CEC-COILS®

CEC INTERNATIONAL HOLDINGS LIMITED

CEC 國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 759)

2020/2021 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of CEC International Holdings Limited (the "Company") is pleased 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 2020 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 31 October	
		2020	2019
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*2*	**1,083,184**	903,841
Cost of sales		**(773,073)**	(594,716)
Gross profit		**310,111**	309,125
Other income	*3*	**41,163**	–
Other (losses)/gains, net	*4*	**(18,021)**	4,327
Selling and distribution expenses		**(236,032)**	(241,224)
General and administrative expenses		**(63,400)**	(50,916)
Operating profit	*5*	**33,821**	21,312
Finance income		**200**	130
Finance costs		**(10,170)**	(16,238)
Finance costs, net	*6*	**(9,970)**	(16,108)
Profit before income tax		**23,851**	5,204
Income tax expense	*7*	**(8,858)**	(134)
Profit attributable to equity holders of the Company for the period		**14,993**	5,070
Earnings per share, basic and diluted, attributable to equity holders of the Company	*8*	**HK2.25 cents**	HK0.76 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 31 October	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period	**14,993**	5,070
Other comprehensive income/(loss)		
– items that may be reclassified to profit or loss		
Currency translation differences	**13,581**	(15,338)
– item that will not be reclassified to profit or loss		
Change in fair value on financial assets at fair value through other comprehensive income	**(35)**	(57)
Total comprehensive income/(loss) for the period	**28,539**	(10,325)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 October 2020 *HK$'000* (Unaudited)	As at 30 April 2020 *HK$'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**350,490**	369,744
Right-of-use assets		**228,744**	235,968
Investment properties		**20,916**	22,977
Financial assets at fair value through other comprehensive income		**244**	279
Rental deposits		**35,836**	36,678
Deferred tax assets		**6,842**	13,642
		643,072	679,288
Current assets			
Inventories		**221,799**	294,121
Accounts and bills receivable	*10*	**20,507**	20,429
Deposits, prepayments and other receivables		**50,453**	47,484
Tax recoverable		**19**	72
Pledged bank deposits		**31,353**	31,353
Cash and cash equivalents		**58,839**	62,259
		382,970	455,718
Total assets		**1,026,042**	1,135,006
EQUITY			
Share capital		**66,619**	66,619
Reserves		**370,874**	345,666
Total equity		**437,493**	412,285
LIABILITIES			
Non-current liabilities			
Lease liabilities		**89,062**	94,469
Deferred tax liabilities		**6,881**	5,481
Provision for reinstatement cost		**3,490**	3,565
		99,433	103,515
Current liabilities			
Lease liabilities		**139,039**	139,354
Borrowings	*11*	**160,488**	287,134
Accounts payable	*12*	**129,823**	136,014
Accruals and other payables		**57,122**	56,704
Taxation payable		**500**	–
Dividend payable		**2,144**	–
		489,116	619,206
Total liabilities		**588,549**	722,721
Total equity and liabilities		**1,026,042**	1,135,006

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 2020, 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 2020, the Group's current liabilities exceeded its current assets by HK$106,146,000 (30 April 2020: HK$163,488,000). This net current liabilities position was mainly attributable to (i) the adoption of HKFRS 16 "Leases" resulting in the recognition of lease liabilities of HK$139,039,000 in current liabilities and HK$89,062,000 in non-current liabilities, respectively, while the associated right-of-use assets amounting to HK$213,209,000 were recognised in non-current assets; and (ii) as at 31 October 2020, the Group's total borrowings amounted to HK$160,488,000 (30 April 2020: HK$287,134,000) and are repayable within twelve months from 31 October 2020. The total borrowings in current liabilities included bank borrowings of HK$15,625,000, whilst contractually due for repayment after one year from the balance sheet date, contain a repayable on demand clause and therefore 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".

The Group's cash and cash equivalents amounted to HK$58,839,000 (30 April 2020: HK$62,259,000) as at 31 October 2020.

Amidst the challenging business environment, the Group continues to make payment to suppliers of merchandise and renovation of stores according to predetermined payment terms, and continues to make scheduled repayment of bank borrowings and interests.

The Executive Directors of the Group ("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 revisiting its marketing strategies and pricing policies, (ii) continuing its measures to control capital and operating expenditures, (iii) negotiating with the landlords for rental reduction upon renewal of relevant tenancy agreements, and (iv) monitoring the development of COVID-19 pandemic, evaluating its impact on the Group's operation and taking proactive measures where appropriate, including but not limited to tightening of hygiene and epidemic prevention measures in the stores and application of support schemes provided by the HKSAR government. 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 communications with its banks. As at 31 October 2020, the Group had unutilised bank facilities of HK$352,562,000 of which unutilised trade financing facilities amounted to HK$334,762,000 and unutilised overdraft facilities amounted to HK$17,800,000, which are available to be drawn by the Group during the next twelve months. 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 2020. 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 2020. 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 2020. 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 2020, 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 2020.

Amendments to HKAS 1 and HKAS 8	Definition of Materials
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Hedge accounting
Amendments to HKFRS 3	Definition of a Business
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The adoption of these amendments to standards did not have any significant impact on the preparation of these condensed consolidated interim financial information.

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 2020 and have not been early adopted by the Group.

Amendments to HKFRS 16	Covid-19-related rent concession (1)
Annual Improvements Project	Annual improvements to HKFRSs 2018-2020 (2)
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments (2)
Amendment to HKAS 1	Classification of liabilities as current or non-current (3)
HKFRS 17	Insurance contracts (3)
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture (4)

(1) Effective for the Group for annual period beginning on 1 May 2021.
(2) Effective for the Group for annual period beginning on 1 May 2022.
(3) Effective for the Group for annual period beginning on 1 May 2023.
(4) Effective date to be determined.

The Group will apply the above new and amended standards when they become effective. The Group antipates that the application of the above new and amended standards have no material impact on the results and the financial position of the Group.

2. Segment information

Management reviews the Group's internal reports periodically in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

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	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue										
External sales	**1,043,044**	863,841	**39,576**	39,381	**564**	619	**-**	-	**1,083,184**	903,841
Intersegment sales	**-**	-	**-**	-	**792**	792	**(792)**	(792)	**-**	-
	1,043,044	863,841	**39,576**	39,381	**1,356**	1,411	**(792)**	(792)	**1,083,184**	903,841
Segment results										
Operating profit/(loss)	**96,332**	20,885	**(54,278)**	4,946	**(2,887)**	(159)			**39,167**	25,672
Corporate expenses									**(5,346)**	(4,360)
Finance costs, net									**(9,970)**	(16,108)
Profit before income tax									**23,851**	5,204
Income tax									**(8,858)**	(134)
Profit for the period									**14,993**	5,070
Depreciation and amortisation	**94,860**	105,993	**2,277**	2,785	**-**	-			**97,137**	108,778
Provision for impairment of property, plant and equipment	**-**	-	**16,031**	-	**-**	-			**16,031**	-
Distribution expenses and administrative expenses	**277,361**	281,919	**15,982**	5,083	**743**	778			**294,086**	287,780

	Retail business		Electronic components manufacturing		Investment property holdings		Eliminations		Total	
	As at 31/10/2020	As at 30/4/2020	**As at 31/10/2020**	As at 30/4/2020	**As at 31/10/2020**	As at 30/4/2020	**As at 31/10/2020**	As at 30/4/2020	**As at 31/10/2020**	As at 30/4/2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**848,633**	905,673	**152,137**	195,719	**21,951**	23,734	**(3,810)**	(3,943)	**1,018,911**	1,121,183
Unallocated assets										
– Deferred income tax									**6,842**	13,642
– Corporate assets									**289**	181
Total assets									**1,026,042**	1,135,006
Segment liabilities	**405,467**	416,855	**11,301**	12,150	**3,876**	4,063	**(3,810)**	(3,943)	**416,834**	429,125
Borrowings									**160,488**	287,134
Unallocated liabilities										
– Deferred income tax									**6,881**	5,481
– Taxation payable									**500**	–
– Corporate liabilities									**1,702**	981
– Dividend payable									**2,144**	–
Total liabilities									**588,549**	722,721

Geographical information

	Revenue Six months ended 31 October		Non-current assets	
	2020	2019	**As at 31/10/2020**	As at 30/4/2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC (including the Hong Kong Special Administrative Region)	**1,071,190**	889,356	**643,040**	679,247
Other countries/regions	**11,994**	14,485	**32**	41
	1,083,184	903,841	**643,072**	679,288

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 income**

During the six months ended 31 October 2020, these primarily represented government subsidies granted due to the COVID-19 pandemic which include subsidies of HK$39,773,000 under the Employment Support Scheme and other subsidies of HK$1,390,000 under the Anti-epidemic Fund of the Hong Kong Government.

4. Other (losses)/gains, net

	Six months ended 31 October 2020 HK$'000	2019 HK$'000
Net fair value loss on investment properties	**(2,590)**	–
Provision for impairment loss of property, plant and equipment	**(16,031)**	–
Net gain on disposals of property, plant and equipment	**600**	4,327
	(18,021)	4,327

5. Operating profit

Operating profit is stated after charging the following:

	Six months ended 31 October 2020 HK$'000	2019 HK$'000
Cost of inventories recognised as expenses included in cost of sales	**731,759**	562,403
Depreciation of property, plant and equipment	**13,737**	13,447
Depreciation of right-of-use assets	**83,400**	95,331
Employee benefit expenses (including directors' emoluments)	**135,040**	128,556
Net impairment loss on financial assets	**1,158**	617
Write down of inventories	**26,380**	–

6. Finance costs, net

	Six months ended 31 October 2020 HK$'000	2019 HK$'000
Interest expense on bank borrowings	**4,306**	9,217
Interest expense on lease liabilities	**5,864**	7,021
Interest income from bank deposits	**(200)**	(130)
	9,970	16,108

7. 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% (2019: 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% (2019: 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	
	2020	2019
	HK$'000	*HK$'000*
Hong Kong taxation – current tax	**500**	–
Overseas taxation including Mainland China		
– current tax	**158**	129
Deferred taxation	**8,200**	5
	8,858	134

8. Earnings per share

The calculation of basic earnings per share for the six months ended 31 October 2020 is based on the consolidated profit for the period of approximately HK$14,993,000 (2019: HK$5,070,000) and the weighted average number of 666,190,798 (2019: 666,190,798) shares in issue during the period.

For the six months ended 31 October 2020 and 31 October 2019, diluted earnings per share equals basic earnings per share as there was no dilutive potential share.

9. Dividend

The Board resolved not to declare any interim dividend in respect of the six months ended 31 October 2020 (2019: Nil).

10. Accounts and bills receivable

	As at 31 October 2020	As at 30 April 2020
	HK$'000	*HK$'000*
Accounts receivable	**26,400**	23,884
Less: provision for impairment of receivables	**(5,893)**	(4,735)
Accounts receivable – net	**20,507**	19,149
Bills receivable	**–**	1,280
Accounts and bills receivable – net	**20,507**	20,429

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

	As at 31 October 2020	As at 30 April 2020
	HK$'000	*HK$'000*
0-30 days	**9,734**	11,924
31-60 days	**5,509**	3,408
61-90 days	**2,697**	891
91-120 days	**855**	1,570
Over 120 days	**7,605**	6,091
	26,400	23,884
Less: loss allowance	**(5,893)**	(4,735)
	20,507	19,149

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

11. Borrowings

As at 31 October 2020, bank borrowings of approximately HK$15,625,000 (at 30 April 2020: HK$23,500,000) contractually due for repayment after one year but contain a repayment on demand clause have been classified as current liabilities in accordance with the HK Interpretation 5, "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause".

12. Accounts payable

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

	As at 31 October 2020	As at 30 April 2020
	HK$'000	*HK$'000*
0-30 days	**86,535**	99,163
31-60 days	**30,797**	27,993
61-90 days	**12,115**	8,550
91-120 days	**200**	–
Over 120 days	**176**	308
	129,823	136,014

MANAGEMENT DISCUSSION AND ANALYSIS

The year of 2020/21 was a year full of challenges, in which the globe was affected by COVID-19 pandemic that changed the way of life. There was full of uncertainties in local economy. In the period under review, the Group continued to hold resource-saving as its basic principle, taking most prudent policy to strictly control the operation cost with a view to remain stable in the economic adversity so as to survive. The management firmly adhered to our "Quick Turnover with Lower Margin" policy in the pandemic. Driven by the demand of necessities of daily life especially on the rice category, the revenue recorded a growth in the period. For manufacturing business, the Group greatly and decisively adjusted the business that closing one of the large-sized production halls to further downsize the scale of the business. For the six months ended 31 October 2020, the Group's consolidated revenue recorded HK$1,083,184,000 (2019: HK$903,841,000), increasing for 19.8% as compared with that of the same period in last year. The profit attributable to equity holders increased to HK$14,993,000 (2019: HK$5,070,000).

BUSINESS REVIEW

Retail Business

For the six months ended 31 October 2020, the Group's retail business recorded a segment revenue of HK$1,043,044,000 (2019: HK$863,841,000), representing an increase of 20.7% as compared with that for the same period last year and accounting for approximately 96% (2019: 96%) of total revenue. In terms of gross profit, the segment gross profit during the period was HK$331,929,000 (2019: HK$298,478,000) and the segment gross profit margin was 31.8% (2019: 34.6%), representing a decrease of 2.8 percentage points as compared to that for the same period last year. The decrease in gross profit margin truly reflected the exact fact that 759 STORE still put "Quick Turnover with Lower Margin" policy into practice despite of the pandemic. Even though the import of products were affected by the double effect that built by sharp appreciations in the exchange rates of various countries and sharp increase of air freight and ocean freight, the Group still worked hard to maintain the selling prices stable. On top of that, the growth of demand during the period mainly came from the products of staple food categories with relatively low margins including rice, food groceries, egg and etc, while no growth was shown in the demand of snack and leisure food products. For the product supply, over 85% of products were imported on its own from approximately 60 countries and regions over the globe. Since overall product flow rate increased, as at 31 October 2020, the total inventory value of retail business decreased to HK$203,431,000 (30 April 2020: HK$244,118,000), as compared with that on the end date of last financial year.

In the period under review, the Group did not expand the scale of store network that the management renewed the store tenancy contracts according to the operation performance of that exact store and the rental level of the market, closing 9 stores and in the meantime newly opening 5 stores at other shop sites else found. As at 31 October 2020, the Group operated 173 stores (30 April 2020: 177), with a decrease of 4 stores in the total number of stores. At the same date, the total gross floor area of stores in operation was 358,000 square feet (30 April 2020: 359,000 square feet), with an average floor area per store of 2,069 square feet (30 April 2020: 2,028 square feet). The store network of 759 STORE is mainly distributed in residential areas, including shopping malls and shop units in public and private housing estates. In the period under review, the Group has chosen 3 sites for new stores which would start their operations in November and December 2020.

For frontline staff, 759 STORE always offered its staff market-competitive remuneration, with which its staff also worked efficiently as expected so that the average number of staff members per store was able to maintain at low level of about 4 persons for long period. The remuneration of frontline staff consisted of basic salary and sales commission, so that all staff members could widely share the benefit brought from the increase in company revenue. In the period under review, the labour cost of frontline staff was HK$82,867,000 (2019: HK$75,625,000), increased by 9.6% as compared with last year. Despite the higher labour cost, the selling and distribution expenses of the retail business dropped to HK$235,681,000 (2019: HK$240,554,000), representing a decrease of 2.0%, as the Group focused on cost control during the period. Segment administrative expenses amounted to HK$41,680,000 (2019: HK$41,365,000), which was similar to that for the same period last year. In the period under review, the Hong Kong government launched the Anti-epidemic Fund and the Employment Support Scheme to provide various subsidies to different business industries. The Group, in the period, had received subsidy of about HK$41,163,000 in total, which was all paid as employee salaries according to the application requirement. Under the effect of the aforesaid factors, the Group recorded a segment profit of HK$96,332,000 (2019: HK$20,885,000) for the retail business in the period.

Electronic Component Manufacturing Business

Along with the change in global consumer electronics market, it had already been too difficult for the demand of passive electronic components including coil products to return back to its old level. In response of the persistent decrease in market demand, the Group had kept shrinking the scale of manufacturing business, systematically reducing manpower along with the gradual decrease of production capacity. Since the demand of electrical power transformer was greatly impacted further by the current practice that mobile phone was no longer sold with free charger, the Group had no alternative but to decide to fully close the production hall for power supply type coils in the period under review, including production lines of transformer assembly, manganese-zinc ferrite and related plastic frame. The decision resulted in a provision for impairment of assets, including production equipment and certain moulds for transformers and manganese-zinc ferrite, amounting to approximately HK$16,031,000. On top of that, a one-off provision was also made for the inventories of the relevant business, which included raw materials and certain finished goods, with an amount of approximately HK$26,380,000. The aforesaid power supply category related provisions gave no effect on cash flow.

In the period under review, the Group integrated the resources, actively striving for the orders of coil products outside of power supply category that maintained the revenue of manufacturing business in the period to HK$39,576,000 (2019: HK$39,381,000), almost the same level as that of the same period in last year. In respect of segment gross profit, the Group recorded a segment gross loss of HK$22,264,000 (2019: segment gross profit of HK$10,030,000) as a result of the aforesaid one-off provision for inventories. As at 31 October 2020, the value of inventories for the manufacturing business reduced to HK$18,368,000 after the one-off provision. The management believes that the segment gross profit margin is likely to recover to a normal level in the second half of the year.

During the period, due to the significant appreciation of Renminbi, the administrative expenses of the manufacturing business incurred an unrealized exchange loss of HK$5,739,000 (2019: an exchange gain of HK$6,580,000), which had no actual impact on cash flow. Taking into account the above one-off asset impairment provision and the unrealized exchange loss, the Group's manufacturing business recorded a segment operating loss of HK$54,278,000 (2019: segment operating profit of HK$4,946,000) during the period. The segment depreciation and amortization of the manufacturing business during the period amounted to HK$2,277,000 (2019: HK$2,785,000).

Investment Properties

During the period under review, the Group recorded a decrease in the value of investment properties of approximately HK$2,590,000, attributed mainly to the downturn in the shop and property markets in Hong Kong, which resulted in a decline in valuation.

FINANCIAL REVIEW

Fund Surplus and Liabilities

As at 31 October 2020, the Group's bank balances and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK$90,192,000 (30 April 2020: HK$93,612,000). As at the same date, the Group's aggregate banking facilities amounted to HK$513,050,000 (30 April 2020: HK$522,800,000), which included overdrafts, loans, trade financing, etc. Unused facilities amounted to approximately HK$352,562,000 (30 April 2020: HK$235,666,000). As at 31 October 2020, utilised banking facilities amounted to HK$160,488,000 (30 April 2020: HK$287,134,000), representing a significant decrease of 44% as compared to that at the previous financial year end. The above banking facilities were secured by charges on the Group's certain land and buildings, investment properties, bank deposits and inventories held under trade financing in Hong Kong. In addition, the Group is also required to comply with certain restrictive financial covenants with major financing banks, and, the Group had been complying with such financial covenants as at 31 October 2020. As at 31 October 2020, the Group's gearing ratio* was 0.14 (30 April 2020: 0.32), representing a decrease as compared to that at the previous financial year end. As at the same date, the Group did not have any contingent liabilities (30 April 2020: 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 2020, the Group's inventories amounted to HK$221,799,000 (30 April 2020: HK$294,121,000), representing a decrease of 24.6% 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 2020 amounted to HK$86,289,000 (30 April 2020: HK$84,162,000).

Lease Liabilities

At 31 October 2020, the long-term lease liabilities of the Group amounted to HK$89,062,000 (30 April 2020: HK$94,469,000) while the current lease liabilities amounted to HK$139,039,000 (30 April 2020: HK$139,354,000).

Interest Expenses

The Group's finance costs for the period was HK$10,170,000 (2019: HK$16,238,000), representing a decrease of 37% as compared to last year. In the period, the interest expenses of lease liabilities was approximately HK$5,864,000 (2019: HK$7,021,000). The actual bank interest expense for the period was HK$4,306,000 (2019: HK$9,217,000), of which 53% had been saved as compared with that of the same period in last year. This was mainly attributable to less utilization of banking facilities in the period. The Group expects that the interest expense in future will continue to fall in accordance with the utilization of bank borrowings.

Financial Resources and Capital Structure

The Group's net cash outflow was HK$12,089,000 (2019: inflow of HK$14,854,000) for the six months ended 31 October 2020. Net cash inflow from operating activities was HK$213,144,000 (2019: HK$135,034,000), greatly increased by 58% as compared to that for the same period last year. This was mainly attributable to improvements in the retail business and the effective measures implemented to increase revenue and cut costs. In addition, inventory turnover rates also improved in both the retail business and the manufacturing business. Net cash outflow from investing activities during the period was HK$6,045,000 (2019: inflow of HK$1,985,000), which was mainly attributable to the renovation for new stores, the remodeling of existing stores and the purchase of appropriate office equipment during the period. The Group did not purchase or sell investment properties during the period under review. During the period, since the management accelerated the reduction of the Group's bank borrowings, the net cash outflow from financing activities further increased to HK$219,188,000 (2019: HK$122,165,000) as compared with that for the same period last year.

Cash Flow Summary	**For the six months ended 31 October**	
	2020	2019
	HK$'000	*HK$'000*
Net cash inflow from operating activities	**213,144**	135,034
Net cash (outflow)/inflow from investing activities	**(6,045)**	1,985
Net cash outflow from financing activities	**(219,188)**	(122,165)
(Decrease)/increase in cash and cash equivalents	**(12,089)**	14,854

As at 31 October 2020, the net current liabilities of the Group was HK$106,146,000 (30 April 2020: HK$163,488,000) and the current ratio was 0.78 (30 April 2020: 0.74), both of which saw an improvement during the period.

Charges on Assets

As at 31 October 2020, certain assets of the Group with an aggregate carrying value of approximately HK$499,956,000 (30 April 2020: HK$547,840,000) 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 will 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 are directly brought in from overseas, will be much affected, in case US dollars greatly depreciate and Japanese Yen and EURO greatly appreciate. For this reason, the Group will pay close attention on the trends of price changes for US dollar, Japanese Yen and EURO.

EMPLOYEES

As at 31 October 2020, the Group employed approximately 1,600 staff (30 April 2020: 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 made use of diversified channels to actively fulfill corporate civic responsibility. Not only encouraging its staff to give effort in caring for the society, improving their mental and physical health and so as their balanced development, the Group also committed actions to actively take care non-profit organizations of various disadvantaged communities, religious groups and educational institutions, in contact with all walks of life to give support for relieving poverty and fighting against pandemic. From February to November 2020, the Group donated over 150,000 surgical masks, over 10 thousand sets of Thai rice package and cooking oil to various sectors of the community.

FUTURE PLAN AND OUTLOOK

Since the effect of COVID-19 pandemic had spread over the globe without pause for almost a year, it was still difficult in this moment to predict when the people would return back to their normal lives. The Group adopted self-import procurement model, under which the foreign suppliers were affected in various degrees by the pandemic that brought retail business even more challenges for sudden instability in product supply, sharp increase in shipping costs and fluctuations in international exchange rates. Despite these numerous uncertainties and the unclear economic prospects, 759 STORE will continue firmly sticking to its "Quick Turnover with Lower Margin" policy, riding out the difficult times with Hong Kong people. 759 STORE will keep on searching for much more high-quality products at good prices for the local customers, by making good use of the competitive edge in its maturely-developed supply chain, leveraging the procurement network that widely spread over 60 countries and regions around the globe to offset the risk of instability for various countries in product supply that hard to predict.

Since local market was right in a situation that hardly happened even in a century, the management will continue to take prudent operation policy and strict cost control in foreseeable future. For store network, though it is not suitable to be bold in this stage, the Group will still keep searching for suitable new shop sites in residential areas based on operation data. The Group will put good effort on the improvement of liquidity in company operation, lowering the whole level of debt and so raising cash level to increase its capital strength and be well-positioned to seize potential opportunities when they arise.

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 2020. 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 2020.

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 2020, 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 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 2020.

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 2020. 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 2020. 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 2020 will be despatched to the shareholders of the Company on or before 31 January 2021 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, 23 December 2020

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*