CEC-COILS®

CEC INTERNATIONAL HOLDINGS LIMITED

CEC 國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 759)

2012/2013 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "Board") of CEC International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 April 2013 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 APRIL 2013

	Note	**2013** *HK$'000*	2012 *HK$'000*
Revenue	2	**1,279,701**	795,593
Cost of sales	4	**(922,519)**	(607,500)
Gross profit		**357,182**	188,093
Other gains, net	3	**14,948**	11,840
Selling and distribution expenses	4	**(216,374)**	(77,735)
General and administrative expenses	4	**(119,765)**	(91,724)
Operating profit		**35,991**	30,474
Finance income		**42**	45
Finance costs		**(13,451)**	(9,796)
Finance costs – net	5	**(13,409)**	(9,751)
Profit before taxation		**22,582**	20,723
Taxation	6	**(2,432)**	(5,223)
Profit for the year		**20,150**	15,500
Earnings per share, basic and diluted	7	**HK3.02 cents**	HK2.33 cents
Dividend	8	**3,331**	3,331

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 APRIL 2013

	2013	2012
	HK$'000	*HK$'000*
Profit for the year	**20,150**	15,500
Other comprehensive income		
Change in fair value on available-for-sale financial assets	**614**	161
Currency translation differences	**3,909**	13,068
Total comprehensive income for the year	**24,673**	28,729

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 APRIL 2013

	Note	**As at 30 April 2013 HK$'000**	As at 30 April 2012 HK$'000
ASSETS			
Non-current assets			
Land use rights		**20,645**	21,080
Property, plant and equipment		**480,700**	379,900
Investment properties		**76,065**	70,178
Available-for-sale financial assets		**9,686**	9,072
Prepaid rent on operating leases		**33,166**	12,354
Deposits paid for acquisition of property plant and equipment and investment properties		**3,212**	10,811
Deferred tax assets		**1,115**	–
		624,589	503,395
Current assets			
Inventories		**163,021**	118,383
Accounts receivable	9	**106,928**	126,146
Deposits, prepayments and other receivables		**26,555**	22,979
Pledged bank deposits		**27,616**	27,750
Cash and cash equivalents		**81,004**	38,622
		405,124	333,880
Total assets		**1,029,713**	837,275
EQUITY			
Share capital		**66,619**	66,619
Reserves			
Proposed final dividend		**3,331**	3,331
Others		**431,996**	410,654
Total equity		**501,946**	480,604
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**1,669**	3,135
Provision for reinstatement cost		**3,575**	–
		5,244	3,135
Current liabilities			
Borrowings		**431,137**	279,087
Accounts payable	10	**32,352**	36,849
Accruals and other payables		**54,033**	34,608
Taxation payable		**5,001**	2,992
		522,523	353,536
Total liabilities		**527,767**	356,671
Total equity and liabilities		**1,029,713**	837,275
Net current liabilities		**(117,399)**	(19,656)
Total assets less current liabilities		**507,190**	483,739

Notes:

1. **Basis of preparation and accounting policies**

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and under the historical cost convention, as modified by the revaluation of investment properties and available-for-sale financial assets which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

At 30 April 2013, the Group's current liabilities exceeded its current assets by approximately HK$117,399,000 as a result of (i) a portion of the bank borrowings contractually due for repayment after one year that contain a repayment on demand clause amounting to approximately HK$97,861,000 have been classified as current liabilities in accordance with the HK Interpretation 5, "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause"; and (ii) an increase in the Group's non-current assets of approximately HK$121,194,000 as at 30 April 2013 over that in 30 April 2012, which was financed mainly by the Group's internal fundings and short-term borrowings.

The directors closely monitor the Group's financial performance and liquidity position. They have prepared cash flow projection of the Group for the coming twelve months by taking into account all information that could reasonably be expected to be available including, among others, that it is not probable that the relevant banks will exercise its discretion to demand immediate repayment. The directors believe that the bank borrowings will be repaid in accordance with the scheduled dates set out in the relevant loan agreements and that the banking facilities with the principal banks will be renewed when their current terms expire given the good track records and relationship the Group has with the banks. Under these circumstances, the directors are of the opinion that the Group will have adequate financial resources to support its operations and will be able to meet its liabilities as and when they fall due within the next twelve months and therefore have prepared the financial statements on a going concern basis.

New/revised HKFRS effective during the year ended 30 April 2013

There are no new/revised HKFRS or HKFRS interpretations that are effective for the first time for the financial year beginning 1 May 2012 and are relevant to the Group's operations that have a material impact to the Group.

New/revised standards and amendments to existing standards have been issued but are not effective

The following new/revised standards and amendments to existing standards have been issued but are not mandatory for the year ended 30 April 2013:

HKAS 1 (Amendment)	Presentation of items of other comprehensive income[1]
HKAS 19 (2011)	Employee benefits[1]
HKAS 27 (2011)	Separate financial statements[1]
HKAS 28 (2011)	Investments in associates and joint ventures[1]
HKAS 32 (Amendment)	Presentation – offsetting financial assets and financial liabilities[2]
HKFRS 7 (Amendment)	Disclosures – offsetting financial assets and financial liabilities[1]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 13	Fair value measurement[1]
Annual improvement project	Annual improvement 2009-2011 cycle[1]

(1) Effective for the Group for annual period beginning on 1 May 2013

(2) Effective for the Group for annual period beginning on 1 May 2014

(3) Effective for the Group for annual period beginning on 1 May 2015

The Group has assessed that the adoption of HKFRS 10 would not have any significant impact on the Group as all subsidiaries within the Group satisfy the requirements of control under HKFRS 10 and there are no new subsidiaries identified under the new guidance.

The Group is in the process of making an assessment on the impact of these new/revised standards and amendments to existing standards but does not anticipate that the adoption will result in any material impact on the Group's results of operations and financial position taken as a whole. The Group intends to adopt the above new/revised standards and amendments to existing standards when they become effective.

2. Segment information

The Executive Directors of the Group ("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.

During the year, the Group has three reporting segments, namely (i) electronic components manufacturing; (ii) retail business; and (iii) investment property holding. Segment information provided to management for decision-making is measured in a manner consistent with that in the financial statements.

Inter-segment sales were entered into under normal commercial terms and conditions.

The segment information provided to the management for the reportable segments for the years ended 30 April 2013 and 2012 is as follows:

	Electronic components manufacturing		**Retail business**		**Investment property holding**		**Eliminations**		**Total**	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue										
External sales	**465,208**	551,286	**812,150**	241,158	**2,343**	3,149	**–**	–	**1,279,701**	795,593
Intersegment sales	**–**	–	**–**	–	**1,400**	621	**(1,400)**	(621)	**–**	–
	465,208	551,286	**812,150**	241,158	**3,743**	3,770	**(1,400)**	(621)	**1,279,701**	795,593
Segment results										
Operating profit	**15,411**	20,695	**11,617**	3,101	**16,966**	14,964			**43,994**	38,760
Corporate expenses									**(7,961)**	(8,241)
Finance costs									**(13,451)**	(9,796)
Profit before taxation									**22,582**	20,723
Taxation									**(2,432)**	(5,223)
Profit for the year									**20,150**	15,500
Depreciation and amortisation	**28,130**	36,634	**21,003**	6,381	**31**	31			**49,164**	43,046
Distribution cost and administrative expenses	**84,690**	92,150	**242,516**	68,360	**972**	708			**328,178**	161,218
Additions to non-current assets(other than financial instruments)	**2,501**	3,568	**99,694**	78,585	**50,974**	6,093			**153,169**	88,246

	Electronic components manufacturing		Retail business		Investment property holding		Eliminations		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**586,697**	559,939	**369,978**	205,271	**76,620**	76,871	**(4,910)**	(5,122)	**1,028,385**	836,959
Unallocated assets										
– Deferred income tax									**1,115**	–
– Corporate assets									**213**	316
									1,029,713	837,275
Segment liabilities	**54,563**	58,422	**35,113**	12,412	**4,711**	4,946	**(4,910)**	(5,122)	**89,477**	70,658
Borrowings									**431,137**	279,087
Unallocated liabilities										
– Deferred income tax									**1,669**	3,135
– Taxation payable									**5,001**	2,992
– Corporate liabilities									**483**	799
									527,767	356,671

Geographical information

	Revenue		Non-current assets	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC (including the Hong Kong Special Administrative Region)	**1,155,821**	677,099	**624,588**	503,380
Other regions	**123,880**	118,494	**1**	15
	1,279,701	795,593	**624,589**	503,395

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.

For the year ended 30 April 2013, revenues of approximately HK$95,402,000 (2012: HK$149,978,000) are derived from a single external customer. These revenues are attributable to the electronic components manufacturing segment.

3. Other gains, net

	2013	2012
	HK$'000	*HK$'000*
Fair value gains on investment properties	**15,870**	13,018
Net gain/(loss) on written off/disposal of property, plant and equipment	**58**	(1,178)
Impairment loss on properties, plant and equipment	**(980)**	–
	14,948	11,840

4. Expenses by nature

Expenses included in cost of sales, selling and distribution expenses, and general and administrative expenses are analysed as follows:

	2013	2012
	HK$'000	*HK$'000*
Auditors' remuneration	**2,285**	2,147
Amortisation of land use rights	**535**	515
Cost of inventories recognised as expenses included in cost of sales	**754,860**	405,746
Depreciation of property, plant and equipment	**48,629**	42,531
Direct operating expenses arising from investment properties that generate rental income	**274**	468
Employee benefit expenses (including directors' emoluments)	**253,490**	203,055
Net exchange (gains)/losses		
– recognised in cost of sales	**(13,662)**	–
– recognised in general and administrative expenses	**614**	539
Operating lease rentals		
– basic rent	**70,952**	28,507
– turnover rent	**11,719**	3,014
Provision for/(write back of) impairment of accounts receivable	**3,343**	(905)
Utility expenses	**43,406**	35,979
Freight and transportation	**22,212**	13,587
Other expenses	**60,001**	41,776
Total cost of sales, distribution and selling expenses and general and administrative expenses	**1,258,658**	776,959

5. Finance costs – net

	2013	2012
	HK$'000	*HK$'000*
Interest expense on bank borrowings *(Note)*		
– wholly repayable within five years	**12,779**	9,445
– not wholly repayable within five years	**672**	351
Total interest expense incurred during the year	**13,451**	9,796
Interest income from bank deposits	**(42)**	(45)
	13,409	9,751

Note: The classification by repayment period is based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

6. Taxation

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

	2013	2012
	HK$'000	*HK$'000*
Hong Kong profits tax		
– current tax	**4,232**	2,767
– under/(over)-provision in prior years	**69**	(138)
Overseas taxation including Mainland China		
– current tax	**640**	361
– over provision in prior years	**–**	(105)
Deferred taxation	**(2,509)**	2,338
Total taxation	**2,432**	5,223

The Company is incorporated in Bermuda and is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the year. Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax at the rate of 25% (2012: 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 year at the rates prevailing in the respective jurisdictions.

7. Earnings per share

The calculation of basic earnings per share is based on the consolidated profit for the year of the Company of approximately HK$20,150,000 (2012: HK$15,500,000) and the weighted average number of 666,190,798 (2012: 666,611,642) shares in issue during the year.

For the years ended 30 April 2013 and 30 April 2012, diluted earnings per share equals basic earnings per share as there was no dilutive potential share.

8. Dividend

	2013	2012
	HK$'000	*HK$'000*
Proposed final dividend of HK0.50 cent (2012: HK0.50 cent) per share	**3,331**	3,331

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect this dividend payable

9. Accounts receivable

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

	2013	2012
	HK$'000	*HK$'000*
0-30 days	**51,220**	55,537
31-60 days	**28,476**	35,168
61-90 days	**10,041**	19,474
91-120 days	**4,303**	5,391
121 days to 1 year	**18,786**	13,131
	112,826	128,701
Less: provision for impairment of receivables	**(5,898)**	(2,555)
	106,928	126,146

As at 30 April 2013 and 30 April 2012, the carrying amount of accounts receivable approximated its fair value.

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 customers with specific credit period up to 240 days to one customer.

10. **Accounts payable**

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

	2013	2012
	HK$'000	*HK$'000*
0-30 days	**26,025**	26,659
31-60 days	**4,759**	8,452
61-90 days	**451**	975
91-120 days	**494**	84
Over 120 days	**623**	679
	32,352	36,849

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 25 September 2013 to Friday, 27 September 2013(both dates inclusive), during which period no transfer of shares of the Company will be effected. Shareholders whose names appear on the register of members of the Company on Friday, 27 September 2013 are entitled to attend and vote at the annual general meeting of the Company to be held on Friday, 27 September 2013 (the "2013 Annual General Meeting"). In order to qualify to attend and vote at the 2013 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Tuesday, 24 September 2013.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the 2013 Annual General Meeting. For the purpose of determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 7 October 2013 to Wednesday, 9 October 2013(both dates inclusive), during which period no transfer of shares of the Company will be effected. In order to be entitled to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Friday, 4 October 2013. The payment of final dividend will be made on or about Wednesday, 23 October 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

General overview

In the financial year 2012-2013, the highest annual revenue since the foundation of the Group, HK$1,279,701,000 (2012: HK$795,593,000) was recorded, with around 60.8% growth in comparison to the annual revenue of last year. The growth was mainly attributed to the revenue of 759 STORE retail business for HK$812,150,000 (2012: HK$241,158,000), increasing by about 2.4 times. The branch number of 759 STORE increased by 63 in the year to 134 in total as at 30 April 2013 (2012: 71 branches). Gross profit margin of the Group in the year was 27.9% (2012: 23.6%), with a rise of 4.3 percentage points when compared with that in last year. The rise in gross profit margin was caused by the greatly increased share of retail business, which has relatively higher profit margin, in the total revenue, which accounted for 63%(2012: 30%) of the total revenue. On the other hand, the gross profit margin of electronic components manufacturing business in the year was also increased in comparison to that in last year.

While developing retail business at high speed, the Group still kept exerting its strength on maintaining its original profession - electronic components manufacturing business. The manufacturing industry still experienced a volatile and challenging year with many uncertain factors ahead. High inflation, high RMB exchange rate and high in raw material prices remain the long term disturbance faced by industrial companies in Mainland China, while the electronic consumer goods market was still in the doldrums ever since the financial tsunami in 2008. The waves of business closure increased credit risk, and thus the Group operated its coil manufacturing business cautiously. Revenue of electronic components manufacturing business this year decreased by about 15.6% to HK$465,208,000 (2012: HK$551,286,000) compared with last year.

Consolidated profit of the Group for the year was HK$20,150,000 (2012: HK$15,500,000) and the consolidated profit margin of the year was 1.6% (2012: 1.9%). The Group is committed to lowering its inventory and believes that reducing inventory level by improving logistics performance shall help offset the ever elevating storage cost, and more importantly, to make effective use of capital. As at 30 April 2013, consolidated inventory of the Group amounted to HK$163,021,000 (2012: HK$118,383,000). Inventory turnover day was 56 days (2012: 64 days). Total deposits, prepayments and other receivables (including prepaid rent and deposits for retail shops) as at 30 April 2013 has gone up to HK$59,721,000 (2012: HK$35,333,000), following the increased branch number of 759 STORE. The accounts receivables as at 30 April 2013 was HK$106,928,000 (2012: HK$126,146,000), representing a cut of 15% when compared with that of last financial year end date. Excluding the effect from retail business, turnover days for accounts receivables was 91 days, which has increased by 5 days (2012: 86 days) over that of last financial year end date.

Electronic components manufacturing business

The coil products of the Group's electronic components manufacturing business are applied in a wide ranging spectrum of electronic consumer goods, including various mobile communication equipments, lighting products, electrical appliances, computers and its peripheral products, power supply devices, etc. During the year, the industrial manufacturing business environment has not improved. On one hand, global demand for electronic consumer goods has not recovered, on the other hand, factories in Mainland China were still strongly hit by high RMB exchange rate, high raw materials price, rising labour cost, and recruitment problem on production line operators. Even since the Board decided to reduce the size of manufacturing business in 2009, the managerial staff ratio had failed to decrease with the actual business size. Although the ratio of production operators has decreased accordingly, job overlapping and organizational redundancy existing in the administrative hierarchy had hindered the improvement of the overall management and operating cost. Revenue for the electronic components manufacturing business for the year was HK$465,208,000 (2012: HK$551,286,000), reduced by about 15.6% when comparing with last year. We keep running the electronic components manufacturing business in a prudent manner and are committed to enhancing equipment utilization rate to optimize the past investment in production automation, doing our best to minimize operating cost so as to offset the pressure exerted by wage increase and difficult recruitment on production operators. Besides, the Group will strictly implement reliable credit policy to stringently control over accounts receivables and its associated risks. Gross profit margin of the electronic components manufacturing business rebounded 0.8 percentage point when compared with that of last year to 21.5% (2012: 20.7%).

After years of investment and development, the production facilities and operational flow in the main manufacturing base located in Zhongshan, Guangdong province, were well-established. Being highly vertically-integrated, the plant mainly involved in the fabrication of coils and self-production of coils' main components, including ferrite magnetic cores, ceramic parts, metal parts, plastic parts, moulds and packaging materials. The packaging material production department also supports our retail business by producing shopping bags and props for shop displays purposes for 759 STORE. Attributed to the large-scaled automated production equipment, the Group is managed to maintain certain production scale and cost competitiveness in spite of the continuously rising wage level. Since the depreciation of some equipment will be completed gradually, depreciation and amortization expenses of the manufacturing business for the year has trimmed down by 23.2% compared with last year, amounting to HK$28,130,000 (2012: HK$36,634,000), and the associated capital expenditure still remained at a low level, amounting to HK$2,501,000 (2012: HK$3,568,000).

Distribution cost and administrative expenses was HK$84,690,000 (2012: HK$92,150,000), representing a reduction of about 8.1% over last year. Such reduction was mainly attributed to the Group's reallocation on the coil business resources of the Hong Kong headquarters and overseas to develop the retail business. Accounts receivables for the year was HK$106,928,000 (2012: HK$126,146,000), lowering of about 15% compared with last year. Such percentage was close to the extent of revenue cutback. The Group will actively enforce stringent credit policy to avoid liquidity backlog.

Retail business

Established in July 2010, 759 STORE is the retail business of the Group that was set up with reference to the consumer culture of living areas in Japan. It mainly sells snacks, beverages, food and other packaged food imported from Japan and other regions of the world. In the year, 759 STORE gradually introduced characteristic domestic goods including kitchen supplies and household goods mainly from Japan. Running with high inventory turnover rate, 759 STORE aimed to give desirable service to vast local Hong Kong residents, providing a relaxing shopping environment with wide range of products for our customers to choose.

In this year the retail business recorded a revenue of HK$812,150,000 (2012: HK$ 241,158,000), representing an increase of about 2.4 times when compared with that in last year. In terms of segmental revenue, retail business has become the major income source for the Group in the year, accounting for about 63% (2012: 30%) of total revenue, while its operating profit was HK$11,617,000 (2012: HK$3,101,000), rising about 2.7 times. Thankful for the trust and support given by the landlords of shopping centres and shop units, they have offered a number of shop locations to 759 STORE for opening new shops. As at 30 April 2013, the number of 759 STORE branches was 134 (2012: 71), increasing by 63 branches or by 89%. Targeting to serve the vast Hong Kong residents, branches of 759 STORE are widely located in 18 districts. The site selection of 759 STORE goes deep into local residential areas. Most of the branches are located in shopping malls and shop units of public and private housing estates. The retail floor areas of 759 STORE were about 146,000 sq ft (2012: 57,000 sq ft) in total and approximately 1,090 sq ft (2012: 803 sq ft) per shop. The increased average net floor area of our shops could not only provide much more space to show new import products of which the quantity was increasing, but also could provide a much more spacious and comfortable shopping environment for our customers. Given that the shop rent in Hong Kong would stay high and keep soaring, 759 STORE took a prudent approach on site selection. On one hand, selecting those sites that located at shopping centres and street shop units in residential area, instead of those located at first tier shopping areas or tourist areas. On the other hand, trying best to select those sites with greater floor area in which lower rent per sq ft could well offset the effect of being bigger despite the pedestrian flow may be lower. During the year, the total shop rent accounted for about 9.7% (2012: 11.9%) of the retail revenue. The surplus built by the increase in revenue/ rent ratio will be reflected on the product discount offers to our customers.

Gross profit of retail business for the year was HK$255,113,000 (2012: HK$71,461,000) and the gross profit margin was 31.4% (2012: 29.6%), increased by 1.8 percentage point when compared with that for last year. Such increase in gross profit was mainly attributed to the effect of scale economy in which sales amount drove purchase amount to rise and higher purchase amount in turn provided good incentive for overseas agents and manufacturers to give better trading terms that reduced the procurement cost of the Group. Moreover, depreciation of Japanese Yen in the forth quarter of the year provided the Group more room to offer various discounts to our customers sharing the benefit thereby earned. In parallel with feeding back the benefit to our customers, we also could lead much more customers to try our self-import products where the brands and the products of our suppliers and manufacturers could have more effective promotion. Distribution cost and administrative expenses was HK$242,516,000 (2012: HK$68,360,000), increased by 2.5 times. That increase was caused by shop rent and frontline staff cost of the expanded retail network, as well as the allocation by the Group of the coil business resources in Hong Kong and overseas to give full support on retail business. The Board deeply believes that strengthening the reallocation of retail business resources will give significant thrust on the future development of retail business in next year and thereafter.

The revenue of retail business for the year increased by about 2.4 times. In this connection, setting up new product sources and also their supply chains became the most crucial factors for the development of 759 STORE. The Group had tried its best to negotiate with local agents in the year to build up steady local supply. However, mutual consent on product price setting and promotion plan could not be reached finally since 759 STORE paid high attention on its independency and flexibility on product price setting. In comparison with direct import, the management had to spend much more time on negotiation with local agents, but only small amount of product could be got. We understand that if 759 STORE relied on local supply, elasticity and flexibility on product price setting would be highly restrained. In conclusion, 759 STORE had to develop its own procurement model based on direct import. Our procurement team was mainly comprised of the staff who worked in our coil business for years. The product supplies from Japan were established under the existing business connections built by Zhongshan manufacturing headquarters. By referrals and introductions of these business connections, we came to know foreign distributors and manufacturers and established supply with them step by step. The supply from our main Korean suppliers was also established by the referral of the existing business connections built by Zhongshan manufacturing headquarters. Key staff members of our branches in both Taiwan and Singapore are mainly responsible for promoting 759 STORE and negotiating supply matters with suppliers in Taiwan and South-east Asia. For the supplies from Europe and America, the coordination work and new product exploration were responsible by the staff who worked for overseas sales department before. The country of origin for our goods was mainly Japan in the year. Since Japan's 311-Earthquake in 2011, the Group has formed strong and firm relations with Japanese local suppliers and logistics operators. To provide our customers with a much comprehensive range of products to select, we did best to further increase the varieties of our products so that our products not only came from Japan, but also Korea, Taiwan, other European countries, North

America and South-east Asia regions. Our retail network had already reached a size that, apart from the supply from foreign local distributors, 759 STORE has also started to gradually establish other supply from much bigger distributors and some manufacturers in order to have a stable supply at competitive prices through which we could provide more high quality products to our customers at reasonable price. Product price of 759 STORE was set by formula in same profit margin so that the product prices for most of the foreign import products in our stores would roughly be similar to those in the market of their own country, where our customers could buy foreign import products in Hong Kong at similar consumption level as if they stayed and bought in that country. Under the high inventory turnover rate policy, the Group was able to place steady, bulky and long term purchase order to foreign distributors and manufacturers. At the same time when we promoted the brands of our foreign import products and household goods, manufacturers could also consider to provide us much competitive terms so that the total purchase cost could keep decreasing with the increasing trade amount.

Investment property

Rental income of the Group for the year amounted to HK$2,343,000 (2012: HK$3,149,000), representing a decrease as compared with that of last year. This was mainly because the Group turned some of its investment properties to foodstuffs warehouse to support its retail business, and it also turned some residential properties into staff dormitory for expatriates.

FINANCIAL REVIEW

Fund surplus and liabilities

As at 30 April 2013, the Group's bank balances and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK$108,620,000 (2012: HK$66,372,000). As at 30 April 2013, the Group had aggregate banking facilities (excluding that of foreign exchange derivative financial instrument) of HK$544,036,000 (2012: HK$381,903,000) for overdrafts, loans, trade financing, factoring of accounts receivable, etc. Unused facilities as at the same date amounted to approximately HK$111,946,000 (2012: HK$102,816,000). At 30 April 2013, the utilized banking facilities amounting to HK$432,090,000 were secured by charges on the Group's certain land and buildings, investment properties, pledges of the Group's accounts receivable, bank deposits and available-for-sale financial assets. In addition, the Group is required to comply with certain restrictive financial covenants imposed by the major financing banks. As at 30 April 2013, the Group could comply with such financial covenants.

With the rapid expansion of retail business and purchase of properties during the period, the Group's total borrowings from banks amounted to HK$431,137,000 at 30 April 2013 (2012: HK$279,087,000), increased by HK$152,050,000. As at 30 April 2013, the Group's gearing ratio* was 0.39 (2012: 0.31), reporting an increase of 0.08 as compared with that of the last financial year-end date. Moreover, the Group did not have any contingent liabilities (2012: Nil) as at the same date.

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

Assets

As at 30 April 2013, inventory of the Group was HK$163,021,000 (2012: HK$118,383,000). The boost in inventory was primarily due to storage of necessary stocks in support for the new business development. At the same time, total prepayments, deposits and other receivables (including prepaid rent and rental deposits of retail shops) also increased in line with the expansion of 759 STORE retail network, reaching HK$59,721,000.

Since the tsunami hit in 2008, the Group remained conservative over the sustainable growth of the global electronics consumption market and stopped to make large-scale investment in its production to retain funding for exploring other reliable sources of income. Given the ample liquidity condition in the local market, together with the Hong Kong dollar-denominated borrowings of the Group, in order to safeguard the Group's assets, the Group applied the capital recovered to purchase industrial and residential properties in Hong Kong for its own use or for rental income purpose in an orderly manner since 2009, and to gradually pledged to the bank for the grant of some banking facilities during the period.

Interest expense

In light of our business growth and increase on borrowings, interest expense of the Group amounted to HK$13,451,000 for the year ended 30 April 2013 (2012: HK$9,796,000), increased by 37%.

Financial resources and capital structure

Over the year, the Group's net cash inflow was HK$35,502,000 (2012: HK$8,405,000) and the net cash generated from operating activities was HK$36,045,000 (2012: HK$23,935,000). Despite the poor electronic market conditions, the stable coils business remained a major source of cash flow to the Group and provided strong support for the speedy expansion of store network during the period. As at 31 October 2012, deposits, rentals in advance and prepaid rent for shop leasing, snack inventory and prepayments for purchase of snack inventory amounted to HK$107,000,000. Such retail payment resulted in cash outflow from operating activities of more than HK$60,000,000. Meanwhile, in parallel with the development focus change from increasing market share to consolidating the existing retail business, the accuracy on purchase amount was greatly improved with the increased market experience and much comprehensive sales data, and the Group was able to accelerate the recovery of some working capital backlog. This year the Group recorded net cash generated from operating activities, when compared with net cash used in operating activities of HK$17,131,000 in the interim report, net cash generated from operating activities of the second half of this year reached HK$53,176,000. Over the year, retail business was in its robust development stage and the Group opened 63 new branches, of which the store fitting-out and equipment configuration, coupled with the property acquisition of HK$94,765,000, the net cash used in the investment activities amounted to HK$132,250,000 (2012: HK$80,155,000), such amount was used to purchase some properties and for retail business fitting-out. Over the period, net cash generated from the financing activities was HK$131,707,000 (2012: HK$64,625,000). The increase in borrowings resulted in increase in net cash inflow from financing activities during the year.

Cash Flow Summary

	2013	2012
	HK$'000	*HK$'000*
Net cash inflow from operating activities	**36,045**	23,935
Net cash outflow from investing activities	**(132,250)**	(80,155)
Net cash inflow from financing activities	**131,707**	64,625
Increase in cash and cash equivalents	**35,502**	8,405

As at 30 April 2013, the net current liabilities was HK$117,399,000 (2012: HK$19,656,000), and the current ratio was 0.78 (2012: 0.94). The net current liabilities included pledged loans of approximately HK$132,736,000 (HK$34,875,000 repayable within one year; HK$97,861,000 repayable after one year). Such loans due for repayment after one year but contained a repayment on demand clause amounting to approximately HK$97,861,000 have been classified as current liabilities in accordance with the HK Interpretation 5, "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause". Due to the rapid expansion of the retail business in the past twelve months, the Group has faced short term pressure for its working capital as additional cash outflow from operation was resulted for purchase of inventory and prepaid rental and deposits. The Group did not seek financing from the capital market and it will maximize its internal resources usage, the Group's properties and other assets as pledge to obtain banking facilities to support the required additional cash flow. In view of the present bank borrowings available for use, and the future demand for capital will be mitigated after the retail business development has entered into a consolidation stage, the management believes that the Group have adequate working capital to meet the existing development plans.

Charges on Assets

As at 30 April 2013, certain assets of the Group with an aggregate carrying value of approximately HK$362,832,000 (2012: HK$235,132,000) 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 Hong Kong dollar, Renminbi, United States dollars and Japanese Yen. The Group will endeavour to use forward contracts to hedge potential foreign exchange fluctuation if necessary. If Renminbi has a remarkable appreciation, the Group might experience additional cost pressure. In this connection, the Group will closely monitor the fluctuation trend of Renminbi.

EMPLOYEES

As at 30 April 2013, the Group employed approximately 3,500 staff (2012: 3,900). The remuneration of the employees is determined by reference to market benchmark, individual performance, academic qualification and work experience, subject to periodic review. Other agreed employee benefits includes pension scheme, medical insurance, on-job training, education subsidy and other social security and paid leaves stipulated under the relevant jurisdiction of places of operation. Pursuant to the Company's share option scheme, options may be granted to eligible employees to subscribe for shares in the Company. The share option scheme expired on 25 September 2012 and no option was granted under the scheme during the period under review (2012: Nil).

CORPORATE SOCIAL RESPONSIBILITY

The Group continued to take active role in corporate citizenship practice through participating in various forms of charity, volunteer services and health activities, encouraging its staff to care for the society and promoting their mental and physical development in a healthier and balanced way. The Group has also dedicated in participating charitable community activities by granting donations to charitable organizations and education institutions. Details of events participated during the year are listed as follows:

- Set up 759 STORE Scholarships for the City University of Hong Kong, Tung Wah College and Vocational Training Council to support local higher education and encourage student to study hard.

- Sponsored secondary school students to enroll the "11th Junior Enterprise Leader Training Course" organized by The Hong Kong Polytechnic University to foster the development of leadership skills of local youngsters.

- Co-organized "759 STORE Card Design Competition" with the HKICC Lee Shau Kee School of Creativity and donated the scholarship to encourage creativity development and to provide a platform to students for realizing their design concepts.

- Opened the "TWC • 759 Co-operative Store" to provide workplace training opportunities to Tung Wah College students.

- Sponsored and organized volunteer team to participate in the "Tai O Stilt House Restoration and Community Development Project" initiated by Habitat for Humanity China, which aims to improve the living conditions and revitalize the local community of Tai O by restoring and repairing the historic stilt homes for low-income families. Through restoration instead of reconstruction, both economic development and heritage preservation will be promoted.

- Sponsored the "Habitat Challenge Day 2012" organized by Habitat for Humanity China, and encourage more than 20 staff and their family members to participate in the walkathon to raise fund for Habitat for Humanity and support their house restoration and mitigation projects.

- Support the "ORBIS Moonwalkers 2012" annual fundraising event to bring hope to preventably blind people worldwide.

- Sponsored the "Renaissance Music Festival 2012" to support and promote cultural diversity in Hong Kong.

- Co-operated with the Track Media Explorer to participate in the "MSC Challenge International Drifting Competition" to raise fund for The Hong Kong Society for Rehabilitation and promote the "Physically Handicapped and Able-Bodied" integrative concept.

- Donated some health food to the "World Diabetes Day" - Hong Kong 2012 activities, to spread the health information about diabetes and promote healthy lifestyle.

- Supported the ORBIS donation programme by placing their donation boxes at 759 STORE outlets.

- Encouraged the staff of Zhongshan Coils to participate in the "十萬市民健身跑" health care activity organized in Dong Feng Zhen.

- Sponsored various community activities, such as "Caring Company Scheme 2011/12" of The Hong Kong Council of Social Service, "Hong Kong Island Flag Day"of Hong Kong Aged Concern Limited, "Support the Homeless 2012" of The Chinese University of Hong Kong, Family Basketball Competition, Lions College Charity Bazaar, 2013 Hong Kong Youth Art Exhibition (Spring), etc.

- Sponsored gifts and discount cards to different charity organizations and student associations, such as New Life Psychiatric Rehabilitation Association, Po Lam Baptist Church Bradbury Neighbourhood Elderly Centre, The Society for the Welfare of the Autistic Persons, Tin Shui Wai Women Association Limited, Hong Kong Sheng Kung Hui Holy Nativity Church Neighbourhood Elderly Centre, Tung Wah Group of Hospitals Jocky Club Tai Kok Tsui Integrated Services Centre, etc.

AWARDS AND RECOGNITIONS

Major awards of the Group during the year include:

- Coils Electronic Co., Ltd, the main subsidiary of the Group, was awarded the "5 Consecutive Years Caring Company" logo by the Hong Kong Council of Social Service.

- 759 STORE was elected by the customers as "The Most Comprehensive" in the "Hot MTR Shops Poll 2012" organized by the MTR.

- 759 STORE was awarded Junzi Enterprise "Gold" Award (supermarkets and retail industry), Junzi Enterprise "仁" and "禮" Award in the Junzi Enterprise Survey conducted by Hang Seng Management College.

- 759 STORE was awarded the "Smiling Enterprise Award" by the Hong Kong Mystery Shopping Provider Association for the 2nd consecutive year.

Future Outlook

Looking forward, the Group anticipated that the winter for industrial manufacturing has not yet ended and the demand for electronic consumer goods has no signs of recovery, while the whole market will continue to be affected by external uncertainties. The Board has decided to operate its electronic components manufacturing business in a prudent and well-disciplined manner by rationalizing cost. It will actively maintain the present order size as well as the excellent client base. The Board had designated a group of managerial staff to work out improvement plan with the staff of job overlapping in accordance with the Labour Contract Law of the People's Republic of China, so as to hopefully diminish the organizational redundancy on management and administrative structure created by the reduced manufacturing business size since 2009, in the meantime trim and streamline the organization in order to minimize management and administrative cost. On the other hand, the Group would make much full use of the equipments in Zhongshan production headquarters which had been fully developed for years, and decrease capital expenditures so as to maintain a greater competitive edge and flexibility to stand firm in this long depression of production industry cycle. The Group was planning to have trial food import and wholesale operation in Mainland China. Apart from market test, we hoped that this new business could make good use of existing factory resource, including land, factory building and storehouse.

In terms of retail business, 759 STORE would have entered into its 3rd anniversary when this report was published in July and it has a total of 143 branches at the date of this report. We are glad to render our sincere gratitude to our landlords for their trust and provided us with various ideal stores locations over the past 3 years. In future, 759 STORE will continue to see Hong Kong as its one and only region for its development and be at Hong Kong local residents' service as its privilege. We will not develop another market other than Hong Kong in this moment unless unusual factor come its way. The Board is now planning to expand the number of 759 STORE branch to 180 in the next financial year. After that, we will examine Hong Kong local residents' acceptability to 759 STORE for one year, review and also fine tune its operations, reorganize store locations, and adjust designs of some stores. If 759 STORE is identified to be accepted by Hong Kong local residents, the Group will open 60 new branches per year, 120 branches in total in the following 2 years.

At this stage, the management believes that relatively greater shop floor area can provide our customers a much leisurely shopping environment, show more products and encourage their purchase desire. We will apply for the site of saleable area around 1,000-2,000 sq ft from landlords. We will also increase the varieties and types of products. Part of them are high quality household goods and interesting new gadgets which can enhance our customers' enjoyment on shopping, create fresh feeling in our stores and attract new customers from various walks of life. The management will try its best to seek landlords' approval on showing and selling some non-food products. The categories and quantities of the goods in our branch stores will vary according to the business scope stated in rental contract and the need of local residents. Besides, the Group will put the new Sai Wan Ho store as test point to develop mini-supermarket in August 2013, and in future maintain 5% of stores as mini-supermarkets in our development target. The Group shall maintain its transparency and provide timely and accurate operating data for landlords, together with the refined store design and display and appropriate promotion strategy to enhance the customer's traffic and turnover. It is believed this will give comfort and confidence to landlords to review the future renewal of lease.

As to developing new product source, the Group kept facing disturbances and opportunities in these 3 years since foundation of 759 STORE. 759 STORE did its best to conduct "lower margin with high turnover" policy. However, under the existing business model of traditional retail market, our independence on product price setting was greatly restrained. Through this 3 years effort on active developing direct import model, it was grateful that 759 STORE had not only built up supplies with food distributors and manufacturers of Japan and other countries, but also a smooth import operation with substantial procurement scale. To avoid any conflict on product price setting with traditional market players, the Group would take further step to increase the proportion of direct import and much fully exclude the supply of local suppliers who were difficult to have price negotiation with and did not allow 759 STORE to set product prices independently. Exploring new products in all angles and without limitation, our procurement team continued to source wide varieties of import product for Hong Kong residents' enjoyment, where around 80% of them was food products and 20% of them was household and other products, hoping that our customer could have much more choices and much brand new shopping experience for their patronage in 759 STORE.

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

The Company had not redeemed any of its listed shares during the year ended 30 April 2013. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed shares during the year ended 30 April 2013.

CORPORATE GOVERNANCE PRACTICES CODE

The Board believes that good corporate governance is not only in the interest of the Company and its shareholders as a whole, but also increasingly important for maintaining and promoting investor confidence. The Board is responsible for ensuring a high quality of corporate governance. The Company has adopted the principles and complied with 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 year ended 30 April 2013, 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 Code Provision A.2.1 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 as a whole.

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 27 September 2012 (the "2012 AGM") due to illness at the material time. Ms. Tang Fung Kwan, the executive director of the Company, who took the chair of the 2012 AGM and all other members of the Board (including the chairman of each of the Audit Committee and the Remuneration Committee) attended the 2012 AGM to ensure effective communication with the shareholders of the Company.

AUDIT COMMITTEE

The Audit Committee of the Company, currently comprising three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group, the internal control of the Group and the annual results of the Company for the year ended 30 April 2013.

REMUNERATION COMMITTEE

The Company established a remuneration committee for the purpose of making recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The remuneration committee also has the delegated responsibility to (i) make recommendations to the Board the remuneration packages of individual executive directors and senior management including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment and (ii) make recommendations to the Board on the remuneration of non-executive directors. The remuneration committee currently comprises five members including one executive director, namely Ms. Tang Fung Kwan, and four independent non-executive directors, namely Mr. Au Son Yiu (chairman of the Remuneration Committee), Dr. Tang Tin Sek, Mr. Goh Gen Cheung and Professor Zhu Yuhe.

NOMINATION COMMITTEE

The Company established a nomination committee to review the structure, size and composition (including the skills, knowledge and experience) of the Board, to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy and to assess the independence of independent non-executive directors of the Company. The nomination committee currently comprises four members including one executive director, namely Mr. Lam Wai Chun (chairman of the Nomination Committee), and three independent non-executive directors, namely Mr. Au Son Yiu, Dr. Tang Tin Sek and Mr. Goh Gen Cheung.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. 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 at the applicable times for the period from 1 May 2012 to 30 April 2013.

Further information on the corporate governance practices of the Company will be set out in 2012/2013 annual report of the Company, which will be sent to the shareholders of the Company by the end of August 2013.

ANNUAL GENERAL MEETING

The 2013 Annual General Meeting of the Company will be held on Friday, 27 September 2013 and the Notice of Annual General Meeting will be published and despatched in accordance with the Listing Rules in due course.

By Order of the Board
Lam Wai Chun
Chairman

Hong Kong, 26 July 2013

As at the date hereof, the Board comprises four Executive Directors, namely Mr. Lam Wai Chun, Ms. Tang Fung Kwan, Ms. Li Hong and Mr. Ho Man Lee; and four independent Non-executive Directors, namely Mr. Au Son Yiu, Dr. Tang Tin Sek, Mr. Goh Gen Cheung and Professor Zhu Yuhe.

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

* *For identification purpose only*