CEC-COILS®

CEC INTERNATIONAL HOLDINGS LIMITED

CEC 國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 759)

2018/2019 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "Board") of CEC International Holdings Limited (the "Company") would like to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 April 2019 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 APRIL 2019

	Note	**2019** **HK$'000**	2018 HK$'000
Revenue	*2*	**1,839,923**	1,979,674
Cost of sales	*4*	**(1,220,206)**	(1,285,380)
Gross profit		**619,717**	694,294
Other (losses)/gains, net	*3*	**(3,528)**	8,636
Selling and distribution expenses	*4*	**(493,958)**	(569,947)
General and administrative expenses	*4*	**(111,886)**	(151,221)
Operating profit/(loss)		**10,345**	(18,238)
Finance income		**36**	79
Finance costs		**(19,726)**	(22,132)
Finance costs, net	*5*	**(19,690)**	(22,053)
Loss before income tax		**(9,345)**	(40,291)
Income tax (expense)/credit	*6*	**(176)**	7,422
Loss attributable to equity holders of the Company		**(9,521)**	(32,869)
Loss per share, basic and diluted, attributable to equity holders of the Company	*7*	**(HK1.43 cents)**	(HK4.93 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 APRIL 2019

	2019	2018
	HK$'000	*HK$'000*
Loss for the year	**(9,521)**	(32,869)
Other comprehensive loss		
Item that will not be reclassified subsequently to profit or loss		
Change in fair value of equity investments at fair value through other comprehensive income	**(63)**	–
Items that have been or may be reclassified subsequently to profit or loss		
Change in fair value of available-for-sale financial assets	**–**	45
Currency translation differences	**(20,137)**	31,255
Total comprehensive loss for the year attributable to equity holders of the Company	**(29,721)**	(1,569)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 APRIL 2019

	Note	2019 HK$'000	2018 HK$'000
ASSETS			
Non-current assets			
Land use rights		**16,779**	18,240
Property, plant and equipment		**409,039**	438,018
Investment properties		**28,735**	41,308
Available-for-sale financial assets		**–**	362
Financial assets at fair value through other comprehensive income		**299**	–
Rental deposits		**48,223**	35,034
Deferred tax assets		**17,639**	17,227
		520,714	550,189
Current assets			
Inventories		**367,133**	395,117
Accounts and bills receivable	9	**21,169**	24,497
Deposits, prepayments and other receivables		**42,244**	63,575
Pledged bank deposits		**19,629**	12,949
Cash and cash equivalents		**49,501**	51,456
		499,676	547,594
Non-current assets held-for-sale		**778**	–
		500,454	547,594
Total assets		**1,021,168**	1,097,783
EQUITY			
Share capital		**66,619**	66,619
Reserves		**359,044**	388,765
Total equity		**425,663**	455,384
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**4,661**	4,237
Provision for reinstatement cost		**1,666**	1,846
		6,327	6,083
Current liabilities			
Borrowings		**388,452**	432,684
Accounts payable	10	**130,360**	132,847
Accruals and other payables		**70,317**	70,658
Taxation payable		**49**	127
		589,178	636,316
Total liabilities		**595,505**	642,399
Total equity and liabilities		**1,021,168**	1,097,783

Notes:

1. **BASIS OF PREPARATION AND ACCOUNTING POLICIES**

   The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of Hong Kong Companies Ordinance and under historical cost convention, as modified by the revaluation of investment properties and available-for-sale financial assets which are carried at fair value.

   The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

   (a) Going Concern Basis

   The Group's operations are financed by both bank borrowings and internal resources. As at 30 April 2019, the Group's current liabilities exceeded its current assets by HK$88,724,000 (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 are financed mainly by the Group's internal funding and short term bank borrowings, and (ii) bank borrowings amounting to HK$10,000,000 which are contractually due for repayment after one year contain a repayable on demand clause have been classified as current liabilities in accordance with HK Interpretation 5, "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayable on Demand Clause". As at 30 April 2019, the Group's total borrowings, including the above borrowing of HK$10,000,000 with repayment on demand clause and original maturity beyond 30 April 2020, amounted to HK$388,452,000 (2018: HK$432,684,000) and are repayable within twelve months from 30 April 2019. The Group's cash and cash equivalents (net of bank overdrafts) amounted to HK$47,771,000 (2018: HK$13,006,000) as at 30 April 2019. In addition, during the year ended 30 April 2019, the Group reported a loss of HK$9,521,000 (2018: HK$32,869,000).

   Amid the challenging business environment, the Group had continued to make payment to suppliers of merchandise and renovation of stores according to predetermined schedule, and made scheduled repayment of bank borrowings and interest. The Group also recorded a net cash inflow from operations of HK$79,619,000 during the year.

   The management closely monitors the Group's financial performance and liquidity position to assess the Group's ability to continue as a going concern. In view of these circumstances, the management has been continuously implementing measures to improve profitability, control operating costs and contain capital expenditures in order to improve the Group's operating performance and alleviate its liquidity risk. These measures include (i) continuously remapping its marketing strategies and pricing policies, (ii) continuing its measures to control capital and operating expenditures, and (iii) negotiating with the landlords for rental reduction upon renewal of relevant tenancy agreements. The management believes that these measures will further improve the Group's operating profitability and the resulting cash flows. With respect to the Group's bank financing, the Group maintains continuous communication with its banks and has successfully renewed the bank facilities with its principal banks during the year ended 30 April 2019. As at 30 April 2019, the Group had unutilised bank facilities of HK$129,248,000 in which unutilised trade financing facilities amounted to HK$113,178,000 and unutilised term loan and overdraft facilities amounted to HK$16,070,000. 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. Certain of the bank borrowings are subject to compliance of certain restrictive financial covenant requirements for which the Group will continue to monitor its compliance of such covenant requirements. Should the Group be unable to comply with the covenant requirements, the directors will negotiate with the bank and will seek to revise the covenant requirements or obtain a waiver of compliance from the bank.

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 30 April 2019. 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 30 April 2019. 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, the continuous availability of bank facilities from its banks and the continuous compliance with all restrictive financial covenant requirements. 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 30 April 2019. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

(b) New/revised standards and interpretations and amendments to existing standards effective during the year ended 30 April 2019

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 May 2018:

HKFRS 9	Financial instruments
HKFRS 4 (amendments)	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts
HKFRS 15	Revenue from contracts with customers
HKFRS 15 (amendments)	Clarification to HKFRS 15
HKFRS 2 (amendments)	Classification and measurement of share-based payment transactions
HKAS 40 (amendments)	Transfers of investment property
HKFRS 1 and HKAS 28 (amendments)	Annual improvements 2014-2016 cycle
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration

(c) New and amended standards and interpretations and amendments to existing standards have been issued but are not 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:

Amendments to annual improvements project (amendments)	Annual improvements 2015 – 2017 cycle (1)
HKAS 28 (amendments)	Long-term interests in associates and joint ventures (1)
HKFRS 9 (amendments)	Prepayment features with negative compensation (1)
HKFRS 16	Leases (1)
HKFRS 17	Insurance contracts (3)
HK(IFRIC) – Int 23	Uncertainty over income tax treatments (1)
HKFRS 10 and HKAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture (4)
HKAS 19 (amendments)	Plan amendment, curtailment or settlement (1)
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting (2)

(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 2020.
(3) Effective for the Group for annual period beginning on 1 May 2021.
(4) Effective date to be determined.

HKFRS 16 "Leases"

Nature of change

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$337,069,000. Based on management's initial assessment, the Group expects to recognise both right-of-use assets and lease liabilities of approximately HK$280 million on 1 May 2019 (before the adjustment of deferred tax). In addition, the application of new requirements may result in changes in measurement, presentation and disclosure of leases.

Date of adoption by Group

The standard is mandatory for the Group's financial years commencing on or after 1 May 2019. The Group intends to apply the modified retrospective approach and will recognise the cumulative effect of initial application as an adjustment to the opening balance of retained earnings at 1 May 2019 and will not restate comparative information. Right-of-use assets will be measured on transition as if the new rules had always been applied.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(d) Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 "Financial instruments" ("HKFRS 9") and HKFRS 15 "Revenue from contracts with customers" ("HKFRS 15") on the Group's financial statements.

The Group elected to adopt HKFRS 9 and HKFRS 15 without restating comparatives. The reclassifications and the adjustments are therefore not reflected in the consolidated balance sheet as at 30 April 2018, but are recognised in the opening consolidated balance sheet on 1 May 2018.

The following table show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by respective standard below.

Balance sheet (extract)	30 April 2018 As originally presented	Effect of the adoption of HKFRS 9	Effect of the adoption of HKFRS 15	1 May 2018 Restated
	HK$'000	*HK$'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
Total assets	362	–	–	362
Current liabilities				
Receipts in advance, included in accruals and other payables	1,125	–	(1,125)	–
Contract liabilities, included in accruals and other payables	–	–	1,125	1,125
Total liabilities	1,125	–	–	1,125

(1) HKFRS 9 "Financial Instruments" – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 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.

(i) Classification and measurement

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 instruments into the appropriate HKFRS 9 categories. The main effects resulting from this classification are as follows:

Equity investments previously classified as available-for-sale financial assets

The Group elected to present changes in the fair value of its equity investment previously classified as available-for-sale financial asset in other comprehensive income ("OCI"). As a result, assets with a fair value of HK$362,000 were reclassified from available-for-sale financial asset to financial asset at fair value through other comprehensive income ("FVOCI") on 1 May 2018.

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

Other than that, there were no changes to the classification and measurement of financial instruments.

(ii) *Impairment of financial assets*

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model.

- Accounts and bills receivable; and

- Other financial assets measured at amortised costs

The Group was required to revise its impairment methodology under HKFRS 9 for each class of these assets. The impact of the change in impairment methodology is as follows:

Accounts and bills receivable

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade receivables. To measure the expected credit losses, receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. Expected credit losses are also estimated by grouping the remaining receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer, its geographical location and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables. The expected credit loss rates are determined based on historical credit losses experienced from the past 3 years and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables. Management has closely monitored the credit qualities and the collectability of the trade receivables. The adoption of the simplified expected credit loss approach under HKFRS 9 has not resulted in any material additional impairment loss for trade receivables as at 1 May 2018.

Other financial assets measured at amortised cost

For other financial assets carried at amortised cost, the expected credit loss is based on the 12-month expected credit loss. It is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the impairment will be based on the lifetime expected credit loss. Management has closely monitored the credit qualities and the collectability of the other financial assets at amortised cost and considers that the expected credit loss is immaterial.

(2) HKFRS 15 "Revenue from Contracts with Customers" – Impact of adoption

HKFRS 15 replaces HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. Under the new standard, 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 impacts of the adoption of HKFRS 15 are as follows:

Presentation of contract liabilities

Certain "receipt in advance from customers" which were previously included in other payables and accruals amounting to HK$1,125,000 as at 1 May 2018, are now included under contract liabilities to reflect the terminology of HKFRS 15.

Timing of revenue recognition

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods.

2. SEGMENT INFORMATION

The Executive Directors of the Group ("Management") reviews the Group's internal reports periodically in order to assess performance and allocate resources. Management has determined the operating segments based on these reports and assess the business principally based on natures of products sold.

During the year, the Group has three reporting segments, namely (i) retail business; (ii) electronic components manufacturing; and (iii) investment property holding. Segment information provided to Management for decision-making is measured in a manner consistent with that in the financial statements.

The segment information provided to the Management for the reportable segments for the years ended 30 April 2019 and 2018 is as follows:

	Retail business		Electronic component manufacturing		Investment property holdings		Eliminations		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue										
External sales	**1,730,024**	1,847,326	**108,972**	129,711	**927**	2,637	**–**	–	**1,839,923**	1,979,674
Intersegment sales	**–**	–	**–**	–	**1,585**	1,585	**(1,585)**	(1,585)	**–**	–
	1,730,024	1,847,326	**108,972**	129,711	**2,512**	4,222	**(1,585)**	(1,585)	**1,839,923**	1,979,674
Segment results										
Operating profit/(loss)	**11,874**	6,204	**13,158**	(14,841)	**(5,386)**	(989)			**19,646**	(9,626)
Corporate expenses									**(9,301)**	(8,612)
Finance costs, net									**(19,690)**	(22,053)
Loss before income tax									**(9,345)**	(40,291)
Income tax (expense)/credit									**(176)**	7,422
Loss for the year									**(9,521)**	(32,869)
Depreciation and amortisation	**25,470**	35,588	**5,453**	10,338	**–**	–			**30,923**	45,926
Total distribution cost and administrative expenses	**581,326**	669,978	**14,065**	41,490	**1,152**	1,088			**596,543**	712,556
Additions to non-current assets (other than financial instruments)	**7,459**	9,293	**292**	259	**–**	–			**7,751**	9,552

	Retail business		Electronic components manufacturing		Investment property holdings		Eliminations		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**755,676**	799,319	**223,017**	244,887	**29,922**	41,817	**(5,239)**	(5,589)	**1,003,376**	1,080,434
Unallocated assets										
– Deferred income tax									**17,639**	17,227
– Corporate assets									**153**	122
Total assets									**1,021,168**	1,097,783
Segment liabilities	**182,710**	173,616	**18,505**	30,748	**5,380**	5,392	**(5,239)**	(5,589)	**201,356**	204,167
Borrowings									**388,452**	432,684
Unallocated liabilities										
– Deferred income tax									**4,661**	4,237
– Taxation payable									**49**	127
– Corporate liabilities									**987**	1,184
Total liabilities									**595,505**	642,399

Geographical information

	Revenue		Non-current assets	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC (including Hong Kong Special Administrative Region)	**1,801,016**	1,933,367	**520,648**	550,098
Other regions	**38,907**	46,307	**66**	91
	1,839,923	1,979,674	**520,714**	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.

The Group has a large number of customers. For the year ended 30 April 2019, no revenue was derived from transactions with a single external customer representing 10% or more of the Group's total revenue (2018: same).

3. OTHER (LOSSES)/GAINS, NET

	2019 *HK$'000*	2018 *HK$'000*
Net fair value loss on investment properties	**(5,010)**	(1,040)
Net gain on disposal of property, plant and equipment	**259**	9,267
Reversal of impairment loss on properties, plant and equipment	**1,223**	1,789
Loss on disposal of investment properties	**–**	(1,380)
	(3,528)	8,636

4. EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses, and general and administrative expenses are analysed as follows:

	2019 *HK$'000*	2018 *HK$'000*
Auditors' remuneration		
– audit services	**2,830**	2,750
– non-audit services	**129**	151
Amortisation of land use rights	**509**	521
Cost of inventories recognised as expenses included in cost of sales	**1,188,746**	1,199,728
Depreciation of property, plant and equipment	**30,414**	45,405
Direct operating expenses arising from investment properties that generate rental income	**151**	118
Employee benefit expenses (including directors' emoluments)	**271,081**	307,778
Net exchange (gains)/losses		
– recognised in cost of sales	**(29,357)**	382
– recognised in general and administrative expenses	**(15,737)**	6,284
Operating lease rentals		
– basic rent	**209,690**	240,701
– turnover rent	**329**	368
(Reversal of)/provision for impairment for onerous contracts	**(1,463)**	2,679
Net reversal of impairment loss on financial assets	**(975)**	–
Provision for impairment for accounts receivable	**–**	678
(Reversal of)/provision for impairment for inventories	**(4,765)**	6,389
Utility expenses	**66,653**	74,758
Freight and transportation	**47,568**	45,713
Other expenses	**60,247**	72,145
Total cost of sales, selling and distribution expenses and general and administrative expenses	**1,826,050**	2,006,548

5. FINANCE COSTS, NET

	2019	2018
	HK$'000	*HK$'000*
Interest expense on bank borrowings	**19,726**	22,132
Interest income from bank deposits	**(36)**	(79)
	19,690	22,053

6. INCOME TAX EXPENSE/(CREDIT)

The amount of income tax expense/(credit) charged to the consolidated income statement represents:

	2019	2018
	HK$'000	*HK$'000*
Hong Kong profits tax		
– current tax	**15**	29
– under/(over) provision in prior years	**7**	(20)
Overseas income tax including Mainland China		
– current tax	**142**	184
Deferred income tax	**12**	(7,615)
Total income tax expense/(credit)	**176**	(7,422)

The Company is incorporated in Bermuda and is exempted from income tax in Bermuda until 2035. Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the year. Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax at the rate of 25% (2018: 25%) on their taxable income determined according to Mainland China tax laws. Other overseas income tax has been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdictions.

7. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to equity holder of approximately HK$9,521,000 (2018: loss of HK$32,869,000) and the weighted average number of 666,190,798 (2018: 666,190,798) shares in issue during the year.

For the years ended 30 April 2019 and 30 April 2018, diluted loss per share equals basic loss per share as there was no dilutive potential share.

8. DIVIDEND

The board of directors does not recommend the payment of any dividend in respect of the year ended 30 April 2019 (2018: Nil).

9. ACCOUNTS AND BILLS RECEIVABLE

	2019	2018
	HK$'000	*HK$'000*
Accounts receivable	**26,437**	30,653
Less: provision for impairment of receivable	**(5,268)**	(6,243)
Accounts receivable, net	**21,169**	24,410
Bills receivable	**–**	87
Accounts and bills receivable, net	**21,169**	24,497

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

	2019	2018
	HK$'000	*HK$'000*
0-30 days	**10,368**	14,265
31-60 days	**5,853**	7,274
61-90 days	**1,631**	1,517
91-120 days	**2,370**	1,153
Over 120 days	**6,215**	6,444
	26,437	30,653
Less: loss allowance	**(5,268)**	(6,243)
	21,169	24,410

As at 30 April 2019 and 30 April 2018, the carrying amount of accounts and bills receivable approximated its fair value.

The Group primarily offers an average credit period ranging from 30 to 120 days to its non-retail business customers (2018: 30 to 120 days).

10. ACCOUNTS PAYABLE

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

	2019	2018
	HK$'000	*HK$'000*
0-30 days	**73,918**	80,592
31-60 days	**45,903**	34,459
61-90 days	**6,600**	6,806
91-120 days	**2,694**	4,472
Over 120 days	**1,245**	6,518
	130,360	132,847

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 20 September 2019 to Friday, 27 September 2019(both dates inclusive), during which period no transfer of shares of the Company will be effected. Shareholders whose names appear on the register of members of the Company on Friday, 27 September 2019 are entitled to attend and vote at the annual general meeting of the Company to be held on Friday, 27 September 2019 (the "2019 Annual General Meeting"). In order to qualify to attend and vote at the 2019 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration by no later than 4:30 p.m. on Thursday, 19 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

Year 2018/19 was the year of sadness for the Group, in which our founder Mr. Lam Wai Chun passed away in August 2018. Confronting this sudden and overwhelming change, the management that had followed the founder for years continued to make the way of "759 STORE" and "COILS ELECTRONIC" forward with the business philosophy succeeded from Mr. Lam. In this year, Hong Kong local retail market was influenced by the external and internal economic environments. According to the Report on Monthly Survey of Retail Sales published by Census and Statistics Department of Hong Kong, the value of total retail sales at the beginning of year 2018 was under its momentum not to decrease and starting to increase again. However, the international environment changed since the second half of year 2018. The trade war between US and China gave rise to a series of extreme uncertainties in consumer market where the value of total retail sales recorded drops in consecutive months from January 2019 to the date of this report. In the meantime while the reverse trend in consumer market emerged, the competition in local retail market grew much keen. In response to the fluctuating market of lots of uncertainties, the Group in the year took a relatively prudent direction in its development, focused on enhancing its operating efficiency and persistently giving adjustments on its retail business. The Group concentrated on developing 759 STORE's business of food groceries and necessities of life and fully retreated cosmetics business. 11 cosmetic specialty stores was closed during the year. Influenced by net decrease in shop number, the Group recorded a consolidated revenue of HK$1,839,923,000 (2018: HK$1,979,674,000), representing a decrease of 7.1% as compared with that of last year. As the Group fully retreated cosmetics retailing that had relatively high gross profit margin, consolidated gross profit dropped together with revenue to HK$619,717,000 (2018: HK$694,294,000), representing a decrease of 10.7%, as compared with the same period last year. Consolidated gross profit margin was 33.7% (2018: 35.1%), representing a drop of 1.4 percentage points as compared with last year.

The Group enforced strict cost control measures in the year and achieved significant improvements. Consolidated selling and distribution costs was saved by approximately 13.3% or HK$75,989,000 to HK$493,958,000 (2018: HK$569,947,000), of which mainly the total rental expenses was saved as net shop number decreased. Consolidated general administrative expenses greatly decreased for $39,335,000 or in percentage by 26%, to HK$111,886,000 (2018: HK$151,221,000), including unrealized exchange gain of approximately HK$9,435,000 (2018: unrealized exchange loss of HK$12,076,000) mainly attributable to the falling trend of the Renminbi exchange rate last year. Having the operating cost been reduced in an orderly manner, despite the financial result in the year did not turn into profit, consolidated loss in the year further shrunk to HK$9,521,000 (2018: HK$32,869,000), greatly improved by 71%, as compared with that of the last year.

Retail Business

For the year under review, the Group's retail business recorded a segment revenue of HK$1,730,024,000 (2018: HK$1,847,326,000), representing a drop of 6.3% as compared with last year, and accounting for approximately 94% of the Group's total revenue (2018: 93%). The decrease of revenue in retail business was primarily attributable to the decrease in the number of stores. Segment gross profit also decreased by 11% as compared with the previous year to $591,719,000 (2018: HK$665,107,000). The decrease in gross profit margin was mainly due to the Group's complete withdrawal from the higher profit-margin cosmetics retail business. Though decrease in revenue and gross profit was recorded in the retail segment, the operating costs of retail business has shown remarkable improvements after the adjustment of business scale during the year under review. The segment's selling and distribution expenses and general administration expenses decreased approximately 13.3% and 12.6% to HK$492,252,000 and HK$89,074,000 respectively (2018: HK$568,071,000 and HK$101,907,000). The retail business recorded a segment operating profit of HK$11,874,000 (2018: HK$6,204,000) for the year, representing an increase of 91% as compared with that of the previous year.

With a net decrease of 27 stores, the total number of shops of 759 STORE was 179 as at 30 April 2019 (2018: 206), among which 6 shops were newly opened and 33 shops were closed. Most of the closed stores were underperforming and which included 11 cosmetics specialty shops. The only remaining 759 KAWAIILAND, located at the airport, will be closed in October 2019 when the contract expires. Shop rental expense, the highest expense category among all types of expenses in the Group's retail business, was HK$195,665,000 (2018: HK$223,401,000) for the year, representing a significant decrease of 12.4% or HK$27,736,000 as compared with that of the previous year. The amount of saving in rental expenses was much higher than the amount of decrease in revenue, resulted in a further drop of the rental to revenue ratio to 11.3% (2018: 12.1%), indicating an improvement for the third consecutive year. The 179 shops of 759 STORE spread evenly over various districts of Hong Kong. As at 30 April 2019, its total shop floor area in operation was 384,000 square feet (2018: 435,000 square feet), with an average floor area per store of 2,145 square feet (2018: 2,112 square feet), which was similar to that of the previous year. The turnover per square foot was HK$4,505 (2018: HK$4,247), with an increase of 6.1% over that of the previous year. As the number of shops decreased, the number of staff decreased accordingly through natural attrition. The number of frontline staff per shop was 3.6 persons (2018: 3.5 persons), similar to that of last year. For remuneration, labour cost for the Group's frontline staff included basic salary, commission and other benefits. The calculation of commissions was linked to the sales performance of the shops, and distributed according to the number of staff on duty. Since growth in same-store sales were recorded in most of the shops during the year, and with the improved efficiency of the staff, labour cost for frontline staff as a percentage of revenue for the year decreased to 8.9% (2018: 9.6%).

Sourcing Mix

759 STORE adopts a procurement model that the products were directly imported from their places of origin. Over 90% of products were imported on its own through procurement team, mainly coming from 61 countries and regions (2018: 63). The staff of procurement team kept sourcing high quality products in the world bringing more choices for our customers. Most of the products came from Japan and South Korea. The products directly imported from Japan and South Korea accounted for 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 directly procured from factories or farms, so called "direct delivery from factory", accounted for 31.5% (2018: 31.5%) share of the whole procurement, same as that of the previous year. All products for "direct delivery from factory" were either 759 STORE's home brands or exclusive brands. The product categories procured in the year were in all way focused on food and necessities of life. About 11,600 (2018: 16,500) product items were sold in the year. The number of product items sold came less than those in the previous year mainly because 759 STORE had in all way retreated the cosmetic items that was not necessities of life and the slow-moving products such as durable household products and electrical appliances, and instead strengthened in all way the fast-moving products of necessities of life including rice, noodle, cooking oil, alcohol, sanitary paper product, detergent and etc. In the year, 759 STORE actively developed the staple food category, increasing the share of rice, noodle, cooking oil and frozen instant food, expecting that sales revenue of staple food could well resist and so balance off the impact brought by economic fluctuations, and in long run maintain the sales revenue of 759 STORE at a much stable level. As at 30 April 2019, the total inventories carried by the retail business of the Group was HK$311,559,000 (2018: HK$331,874,000), decreased by 6.1% as compared with that of the previous year, much as the same as the ratio that the sales revenue dropped.

Support from the Customers

During the year, 759 STORE consolidated the distribution of its retail network and completely retreated the cosmetic specialty store business, with a net decrease by 27 in total number of shops. Mild growth was recorded in members' frequency of purchase for the year. The number of membership cards used continuously for no less than once per week was about 460,000 (2018: 416,000) and the number of membership cards used continuously for no less than once per month was 1,230,000 (2018: 1,230,000). These figures indicate that 759 STORE has received long-term and continued support from the customers.

Electronic Component Manufacturing Business

During the year, the segment revenue of electronic components manufacturing business of the Group recorded a reduction to HK$108,972,000 (2018: HK$129,711,000), representing a decrease of 16% as compared with last year. Since the second half of the financial year, the China-US trade war has dealt an extraordinary blow to industrial exports, and also affected the Group's electronic component orders. However, due to the downward trend of the Renminbi exchange rate during the year in review, an unrealized exchange gain of HK$9,435,000 (2018: exchange loss of HK$12,076,000) was generated for the manufacturing business. Therefore, the manufacturing business recorded a segment operating gain of HK$13,158,000 (2018: segment operating loss: HK$14,841,000) for the year. Since unrealized exchange loss or gain is not in cash nature, both would not give effect on actual cash flow of the business. The segment depreciation expenses of the manufacturing business for the year amounted to HK$5,453,000 (2018: HK$10,338,000). During the year, the segment gross profit margin of the manufacturing business was 25.0% (2018: 20.6%), representing an increase of 4.4 percentage points, and the total segment gross profit was HK$27,222,000 (2018: HK$26,667,000), reflecting that the electronic components manufacturing business is actively improving its product quality and service to secure better bargaining power.

Investment Properties

Rental income of the Group for the year amounted to HK$927,000 (2018: HK$2,637,000). Fair value loss included in the consolidated income statement for investment properties carried at fair value during the year was approximately HK$5,010,000 (2018: HK$1,040,000).

FINANCIAL REVIEW

Fund Surplus and Liabilities

As at 30 April 2019, the Group's bank balances and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK$69,130,000 (2018: HK$64,405,000). As at 30 April 2019, the Group had aggregate banking facilities of HK$517,700,000 (2018: HK$540,500,000) which included overdrafts, loans, trade financing, etc. Unused facilities as at the same date amounted to approximately HK$129,248,000 (2018: HK$107,816,000).

The Group's bank loans as at 30 April 2019 amounted to HK$388,452,000 (2018: HK$432,684,000), representing a decrease of 10%. As at 30 April 2019, the Group's gearing ratio* was 0.43 (2018: 0.45), which decreased by 0.02 as compared with the previous financial year end. At the same date, the Group did not have any contingent liabilities (2018: Nil).

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

At 30 April 2019, the utilized banking facilities amounting to HK$388,452,000 (2018: HK$432,684,000) were secured by charges on the Group's certain land and buildings, investment properties, bank deposits and inventories. In addition, the Group is required to comply with certain restrictive financial covenants imposed by the major financing banks. As at 30 April 2019, the Group could comply with such financial covenants.

Assets

As at 30 April 2019, the Group's total inventories amounted to HK$367,133,000 (2018: HK$395,117,000), representing a decrease of 7.1% as compared with the last financial year end. Meanwhile, with the net decrease in the number of stores of 759 STORE, the total prepayments, deposits and other receivables (including prepaid rent and rental deposits for retail stores) as at the same date fell to HK$90,467,000 (2018: HK$98,609,000).

Interest Expenses

As the Group lowered its bank borrowings, interest expenses of the Group for the year amounted to HK$19,726,000 (2018: HK$22,132,000), representing a decrease of 10.9% as compared with last year.

Financial Resources and Capital Structure

The Group's net cash inflow was HK$46,522,000 (2018: net cash outflow of HK$18,864,000) for the year. Net cash inflow from operating activities amounted to HK$79,619,000 (2018: cash outflow of HK$3,604,000). The substantial increase in cash flow from operating activities as compared with last year reflected that the adjustment measures of the retail business has had a remarkable result and that the cost structure has returned to a reasonable level. Net cash outflow from investing activities for the year amounted to HK$596,000 (2018: cash inflow of HK$132,688,000). During the year under review, the Group did not have any major investment nor significant disposal of assets. The net cash outflow from financing activities for the year amounted to HK$32,501,000 (2018: HK$147,948,000) due to further reduction of bank borrowings.

Cash Flow Summary

	2019	2018
	HK$'000	*HK$'000*
Net cash inflow/(outflow) from operating activities	**79,619**	(3,604)
Net cash (outflow)/inflow from investing activities	**(596)**	132,688
Net cash outflow from financing activities	**(32,501)**	(147,948)
Increase/(decrease) in cash and cash equivalents	**46,522**	(18,864)

As at 30 April 2019, the Group's net current liabilities was HK$88,724,000 (2018: HK$88,722,000). Current ratio was 0.85 (2018: 0.86), similar to that of the previous year. The Group's total current liabilities included pledge loans of approximately HK$37,900,000 (HK$27,900,000 repayable within one year; HK$10,000,000 repayable after one year). This bank loan of HK$10,000,000 due for repayment after one year contains a repayment on demand clause was 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". The management believes that the Group's working capital on hand, together with the banking facilities provided by major financing banks, are sufficient to fund its existing operation.

Charges on Assets

As at 30 April 2019, certain assets of the Group with an aggregate carrying value of approximately HK$615,802,000 (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 denominated in Hong Kong dollar, Renminbi and United States dollars; whilst the major currencies in purchase commitments and operation costs are 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 the exchange rates of Japanese Yen and Euro go up significantly, it will impact the Group's overall cost of imports. Because of this, the Group will pay vigilant attention to the fluctuation of Japanese Yen and Euro.

Employees

As at 30 April 2019, the Group had employed approximately 1,700 staff (2018: 1,900). The remuneration of the employees is determined by a wide range of factors including references to market benchmark, individual performance, academic qualification and work experience, subject to periodic reviews. Other agreed employee benefits includes pension scheme, medical insurance, on-job training, education subsidy and other social security and paid leaves stipulated under the relevant jurisdiction of places of operation.

FUTURE PLAN AND OUTLOOK

The Group's retail business had gone through a prolonged adjustment that the current cost structure had restored its stability and reasonableness. Looking into the future, the management team will focus on developing the brand "759 STORE", continue our founder's strong sense of commitment to serve Hong Kong "Kai-fongs" and carry on the corporate mission set by him when he founded 759 STORE:「high flow rate, wide range of choices and "lower margin with high turnover" policy with an aim to offer more alternatives to our Hong Kong "Kai-fongs"」. The Group in hand had sufficient amount of data to evaluate the potential sites for new shops and the affordable level for shop rent. Our leasing department was actively looking for suitable sites in residential areas. From May 2019 to the date of this report, 6 new shops in total have come into operation, same as the total number of new shops for last financial year in whole. Apart from those 6 new shops, 2 other new shops were currently under decoration, on plan that these 2 new shops will open one by one after the date of this report. Those new shops were all located in shopping malls or shop units at private or public housing estates. The Group expected that restarting the development in retail network will scale up the business in future, not only raise the revenue but also increase the product import volume so that there would be more space for price bargaining, which in turn would make 759 STORE more competitive in the market.

759 STORE will focus on the development of food groceries and other necessities of life and will continue to develop its high flow rate model for direct import as in the past. Procurement team is working hard to source products all over the world so as to have a much comprehensive product portfolio. Snack and leisure food are 759 STORE's iconic product categories. However, it is difficult to see them as locomotive for growth since snack market was already saturated. 759 STORE persistently in a low profile developed the categories other than snack, such as staple food, beverages, alcohols, seasonings, frozen food as well as non-food categories such as paper products, detergents and cleansing products. Personal care category of 759 KAWAII like sanitary napkins, cotton pads, shampoos, body washes and etc. was merged into the product portfolio of 759 STORE, being displayed and sold therein. All these have given stable contribution on the revenue of retail business. 759 STORE currently sells huge volume of frozen food, in which the major share was taken by fish and seafood, and the share of meat was relatively small. Procurement team is sourcing more pork, beef and poultry products in Europe, North America and Southeast Asia. On the other hand, the current trend put lots of attention on healthy food culture that the market demand on organic food is greatly increasing. 759 STORE is negotiating with overseas manufacturers to introduce a series of health food that lately emerged, such as natural organic food, gluten-free food and vegetarian meat products, which will one by one be introduced to the market so as to provide customers much more choices. Apart from self-import, 759 STORE also has the intention to further explore the opportunity for more in-depth cooperation with local suppliers to broaden its product portfolio, so as to offer better services in terms of convenience to our customers.

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

The Company had not redeemed any of its listed shares during the year ended 30 April 2019. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed shares during the year ended 30 April 2019.

CORPORATE GOVERNANCE PRACTICES CODE

The board of directors (the "Board") of the Company believes that good corporate governance plays an important role in maintaining and promoting investors' confidence. The Board is responsible for ensuring that the Company maintains a high quality of corporate governance. The Company has adopted the principles and complied with the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the year ended 30 April 2019, except for the following deviations:

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 comprising three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group, the risk management and internal control systems of the Group and the annual results of the Company for the year ended 30 April 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. 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 for the period from 1 May 2018 to 30 April 2019. The Model Code also applies to the relevant employees of the Group.

Further information on the corporate governance practices of the Company will be set out in 2018/2019 annual report of the Company, which will be sent to the shareholders of the Company by the end of August 2019.

SCOPE OF WORK OF MESSRS. PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement and consolidated statement of comprehensive income and the related notes thereto for the year ended 30 April 2019 as set out in this announcement have been agreed by the Group's auditor, Messrs. PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year under review. The work performed by Messrs. PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. PricewaterhouseCoopers in this announcement.

ANNUAL GENERAL MEETING

The 2019 Annual General Meeting of the Company will be held on Friday, 27 September 2019 and the Notice of Annual General Meeting will be published and despatched in accordance with the Listing Rules in due course.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the websites of the Company (http://www.0759.com) and that of the Stock Exchange (www.hkex.com.hk). The 2018/19 annual report of the Company containing all information required by the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

By Order of the Board
Tang Fung Kwan
Chairman

Hong Kong, 26 July 2019

As at the date of this announcement, the Board of the Company comprises three Executive Directors, namely Ms. Tang Fung Kwan, Mr. Ho Man Lee and Mr. Lam Kwok Chung; and three Independent Non-executive Directors, namely Mr. Au Son Yiu, Mr. Goh Gen Cheung and Mr. Chan Chiu Ying.

Websites: http://www.0759.com
http://www.ceccoils.com
http://www.irasia.com/listco/hk/cecint

* *For identification purpose only*