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 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 2018 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

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

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

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

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

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 April 2018, as described in those annual financial statements.

(a) New and amended standards adopted by the Group

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

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

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

HKFRS 9 "Financial instruments"

(i) Impact of adoption

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

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

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

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

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

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

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

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

	As at 30 April 2018	**Impact on initial adoption of HKFRS9**	**As at 1 May 2018**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Available-for-sale financial assets	362	(362)	–
Financial assets at fair value through other comprehensive income	–	362	362

(ii) Summary of significant accounting policies

Classification

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

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

- those to be measured at amortised cost.

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

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

Measurement

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

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

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

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

Impairment

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

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

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

HKFRS 15 "Revenue from Contracts with Customers"

(i) Impact of adoption

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

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

(ii) Summary of significant accounting policies

Sale of goods - retail

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

Sale of goods – electronic components manufacturing

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

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

Rental income from investment properties

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

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

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

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

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

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

HKFRS 16 "Leases"

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

The accounting for lessors will not significantly change.

Impact

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

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

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

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

2. Segment information

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

The Group has three reportable segments, namely (i) retail business, (ii) electronic components manufacturing, and (iii) investment property holdings. Segment information provided to Management for decision-making is measured in a manner consistent with that in the Interim Financial Statements.

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

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

Geographical information

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

Revenue by geographical location is determined on the basis of the destination of shipment or place of sales to the customers.

Non-current assets by geographical location are determined based on the location of the relevant assets.

3. Other losses, net

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

4. Operating profit/(loss)

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

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

5. Finance costs, net

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

6. Income tax expense/(credit)

Income tax expense is recognised based on management's estimate of the annual income tax rate expected for the full financial year. The Company is incorporated in Bermuda and is exempted from taxation in Bermuda until 2035. Hong Kong profits tax has been provided at the estimated rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the period. Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax rate at the estimated rate of 25% (2017: 25%) on their taxable income determined according to Mainland China tax laws. Other overseas taxation has been calculated on the estimated assessable profits for the period at the rates prevailing in the respective jurisdictions.

The amount of taxation charged to the condensed consolidated income statement represents:

	Six months ended 31 October	
	2018	2017
	HK$'000	*HK$'000*
Overseas taxation including Mainland China		
– current tax	**60**	66
Deferred taxation	**(37)**	(585)
	23	(519)

7. Earnings/(loss) per share

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

For the six months ended 31 October 2018 and 31 October 2017, diluted earnings/(loss) per share equals basic earnings/(loss) per share as there was no dilutive potential share.

8. Dividend

The Board resolved not to declare any interim dividend in respect of the six months ended 31 October 2018 (2017: Nil).

9. Accounts and bills receivable

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

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

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

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

10. Borrowings

As at 31 October 2018, bank borrowings of approximately HK$24,250,000 (at 30 April 2018: HK$20,400,000) contractually due for repayment after one year but contain a repayment on demand clause have been classified as current liabilities in accordance with the HK Interpretation 5, "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause".

11. Accounts payable

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

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

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

Retail Business

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

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

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

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

Electronic Component Manufacturing Business

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

Investment Properties

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

FINANCIAL REVIEW

Fund Surplus and Liabilities

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

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

Assets

As at 31 October 2018, the Group's total inventories amounted to HK$368,519,000 (30 April 2018: HK$395,117,000), representing a decrease of 6.7% as compared with last year end. Along with 759 STORE's net decrease of its number of retail stores, the total prepayments, deposits and other receivables (including prepaid rent and deposit of retail stores) of the Group as at 31 October 2018 fell to HK$92,323,000 (30 April 2018: HK$98,609,000).

Interest Expenses

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

Financial Resources and Capital Structure

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

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

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

Charges on Assets

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

Exchange Risks

The Group's business is mainly conducted in Hong Kong, Mainland China and South-east Asia. The major revenue currencies are primarily denominated in Hong Kong dollar, Renminbi and United States dollars; whilst the major 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 United States dollars substantially depreciate and the exchange rates of Japanese Yen and Euro go up significantly, it will greatly impact the Group on its operating model principally conducted through direct import from overseas. Because of this, the Group will pay vigilant attention to the fluctuation of United States dollars, Japanese Yen and Euro.

EMPLOYEES

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

Social Responsibilities

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

FUTURE PLAN AND OUTLOOK

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

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

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

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

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

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

The Company had not redeemed any of its listed shares during the six months ended 31 October 2018. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company’s listed shares during the six months ended 31 October 2018.

CORPORATE GOVERNANCE CODE

The Company has 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 2018, 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 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 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions for the six months ended 31 October 2018. Following specific enquiry by the Company, all of the directors of the Company confirmed compliance with the required standard set out in the Model Code throughout the six months ended 31 October 2018. The Model Code also applies to the relevant employees of the Group.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 31 October 2018 will be despatched to the shareholders of the Company on or before 31 January 2019 and will be published on the website of Hong Kong Exchanges and Clearing Limited and of the Company.

By Order of the Board
Tang Fung Kwan
Chairman

Hong Kong, 21 December 2018

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*