Apart from aforementioned HKFRS 16, the management is in the process of assessing the financial impact of the adoption of the above new and amended standards.

Notes to the Condensed Consolidated Financial Statements

2. Segment information

The Executive Directors of the Group ("Management") review 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 Six months ended 31 October		Electronic components manufacturing Six months ended 31 October		Investment property holdings Six months ended 31 October		Eliminations Six months ended 31 October		Total Six months ended 31 October	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue										
External sales	**852,769**	860,286	**61,157**	69,967	**278**	1,864	**–**	–	**914,204**	932,117
Intersegment sales	**–**	–	**–**	–	**792**	792	**(792)**	(792)	**–**	–
	852,769	860,286	**61,157**	69,967	**1,070**	2,656	**(792)**	(792)	**914,204**	932,117
Segment results										
Operating profit/(loss)	**2,341**	1,992	**15,757**	(5,277)	**(1,815)**	(2,097)			**16,283**	(5,382)
Corporate expenses									**(4,900)**	(4,108)
Finance costs, net									**(9,929)**	(11,884)
Profit/(loss) before income tax									**1,454**	(21,374)
Income tax (expense)/credit									**(23)**	519
Profit/(loss) for the period									**1,431**	(20,855)
Depreciation and amortisation	**12,230**	22,779	**3,121**	5,475	**–**	–			**15,351**	28,254
Distribution expenses and administrative expenses	**293,619**	350,703	**1,344**	22,149	**543**	708			**295,506**	373,560
Additions to non-current assets (other than financial instruments)	**4,979**	3,790	**6**	247	**–**	–			**4,985**	4,037

Notes to the Condensed Consolidated Financial Statements

2. Segment information *(continued)*

	Retail business		Electronic components manufacturing		Investment property holdings		Eliminations		Total	
	As at 31/10/2018 *HK$'000*	As at 30/4/2018 *HK$'000*	**As at 31/10/2018 *HK$'000***	As at 30/4/2018 *HK$'000*	**As at 31/10/2018 *HK$'000***	As at 30/4/2018 *HK$'000*	**As at 31/10/2018 *HK$'000***	As at 30/4/2018 *HK$'000*	**As at 31/10/2018 *HK$'000***	As at 30/4/2018 *HK$'000*
Segment assets	**775,395**	799,319	**226,725**	244,887	**32,460**	41,817	**(5,337)**	(5,589)	**1,029,243**	1,080,434
Unallocated assets										
– Deferred income tax									**17,363**	17,227
– Corporate assets									**117**	122
Total assets									**1,046,723**	1,097,783
Segment liabilities	**175,587**	173,616	**24,549**	30,748	**5,568**	5,392	**(5,337)**	(5,589)	**200,367**	204,167
Borrowings									**416,734**	432,684
Unallocated liabilities										
– Deferred income tax									**4,336**	4,237
– Taxation payable									**65**	127
– Corporate liabilities									**842**	1,184
Total liabilities									**622,344**	642,399

Geographical information

	Revenue Six months ended 31 October		Non-current assets	
	2018 *HK$'000*	2017 *HK$'000*	**As at 31/10/2018 *HK$'000***	As at 30/4/2018 *HK$'000*
The PRC (including the Hong Kong Special Administrative Region)	**890,090**	907,497	**523,684**	550,098
Other regions	**24,114**	24,620	**76**	91
	914,204	932,117	**523,760**	550,189

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 losses, net

	Six months ended 31 October 2018 HK$'000	2017 HK$'000
Net fair value loss on investment properties	**1,550**	2,703
Net (gain)/loss on disposals of property, plant and equipment	**(346)**	101
Loss on disposals of investment properties	**–**	550
	1,204	3,354

4. Operating profit/(loss)

Operating profit/(loss) is stated after charging the following:

	Six months ended 31 October 2018 HK$'000	2017 HK$'000
Amortisation of land use rights	**255**	255
Cost of inventories recognised as expenses included in cost of sales	**549,897**	505,763
Depreciation of property, plant and equipment	**15,096**	27,999
Employee benefit expenses (including directors' emoluments)	**138,564**	156,851
Write back for impairment of accounts receivable	**(824)**	(5)

5. Finance costs, net

	Six months ended 31 October 2018 HK$'000	2017 HK$'000
Interest expense on bank borrowings	**9,941**	11,912
Interest income from bank deposits	**(12)**	(28)
	9,929	11,884

Notes to the Condensed Consolidated Financial Statements

6. Income tax expense/(credit)

Income tax expense is recognised based on management's estimate of the annual income tax rate expected for the full financial year. The Company is incorporated in Bermuda and is exempted from taxation in Bermuda until 2035. Hong Kong profits tax has been provided at the estimated rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the period. Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax rate at the estimated rate of 25% (2017: 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	
	2018	2017
	HK$'000	*HK$'000*
Overseas taxation including Mainland China		
– current tax	**60**	66
Deferred taxation	**(37)**	(585)
	23	(519)

7. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the six months ended 31 October 2018 is based on the consolidated profit for the period of approximately HK$1,431,000 (2017: loss of HK$20,855,000) and the weighted average number of 666,190,798 (2017: 666,190,798) shares in issue during the period.

For the six months ended 31 October 2018 and 31 October 2017, diluted earnings/(loss) per share equals basic earnings/(loss) 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 2018 (2017: Nil).

Notes to the Condensed Consolidated Financial Statements

9. Accounts and bills receivable

	As at 31 October 2018 HK$'000	As at 30 April 2018 HK$'000
Accounts receivable	30,775	30,653
Less: provision for impairment of receivables	(5,419)	(6,243)
Accounts receivable – net	25,356	24,410
Bills receivable	270	87
Accounts and bills receivable – net	25,626	24,497

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

	As at 31 October 2018 HK$'000	As at 30 April 2018 HK$'000
0-30 days	13,825	14,265
31-60 days	7,183	7,274
61-90 days	3,130	1,517
91-120 days	1,096	1,153
Over 120 days	5,541	6,444
	30,775	30,653
Less: provision for impairment of receivables	(5,419)	(6,243)
	25,356	24,410

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

Notes to the Condensed Consolidated Financial Statements

10. Share capital

	As at 31 October 2018 *HK$'000*	As at 30 April 2018 *HK$'000*
Authorised:		
1,000,000,000 (As at 30 April 2018: 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 2018: 666,190,798) shares of HK$0.10 each	**66,619**	66,619

11. Borrowings

As at 31 October 2018, bank borrowings of approximately HK$24,250,000 (at 30 April 2018: HK$20,400,000) 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".

12. Accounts payable

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

	As at 31 October 2018 *HK$'000*	As at 30 April 2018 *HK$'000*
0-30 days	**80,853**	80,592
31-60 days	**36,211**	34,459
61-90 days	**7,869**	6,806
91-120 days	**1,675**	4,472
Over 120 days	**6,005**	6,518
	132,613	132,847

Notes to the Condensed Consolidated Financial Statements

13. Notes to the condensed consolidated statement of cash flows

(a) Cash generated from operations

	Six months ended 31 October 2018 HK$'000	2017 HK$'000
Profit/(loss) for the period	1,431	(20,855)
Adjustments for:		
– Income tax expenses/(credit)	23	(519)
– Interest income	(12)	(28)
– Interest expense	9,941	11,912
– Amortisation of land use rights	255	255
– Depreciation of property, plant and equipment	15,096	27,999
– Net (gain)/loss on disposal of property, plant and equipment	(346)	101
– Fair value losses on investment properties	1,550	2,703
– Write back for impairment of accounts receivable	(824)	(5)
	27,114	21,563
Changes in working capital:		
– Decrease/(increase) in inventories	26,598	(110,867)
– (Increase)/decrease in accounts and bills receivable	(306)	21,542
– Decrease in prepayments, deposits and other receivables	6,285	6,424
– Increase in accounts and bills payable	(234)	31,543
– Decrease in accruals and other payables	(3,908)	(3,637)
Cash generated from/(used in) operations	55,549	(33,432)

Notes to the Condensed Consolidated Financial Statements

13. Notes to the condensed consolidated statement of cash flows *(continued)*

(a) Cash generated from operations *(continued)*

In the condensed consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprises:

	Six months ended 31 October 2018 HK$'000	2017 HK$'000
Net book value	**130**	616
Net gain/(loss) on written off/disposal of property, plant and equipment	**346**	(101)
Proceeds from disposal of property, plant and equipment	**476**	515

(b) Analysis of the balance of cash and cash equivalents

	At 31 October 2018 HK$'000	At 31 October 2017 HK$'000
Cash and cash equivalents	**56,353**	44,630
Bank overdrafts	**(13,608)**	(39,516)
	42,745	5,114

Notes to the Condensed Consolidated Financial Statements

14. Commitments

	As at 31 October 2018	As at 30 April 2018
	HK$'000	*HK$'000*
Operating lease commitments – where the Group is the lessee		
At 31 October 2018, the Group had future aggregate minimum lease payments in respect of rented premises under non-cancellable operating leases as follows:		
Not later than one year	**171,965**	159,065
Later than one year and not later than five years	**165,585**	134,836
	337,550	293,901

15. Related party transactions

	Six months ended 31 October 2018	2017
	HK$'000	*HK$'000*
(a) Rental expenses paid to a related company which is owned by directors of the Company	**189**	316
Rental expenses paid to a director of the Company	**88**	147
(b) Key management compensation		
Salaries, allowances and other benefits in kind	**1,613**	1,753
Pension costs – defined contribution plans	**107**	128
	1,720	1,881

Management Discussion and Analysis

BUSINESS REVIEW

Overview

In the year of 2015/16, the retail business of the Group, though in a stage of rapid expansion then, faced an adverse situation that local retail market took a sharp turn. Since operational cost stayed high in the year, the growth was not able to maintain and recession in financial result emerged. Since the founder understood that the main costs of retail business were bound to contracts, in which the excessive cost could not be all saved immediately, he worked out a comprehensive scope for development, orderly adjusting the scale of retail business so that the Group could gradually reduce the amount of loss. For the six months ended 31 October 2018, the Group recorded a total revenue of HK$914,204,000 (2017: HK$932,117,000), representing a decrease of about 1.9% as compared with that of the same period for last year, mainly because the Group kept reorganizing the retail business network, terminating the rental contracts of underperforming stores. As at 31 October 2018, the number of stores in operation was 187 (31 October 2017: 220) with a net decrease of 33 stores (approximately 15%) as compared with that of last year.

In the period under review, the operating costs continued to fall. Selling and distribution costs amounted to HK$249,309,000 (2017: HK$299,433,000), representing a decrease of 16.7% as compared with that of last year. It was mainly due to the reduced number of stores where the rents and direct wages significantly decreased. For the consolidated general and administrative expenses, it benefited from an unrealized exchange gain of about HK$13,942,000 (2017: exchange loss of about HK$4,939,000) in the manufacturing business, caused by the great drop of Renminbi exchange rate in the period under review. The consolidated general and administrative expenses amounted to HK$51,097,000 (2017: HK$78,235,000), decreased by 34.7% than that of the previous year. Since unrealized exchange gain or loss was not in cash nature and gave no effect on actual cash flow of the business, the consolidated general and administrative expenses would have been saved for about 11.3% as compared with that of the same period for previous year, if such item was not taken into account. During the period, the Group recorded a consolidated profit of HK$1,431,000 (2017: loss of HK$20,855,000).

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Retail Business

As at 31 October 2018, the Group was operating 187 stores (31 October 2017: 220), representing a decrease of 33 stores (approximately 15%) as compared with last year. The Group adopted the policy of "Quick Turnover with Lower Margin" which stimulated the growth rate of same-store sales to offset the loss of revenue arising from the reduced number of stores. In the period, the retail business recorded a segment revenue of HK$852,769,000 (2017: HK$860,286,000), representing a difference of just 0.9% as compared with that of the same period for previous year, and accounting for approximately 93% (2017: 92%) of the Group's total revenue. In terms of gross profit, the segment gross profit of the retail business during the period under review was HK$295,615,000 (2017: HK$352,796,000), reduced by 16.2% as compared with that of previous year, and the segment gross profit margin was 34.7% (2017: 41.0%), decreased by 6.3 percentage points over that of the same period last year. Gross profit margin decreased since the Group in the same period of previous year had attempted to decrease the number of discount activities to raise the gross profit margin. Though the gross profit margin of the same period for previous year came to 41% the highest rate it ever was, the sale data result revealed that raising the gross profit margin would in the same time give adverse effect on the same-store revenue, and in some degree affect the inventory turnover rate and cash flow. The management understood that the major challenge facing the retail business was the high number of underperforming stores, which could only be trimmed down gradually upon the expiries of different rental agreements. Furthermore, since the policy of "Quick Turnover with Lower Margin" was the core value of 759 STORE that had gained long term support from general public of Hong Kong, 759 STORE resumed its high turnover pricing policy in the second half of previous year, setting its gross profit margin target at about 35%.

Shop rental was the most significant expense category in the Group's retail business. Total rental expenses for the period was HK$99,037,000 (2017: HK$118,720,000), reduced by 16.6% as compared with that of previous year. As at 31 October 2018, the number of stores in operation (not including jointly-operated stores) was 187 (30 April 2018: 206), of a net decrease by 19 shops as compared with that at the end date of previous financial year, in which 4 stores were newly opened, 22 stores were closed and 1 store was merged. The total gross floor area of stores in operation was 404,000 square feet (30 April 2018: 435,000 square feet), while the average floor area per store was 2,160 square feet (30 April 2018: 2,112 square feet). The ratio of rental expenses over revenue was approximately 11.6% (2017: 13.8%), representing a substantial decrease of 2.2 percentage points as compared with the same period last year, reflecting that satisfactory results were achieved in the restructuring of the store network. During the period, the payroll expenses of frontline staff amounted to HK$76,567,000 (2017: HK$90,253,000), approximately 15.2% lower than the same period last year. Due to the significant growth of same-store revenue recorded during the period under review, the ratio of wages and salaries over revenue decreased by 1.5 percentage points to 9.0% (2017: 10.5%) as compared with last year.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Retail Business *(continued)*

Following the drop in shop rental expenses and frontline staff costs during the period, the selling and distribution expenses of the retail business also decreased by 16.7% to HK$248,379,000 (2017: HK$298,352,000). On the other hand, the Group also actively reduced costs during the period with the segment administrative expenses amounting to HK$45,240,000 (2017: HK$52,351,000), and saved approximately 13.6% as compared with that for the same period last year. The operating profit of the retail business segment for the same period was HK$2,341,000 (2017: HK$1,992,000) which was similar to that of last year. In view of the fact that both current rental expense and frontline staff wage of retail business were at low levels among those of the recent years, the management expected that retail business would be developed steadily, picking up its pace with growth again.

The products of 759 STORE were mainly sourced globally from 63 (30 April 2018: 63) countries and regions. Procurement staff kept fishing high-quality products around the world for our customers' shopping enjoyment. More than 80% of the products were procured by self-import, of which the places of origin were mainly Japan and South Korea. The products directly imported from Japan and South Korea took nearly 50% share of the whole procurement, followed by those of Thailand, Europe, Taiwan, Mainland China, America and other regions. The sales revenue of the products procured from factories or farms, so called "direct delivery from factory" took 31.9% (30 April 2018: 31.5%) share of the whole procurement, slightly higher than that at the previous financial year end. Products of "direct delivery from factory" were self-built brands or exclusive brands. The categories of products procured during the period were in all aspects concentrated on the necessity of living, in which the number of product items sold during the period was about 14,500 (30 April 2018: 16,500), less than that at the previous financial year end, for the main reason that 759 STORE had removed or faded out some categories like the cosmetics that was not the necessity of living, durable household products and electrical appliances that were slow-moving, and in all aspects strengthened the categories of the necessity of living including rice, noodle, cooking oil, alcohol, sanitary paper product, detergent and etc. Since the Group had adopted much fast-moving way for sales during the period, as at 31 October 2018, the total inventories carried by the retail business of the Group decreased by 5.5% from previous financial year end to HK$313,560,000 (30 April 2018: HK$331,874,000).

Electronic Component Manufacturing Business

During the period under review, the segment revenue of electronic components manufacturing business recorded a further reduction to HK$61,157,000 (2017: HK$69,967,000), representing a decrease of 12.6% as compared with last year. The decrease was mainly due to a further reduction of production lines of the Group, and the discontinued production of certain products with low gross margin during the period, which gave rise to a significant increase in the segment gross margin for the same period to 28.0% (2017: 24.1%). During the period, benefiting from the substantial Renminbi depreciation, the foreign exchange gains arising from the manufacturing business reached HK$13,942,000 (2017: foreign exchange losses of HK$4,939,000), contributing to the manufacturing business a segment operating profit of HK$15,757,000 for the period (2017: segment operating loss of HK$5,277,000). The segment depreciation and amortisation of the manufacturing business for the period amounted to HK$3,121,000 (2017: HK$5,475,000).

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Investment Properties

For the six months ended 31 October 2018, rental income of the Group amounted to HK$278,000 (2017: HK$1,864,000). Fair value loss included in the consolidated income statement for investment properties carried at fair value during the period was approximately HK$1,550,000 (2017: HK$2,703,000).

FINANCIAL REVIEW

Fund Surplus and Liabilities

As at 31 October 2018, the Group's bank balances and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK$75,982,000 (30 April 2018: HK$64,405,000) representing an increase of 18% compared with that at the last financial year end. As at the same date, the Group's aggregate banking facilities amounted to HK$416,734,000 (30 April 2018: HK$432,684,000) which included overdrafts, loans, trade financing, etc. Unused facilities amounted to approximately HK$114,616,000 (30 April 2018: HK$107,816,000). As at 31 October 2018, utilised banking facilities amounted to HK$416,734,000 (30 April 2018: HK$432,684,000) and the aggregate bank borrowings decreased by approximately HK$15,950,000 as compared with that at the previous year end date. The above banking facilities were secured by charges on some of the Group's land and buildings, investment properties, bank deposits and inventories held under trade financing. In addition, the Group is also required to comply with certain restrictive financial covenants with the major financing banks, and as at 31 October 2018, the Group had been complying with such financial covenants. As at 31 October 2018, the Group's gearing ratio* was 0.45 (30 April 2018: 0.45), which was similar to that at the previous financial year end. As at the same date, the Group did not have any contingent liabilities (30 April 2018: 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 2018, the Group's total inventories amounted to HK$368,519,000 (30 April 2018: HK$395,117,000), representing a decrease of 6.7% as compared with last year end. Along with 759 STORE's net decrease of its number of retail stores, the total prepayments, deposits and other receivables (including prepaid rent and deposit of retail stores) of the Group as at 31 October 2018 fell to HK$92,323,000 (30 April 2018: HK$98,609,000).

Interest Expenses

Interest expenses of the Group for the year amounted to HK$9,941,000 (2017: HK$11,912,000), decreased by 16.5% as compared with the same period for last year. It was mainly due to less utilisation of banking facilities and overdrafts during the period. The Group expects that interest expenses in the future will continue to fall along with the reduced utilisation of bank borrowings.

Financial Resources and Capital Structure

The Group's net cash inflow was HK$49,885,000 (2017: cash outflow of HK$15,254,000) for the six months ended 31 October 2018. Net cash inflow from operating activities amounted to HK$55,431,000 (2017: cash outflow of HK$33,498,000), which reflected that the retail business of the Group was gradually improving. Net cash inflow from investing activities for the period amounted to HK$2,171,000 (2017: cash outflow of HK$3,522,000). During the period under review, the Group did not have any major investment.

Cash Flow Summary	**For the six months ended 31 October**	
	2018	2017
	HK$'000	*HK$'000*
Net cash inflow/(outflow) from operating activities	**55,431**	(33,498)
Net cash inflow/(outflow) from investing activities	**2,171**	(3,522)
Net cash (outflow)/inflow from financing activities	**(7,717)**	21,766
Increase/(decrease) in cash and cash equivalents	**49,885**	(15,254)

As at 31 October 2018, the Group's net current liabilities was HK$92,859,000 (30 April 2018: HK$88,722,000) and the current ratio was 0.85 times (30 April 2018: 0.86 times). This included a pledge loan of approximately HK$51,550,000 (HK$27,300,000 repayable within one year; HK$24,250,000 repayable after one year). This loan of HK$24,250,000, due for repayment after one year, contains a repayment on demand clause, and has been classified as current liabilities according to the requirement in the "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause" of HK Interpretation 5. The management considers that the Group's working capital on hand, together with the banking facilities provided by major financing bankers are sufficient to fund its existing daily operation.

Management Discussion and Analysis

FINANCIAL REVIEW *(continued)*

Charges on Assets

As at 31 October 2018, certain assets of the Group with an aggregate carrying value of approximately HK$628,163,000 (30 April 2018: HK$652,225,000) were pledged to secure banking facilities of the Group.

Exchange Risks

The Group's business is mainly conducted in Hong Kong, Mainland China and South-east Asia. The major revenue currencies are primarily denominated in Hong Kong dollar, Renminbi and United States dollars; whilst the major cost currencies are primarily denominated in Japanese Yen, United States dollars, Euro, Hong Kong dollar and Renminbi. The Group will endeavor to be vigilant in monitoring the fluctuation in exchange market, and will proactively adjust the combination of imported merchandise in order to offset the impact that may occur from currency fluctuation. Presently, if United States dollars substantially depreciate and the exchange rates of Japanese Yen and Euro go up significantly, it will greatly impact the Group on its operating model principally conducted through direct import from overseas. Because of this, the Group will pay vigilant attention to the fluctuation of United States dollars, Japanese Yen and Euro.

EMPLOYEES

As at 31 October 2018, the Group employed approximately 1,800 staff (30 April 2018: 1,900). The remuneration of the employees is determined, most importantly, by reference to market benchmark. Reference is also made on individual performance, academic qualification and work experience subject to the requirements upon promotion. Other agreed employee benefits includes pension scheme, on-job training, education subsidy and other social security and paid leaves stipulated under the relevant jurisdiction of places of operation.

Social Responsibilities

The Group is proactive in carrying out the responsibilities of a corporate citizen. Through various means and approaches, we have encouraged our staff force to care about the community and have promoted a sound mind in a sound body as well as their balanced development. We have also engaged in a sustainable manner in social welfare activities organized by charitable organizations and educational institutions.

Management Discussion and Analysis

FUTURE PLAN AND OUTLOOK

The Group was found by the late founder, Mr. Lam Wai Chun, on his own from scratch. In nearly 40 years, he put his endeavour on every single issue of the business. Without his endeavour, the Group would not reach current size. From day-one he found the business to everyday after, he gave his best to every member of staff, serving the community. Even founding 759 STORE in itself was in good hope of making some contribution on the necessities in people's life. This concept was well appreciated and praised by all levels of staff, business partners and various sectors of the community.

For years the founder worked with all level of staff, his teaching had deeply inflected and molded the operation mode, managing style and business vision of current management team. The management would lead staff members to work hand in hand with the business partners of suppliers, landlords and banks to run the business sustainably with core value of "Providing Quality Products at Reasonable Prices" and "Quick Turnover with Lower Margin".

The Group deeply understood that current business size was an achievement built by setbacks and ordeals. Taking advantage of over 8 years' retail experience, 759 STORE kept collecting and analyzing operation data, consolidating a set of strict business control to orderly work out and conduct a series of consolidations in store network and internal improvements. The precious experience gained in this journey made the Group give its decisions in much comprehensive and precise way in future.

The three-year adjustment plan was mostly completed. The Group in short term would continue to improve the internal operation, strengthen the competitive advantage of 759 STORE, develop the business sustainably in prudent and "appropriately proactive" manner.

Developing on top of the stable base of current 759 STORE, the management in future would continue to follow the practice long established, to develop the market with stakeholders of suppliers, landlords, banks and customers in mutualistic way, staying ready for favourable market conditions to emerge so as to develop along with the upward trend again.

Other Information

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at 31 October 2018, 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

	Number of shares of HK$0.10 each held			
Name of director	Personal interests *(Note 2)*	Trusts interests	Total interests	Percentage of issued share capital
Ms. Tang Fung Kwan	4,194,611	–	4,194,611	0.63%
Mr. Ho Man Lee	30,000		30,000	0.0045%
Mr. Lam Kwok Chung	–	442,295,660 *(Note 3)*	442,295,660 *(Note 3)*	66.39%
Mr. Au Son Yiu	3,201,440	–	3,201,440	0.48%

Notes:

1. All the above interests in the shares of the Company were long positions.

2. Personal interests were interests held by the relevant directors as beneficial owners.

3. 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 held Personal interests	Trusts interests	Total interests	Percentage of issued non-voting deferred shares
Mr. Lam Kwok Chung *(Notes 4 and 5)*	–	6,000,000	6,000,000	42.86%

Notes:

4. 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 held by Ka Yan China Development (Holding) Company Limited under the SFO by virtue of the reason set out in Note 3 to sub-paragraph (a) above.

5. 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 2018, 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 2018, 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 2018, 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)

	Number of shares of HK$0.10 each held					
Name	Beneficial owner	Family interests	Corporate interests	Trusts interests	Total interests	Percentage of issued share capital
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:

1. All the above interests in the shares of the Company were long positions.

2. 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.

3. 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 2018, the actual number of shares held by Ka Yan China Investments Limited, Ka Yan China Development (Holding) Company Limited and HSBC International Trustee Limited in the Company which duplicated with one another was 442,295,660 shares.

Other Information

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

Shares of the Company *(continued)*

Save as disclosed above, the Company had not been notified of any other person (other than a director or a chief executive of the Company) who had an interest (whether direct or indirect) in 5% or more of the shares comprised in the relevant share capital or a short position which were required to be recorded in the register kept by the Company pursuant to section 336 of the SFO as at 31 October 2018.

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 2018. 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 2018.

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 2018, except for the following deviation:

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

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

AUDIT COMMITTEE

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

Other Information

AUDIT COMMITTEE *(continued)*

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 2018.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions for the six months ended 31 October 2018. 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 2018. The Model Code also applies to the relevant employees of the Group.

By Order of the Board
Tang Fung Kwan
Chairman

Hong Kong, 21 December 2018

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