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CEC-COILS®
CEC INTERNATIONAL HOLDINGS LIMITED
CEC 國際控股有限公司*
(Incorporated in Bermuda with limited liability)
 (Stock Code: 759)

2017/2018 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 2017 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		31 October	
	<i>Note</i>	2017	2016
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	2	932,117	1,079,170
Cost of sales		(560,585)	(690,867)
		<hr/>	<hr/>
Gross profit		371,532	388,303
Other losses, net	3	(3,354)	(205)
Selling and distribution expenses		(299,433)	(324,557)
General and administrative expenses		(78,235)	(81,585)
		<hr/>	<hr/>
Operating loss	4	(9,490)	(18,044)
Finance income		28	35
Finance costs		(11,912)	(12,608)
		<hr/>	<hr/>
Finance costs, net	5	(11,884)	(12,573)
		<hr/>	<hr/>
Loss before income tax		(21,374)	(30,617)
Income tax credit	6	519	683
		<hr/>	<hr/>
Loss attributable to equity holders of the Company for the period		(20,855)	(29,934)
		<hr/> <hr/>	<hr/> <hr/>
Loss per share, basic and diluted, attributable to equity holders of the Company	7	(3.13 cents)	(4.49 cents)
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	31 October	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Loss for the period	(20,855)	(29,934)
Other comprehensive income/(loss)		
– items that may be reclassified to		
 profit or loss		
Change in fair value on available-for-sale financial assets	4	(17)
Currency translation differences	<u>12,323</u>	<u>(15,831)</u>
Total comprehensive loss for the period	<u>(8,528)</u>	<u>(45,782)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	As at 31 October 2017 <i>HK\$'000</i> (Unaudited)	As at 30 April 2017 <i>HK\$'000</i> (Audited)
ASSETS			
Non-current assets			
Land use rights		17,704	17,647
Property, plant and equipment	9	446,835	475,355
Investment properties	9	66,922	160,464
Available-for-sale financial assets		321	317
Rental deposits		41,105	52,185
Deferred tax assets		9,989	9,189
		582,876	715,157
Current assets			
Inventories		368,418	257,552
Non-current assets held-for-sale		99,733	–
Accounts and bills receivables	10	27,394	48,931
Deposits, prepayments and other receivables		70,562	65,907
Pledged bank deposits		10,000	34,919
Cash and cash equivalents		44,630	81,173
		620,737	488,482
Total assets		1,203,613	1,203,639
EQUITY			
Share capital		66,619	66,619
Reserves		381,806	390,334
Total equity		448,425	456,953
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		4,029	3,814
Provision for reinstatement cost		5,820	7,501
		9,849	11,315
Current liabilities			
Borrowings	11	590,097	609,715
Accounts payable	12	84,904	53,361
Accruals and other payables		70,285	72,242
Taxation payable		53	53
		745,339	735,371
Total liabilities		755,188	746,686
Total equity and liabilities		1,203,613	1,203,639

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 2017, 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 2017, the Group’s current liabilities exceeded its current assets by HK\$124,602,000 (30 April 2017: HK\$246,889,000). 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\$81,797,000 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 2017, the Group’s total borrowings, including the above borrowing amount of HK\$81,797,000 with repayment on demand clause and original maturity beyond 31 October 2017, amounted to HK\$590,097,000 (30 April 2017: HK\$609,715,000) and are repayable within twelve months from 31 October 2017. The Group’s cash and cash equivalents (net of bank overdrafts) amounted to HK\$5,114,000 as at 31 October 2017 (30 April 2017: HK\$13,308,000).

In addition, during the six months ended 31 October 2017, the Group reported a loss of HK\$20,855,000, which was primarily attributable to the challenges experienced in the local retail market resulting in lower revenue in the retail business while having operating costs remained at a high level.

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) remapping its marketing strategies and pricing policies, (ii) restructuring the geographical locations and product mix of underperforming retail stores and catering outlets, (iii) negotiating with the landlords for rental reduction upon renewal of relevant tenancy agreements, and (iv) terminating a number of underperforming stores upon the expiry of relevant tenancy agreements. The management believes that these measures will result in improvement in operating profitability and the resulting cash flows. Also, the management will not further expand the Group’s retail network in order to contain additional capital expenditures. As at 31 October 2017, the Group had unutilised bank facilities of HK\$110,786,000, in which unutilised trade financing facilities amounted to HK\$107,930,000 and unutilised term loan and overdraft facilities amounted to HK\$2,856,000. 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 2017. 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 2017. 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 2017. 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 2017, as described in those annual financial statements.

In the current period, the Group has also 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 2017. The adoption of these amendments to standards has no material impact on the Group's results and financial position.

HKAS 7 (Amendment)	Disclosure Initiative
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 12 (Amendments)	Annual Improvements 2014-2016 Cycle

Certain new standards and amendments to existing standards relevant to the Group have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2018 or later periods, which the Group has not early adopted, are as follows.

HKAS 28 and HKFRS 1 (Amendment)	Improvements to HKFRSs (2014-2016)
HKAS 40 (Amendment)	Transfers of investment property
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 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture
HKFRS 15	Revenue from contracts with customers
HKFRS 16	Leases
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration

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 9 “Financial instruments”

HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income (“OCI”) and fair value through profit or loss. Classification is driven by the entity’s business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability’s own credit risk are recognized in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

HKFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (“ECL”) model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a ‘three stage’ approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. For trade receivables, contract assets and lease receivables, a simplified approach will be applied by the Group to measure the lifetime expected credit losses. Despite that the new impairment model may result in an earlier recognition of credit losses, based on management’s current assessment, the adoption of the new model is unlikely to have significant impact on the Group’s financial performance and position.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The standard is effective for accounting periods beginning on or after 1 May 2018. Early adoption is permitted. The Group does not plan to early adopt this standard.

HKFRS 15 “Revenue from contracts with customers”

HKFRS 15 will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The new standard permits either a full retrospective or a modified retrospective approach for the adoption.

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach:

- (1) Identify the contract(s) with customer;
- (2) Identify separate performance obligations in a contract;
- (3) Determine the transaction price;
- (4) Allocate transaction price to performance obligations; and
- (5) Recognise revenue when performance obligation is satisfied.

The core principle is that the Group should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an “earnings process” to an “asset – liability” approach” based on transfer of control.

The directors, based on the results of an initial assessment, consider that the new standard does not have a significant impact on the Group’s Interim Financial Statements. Management will make more detailed assessments of the impact over the next six months.

HKFRS 16 “Leases”

HKFRS 16, “Leases” addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces HKAS 17 “Leases”, and related interpretations.

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.

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\$319,647,000. 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 results and classification of cash flows.

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		Electronic components manufacturing		Investment property holdings		Eliminations		Total	
	Six months ended 31 October		Six months ended 31 October		Six months ended 31 October		Six months ended 31 October		Six months ended 31 October	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Segment revenue										
External sales	860,286	1,001,457	69,967	76,106	1,864	1,607	-	-	932,117	1,079,170
Intersegment sales	-	-	-	-	792	792	(792)	(792)	-	-
	<u>860,286</u>	<u>1,001,457</u>	<u>69,967</u>	<u>76,106</u>	<u>2,656</u>	<u>2,399</u>	<u>(792)</u>	<u>(792)</u>	<u>932,117</u>	<u>1,079,170</u>
Segment results										
Operating profit/(loss)	1,992	(10,003)	(5,277)	(5,134)	(2,097)	999			(5,382)	(14,138)
Corporate expenses									(4,108)	(3,906)
Finance costs, net									(11,884)	(12,573)
Loss before income tax									(21,374)	(30,617)
Income tax credit									519	683
Loss for the period									<u>(20,855)</u>	<u>(29,934)</u>
Depreciation and amortisation	22,779	30,812	5,475	6,459	-	-			28,254	37,271
Distribution expenses and administrative expenses	350,703	386,153	22,149	15,475	708	608			373,560	402,236
Additions to non-current assets (other than financial instruments)	3,790	16,433	247	529	-	-			4,037	16,962
Segment assets	796,979	767,383	243,229	271,610	158,899	161,251	(5,674)	(5,927)	1,193,433	1,194,317
Unallocated assets									9,989	9,189
- Deferred income tax									191	133
- Corporate assets										
Total assets									<u>1,203,613</u>	<u>1,203,639</u>
Segment liabilities	123,986	103,282	36,193	29,592	5,572	5,854	(5,674)	(5,927)	160,077	132,801
Borrowings									590,097	609,715
Unallocated liabilities									4,029	3,814
- Deferred income tax									53	53
- Taxation payable									932	303
- Corporate liabilities										
Total liabilities									<u>755,188</u>	<u>746,686</u>

Geographical information

	Revenue		Non-current assets	
	Six months ended		As at	
	31 October		As at	
	2017	2016	31/10/2017	30/4/2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC (including the Hong Kong Special Administrative Region)	907,497	1,052,409	582,776	715,049
Other regions	24,620	26,761	100	108
	<u>932,117</u>	<u>1,079,170</u>	<u>582,876</u>	<u>715,157</u>

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	
	2017	2016
	HK\$'000	HK\$'000
Fair value loss on investment properties	2,703	–
Loss on disposal of property, plant and equipment	101	205
Loss on disposal of investment properties	550	–
	<u>3,354</u>	<u>205</u>

4. OPERATING LOSS

Operating loss is stated after charging the following:

	Six months ended	
	31 October	
	2017	2016
	HK\$'000	HK\$'000
Amortisation of land use rights	255	255
Cost of inventories recognised as expenses included in cost of sales	505,763	618,373
Depreciation of property, plant and equipment	27,999	37,016
Employee benefit expenses (including directors' emoluments)	156,851	170,531
Write back for impairment of accounts receivable	(5)	(262)
	<u>(5)</u>	<u>(262)</u>

5. FINANCE COSTS, NET

	Six months ended 31 October	
	2017	2016
	HK\$'000	HK\$'000
Interest expense on bank borrowings	11,912	12,608
Interest income from bank deposits	(28)	(35)
	<u>11,884</u>	<u>12,573</u>

6. INCOME TAX 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% (2016: 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% (2016: 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	
	2017	2016
	HK\$'000	HK\$'000
Overseas taxation including Mainland China		
– current tax	66	61
Deferred taxation	(585)	(744)
	<u>(519)</u>	<u>(683)</u>

7. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 31 October 2017 is based on the consolidated loss for the period of approximately HK\$20,855,000 (2016: HK\$29,934,000) and the weighted average number of 666,190,798 (2016: 666,190,798) shares in issue during the period.

For the six months ended 31 October 2017 and 31 October 2016, diluted loss per share equals basic 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 2017 (2016: Nil).

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

	Property, plant and equipment	Investment properties
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 May 2017	475,355	160,464
Exchange differences	4,411	541
Additions	4,037	–
Disposals	(616)	–
Depreciation	(27,999)	–
Fair value losses	–	(2,703)
Transfer to non-current assets held-for-sale	(8,353)	(91,380)
	<u>446,835</u>	<u>66,922</u>
At 31 October 2017	<u><u>446,835</u></u>	<u><u>66,922</u></u>

10. ACCOUNTS AND BILLS RECEIVABLES

	As at 31 October 2017	As at 30 April 2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accounts receivables	32,954	54,197
Less: provision for impairment of receivables	(5,560)	(5,565)
	<u>27,394</u>	<u>48,632</u>
Accounts receivables – net	27,394	48,632
Bill receivables	–	299
	<u>27,394</u>	<u>48,931</u>
Accounts and bills receivables – net	<u><u>27,394</u></u>	<u><u>48,931</u></u>

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

	As at 31 October 2017	As at 30 April 2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	14,123	37,418
31-60 days	8,561	8,588
61-90 days	3,010	1,274
91-120 days	901	597
Over 120 days	6,359	6,320
	<u>32,954</u>	<u>54,197</u>
Less: provision for impairment of receivables	(5,560)	(5,565)
	<u>27,394</u>	<u>48,632</u>
	<u><u>27,394</u></u>	<u><u>48,632</u></u>

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

11. BORROWINGS

As at 31 October 2017, bank borrowings of approximately HK\$81,797,000 (at 30 April 2017: HK\$79,226,000) 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 2017 HK\$'000	As at 30 April 2017 HK\$'000
0-30 days	66,778	42,679
31-60 days	6,548	5,357
61-90 days	2,233	1,870
91-120 days	3,315	1,602
Over 120 days	6,030	1,853
	84,904	53,361

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

For the six months ended 31 October 2017, the Group recorded a total revenue of HK\$932,117,000 (2016: HK\$1,079,170,000), decreased by 13.6% as compared with the same period last year. Nevertheless, the consolidated gross profit margin for the period slightly rose by 3.9 percentage points to 39.9% (2016: 36.0%) from last year, resulted in a consolidated gross profit of HK\$371,532,000 (2016: HK\$388,303,000) for the period, representing a decrease of 4.3% as compared with the same period last year, lower than the percentage decrease of sales turnover in the same period.

During the period under review, the Group strictly adhered to the principle of regulating its expenditure according to income. The selling and distribution costs and the general and administrative expenses decreased by 7.7% and 4.1% to HK\$299,433,000 and HK\$78,235,000 (2016: HK\$324,557,000 and HK\$81,585,000) respectively, as compared with those of last year. During the period, despite a fair value loss of HK\$2,703,000 (2016: Nil) was recorded from revaluating certain investment properties, the Group recorded a consolidated loss of HK\$20,855,000 (2016: HK\$29,934,000), reduced by approximately 30.3% as compared with last year. If excluding that fair value loss, the loss has narrowed by approximately 39.4% as compared with the same period last year.

Retail Business

During the period under review, the Group's retail business recorded a segment revenue of HK\$860,286,000 (2016: HK\$1,001,457,000), representing a fall of 14.1% as compared with the same period last year, and accounting for approximately 92% (2016: 93%) of the Group's total revenue. Segment gross profit of retail business was HK\$352,796,000 (2016: HK\$376,205,000), reduced by 6% as compared with last year, and the segment gross profit margin was 41.0% (2016: 37.6%), slightly increased by 3.4 percentage points over the same period last year. The decrease in segment revenue was related to the decrease of total shop number, the ratio of fast-moving products to slow-moving products that not cost-effective, and the expense brought by previous expansive development.

Shop rental was the most significant expense category in the Group's retail business. Total rental expenses for the period was HK\$118,720,000 (2016: HK\$134,560,000), reduced by 11.8% as compared with last year. As certain underperformed stores have been closed upon the expiry of their leases during the period, the effect of reduction in rental expenses will become more obvious in the future. As at 31 October 2017, the number of stores in operation (other than jointly-operated stores) was 220 (30 April 2017: 243), representing a net decrease of 23 stores as compared with the last financial year end. During the period, 6 stores were newly opened and 29 stores were closed. The total gross floor area of stores in operation was 461,000 square feet (30 April 2017: 517,000 square feet), while the average floor area per store was 2,095 square feet (30 April 2017: 2,127 square feet).

During the period under review, the payroll expenses of frontline staff amounted to HK\$90,253,000 (2016: HK\$93,820,000), approximately 3.8% lower than the same period last year. Average salary of frontline staff increased by approximately 10% and the ratio of frontline wages over revenue increased by 1.1 percentage points to 10.5% (2016: 9.4%) from 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 7.7% to HK\$298,352,000 (2016: HK\$323,356,000). Besides, transfer of supportive activities back to Zhongshan Plant during the second half of last financial year and improved workflows has attributed to the controlled administration costs. Segment administrative expenses amounted to HK\$52,351,000 (2016: HK\$62,797,000), saved approximately 16.6% as compared with that for the same period last year.

During the period under review, approximately 88% of the Group's product sources were procured through parallel import in container units, which originated from 63 countries and regions (2016: 63), mainly Japan and Korea. The weighting of products directly imported from Japan and Korea rose again to nearly 55%, followed by the other countries in descending order including Europe, Southeast Asia, Taiwan, China, America and other regions. Focus of procurement categories has been put on fast-moving items, therefore the item number of products sold during the period was approximately 13,500

(2016: 15,000), less than last year. Segment gross margin has been increased with our business being focused in fast-moving items. Coupled with the savings from selling expenses and administrative expenses, and more importantly, the noticeable recovery of retail market starting from around September and October during the period, retail business recorded a segment operating profit of HK\$1,992,000 (2016: operating loss of HK\$10,003,000). This reflects that the overall performance of retail business is undergoing progressive improvement.

Electronic Component Manufacturing Business

During the period under review, the segment revenue of electronic components manufacturing business recorded a further reduction to HK\$69,967,000 (2016: HK\$76,106,000), representing a decrease of 8.1% as compared with last year. The decrease was mainly due to 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 24.1% (2016: 13.8%). However, foreign exchange losses arising from Renminbi appreciation reached HK\$4,939,000 during the period, causing the manufacturing business still record a segment operating loss of HK\$5,277,000 for the period (2016: HK\$5,134,000), which is comparable to the same period last year. The segment depreciation expenses of the manufacturing business for the period amounted to HK\$5,475,000 (2016: HK\$6,459,000).

Investment Properties

For the six months ended 31 October 2017, rental income of the Group amounted to HK\$1,864,000 (2016: HK\$1,607,000). As at 31 October 2017, fair value loss included in the consolidated income statement for investment properties carried at fair value during the period was approximately HK\$2,703,000 (2016: Nil).

FINANCIAL REVIEW

Fund Surplus and Liabilities

As at 31 October 2017, the Group's bank balances and cash (denominated mainly in Hong Kong dollars, United States dollars and Renminbi) amounted to HK\$54,630,000 (30 April 2017: HK\$116,092,000), representing a decrease of 53% as compared with that at the last financial year end. The main reasons of such decrease were: (1) a relatively higher level of cash balance as at 30 April 2017, as the result of the highly succeeded stocktake clearance sales event at that time; (2) the bank overdraft amount as at this period end decreased to HK\$39,516,000 (30 April 2017: HK\$67,865,000) because the bank applied the original pledged deposit for the settlement of utilised overdraft. As at the same date, the Group's aggregate banking facilities amounted to HK\$700,883,000 (2016: HK\$783,717,000), which included overdrafts, loans, trade financing, etc. Unused facilities amounted to approximately HK\$110,786,000 (30 April 2017: HK\$174,002,000). As at 31 October 2017, the utilised banking facilities amounted to HK\$590,097,000 (30 April 2017: HK\$609,715,000) and the aggregate bank borrowings decreased by approximately HK\$19,618,000 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, non-current assets held-for-sale, 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 2017, the Group had been complying with such financial covenants. As at 31 October 2017, the Group's gearing ratio* was 0.54 (30 April 2017: 0.52), which increased by 0.02 as compared with the previous financial year end, mainly being the lower cash level than the previous year end. As at the same date, the Group did not have any contingent liabilities (30 April 2017: 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 2017, the Group's total inventories amounted to HK\$368,418,000 (30 April 2017: HK\$257,552,000). The increase of 43% in inventories as compared with last year end was mainly due to: (1) the great attention we put on expanding the procurement volume of fast-moving products in accordance with the recovery of retail market, which in result effectively improving the product variety in shops that doing great help to the sales turnover of September and October at the end of this financial term; (2) around thirty-some percentages of the existing stocks in the inventory were slow-moving products acquired in the past development in various areas, of inventory turnover days mostly more than 100 to 170 that slowing down the overall inventory turnover rate. Learning from this experience, the product combination shown was re-adjusted that the inventory had in steps been adjusted to a relatively low level as planned.

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 2017 fell to HK\$111,667,000 (30 April 2017: HK\$118,092,000).

Interest Expenses

Interest expenses of the Group for the period amounted to HK\$11,912,000 (2016: HK\$12,608,000), decreased by 5.5% as compared with the same period 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 outflow was HK\$15,254,000 (2016: net cash inflow of HK\$4,662,000) for the six months ended 31 October 2017. Net cash outflow from operating activities amounted to HK\$33,498,000 (2016: cash inflow of HK\$85,031,000), which was mainly attributable to the substantial increase of 43% in the amount of inventories as compared with the last financial year end. Net cash outflow from investing activities for the period amounted to HK\$3,522,000 (2016: HK\$16,960,000). During the period under review, the Group did not have any major investment.

<i>Cash Flow Summary</i>	For the six months ended 31 October	
	2017	2016
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	(33,498)	85,031
Net cash outflow from investing activities	(3,522)	(16,960)
Net cash inflow/(outflow) from financing activities	21,766	(63,409)
	<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents	(15,254)	4,662
	<hr/> <hr/>	<hr/> <hr/>

As at 31 October 2017, the Group's net current liabilities was HK\$124,602,000 (30 April 2017: HK\$246,889,000) and the current ratio was 0.83 times (30 April 2017: 0.66 times). This included a pledge loan of approximately HK\$147,011,000 (HK\$65,214,000 repayable within one year; HK\$81,797,000 repayable after one year). This loan of HK\$81,797,000, 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 is of the view that it was an appropriate time to dispose certain investment properties during the period, which could effectively reduce the impact brought by the fluctuation of assets price on the business, and significantly increased the liquidity of the Group and thereby improved the current ratio during the period. 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 2017, certain assets of the Group with an aggregate carrying value of approximately HK\$701,392,000 (30 April 2017: HK\$681,861,000) 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 2017, the Group employed approximately 2,070 staff (30 April 2017: 2,200). 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 Outlook

Not far from its establishment, 759 STORE in the middle of 2011 had started to run under a model of high flow rate that its products were directly imported from overseas in container base. Taking advantage of the favorable conditions for development, 759 STORE then actively made attempts in various areas, widening the product spectrum that not only deeply consumed the corporate resources, but also in a position difficult to either move forward or pull back when market went the opposite direction. By summarizing the data so retrieved, 759 STORE quantified its resources, getting back to the standardization track that henceforward focused on developing fast-moving daily necessity products, instead of slow-moving non-consumables. From the second half of last year, the Group had started to perform adjustment on its operation, planning to go through an adjustment period of 12-18 months. Since retail market showed recovery recently, it would help the adjustment to go as expected. The consolidated loss had decreased, in comparison with that of the same period in last year and that of the second half in last year. The segment operating profit that reflected the performance of retail business had also changed from loss to gain.

For supplier relationship of retail products, 759 STORE would continue to develop much closer relationship with existing suppliers of overseas direct shipment, helpful in making more room for sustainable development of retail business. To further increase the product variety for retail business, 759 STORE on the other hand sought to working together with some local suppliers again, so as to broaden and supplement the product sources of best-selling items. These sources involved large number of high-quality best-selling items, taking around 10% of retail business revenue. It is expected that the product scope of these co-operations would further extend in future, providing vast number of customers services that much well matched their needs.

The places of origin, as key attribute of products, were shown as follows in descending order of their sales volume, including: Japan and Korea, of which their representative products were snacks, noodles, sanitary paper products, household consumables and alcohols, taking more than 50% of the total sale turnover; Europe and America, of which those were milk, cooking oil, ham and alcohols; Southeast Asia, of which those were fragrant rice and rice-related food items like rice noodle and rice bran oil; Mainland China, of which those were frozen Chinese “dim sum” and chestnuts; Taiwan, of which those were Jerky and tea products; and etc. 759 STORE had revised the width of its product spectrum, concentrating its import on about 3,500 most competitive fast-moving items, to continuously improve its operation efficiency and control the inventory volume.

759 STORE would continue to monitor the shops figures strictly, trimming off the shops of poor performance according to actual circumstances. With reference to the figures taken in late part of the financial term under review, 759 STORE would plan to close 6-8 shops, and in the meantime open 4 shops in the second half of the year. To well match the direction of developing business that served residents nearby, 759 STORE would keep looking for suitable shop sites, mainly in shopping malls under the management of Hong Kong Housing Authority, those of Link REIT and those in other house estates. To well match the practice of fast-moving product combination strategy, the best net floor area of new shops would be around 800 to 1,500 square feet.

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 2017. 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 2017.

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 2017, except for the following deviations:

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

Before 29 September 2009, the roles of the Chairman of the Board and the chief executive officer of the Company (the “CEO”) were performed by two different executive directors of the Company. Due to the re-allocation of the respective duties of the executive directors of the Company, Mr. Lam Wai Chun, the Chairman of the Board, has been appointed as the Managing Director of the Company with effect from 29 September 2009 and has carried out the responsibilities of the CEO since then. This constitutes a deviation from the code provision A.2.1 of the Code which stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. However, as Mr. Lam Wai Chun is the founder of the Group and possesses

substantial and valuable experience in the industry that is relevant to the Group's operation, the Board believes that vesting the roles of the Chairman of the Board and the CEO in the same person will provide the Company with strong and consistent leadership and promote effective and efficient formulation and implementation of business decisions and strategies and considers that such structure is currently in the best interests of the Company and its shareholders.

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

The Chairman of the Board did not attend the Annual General Meeting of the Company held on 29 September 2017 (the "2017 AGM") due to illness at the material time. Ms. Tang Fung Kwan, the executive director of the Company, who took the chair of the 2017 AGM, and other members of the Board (including the chairman of each of the Audit Committee and the Remuneration Committee and the members of the Nomination Committee) attended the 2017 AGM to ensure effective communication with the shareholders of the Company.

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 2017.

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 2017. 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 2017. 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 2017 will be despatched to the shareholders of the Company on or before 31 January 2018 and will be published on the website of Hong Kong Exchanges and Clearing Limited and of the Company.

By Order of the Board
Lam Wai Chun
Chairman

Hong Kong, 22 December 2017

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

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

* *For identification purpose only*