CEC-COILS®

CEC INTERNATIONAL HOLDINGS LIMITED

CEC 國際控股有限公司**

(Incorporated in Bermuda with limited liability)

(Stock Code: 759)

2019/2020 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 2019 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 31 October	
		2019	2018
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	2	**903,841**	914,204
Cost of sales		**(594,716)**	(601,211)
Gross profit		**309,125**	312,993
Other gains/(losses), net	3	**4,327**	(1,204)
Selling and distribution expenses		**(241,224)**	(249,309)
General and administrative expenses		**(50,916)**	(51,097)
Operating profit	4	**21,312**	11,383
Finance income		**130**	12
Finance costs		**(16,238)**	(9,941)
Finance costs, net	5	**(16,108)**	(9,929)
Profit before income tax		**5,204**	1,454
Income tax expense	6	**(134)**	(23)
Profit attributable to equity holders of the Company for the period		**5,070**	1,431
Earnings per share, basic and diluted, attributable to equity holders of the Company	7	**0.76 cents**	0.21 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 31 October	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period	**5,070**	1,431
Other comprehensive loss		
– items that may be reclassified to profit or loss		
Currency translation differences	**(15,338)**	(32,294)
– item that will not be reclassified to profit or loss		
Change in fair value on financial assets at fair value through other comprehensive income	**(57)**	(142)
Total comprehensive loss for the period	**(10,325)**	(31,005)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 October 2019 HK$'000 (Unaudited)	As at 30 April 2019 HK$'000 (Audited)
ASSETS			
Non-current assets			
Land use rights		**–**	16,779
Property, plant and equipment		**392,920**	409,039
Right-of-use assets		**259,273**	–
Investment properties		**28,094**	28,735
Financial assets at fair value through other comprehensive income		**242**	299
Rental deposits		**44,225**	48,223
Deferred tax assets		**19,281**	17,639
		744,035	520,714
Current assets			
Inventories		**363,786**	367,133
Accounts and bills receivable	*9*	**19,501**	21,169
Deposits, prepayments and other receivables		**42,558**	42,244
Pledged bank deposits		**25,253**	19,629
Cash and cash equivalents		**52,660**	49,501
		503,758	499,676
Non-current asset held-for-sale		**–**	778
		503,758	500,454
Total assets		**1,247,793**	1,021,168
EQUITY			
Share capital		**66,619**	66,619
Reserves		**342,368**	359,044
Total equity		**408,987**	425,663
LIABILITIES			
Non-current liabilities			
Lease liabilities		**108,529**	–
Deferred tax liabilities		**4,861**	4,661
Provision for reinstatement cost		**1,980**	1,666
		115,370	6,327
Current liabilities			
Borrowings	*10*	**382,141**	388,452
Accounts payable	*11*	**132,224**	130,360
Lease liabilities		**150,504**	–
Accruals and other payables		**58,536**	70,317
Taxation payable		**31**	49
		723,436	589,178
Total liabilities		**838,806**	595,505
Total equity and liabilities		**1,247,793**	1,021,168

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 2019, 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 2019, the Group's current liabilities exceeded its current assets by HK$219,678,000 (30 April 2019: HK$88,724,000). This liquidity shortfall was attributable to (i) certain of the Group's non-current assets including property, plant and equipment and long term rental deposits are financed mainly by the Group's internal funding and short term bank borrowings, (ii) the adoption of HKFRS16 "Leases" resulted in the recognition of lease liabilities of HK$150,504,000 in current liabilities and HK$108,529,000 in non-current liabilities, respectively, while the associated right-of-use assets amounting to HK$259,273,000 were recognised in non-current assets and (iii) bank borrowings amounting to HK$6,250,000 which are contractually due for repayment after one year and contain a repayable on demand clause have been classified as current liabilities in accordance with HK Interpretation 5, "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayable on Demand Clause". As at 31 October 2019, the Group's total borrowings, including the above borrowing of HK$6,250,000 with repayment on demand clause and original maturity beyond 31 October 2020, amounted to HK$382,141,000 (30 April 2019: HK$388,452,000) and are repayable within twelve months from 31 October 2019. The Group's cash and cash equivalents (net of bank overdrafts) amounted to HK$52,593,000 (30 April 2019: HK$47,771,000) as at 31 October 2019.

Amid the challenging business environment, the Group had continued to make payment to suppliers of merchandise and renovation of stores according to predetermined schedule, and made scheduled repayment of bank borrowings and interest. The Group also recorded a net cash inflow from operations of HK$135,034,000 and a cash outflow in relation to lease payments of HK$102,807,000 during the period.

The management closely monitors the Group's financial performance and liquidity position to assess the Group's ability to continue as a going concern. In view of these circumstances, the management has been continuously implementing measures to improve profitability, control operating costs and contain capital expenditures in order to improve the Group's operating performance and alleviate its liquidity risk. These measures include (i) continuously remapping its marketing strategies and pricing policies, (ii) continuing its measures to control capital and operating expenditures, and (iii) negotiating with the landlords for rental reduction upon renewal of relevant tenancy agreements. The management believes that these measures will further improve the Group's operating profitability and the resulting cash flows. With respect to the Group's bank financing, the Group maintains continuous communication with its banks and has successfully renewed the bank facilities with its principal bank during the six months ended 31 October 2019. As at 31 October 2019, the Group had unutilised bank facilities of HK$131,909,000 in which unutilised trade financing facilities amounted to HK$114,176,000 and unutilised term loan and overdraft facilities amounted to HK$17,733,000. Based on the latest communications with the banks, the directors of the Company are not aware of any intention of the principal banks to withdraw their bank facilities or require early repayment of the borrowings, and the directors believe that the existing bank facilities will be renewed when their current terms expire given the good track records and relationships the Group has with the banks.

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 2019. Based on these cash flow projections, the Group will have sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from 31 October 2019. Management's projections make key assumptions with regard to the anticipated cash flows from the Group's operations, capital expenditures and the continuous availability of bank facilities. The Group's ability to achieve the projected cash flows depends on management's ability to successfully implement the aforementioned improvement measures on profitability and liquidity, the continuous availability of bank facilities from its banks and the continuous compliance with all restrictive financial covenant requirements. The directors, after making due enquiries and considering the basis of management's projections described above and after taking into account the reasonably possible changes in the operational performance and the successful renewal and continuous availability of the bank facilities, believe that there will be sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from 31 October 2019. Accordingly, the consolidated 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 2019, as described in those annual financial statements.

I) New and amended standards adopted by the Group

The following new standards and amendments are mandatory for the financial year beginning on 1 May 2019.

Amendments to Annual Improvement Project	Annual Improvements 2015-2017 Cycle
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

Except for the adoption of HKFRS 16 as described below, the adoption of these amendments to standards and interpretation did not have any significant impact on the preparation of these condensed consolidated interim financial information.

Adoption of HKFRS 16 "Leases"

The Group has adopted HKFRS 16 retrospectively from 1 May 2019 without restating comparatives as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening condensed consolidated statement of financial position on 1 May 2019.

(a) Adjustments recognised on adoption of HKFRS 16

The following table shows the adjustment for change in accounting policy recognised for each individual line item. Line items that were not affected by the changes have not been included.

As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Condensed consolidated statement of financial position (extract)	**30/4/2019 (as originally presented)**	**Effect on adoption of HKFRS 16**	**1/5/2019 (as restated)**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Right-of-use assets	–	286,871	286,871
Land use rights	16,779	(16,779)	–
Property, plant and equipment	409,039	(1,073)	407,966
Deferred tax assets	17,639	1,447	19,086
Current assets			
Deposits, prepayments and other receivables	42,244	(3,070)	39,174
Equity			
Reserves	359,044	(6,351)	352,693
Non-current liabilities			
Lease liabilities	–	(124,459)	(124,459)
Current liabilities			
Lease liabilities	–	(159,608)	(159,608)
Accruals and other payables	(70,317)	10,320	(59,997)

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 May 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 May 2019 was about 4.8%.

	HK$'000
Operating lease commitments disclosed as at 30 April 2019	337,069
(Less): Leases committed but not yet commenced as at 1 May 2019	(24,524)
(Less): Effect of discounting at incremental borrowing rate as at 1 May 2019	(24,385)
(Less): short-term leases recognised on a straight-line basis as expense	(4,093)
Lease liabilities recognized as at 1 May 2019	284,067
Of which are:	
Current lease liabilities	159,608
Non-current lease liabilities	124,459
	284,067

The associated right-of-use assets were measured on a retrospective basis as if the new rules had always been applied, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 30 April 2019.

The recognised right-of-use assets relate to the following types of assets:

	31/10/2019	1/5/2019
	HK$'000	*HK$'000*
Properties leases	**243,075**	270,092
Land use rights	**16,198**	16,779
Total right-of-use assets	**259,273**	286,871

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

- reliance on previous assessments on whether leases are onerous;

- the use of recognition exemption to lease with a remaining lease term of less than 12 months at 1 May 2019;

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17.

(ii) The Group's leasing activities and how these are accounted for

Rental contracts are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The Group also leases certain land use rights in Mainland China. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Before the adoption of the standard, leases of premises were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 May 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the lease liabilities and finance costs. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- restoration costs

Payments associated with short-term leases is recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Some property leases contain variable payment terms that are linked to sales generated from a store. There is a wide range of sales percentages applied. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

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

The following new standards and amendments have been issued but are not effective for the financial year beginning on or after 1 May 2019 and have not been early adopted by the Group.

Amendments to HKFRS 3 (Revised)	Definition of a Business
Amendments to HKAS 1 and HKAS 8 (Amendment)	Definition of Materials
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
HKFRS 17	Insurance Contracts
Amendments to HKFRS 10 and HKAS 28	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/revised standards and amendments to existing standard and is not yet in a position to state whether they would have a significant impact on its results of operation and financial position.

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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue										
External sales	**863,841**	852,769	**39,381**	61,157	**619**	278	**–**	–	**903,841**	914,204
Intersegment sales	**–**	–	**–**	–	**792**	792	**(792)**	(792)	**–**	–
	863,841	852,769	**39,381**	61,157	**1,411**	1,070	**(792)**	(792)	**903,841**	914,204
Segment results										
Operating profit/(loss)	**20,885**	2,341	**4,946**	15,757	**(159)**	(1,815)			**25,672**	16,283
Corporate expenses									**(4,360)**	(4,900)
Finance costs, net									**(16,108)**	(9,929)
Profit before income tax									**5,204**	1,454
Income tax expense									**(134)**	(23)
Profit for the period									**5,070**	1,431
Depreciation of right-of-use assets	**95,083**	–	**248**	–	**–**	–			**95,331**	–
Depreciation of property, plant and equipment and amortisation	**10,910**	12,230	**2,537**	3,121	**–**	–			**13,447**	15,351
Distribution expenses and administrative expenses	**281,919**	293,619	**5,083**	1,344	**778**	543			**287,780**	295,506

	Retail business		Electronic components manufacturing		Investment property holdings		Eliminations		Total	
	As at 31/10/2019	As at 30/4/2019	**As at 31/10/2019**	As at 30/4/2019	**As at 31/10/2019**	As at 30/4/2019	**As at 31/10/2019**	As at 30/4/2019	**As at 31/10/2019**	As at 30/4/2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**982,831**	755,676	**221,033**	223,017	**28,971**	29,922	**(4,426)**	(5,239)	**1,228,409**	1,003,376
Unallocated assets										
– Deferred income tax									**19,281**	17,639
– Corporate assets									**103**	153
Total assets									**1,247,793**	1,021,168
Segment liabilities	**436,668**	182,710	**13,904**	18,505	**4,596**	5,380	**(4,426)**	(5,239)	**450,742**	201,356
Borrowings									**382,141**	388,452
Unallocated liabilities										
– Deferred income tax									**4,861**	4,661
– Taxation payable									**31**	49
– Corporate liabilities									**1,031**	987
Total liabilities									**838,806**	595,505

Geographical information

	Revenue Six months ended 31 October		Non-current assets	
	2019	2018	**As at 31/10/2019**	As at 30/4/2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC (including the Hong Kong Special Administrative Region)	**889,356**	890,090	**743,980**	520,648
Other regions	**14,485**	24,114	**55**	66
	903,841	914,204	**744,035**	520,714

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 gains/(losses), net

	Six months ended 31 October	
	2019	2018
	HK$'000	*HK$'000*
Net fair value loss on investment properties	**–**	(1,550)
Net gain on disposals of property, plant and equipment	**4,327**	346
	4,327	(1,204)

4. Operating profit

Operating profit is stated after charging the following:

	Six months ended 31 October	
	2019	2018
	HK$'000	*HK$'000*
Amortisation of land use rights	–	255
Cost of inventories recognised as expenses included in cost of sales	**562,403**	549,897
Depreciation of property, plant and equipment	**13,447**	15,096
Depreciation of right-of-use assets	**95,331**	–
Employee benefit expenses (including directors' emoluments)	**128,556**	138,564
Net impairment loss/(reversal of impairment loss) on financial assets	**617**	(824)

5. Finance costs, net

	Six months ended 31 October	
	2019	2018
	HK$'000	*HK$'000*
Interest expense on bank borrowings	**9,217**	9,941
Interest expense on lease liabilities	**7,021**	–
Interest income from bank deposits	**(130)**	(12)
	16,108	9,929

6. **Income tax 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% (2018: 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% (2018: 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	
	2019	2018
	HK$'000	*HK$'000*
Overseas taxation including Mainland China		
– current tax	**129**	60
Deferred taxation	**5**	(37)
	134	23

7. **Earnings per share**

The calculation of basic earnings per share for the six months ended 31 October 2019 is based on the consolidated profit for the period of approximately HK$5,070,000 (2018: HK$1,431,000) and the weighted average number of 666,190,798 (2018: 666,190,798) shares in issue during the period.

For the six months ended 31 October 2019 and 31 October 2018, diluted earnings per share equals basic earnings 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 2019 (2018: Nil).

9. **Accounts and bills receivable**

	As at 31 October 2019	As at 30 April 2019
	HK$'000	*HK$'000*
Accounts receivable	**24,719**	26,437
Less: loss allowance	**(5,885)**	(5,268)
Accounts receivable – net	**18,834**	21,169
Bills receivable	**667**	–
Accounts and bills receivable – net	**19,501**	21,169

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

	As at 31 October 2019 *HK$'000*	As at 30 April 2019 *HK$'000*
0-30 days	**9,358**	10,368
31-60 days	**5,293**	5,853
61-90 days	**1,555**	1,631
91-120 days	**2,369**	2,370
Over 120 days	**6,144**	6,215
	24,719	26,437
Less: loss allowance	**(5,885)**	(5,268)
	18,834	21,169

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 2019, bank borrowings of approximately HK$6,250,000 (at 30 April 2019: HK$10,000,000) 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 2019 *HK$'000*	As at 30 April 2019 *HK$'000*
0-30 days	**82,228**	73,918
31-60 days	**44,265**	45,903
61-90 days	**4,085**	6,600
91-120 days	**1,277**	2,694
Over 120 days	**369**	1,245
	132,224	130,360

MANAGEMENT DISCUSSION AND ANALYSIS

The year of 2019/20 was a year full of challenges. Numerous changes happened in the external environment for every single split second. How the US-China trade war went remained unpredictable. In the meantime, local economy was also affected by a series of disturbance in society. In the period under review, the Group held saving resources as its basic principle, adopting extremely prudent policies, taking restrictive cost control on retail business and electronic component manufacturing business, in order to stay well so as to survive in the economy storm. For the six months ended 31 October 2019, the Group recorded a consolidated income of HK$903,841,000 (2018: HK$914,204,000), representing a decrease of 1.1% as compared with that of the same period for last year. In the period under review, the Group benefitted from a revaluation gain of HK$4,822,000 recognized in a sales transaction of a self-use property for the retail business so that the profit attributable to equity holders increased to HK$5,070,000 (2018: HK$1,431,000).

BUSINESS REVIEW

Retail Business

For the six months ended 31 October 2019, the Group's retail business recorded a segment revenue of HK$863,841,000 (2018: HK$852,769,000), representing an increase of 1.3% as compared with that of the same period for last year and approximately 96% (2018: 93%) of the total revenue. In term of gross profit, the segment gross profit of the retail business during the period was HK$298,478,000 (2018: HK$295,615,000) and the segment gross profit margin was 34.6% (2018: 34.7%), both being similar to those of the same period for last year. In the period, 759 STORE strengthened its portfolio of daily living products, including rice, noodles, food grocery items and frozen food items. Accordingly, the share of snack items and leisure food items in the portfolio decreased. For the product origins, over 85% of products were imported on its own from 61 countries and regions of the globe. As at 31 October 2019, the total inventories of the retail business was HK$312,585,000 (30 April 2019: HK$311,559,000), similar to that of the previous financial year end.

To control cost, the Group had decided to close certain stores of relatively high rents, on the other hand searched for potential shop sites that are less prominent and of relatively reasonable rents to open new stores. As at 31 October 2019, the Group was operating 182 stores (30 April 2019: 179). In the period, the Group closed 6 stores and opened 9 stores at new locations, resulting in an increase of 3 stores in total. As at the same day, the total gross floor area of stores in operation was 380,000 square feet (30 April 2019: 384,000 square feet), with an average floor area per store of 2,088 square feet (30 April 2019: 2,145 square feet). Store network of 759 STORE mainly spread in residential areas, including shopping malls and shop units in public and private housing estates. For frontline staff, 759 STORE had always offered wages that are market competitive, of which its staff worked efficiently so that the average staff number per store maintained persistently at low level of about 4 persons. In the period under review, 759 STORE tried its best to save resources. Selling and distribution expenses of the retail business during the period decreased by 3.2% to HK$240,554,000 (2018: HK$248,379,000). Segment administrative expenses amounted to HK$41,365,000 (2018: HK$45,240,000), representing a saving of approximately 8.6% as compared with that for the same period last year. Operating profit of the retail business segment for the same period was HK$20,885,000 (2018: HK$2,341,000).

Electronic Component Manufacturing Business

In the period under review, the electronic component manufacturing business experienced huge impact brought by the US-China trade war. Segment revenue further decreased to HK$39,381,000 (2018: HK$61,157,000), dropped greatly for 35.6% as compared with that of the same period in the previous year, and accounted for only 4% of the consolidated revenue of the Group. Segment gross profit margin during the period was 25.5% (2018: 28.0%). In the period, foreign exchange gain due to Renminbi depreciation in the manufacturing business was HK$6,580,000 (2018: HK$13,942,000), dropped significantly by HK$7,362,000 so that the segment operating profit decreased to HK$4,946,000 (2018: HK$15,757,000). The segment depreciation and amortization of the manufacturing business for the period amounted to HK$2,785,000 (2018: HK$3,121,000).

FINANCIAL REVIEW

Fund Surplus and Liabilities

As at 31 October 2019, the Group's bank balances and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK$77,913,000 (30 April 2019: HK$69,130,000) representing an increase of 13% as compared with that at the last financial year end. As at the same date, the Group's aggregate banking facilities amounted to HK$514,050,000 (30 April 2019: HK$517,700,000) which included overdrafts, loans, trade financing, etc. Unused facilities amounted to approximately HK$131,909,000 (30 April 2019: HK$129,248,000). As at 31 October 2019, utilised banking facilities amounted to HK$382,141,000 (30 April 2019: HK$388,452,000). 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 2019, the Group had been complying with such financial covenants. As at 31 October 2019, the Group's gearing ratio* was 0.43 (30 April 2019: 0.43), same as that at the previous financial year end. As at the same date, the Group did not have any contingent liabilities (30 April 2019: 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 2019, the Group's inventories amounted to HK$363,786,000 (30 April 2019: HK$367,133,000), representing a decrease of 0.9% in inventories as compared with the last financial year end. The Group's total prepayments, deposits and other receivables (including rental deposits for retail stores) as at 31 October 2019 amounted to HK$86,783,000 (30 April 2019: HK$90,467,000).

Interest Expenses

The Group's finance costs for the period was HK$16,238,000 (2018: HK$9,941,000). The increase in interest expenses was mainly attributable to the interest expenses of lease liabilities of approximately HK$7,021,000 resulting from the adoption of HKFRS 16 "Leases" since 1 May 2019. The actual bank interest expense for the period was HK$9,217,000 (2018: HK$9,941,000), of which 7.3% was saved as compared with that of the same period in last year, which was mainly attributed to the lowered utilization of banking facilities and overdrafts in the period. The Group expected that the interest expense in future would continue to fall along with the utilization of bank borrowings.

Financial Resources and Capital Structure

The Group's net cash inflow was HK$14,854,000 (2018: HK$49,885,000) for the six months ended 31 October 2019. Net cash inflow from operating activities was HK$135,034,000 (2018: HK$55,431,000), greatly increased mainly since the HKFRS 16 was adopted in the year, in which an item of depreciation for right-of-use assets of approximately HK$95,331,000 was newly recognized. On the other hand, net cash outflow from financing activities greatly increased because an item of the repayment of lease liabilities for approximately HK$102,807,000 was newly recognized. Net cash inflow from investing activities was HK$1,985,000 (2018: HK$2,171,000), where the Group sold certain property in the period under review.

Cash Flow Summary

	For the six months ended 31 October	
	2019	2018
	HK$'000	*HK$'000*
Net cash inflow from operating activities	**135,034**	55,431
Net cash inflow from investing activities	**1,985**	2,171
Net cash outflow from financing activities	**(122,165)**	(7,717)
Increase in cash and cash equivalents	**14,854**	49,885

As at 31 October 2019, the net current liabilities of the Group was HK$219,678,000 (30 April 2019: HK$88,724,000) and the current ratio was 0.70 (30 April 2019: 0.85). HKFRS 16 "Leases" changes the accounting treatment for the Group's operating leases, including all leasing shop sites, warehouses and offices, of which the lease period over a year. After the adoption of HKFRS 16, long term leases in the consolidated balance sheet as at 31 October 2019 was separately recognized as right-of-use assets of HK$259,273,000, current lease liabilities of HK$150,504,000 and long-term lease liabilities of HK$108,529,000. Since current liabilities greatly increased by over HK$150 million after the adoption of the new standard, significant changes were resulted in net current liabilities and current ratio. The actual current ratio of the Group should have been similar to that of last year if differences created by new accounting standard were excluded.

Charges on Assets

As at 31 October 2019, certain assets of the Group with an aggregate carrying value of approximately HK$620,201,000 (30 April 2019: HK$615,802,000) were pledged to secure banking facilities of the Group.

Exchange Risks

The Group conducted its business mainly in Hong Kong, Mainland China and Southeast Asia. The currency for the income received were mainly Hong Kong dollar, Renminbi and US dollar; And the currency for the cost and expenditure spent were mainly Japanese Yen, US dollar, Euro, Hong Kong dollar and Renminbi. The Group would do its best to pay close attention on the price changes in exchange market, actively adjusting the combination of imported goods based on the place of origin, so as to in some extent offset the impact brought by the price changes of currencies. With regard to the current situation, the business model, that most of the products were directly brought in from overseas, would been much affected, in case US dollars greatly depreciated and Japanese Yen and EURO greatly appreciated. For this reason, the Group would pay close attention on the trends of price changes for US dollar, Japanese Yen and EURO.

EMPLOYEES

As at 31 October 2019, the Group employed approximately 1,700 staff (30 April 2019: 1,700). The remuneration of employees was set, most importantly according to market standard, with reference to individual performance, academic qualification and working experience, which were taken into account for promotion if required. Other employee benefits agreed included pension scheme, on-job training, education subsidy and others like social insurance and holidays with pay, required by local law.

Social Responsibilities

The Group actively carried out its responsibilities as corporate citizen. We encouraged our staff in various ways to give care to the society, promoting their physical and mental health and so as their balanced development. We also put strength to charitable social activities organized by charity organizations and education institutions.

FUTURE PLAN AND OUTLOOK

Local retail market is facing the influences of uncertainties that come both internally and externally. The management will carefully run the business in extremely prudent way in the second half of the year. The Group will review the cost structure of current retail store network, considering not to renew the tenancy agreements of some stores that their rents were too high, in the meantime searching for potential shop sites of suitable locations and relatively reasonable rents for replacement. For the products, 759 STORE will further strengthen its portfolio of food grocery items, introducing much more items for rice, noodles, spaghettis, canned food and etc. On top of that, frozen meat also was a core area for the development of 759 STORE. Currently about 80% of stores had frozen food showcase refrigerators. Procurement team is actively approaching the meat suppliers of Europe and North America, expecting to introduce much more meat items later, so as to provide more choice for our customers.

For the electronic component manufacturing business, affected by the trade war, the whole industry had lost more than 40% of orders. Despite of that, our factories still maintained their operations, under the mutual supports between the Group and the famous clients who had worked together with the Group for years. It was difficult for the management to predict when the trade war will end. In future, the management will continue to control the cost, saving all unnecessary expenses and staying proactively to catch changes in the market.

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 2019. 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 2019.

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 2019, except for the following deviation:

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

   Since 29 September 2009, the roles of the Chairman of the Board and the chief executive officer of the Company (the "CEO") were performed by the late Mr. Lam Wai Chun, the founding Chairman of the Company. After the pass away of the late 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 2019.

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 2019. 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 2019. 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 2019 will be despatched to the shareholders of the Company on or before 31 January 2020 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, 24 December 2019

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

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

* *For identification purpose only*