CEC-COILS®

CEC INTERNATIONAL HOLDINGS LIMITED

CEC 國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 759)

2016/2017 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of CEC International Holdings Limited (the "Company") would like to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 31 October 2016 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 31 October **2016** ***HK$'000*** **(Unaudited)**	2015 *HK$'000* (Unaudited)
Revenue	*2*	**1,079,170**	1,258,153
Cost of sales		**(690,867)**	(832,325)
Gross profit		**388,303**	425,828
Other loss, net		**(205)**	(332)
Selling and distribution expenses		**(324,557)**	(325,266)
General and administrative expenses		**(81,585)**	(79,708)
Operating (loss)/profit	*3*	**(18,044)**	20,522
Finance income		**35**	105
Finance costs		**(12,608)**	(10,925)
Finance costs, net	*4*	**(12,573)**	(10,820)
(Loss)/profit before income tax		**(30,617)**	9,702
Income tax credit/(expense)	*5*	**683**	(1,610)
(Loss)/profit attributable to equity holders of the Company for the period		**(29,934)**	8,092
(Loss)/earnings per share, basic and diluted, attributable to equity holders of the Company	*6*	**(4.49 cents)**	1.21 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 31 October	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss)/profit for the period	**(29,934)**	8,092
Other comprehensive loss – items that may be reclassified to profit or loss		
Change in fair value on available-for-sale financial assets	**(17)**	(181)
Currency translation differences	**(15,831)**	(13,440)
Total comprehensive loss for the period	**(45,782)**	(5,529)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 31 October 2016** ***HK$'000*** **(Unaudited)**	As at 30 April 2016 *HK$'000* (Audited)
ASSETS			
Non-current assets			
Land use rights		**18,020**	18,666
Property, plant and equipment		**555,076**	576,404
Investment properties		**71,699**	72,280
Available-for-sale financial assets		**240**	258
Prepaid rent on operating lease		**61,343**	75,818
Deposits paid for acquisition of property, plant and equipment		**1,091**	5,720
Deferred tax assets		**6,997**	6,038
		714,466	755,184
Current assets			
Inventories		**286,320**	327,287
Accounts and bills receivables	*8*	**31,996**	45,653
Deposits, prepayments and other receivables		**63,696**	67,673
Pledged bank deposits		**35,068**	41,728
Cash and cash equivalents		**73,556**	77,925
		490,636	560,266
Total assets		**1,205,102**	1,315,450
EQUITY			
Share capital		**66,619**	66,619
Reserves		**390,965**	436,747
Total equity		**457,584**	503,366
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**3,584**	3,369
Provision for reinstatement cost		**9,255**	11,720
		12,839	15,089
Current liabilities			
Borrowings	*9*	**622,049**	679,413
Accounts payable	*10*	**33,723**	30,811
Accruals and other payables		**74,427**	82,275
Taxation payable		**4,480**	4,496
		734,679	796,995
Total liabilities		**747,518**	812,084
Total equity and liabilities		**1,205,102**	1,315,450

Notes:

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 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The Group's operations are financed both by bank borrowings and internal resources. As at 31 October 2016, the Group's current liabilities exceeded its current assets by HK$244,043,000 (30 April 2016: HK$236,729,000). This liquidity shortfall was attributable to (i) certain of the Group's non-current assets including property, plant and equipment had been financed mainly by the Group's internal funding and short-term bank borrowings, and (ii) bank borrowings contractually due for repayment after one year contain a repayment on demand clause amounting to HK$58,911,000 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 2016, the Group's total borrowings, including the above borrowing amount of HK$58,911,000 with repayment on demand clause and original maturity beyond 31 October 2017, amounted to HK$622,049,000 (30 April 2016: HK$679,413,000) and are repayable within twelve months from 31 October 2017. The Group's cash and cash equivalents (net of bank overdrafts) amounted to HK$1,406,000 as at 31 October 2016 (30 April 2016: HK$5,905,000).

In addition, during the six months ended 31 October 2016, the Group reported a loss of HK$29,934,000, which was primarily attributable to (i) net exchange loss of HK$22,293,000 (2015: net exchange gain of HK$19,377,000) primarily in relation to the Group's purchases denominated in Japanese Yen; and (ii) the lower revenue in the retail business during this period, compared with the same period of last year.

Amid the challenging business environment, the Group had to continue to make payment to suppliers of merchandise and renovation of stores according to pre-determined schedule, and scheduled repayment of trust receipt bank loans and term loans.

The management closely monitors the Group's financial performance and liquidity position. In view of these circumstances, the management has continued to implement measures to improve profitability, control operating costs and contain capital expenditure in order to improve the Group's operating performance and alleviate its liquidity risk. These measures include (i) remapping its marketing strategies and pricing policies, (ii) restructuring the geographical locations and product mix of underperforming retail stores and catering outlets, and (iii) negotiating with the landlords for rent reduction upon renewal of relevant tenancy agreements. The management believes that these measures will result in improvement of gross profit margin and the resulting cash flows. Also, the management will continue to slow down the Group's retail network expansion plan in order to contain additional capital expenditure. With respect to the Group's bank financing, the Group maintains continuous communication with its banks. As at 31 October 2016, the Group had unutilised bank facilities of HK$221,463,000, in which unutilised trade financing facilities amounted to HK$191,241,000 and unutilised term loan and overdraft facilities amounted to HK$30,222,000. In November 2016, the Group successfully obtained additional trade financing facilities of HK$50,000,000 from a principal bank. Based on the latest communications with the banks, the directors of the Company are not aware of any intention of the principal banks to withdraw their bank facilities or require early repayment of the borrowings, and the directors believe that the existing bank facilities will be renewed when their current terms expire given the good track records and relationship the Group has with the banks.

The Company's directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from 31 October 2016. 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 2016. Management's projections make key assumptions with regard to the anticipated cash flows from the Group's operations, capital expenditure 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 2016. Accordingly, the consolidated financial statements are 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 2016, as described in those annual financial statements.

In the current period, the Group has also adopted the following new standards and 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 2016. The adoption of these new standards and amendments to standards has no material impact on the Group's results and financial position.

Annual Improvements Project	Annual Improvements 2012-2014 Cycle
HKFRS 14	Regulatory Deferral Accounts
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations
HKAS 1 (Amendment)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendment)	Agriculture: Bearer Plants
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements

The following are new standards and amendments to standards that have been issued but not yet effective for the financial year beginning 1 May 2016 and have not been early adopted:

HKFRS 15	Revenue from Contracts with Customers
HKFRS 9	Financial Instruments
HKFRS 16	Leases
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Group is in the process of making an assessment on the impact of these new standards and amendments to existing standards and is not yet in a position to conclude on the potential impact of these standards to the Group.

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 holding. 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 holding Six months ended 31 October		Eliminations Six months ended 31 October		Total Six months ended 31 October	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue										
External sales	**1,001,457**	1,155,603	**76,106**	100,255	**1,607**	2,295	**–**	–	**1,079,170**	1,258,153
Intersegment sales	**–**	–	**–**	–	**792**	792	**(792)**	(792)	**–**	–
	1,001,457	1,155,603	**76,106**	100,255	**2,399**	3,087	**(792)**	(792)	**1,079,170**	1,258,153
Segment results										
Operating (loss)/profit	**(10,003)**	22,150	**(5,134)**	860	**999**	1,381			**(14,138)**	24,391
Corporate expenses									**(3,906)**	(3,869)
Finance costs, net									**(12,573)**	(10,820)
(Loss)/profit before income tax									**(30,617)**	9,702
Income tax credit/(expense)									**683**	(1,610)
(Loss)/profit for the period									**(29,934)**	8,092
Depreciation and amortisation	**30,812**	32,997	**6,459**	7,256	**–**	–			**37,271**	40,253
Distribution expenses and administrative expenses	**386,153**	381,531	**15,475**	18,659	**608**	915			**402,236**	401,105
Additions to non-current assets (other than financial instruments)	**16,433**	39,752	**529**	427	**–**	–			**16,962**	40,179

	Retail business		Electronic components manufacturing		Investment property holding		Eliminations		Total	
	As at 31/10/2016	As at 30/4/2016	**As at 31/10/2016**	As at 30/4/2016	**As at 31/10/2016**	As at 30/4/2016	**As at 31/10/2016**	As at 30/4/2016	**As at 31/10/2016**	As at 30/4/2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets										
Unallocated assets	**853,667**	935,815	**277,887**	307,058	**72,603**	73,232	**(6,223)**	(6,753)	**1,197,934**	1,309,352
– Deferred income tax									**6,997**	6,038
– Corporate assets									**171**	60
Total assets									**1,205,102**	1,315,450
Segment liabilities	**91,472**	99,895	**24,986**	23,975	**6,325**	7,074	**(6,223)**	(6,753)	**116,560**	124,191
Borrowings									**622,049**	679,413
Unallocated liabilities										
– Deferred income tax									**3,584**	3,369
– Taxation payable									**4,480**	4,496
– Corporate liabilities									**845**	615
Total liabilities									**747,518**	812,084

Geographical information

	Revenue Six months ended 31 October		Non-current assets	
	2016	2015	**As at 31/10/2016**	As at 30/4/2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC (including the Hong Kong Special Administrative Region)	**1,052,409**	1,221,495	**714,429**	755,134
Other regions	**26,761**	36,658	**37**	50
	1,079,170	1,258,153	**714,466**	755,184

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.

3. OPERATING (LOSS)/PROFIT

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

	Six months ended 31 October	
	2016	2015
	HK$'000	*HK$'000*
Amortisation of land use rights	**255**	269
Cost of inventories recognised as expenses included in cost of sales	**618,373**	765,182
Depreciation of property, plant and equipment	**37,016**	39,984
Employee benefit expenses (including directors' emoluments)	**170,531**	189,538
Write back for impairment of accounts receivable	**(262)**	(909)

4. FINANCE COSTS, NET

	Six months ended 31 October	
	2016	2015
	HK$'000	*HK$'000*
Interest expense on bank borrowings	**12,608**	10,925
Interest income from bank deposits	**(35)**	(105)
	12,573	10,820

5. INCOME TAX CREDIT/(EXPENSE)

Income tax expense is recognised based on management's estimate of the annual income tax rate expected for the full financial year. The Company is incorporated in Bermuda and is exempted from taxation in Bermuda until 2035. Hong Kong profits tax has been provided at the estimated rate of 16.5% (2015: 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% (2015: 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	
	2016	2015
	HK$'000	*HK$'000*
Hong Kong profits tax		
– current tax	**–**	1,252
Overseas taxation including Mainland China		
– current tax	**61**	110
Deferred taxation	**(744)**	248
	(683)	1,610

6. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share for the six months ended 31 October 2016 is based on the consolidated loss for the period of approximately HK$29,934,000 (2015: profit of HK$8,092,000) and the weighted average number of 666,190,798 (2015: 666,190,798) shares in issue during the period.

For the six months ended 31 October 2016 and 3l October 2015, diluted (loss)/earnings per share equals basic (loss)/earnings per share as there was no dilutive potential share.

7. DIVIDEND

The Board resolved not to declare any interim dividend in respect of the six months ended 31 October 2016 (2015: Nil).

8. ACCOUNTS AND BILLS RECEIVABLES

	As at 31 October 2016	As at 30 April 2016
	HK$'000	*HK$'000*
Accounts receivables	**37,837**	52,006
Less: provision for impairment of receivables	**(5,956)**	(6,473)
Accounts receivables – net	**31,881**	45,533
Bill receivables	**115**	120
Accounts and bills receivables – net	**31,996**	45,653

The ageing analysis of accounts receivables is as follows:

	As at 31 October 2016	As at 30 April 2016
	HK$'000	*HK$'000*
0-30 days	**17,874**	30,696
31-60 days	**7,651**	8,711
61-90 days	**3,726**	3,840
91-120 days	**1,499**	1,458
Over 120 days	**7,087**	7,301
	37,837	52,006
Less: provision for impairment of receivables	**(5,956)**	(6,473)
	31,881	45,533

The Group performs on-going credit and collectability evaluation of each customer. The Group offers an average credit period ranging from 30 to 120 days to its non-retail business customers.

9. BORROWINGS

As at 31 October 2016, bank borrowings of approximately HK$58,911,000 (at 30 April 2016: HK$88,515,000) 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".

10. ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

	As at 31 October 2016 *HK$'000*	As at 30 April 2016 *HK$'000*
0-30 days	**27,280**	27,190
31-60 days	**3,114**	2,642
61-90 days	**968**	281
91-120 days	**1,600**	8
Over 120 days	**761**	690
	33,723	30,811

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

For the six months ended 31 October 2016, the Group recorded total revenue of HK$1,079,170,000 (2015: HK$1,258,153,000), representing a decrease of 14.2% as compared with that of last year. It was resulted mainly from the shrinking local retail market that led to a decrease of segment revenue in retail business for 13.3% to HK$1,001,457,000 (2015: HK$1,155,603,000) as compared with that of last year. During the period, revenue from retail business accounted for 92.8% (2015: 91.8%) of total revenue. Influenced by the decreased revenue, the Group recorded consolidated loss of HK$29,934,000 (2015: consolidated profit of HK$8,092,000), which was mainly attributable to the following factors:

1. 759 STORE follows firmly to "Quick Turnover with Lower Margin" principle. It is not only widely welcomed by customers, but also allows high product turnover that helped 759 STORE to gain much market share effectively. However, low margin setting was a double-edged sword that the operation in whole would need much more time to do its adjustment if a great reverse in market trend occurred.

2. The retail business adopts "Direct Import" as its main model for procurement, in general mainly settling payments in local currencies of export countries. During the period under review, fluctuations in international foreign exchange market has affected the Group's operating profit. In the last financial year, Japanese Yen stayed low and such "Japanese Yen bonus" has given great support to the Group's expansion in market share. Japanese Yen started to appreciate greatly from the fourth quarter of last year and remained high during the period under review, where the founder was too optimistic on the trend of Japanese Yen. As the effect of "Japanese Yen bonus" vanished, the Group recorded an exchange loss of

HK$22,293,000 (2015: exchange gain of HK$19,377,000) in the same period with an absolute difference reaching HK$41,670,000 when compared with that of the last year, 1.4 times of the consolidated loss of the same period.

3. According to the figures released monthly by the Census and Statistics Department of Hong Kong, the value of total retail sales declined in every single months from March 2015 for 20 consecutive months, of which the declining trend started from the mid of last year, extending to the period under review. The retail business of the Group, at that moment, was still under the period of active expansion; increasing shop number and logistic warehouse; so as to expand the product mix in the food groceries, with an aim to go beyond the existing market model that mainly relies on snack and confectionaries. However, as local retail market's sharp downturn, the revenue growth was below expectation, as a result, the increase in cost was not able to be fully offset.

Retail business

Since 2010, in which 759 STORE founded, the retail business becomes the main source of revenue for the Group. After 6 years of continuous active development, 759 STORE has established a sizable retail network with a procurement model that imported products on its own directly from manufacturer's countries, firmly sticking to "Quick Turnover with Lower Margin" policy with high product turnover rate so as to provide much more shopping choices to local residents.

For the six months ended 31 October 2016, retail business recorded segmental operating loss of HK$10,003,000 (2015: operating profit of HK$22,150,000). During the period, segmental revenue of the Group's retail business was HK$1,001,457,000 (2015: HK$1,155,603,000), representing a decrease of about 13.3% as compared with that of the same period last year. In respect of segmental gross profit, HK$376,205,000 (2015: HK$403,682,000) was recorded, representing a decrease of 6.8% as compared with that of the last year, less than the percentage decrease of segmental revenue. During the period, the Group has made in-depth operational review which improved gross profit margin by 2.7 percentage points higher than that of the same period last year to 37.6% (2015: 34.9%). The founder had once considered to change the management structure, in attempts to increase the products that provided by local supply chains, to hopefully increase the revenue. However, since local supplied products lacked flexibility on price-setting, being incomprehensive in their supplies and of variety not rich enough in customers' point of view, local supplied products not only were of flow rate far lower than expected, but also came with some complicated and unnecessary disturbances. Apart from price, they failed to bring benefit on correlated purchase to our customers. During the period under review, the Group enhanced the ratio of "Direct Import" products again, to more than 90% where the gross profit and the product flow rate improved spontaneously.

As at 31 October 2016, the shop number of 759 STORE in operation was 255 (30 April 2016: 271). In percentage terms, the shop number decreased by 6% in total, amounting to 16 shops in total (newly opened for 3, closed for 16 and combined for 3). The main reason for this net decrease in the shop number was that, the Group closed the shops of too high rent to revenue ratio and/or of too high shop intensity in respect of neighbour shops, after reviewing the operational results for all the shop of rental agreements due to renew during the period under review. Shop rental expense still was the largest component in the cost structure of retail business, recorded HK$134,560,000 (2015: HK$130,242,000), representing a rise of 3.3% when compared with that of last year in the same period. It reflected a fact that even though local retail market went worse with the value of total retail sales declining for 20 consecutive months, the level of shop rent still stayed high. As the revenue decreased in the period under review as compared with that of last year, the rent-to-revenue ratio climbed to 13.4% (2015: 11.3%). As at 31 October 2016, total gross floor area of the Group's shops was approximately 489,000 sq ft (2015: 504,000 sq ft), while average shop gross floor area was about 1,918 sq ft (2015: 1,794 sq ft). In respect of direct labour cost, due to the net decrease in shop number and natural wastage of certain frontline staff, the total staff number amounted to 918 (2015: 1,067) as at 31 October 2016. In the period under review, labour cost of frontline staff were HK$93,820,000 (2015: HK$101,175,000), decreasing for about 7% when compared with that of last year. The average wage of frontline staff increased for about 7.8% when compared with that of last year. The management fully understand that reasonable wage scheme is essential for the recruitment of suitable staff and it is extremely important for the Group to maintain good service level and future development. During the period under review, the ratio of direct labor costs over revenue increase for 0.6 percentage point to 9.4% (2015: 8.8%), and the average number of frontline staff per shop in the same period was 3.6 (2015: 3.9).

In the period under review, the Group strengthened its control on cash flow, actively managing its retail inventory. As at 31 October 2016, total value of inventory of the retail business was HK$230,686,000 (30 April 2016: HK$262,207,000), decreasing for 12% as compared with that of last financial year end date. During the period, the number of product items that had been sold was around 15,000 (2015: around 22,000). The main reason why the number of product items decreased as compared with that of last year was that, the Group had decided to resume the procurement policy that adopted when 759 STORE was first founded, concentrating the product source on import snack category, putting the always popular Japanese and Korean products again to mainstream so that the weighing of snack category in the revenue had gone back to more than 50%. Apart from snack, other main categories were food groceries, drinks (including alcohols), frozen foods and personal care products. Among those categories, the performance of frozen foods was most ideal that a remarkable increase was recorded in its revenue. Jelly, Chinese dim sum, Thailand jasmine rice, Japanese Kyushu ramen noodle, wet tissue and laundry gel ball were the bestsellers of snack, frozen foods, food groceries, noodle, personal care product and household consumable respectively. In contrast, the Group greatly reduced the development on non-consumable household products and stopped the development on small household electrical appliances for the main reason that their product flow rates were relatively much lower than that of other product categories. It takes too long for customers to buy the other same non-consumable products that their sales volume was difficult to be stimulated even their prices were easy to afford. For small household electrical appliances, customers reflected in their feedback that they saw quality assurance as an important factor and tended to buy international brand products instead. For these reasons, non-consumable household products and small household electrical appliances were not match well with high flow rate and "Quick Turnover with Lower Margin" policy adopted by 759 STORE. The Group continues to adopt parallel import procurement model in container unit, maintaining the weighting of products that import on its own beyond 90%, from 63 countries and regions (2015: 61), mainly Japan and Korea. The weighting of the products directly import from Japan and Korea had risen to more than 60%, where the weighting of the other countries followed in descending order as Europe, Southeast Asia, Taiwan, China, America and other regions.

Even in the period where retail market turned bad, steady growth was seen in those 7 restaurants that operated by the Group. Those restaurants were positioned as canteens that served "worker meals" for the working class. Cart noodle was the most favourite dish producing revenue that weighted more than half of the total revenue of the catering business.

As at October 2016, the number of 759 STORE membership card holders who made one and more than one purchases per week was around 420,000 visits (2015: 370,000 visits), and those made one and more than one purchases per month was around 1,200,000 visits (2015: 1,190,000 visits). This important figure actually reflects that, our precious member customers still give their long term support to 759 STORE, which is a great encourage for our staff.

Electronic components manufacturing business

The business first established by the Group is electronic component manufacture, of which its coil products are widely applied in electronic products and electrical appliances in various fields such as mobile communication equipment, lighting products, household appliances, computers and its peripheral products, power supply devices.

During the period under review, the Group continued to scale down the business and streamline the structure of Zhongshan main plant, reallocated its resources and production capacity to provide services and support for its international electronic clients in partnership for years. During the period under review, the manufacturing business recorded segment revenue of HK$76,106,000 (2015: HK$100,255,000), representing a decrease of 24.1% as compared with the same period last year. Owing to the continued downturn of the electronic manufacturing market and consequently the revenue, gross profit for the period amounted to HK$10,492,000 (2015: HK$19,850,000) and, after deducting segment depreciation expense of HK$6,459,000 (2015: HK$7,256,000), operating loss of HK$5,134,000 (2015: operating profit of

HK$860,000) was recorded. Regardless of the fact that the contribution level of the manufacturing business to the Group's revenue has dropped to below 10% and business trimming are underway as scheduled, Zhongshan main plant and Gaozhou plant will continue its untiring efforts to ensure that quality coil products and service support are provided to our clients who had worked together for years.

Investment property

For the six months ended 31 October 2016, rental income of the Group amounted to HK$1,607,000 (2015: HK$2,295,000). The decrease in rental income was mainly because certain properties were changed into properties for the Group's own use.

FINANCIAL REVIEW

Fund Surplus and Liabilities

As at 31 October 2016, the Group's bank balances and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK$108,624,000 (30 April 2016: HK$119,653,000). As at 31 October 2016, the Group had aggregate banking facilities (excluding that of foreign exchange derivative financial instrument) of approximately HK$847,150,000 (30 April 2016: HK$944,749,000) for overdrafts, loans, trade financing, factoring of accounts receivable, etc. Unused facilities as at the same date amounted to approximately HK$221,463,000 (30 April 2016: HK$262,932,000). At 31 October 2016, the utilized banking facilities amounting to HK$625,687,000 were secured by charges on the Group's certain land and buildings, investment properties, pledges of the Group's accounts receivable, 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 31 October 2016, the Group could comply with such financial covenants. The Group's working capital is mainly sourced from certain financing banks whom we had partnered with for years, and the Group utilizes its trade finance facilities in a rational manner to achieve high-turnover import and retail business.

As at 31 October 2016, the Group borrowed HK$622,049,000 (30 April 2016: HK$679,413,000) from a number of banks, representing a decrease of approximately 8.4%. As at 31 October 2016, the Group's gearing ratio* was 0.53 (30 April 2016: 0.53). In addition, the Group did not have any contingent liabilities on the same date (30 April 2016: Nil).

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

Assets

As at 31 October 2016, the Group had total inventories of HK$286,320,000 (30 April 2016: HK$327,287,000), the balance decreased by 12.5% as compared with the last financial year end date. The founder uses our self-developed operation system to manage and monitor the Group's merchandise procurement, logistics flow and capital flow. Currently, the Group's operation system has been able to determine the order demand automatically based on selling volume and inventory of merchandise, and adjust instantly in a real-time manner. When issuing purchase orders, data are linked to the capital management system to arrange utilization and pre-schedule repayment of trade financing, delivering effective support to cash-flow management for utilizing the banking facilities. Along with the closing down of 16 branches with overlapping location by the Group during the period, total prepayments, deposits and other receivables of the Group as at 31 October 2016 fell by 13% as compared with the same period last year to HK$125,039,000 (30 April 2016: HK$143,491,000).

For accounts receivables, given all incomes from the retail business were settled by cash, Octopus card and credit card, net accounts receivables of the Group contributed by the electronic components manufacturing business as at 31 October 2016 was HK$30,175,000 (30 April 2016: HK$33,964,000), decreased by about 11.2% than last financial year end date. The accounts receivables have dropped to a very low level along with the shrinkage of the manufacturing business. The Group will carry on with its stringent credit policy to ensure the quality of accounts receivables.

Interest expense

Interest expense of the Group amounted to HK$12,608,000 for the six months ended 31 October 2016 (2015: HK$10,925,000), representing an increase of 15.4%.

Financial Resources and Capital Structure

For the six months ended 31 October 2016, the Group recorded net cash inflow of HK$4,662,000 (2015: outflow of HK$6,847,000). Net cash inflow from operating activities significantly improved from last year to HK$85,031,000 (2015: HK$36,536,000), which was mainly attributed to the decrease of HK$40,967,000 and HK$18,452,000 respectively in inventory and total prepayments, deposits and other receivables as the scale of the retail business had stabilized during the year. During the period, net cash outflow from investing activities was HK$16,960,000 (2015: HK$35,705,000), down 52% from the same period last year. During the period under review, net cash outflow from financing activities was HK$63,409,000 (2015: HK$7,678,000), principally due to the fact that the Group had utilized the significantly increased cash inflow from operating activities to reduce its bank borrowings.

Cash Flow Summary	For the six months ended 31 October	
	2016	**2015**
	HK$'000	*HK$'000*
Net cash inflow from operating activities	**85,031**	36,536
Net cash outflow from investing activities	**(16,960)**	(35,705)
Net cash outflow from financing activities	**(63,409)**	(7,678)
Increase/(decrease) in cash and cash equivalents	**4,662**	(6,847)

As at 31 October 2016, the Group's net current liabilities was HK$244,043,000 (30 April 2016: HK$236,729,000) and current ratio was 0.67 (30 April 2016: 0.70). The amount included a pledged bank loan of approximately HK$144,778,000 (HK$85,867,000 repayable within one year; HK$58,911,000 repayable after one year). Such loans due for repayment after one year but contain a repayment on demand clause amounting to approximately HK$58,911,000 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". The founder expects that, in the foreseeable future, there will be no plan for material investment that needs to significantly increase its budgeted capital expenditure. After taking the existing available banking facilities into account, the Group currently has sufficient working capital to meet its need for business development. Further, as the Group's principal business is retailing, presently, the founder considers that focusing to make use of import trade financing is the most efficient arrangement in that capital utilization is calibrated against our retail business scale and remains flexible at all times. In view of the current capital condition, the Group has no additional back-up capital requirement and therefore has no plan to engage in fund raising.

Charges on Assets

As at 31 October 2016, certain assets of the Group with an aggregate carrying value of approximately HK$446,178,000 (30 April 2016: HK$409,386,000) were pledged to secure banking facilities of the Group.

Exchange and Interest Rate 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 currencies in purchase commitments and operation costs 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 the exchange rates of Japanese Yen and Euro go up significantly, it will greatly impact the Group's competitiveness. Besides, the Group's operating capital is mostly financed by banking facilities. Owing to the fact that the interest rates remained at a relatively low level in the past few years and would possibly be adjusted upwards in future and thus increase our capital costs, the control of inventory as well as the operation efficiency of our branches should receive upmost attention to ensure best use of every cent of capital.

EMPLOYEES

As at 31 October 2016, the Group employed approximately 2,400 staff (2015: 2,900). The remuneration of the employees is determined by reference to market benchmark, individual performance, academic qualification and work experience, subject to periodic review. 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.

Social Responsibilities

The Group is proactive in carrying out the responsibilities of a corporate citizen. By participating in various kinds of charitable, volunteer, and recreational activities, 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 made donation to charitable organizations and educational institutions and have endeavored to participate in social welfare activities.

FUTURE OUTLOOK

The Group's 759 STORE has developed for seven years with an established network of branches covering most residential districts in Hong Kong. Number of membership of 759 STORE and figures about their repeated purchases reveal that 759 STORE has a substantial business scale as well as a strong customer base. Through meticulous market measurement and analysis aided with the operating data system, the management ascertained the market differentiation and characteristics that 759 STORE possesses in spite of the fiercely competitive market. The slowdown in revenue is mainly attributable to the underestimation on the market downturn since last year and the market downswings have undoubtedly posed considerable cost pressure on 759 STORE when it was still under the period of rapid expansion. In the short run, the major cost being rent is bound by contracts and difficult to be forthwith adjusted. But in the long run, the founder has formulated a series of strategies for 759 STORE, which are being orderly carried out.

1. Merchandise category
   759 STORE focused on Japanese and Korean snacks at its inception, and had gradually expanded its merchandise categories into drinks (including alcohols), frozen food, personal care products, baby products, cosmetics, housewares, household electrical appliances and so forth, which had once reached 22,000 product choices. However, sales figures indicate that some categories such as housewares, household electrical appliances and cosmetics did not achieve high sales turnover despite selling at lower margin. Considering that the turnover rates of such merchandise are much lower than those of other products and that the

inventory level is therefore increased significantly, they were not match well with 759 STORE's operating principle of having high flow rate. The 759 STORE branch at the Hong Kong Station has been refitted as a snacks specialty shop since September, of which 90% of the products are from Japan and Korea. Positive feedbacks from customers and increased sales revenue enlighten 759 STORE to resume the operating model that adopted when it was first founded: focus on importing snacks mainly from Japan and Korea with some from Europe and the US as complements; product offerings be reduced to 2,000 bestselling items and 4,000 conventional items; and slow-moving items be eliminated after clearance sale. It is planned that snacks would be increased to account for over 60% of the product offerings, of which over 70% would be directly imported from Japan and Korea.

2. Global procurement

   Besides self-importing merchandise in container loads, 759 STORE has repeatedly attempted to introduce local commodities through local suppliers during the expansion period, but happened to be unsustainable. A probable reason for this is that many customer, as reflected from their feedbacks, expect to purchase self-imported goods by us when shopping in 759 STORE, instead of locally supplied merchandise which can be easily bought elsewhere. It is thus believed that large-scale introduction of local goods by 759 STORE has weakened its distinctness and has a negative impact on customers' shopping experience. 759 STORE will therefore further take the initiative to differentiate its products from those of other retailers by raising the proportion of products directly imported from its place of origin to over 90% and by introducing more featured products from Japan, Korea, Europe and the US to meet expectations of consumers. Besides, major sources of merchandise of 759 STORE comprise a number of overseas food and necessities manufacturers, and its own-branded products account for approximately 21% of the total revenue (2015: 15%). The Group will acquaint itself with each and every segment from manufacturing to retailing, by utilizing the 37 years' experience of CEC-COILS in the manufacturing industry, aims to establish an interdependent partnership with these competent manufacturers and jointly produce more quality self-branded items at reasonable prices for customers.

3. Retail network consolidation

   The Group would put "die-hard defense" as target of retail business for the second half year. A special committee comprised of several different department heads was formed to handle the tenancy renewal matters expiring by the end of 2017 of around 70 to 80 branches, taking into consideration the rent to sales performance ratio and reasonable distribution of branch location in that particular district for decision making. Tenancy renewal plans for the second half of the year are in the pipeline, and it is expected that 13 branches would possibly be closed down or revamped, 5 new branches would be opened and 2 branches would be merged by October 2017. The Group will also terminate the lease of one of its three major warehouses for retail logistics in 2017 and there would be a significant decrease in overall rental costs. 759 KAWAII for cosmetics, personal care products and some fashionable gadgets were piloted during the past three years, and responses were positive in the first year, with a number of bestseller personal care products introduced to the market. Yet, the performance of 759 KAWAII has gradually worsened in the last 18 months. Plausible causes are the growth in number of travelers to Japan with the increase in flights to Japan at cheaper fares, and the rise of some websites selling products directly delivered from Japan, e.g. "Rakuten" and "Amazon JP", allowing customers to make purchases in person or online. In addition, importation of cosmetics and personal care products which are pharmaceutical have to be handled one by one to comply with the stringent regulations imposed by the Hong Kong Government, and thus the cost and time spent on compliance make it difficult for 759 KAWAII to maintain its competitiveness with Japanese pharmacies offering all-inclusive products. The Group has consequently decided to refit 759 KAWAII branches as 759 STORE shops or close them upon lease expiry, with fast-moving personal care products subsumed under 759 STORE for sale. The Group has also worked towards becoming a "mini-department store" for more than two years, but results were not satisfying. Thus, 759 STORE will reposition itself as a "Japanese Snack and Grocery Store" that focuses solely on goods of fast-moving and of customers' actual needs. In future, 759 STORE will put a large-sized shop in every district as flagship shop to create synergy with those medium-sized and small-sized shops in the same district in order to meet the shopping needs of local residents in various districts. For shop front management, the founder has found after careful thinking that, 759 STORE is suitable to adopt small district management model, in which flagship shop navigates the shops nearby in the same district, instead of large district management model. 759 STORE will keep looking for suitable sites for new shops, locking its focus on medium-sized sites of 1,000 to 2,000 sq ft so as to prevent new shops from being not only too small to carry enough products, but also too confining to ruin customers' enjoyment. It, in the other hand, can prevent new shop from being not only too big that raises the ratio of rental expense and management fee, but also keeping too much stock in shop, exceeding the target of inventory turnover.

4. 759 STORE will open its first branch in the mainland China after Lunar New Year 2017 at Zhongshan main plant, as an exploration into the Chinese market and also to gather actual operational data for the purpose of formulating development plans in the future.

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 2016. 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 2016.

CORPORATE GOVERNANCE CODE

The Company has complied with the applicable provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the six months ended 31 October 2016, 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.

   Before 29 September 2009, the roles of the Chairman of the Board and the chief executive officer of the Company (the "CEO") were performed by two different executive directors of the Company. Due to the re-allocation of the respective duties of the executive directors of the Company, Mr. Lam Wai Chun, the Chairman of the Board, has been appointed as the Managing Director of the Company with effect from 29 September 2009 and has carried out the responsibilities of the 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. However, as Mr. Lam Wai Chun is the founder of the Group and possesses substantial and valuable experience in the industry that is relevant to 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 in the best interests of the Company and its shareholders at this stage.

2. Under code provision E.1.2 of the Code, the Chairman of the Board should attend the annual general meeting of the Company.

   The Chairman of the Board did not attend the Annual General Meeting of the Company held on 28 September 2016 (the "2016 AGM") due to illness on the even date. Ms. Tang Fung Kwan, the executive director of the Company, who took the chair of the 2016 AGM, and most members of the Board attended the 2016 AGM.

3. Under code provision A.6.7 of the Code, independent non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

   All independent non-executive directors attended the 2016 AGM except Mr. Chan Chiu Ying. Mr. Chan apologised for lateness due to severe traffic congestion.

AUDIT COMMITTEE

The Audit Committee of the Company, currently comprises three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group, the internal control and risk management of the Group and the interim results for the six months ended 31 October 2016.

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 2016. 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 2016. The Model Code also applies to the relevant employees of the Group.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 31 October 2016 will be despatched to the shareholders of the Company on or before 31 January 2017 and will be published on the website of Hong Kong Exchanges and Clearing Limited and of the Company.

By Order of the Board
Lam Wai Chun
Chairman

Hong Kong, 23 December 2016

As at the date of this announcement, the Board of the Company comprises three Executive Directors, namely Mr. Lam Wai Chun, Ms. Tang Fung Kwan and Mr. Ho Man Lee; 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*