CEC-COILS®

CEC INTERNATIONAL HOLDINGS LIMITED

CEC 國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 759)

2015/2016 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of CEC International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 31 October 2015 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 31 October	
		2015	2014
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*2*	**1,258,153**	1,137,872
Cost of sales		**(832,325)**	(775,866)
Gross profit		**425,828**	362,006
Other losses, net		**(332)**	(1,086)
Selling and distribution expenses		**(325,266)**	(254,922)
General and administrative expenses		**(79,708)**	(74,697)
Operating profit	*3*	**20,522**	31,301
Finance income		**105**	20
Finance costs		**(10,925)**	(8,977)
Finance costs, net	*4*	**(10,820)**	(8,957)
Profit before income tax		**9,702**	22,344
Income tax expense	*5*	**(1,610)**	(5,068)
Profit attributable to equity holders of the Company for the period		**8,092**	17,276
Earnings per share, basic and diluted, attributable to equity holders of the Company	*6*	**1.21 cents**	2.59 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 31 October	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period	**8,092**	17,276
Other comprehensive (loss)/income – items that have been or may be reclassified to profit or loss		
Change in fair value on available-for-sale financial assets	**(181)**	45
Realisation of investment revaluation reserve upon disposal of available-for-sale financial assets	**–**	(387)
Currency translation differences	**(13,440)**	603
Total comprehensive (loss)/income for the period	**(5,529)**	17,537

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 31 October 2015** ***HK$'000*** **(Unaudited)**	As at 30 April 2015 *HK$'000* (Audited)
ASSETS			
Non-current assets			
Land use rights		**19,072**	19,694
Property, plant and equipment		**590,809**	595,408
Investment properties		**86,889**	92,277
Available-for-sale financial assets		**360**	541
Prepaid rent on operating lease		**81,989**	77,514
Deposits paid for acquisition of property, plant and equipment		**1,322**	1,705
Deferred tax assets		**2,648**	2,895
		783,089	790,034
Current assets			
Inventories		**328,325**	297,760
Accounts and bills receivables	*8*	**57,358**	55,625
Deposits, prepayments and other receivables		**65,161**	53,009
Pledged bank deposits		**41,833**	49,116
Cash and cash equivalents		**77,808**	68,386
		570,485	523,896
Total assets		**1,353,574**	1,313,930
EQUITY			
Share capital		**66,619**	66,619
Reserves			
Proposed final dividend		**–**	6,662
Others		**479,048**	484,577
Total equity		**545,667**	557,858
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**1,599**	1,599
Provision for reinstatement cost		**12,081**	10,895
		13,680	12,494
Current liabilities			
Borrowings	*9*	**649,130**	623,011
Accounts and bills payable	*10*	**42,408**	25,355
Accruals and other payables		**83,345**	77,050
Taxation payable		**19,344**	18,162
		794,227	743,578
Total liabilities		**807,907**	756,072
Total equity and liabilities		**1,353,574**	1,313,930
Net current liabilities		**(223,742)**	(219,682)
Total assets less current liabilities		**559,347**	570,352

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 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

Since the establishment of the coils business, the Group's operation has been financed both by bank borrowings and internal resources. As at 31 October 2015, the Group's current liabilities exceeded its current assets by HK$223,742,000. This liquidity shortfall was attributable to (i) bank borrowings contractually due for repayment after one year that contain a repayment on demand clause amounting to approximately HK$95,617,000 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 Repayment on Demand Clause"; and (ii) certain of the Group's non-current assets including property, plant and equipment as at 31 October 2015 were financed mainly by the Group's internal funding and short-term borrowings. Among the bank borrowings, HK$458,341,000 were import and trust receipts loans, while the remaining balances were term loans, bank advance for factored receivables and overdrafts. In addition, as at 31 October 2015, the Group had unutilized bank facilities of HK$227,810,000.

The management always closely monitors 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 Interim Financial Statements 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 2015, as described in those annual financial statements.

In the current period, the Group has also adopted the following new standards and 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 2015. The adoption of these new standards and amendments to standards has no material impact on the Group's results and financial position.

HKAS 19 (Amendment)	Defined benefits plan
Annual improvement project	Annual improvement 2010-2012 cycle
	Annual improvement 2011-2013 cycle

The following new standards and amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 May 2015 and have not been early adopted:

HKAS 1 (Amendment)	Disclosure initiative
HKAS 16 and HKAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation
HKAS 16 and HKAS 41 (Amendment)	Bearer plants
HKAS 27 (Amendment)	Equity accounting in separate financial statements
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 10,12 and HKAS 28 (Amendment)	Investment entities: applying the consolidation exception
HKFRS 11 (Amendment)	Accounting for acquisitions of interest in joint operations
HKFRS 14	Regulatory deferral accounts
HKFRS 15	Revenue from contracts with customers
Annual improvement project	Annual improvement 2012-2014 cycle

The Group is in the process of making an assessment on the impact of these new 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 interpretations and amendments to existing standards when they become effective.

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 holding. Segment information provided to management for decision-making is measured in a manner consistent with that in the Interim Financial Statements.

	Retail business Six months ended 31 October		Electronic components manufacturing Six months ended 31 October		Investment property holding Six months ended 31 October		Eliminations Six months ended 31 October		Total Six months ended 31 October	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue										
External sales	**1,155,603**	970,975	**100,255**	165,443	**2,295**	1,454	**–**	–	**1,258,153**	1,137,872
Intersegment sales	**–**	–	**–**	–	**792**	792	**(792)**	(792)	**–**	–
	1,155,603	970,975	**100,255**	165,443	**3,087**	2,246	**(792)**	(792)	**1,258,153**	1,137,872
Segment results										
Operating profit	**22,150**	32,630	**860**	1,657	**1,381**	630			**24,391**	34,917
Corporate expenses									**(3,869)**	(3,616)
Finance costs, net									**(10,820)**	(8,957)
Profit before income tax									**9,702**	22,344
Income tax expense									**(1,610)**	(5,068)
Profit for the period									**8,092**	17,276
Depreciation and amortisation	**32,997**	25,507	**7,256**	8,466	**–**	–			**40,253**	33,973
Distribution expenses and administrative expenses	**381,531**	297,572	**18,659**	27,698	**915**	733			**401,105**	326,003
Additions to non-current assets (other than financial instruments)	**39,752**	69,529	**427**	500	**–**	–			**40,179**	70,029

	Retail business		Electronic components manufacturing		Investment property holding		Eliminations		Total	
	As at 31/10/2015	As at 30/4/2015	**As at 31/10/2015**	As at 30/4/2015	**As at 31/10/2015**	As at 30/4/2015	**As at 31/10/2015**	As at 30/4/2015	**As at 31/10/2015**	As at 30/4/2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**937,135**	874,412	**333,073**	351,055	**88,042**	93,095	**(7,540)**	(7,727)	**1,350,710**	1,310,835
Unallocated assets										
– Deferred income tax									**2,648**	2,895
– Corporate assets									**216**	200
Total assets									**1,353,574**	1,313,930
Segment liabilities	**107,424**	82,785	**30,108**	29,975	**7,671**	8,068	**(7,540)**	(7,727)	**137,663**	113,101
Borrowings									**649,130**	623,011
Unallocated liabilities										
– Deferred income tax									**1,599**	1,599
– Taxation payable									**19,344**	18,162
– Corporate liabilities									**171**	199
Total liabilities									**807,907**	756,072

Geographical information

	Revenue Six months ended 31 October		Non-current assets	
			As at	As at
	2015	2014	**31/10/2015**	30/4/2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC (including the Hong Kong Special Administrative Region)	**1,221,495**	1,086,090	**783,029**	789,959
Other regions	**36,658**	51,782	**60**	75
	1,258,153	1,137,872	**783,089**	790,034

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. OPERATING PROFIT

Operating profit is stated after charging the following:–

	Six months ended 31 October	
	2015	2014
	HK$'000	*HK$'000*
Amortisation of land use rights	**269**	272
Cost of inventories recognised as expenses included in cost of sales	**765,182**	680,223
Depreciation of property, plant and equipment	**39,984**	33,701
Employee benefit expenses (including directors' emoluments)	**189,538**	166,467
(Write back)/provision for impairment of accounts receivable	**(909)**	1,125
Gain on disposal of available-for-sale financial assets	**–**	(387)

4. FINANCE COSTS, NET

	Six months ended 31 October	
	2015	2014
	HK$'000	*HK$'000*
Interest expense on bank borrowings *(Note)*		
– wholly repayable within five years	**10,588**	8,554
– not wholly repayable within five years	**337**	423
Finance costs	**10,925**	8,977
Interest income from bank deposits	**(105)**	(20)
	10,820	8,957

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.

5. INCOME TAX EXPENSE

Income tax expense is recognised based on management's estimate of the annual income tax rate expected for the full financial year. The Company is incorporated in Bermuda and is exempted from taxation in Bermuda until 2035. Hong Kong profits tax has been provided at the estimated rate of 16.5% (2014: 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% (2014: 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	
	2015	2014
	HK$'000	*HK$'000*
Hong Kong profits tax		
– current tax	**1,252**	5,339
Overseas taxation including Mainland China		
– current tax	**110**	133
Deferred taxation	**248**	(404)
	1,610	5,068

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 31 October 2015 is based on the consolidated profit for the period of approximately HK$8,092,000 (2014: HK$17,276,000) and the weighted average number of 666,190,798 (2014: 666,190,798) shares in issue during the period.

For the six months ended 31 October 2015 and 3l October 2014, diluted earnings per share equals basic earnings per share as there was no dilutive potential share.

7. DIVIDEND

The Board resolved not to declare any interim dividend in respect of the six months ended 31 October 2015 (2014: Nil).

8. ACCOUNTS AND BILLS RECEIVABLES

	As at 31 October 2015	As at 30 April 2015
	HK$'000	*HK$'000*
Accounts receivables	**64,748**	60,196
Less: provision for impairment of receivables	**(9,332)**	(10,238)
Accounts receivables – net	**55,416**	49,958
Bill receivables	**1,942**	5,667
Accounts and bills receivables – net	**57,358**	55,625

The ageing analysis of accounts receivables is as follows:

	As at 31 October 2015	As at 30 April 2015
	HK$'000	*HK$'000*
0-30 days	**37,992**	31,510
31-60 days	**11,527**	12,225
61-90 days	**5,492**	5,041
91-120 days	**996**	1,718
Over 120 days	**8,741**	9,702
	64,748	60,196
Less: provision for impairment of receivables	**(9,332)**	(10,238)
	55,416	49,958

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.

9. BORROWINGS

As at 31 October 2015, bank borrowings of approximately HK$95,617,000 (at 30 April 2015: HK$116,225,000) 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".

10. ACCOUNTS AND BILLS PAYABLE

	As at 31 October 2015	As at 30 April 2015
	HK$'000	*HK$'000*
Accounts payable	**42,215**	25,355
Bills payable	**193**	–
Accounts and bills payable	**42,408**	25,355

The ageing analysis of accounts payable is as follows:

	As at 31 October 2015	As at 30 April 2015
	HK$'000	*HK$'000*
0-30 days	**30,523**	17,268
31-60 days	**8,048**	4,249
61-90 days	**2,271**	3,202
91-120 days	**901**	278
Over 120 days	**472**	358
	42,215	25,355

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

For the six months ended 31 October 2015, the Group recorded total revenue of HK$1,258,153,000 (2014: HK$1,137,872,000), representing a growth of about 10.6% compared to that of the same period in last year. In this period, the consolidated gross profit was HK$425,828,000 (2014: HK$362,006,000), representing a rise of 17.6% compared to that of the same period in last year, and the consolidated gross profit margin was 33.8% (2014: 31.8%), went up by 2 percentage points than that of last year. The uplift of consolidated revenue, gross profit and gross profit margin were mainly driven by the development of our retail business. For the period under review, the revenue from our retail business "759 STORE" accounted for 91.8% (2014: 85.3%) of the Group's total revenue, while the weighting for the revenue from our coil manufacturing business dropped to about 8.0% (2014: 14.5%).

For the period under review, the Group's operating profit was HK$20,522,000 (2014: HK$31,301,000). Consolidated profit decreased by approximately 53% to HK$8,092,000 (2014: HK$17,276,000) when compared to that of the same period in last year. Such decrease was mainly due to the shop rents, shop management fees and frontline staff salaries, which increased in the period and led to an increase of 27.6% in selling and distribution expenses, in comparison with that in last year, as HK$325,266,000 (2014: HK$254,922,000). General and administrative expenses for the period was HK$79,708,000 (2014: HK$74,697,000), representing an increase of 6.7% compared to that in last year. Such increase was lower than the growth of revenue, reflecting that the current size of our management operation was able to cope with the business which grew continuously. The new expenses were mainly for the structural development in all department of retail business, as a reserve of management team for future development.

Although rents and salaries were driven by the local economic structure and the supply and demand of market, the current cost structure and product pricing otherwise were in reasonable level and totally under the control of the Group. Even though the founder fully understood that the profit margin of retail business had not been thick, he deeply believed that, achieving "actual benefit, fair price" in the way of sticking to "low margin, high turnover" policy, pricing all products by formula with fixed profit rate was the critical reason of why 759 STORE could successfully stand firm in the market to provide alternative choices to customers.

Retail business

According to the figure monthly released by the Census and Statistics Department of Hong Kong, total value of retail sales for every months since March 2015 dropped in comparison with that of the same month in last year. It reflected that structural change had emerged in local retail market. The Group maintained retail revenue stable in the way of sticking to "low margin, high turnover" policy and self-procurement mode of high flow rate in container unit. For the six months ended 31 October 2015, our retail business recorded segment revenue of HK$1,155,603,000 (2014: HK$970,975,000), representing an increase of 19% compared with that of the same period in last year. Segment gross profit was HK$403,682,000 (2014: HK$330,202,000), representing an increase of 22.3% compared to that of the same period in last year. Segment gross profit margin increased by 0.9 percentage point in comparison with that of last year to 34.9% (2014: 34.0%). For the period under review, shop rental expenses, the largest cost component of our retail business, was HK$130,242,000 (2014: HK$101,078,000), increased by 28.9% compared to that in last year, increasing in its shares in revenue by 0.9 percentage point to 11.3% (2014: 10.4%). Rental expenses increased, mainly because of opening new shop, and the rents of some shops which were agreed while renewing their rental contracts in last year, before economic trend reversed where the Group forecasted that the revenue of such shops would grow in line with the rents according to the market trend at that moment. Apart from rents, there were increases in both shop management fees and frontline staff salaries, which led to a hike of 29% in selling and distribution expenses of our retail business to HK$322,027,000 (2014: HK$249,260,000). Thus, segment operating profit and segment operating profit margin from our retail business for the period under review fell by 32% and 1.5 percentage points to HK$22,150,000 (2014: HK$32,630,000) and 1.9% (2014:3.4%), respectively.

As at 31 October 2015, the Group had 281 (2014: 226) 759 STORE branches in operation. During the period, the Group opened 72 branches and closed down 17 branches, resulting in a net increase in the number of branches by 55, or 24% in percentage terms. Of the newly-added branches, 10 were restaurants (including 7 branches for restaurant and 3 branches for "759 BAKERY"), 9 were "759 STORE – SF Co-op Store" and 4 were "759 STORE – KMB Staff Discount Station". Excluding those restaurants and cooperative stores, 32 branches of 759 STORE were newly opened during the period.

According to the operation data collected by the Group for years, the specialty stores in different themes, such as 759 KAWAII/KAWAIILAND, 759 STORE FROZEN MARKET, 759 STORE HOUSEHOLD MARKET/KAGUYA, 759 SKYLAND and 759 SHINGUYA, had received steady support of customers. However, in term of efficiency of the whole operation, the products of the aforesaid specialty stores showed much outstanding sales performance at built-in shops inside "759 STORE" and "759 STORE SUPERMARKET" of bigger size. The figures such as customers' shop patronage, number of transactions and the product combination of each transaction also showed that, customers tended to give their patronage to "759 STORE" and "759 STORE SUPERMARKET" of bigger size and wider variety of products for choice. The management would, from landlords, step by step seek for shop sites of bigger floor area and for broadening the scope of sales, displaying much more products for choice. In term of shop floor area, the shop of bigger shop floor area not only could provide customers a much spacious and comfortable shopping and leisure environment, but also could increase the number of product categories and the number of products displayed in shop, providing customers much wider variety of choices. The rent-to-revenue ratios for middle-sized and large-sized "759 STORE" and "759 STORE SUPERMARKET" were obviously lower than the average. As at 31 October 2015, total gross floor area of the Group's branches was approximately 504,000 sq ft (2014: 378,000 sq ft), while the average branch gross floor area was about 1,794 sq ft (2014:1,673 sq ft).

The Group adopted a parallel import mode in container unit, through which 759 STORE was able to introduce a wider variety of products for customers to choice. Since retailing Japanese snack was considered promising in the market, the number of Japanese snack shops in the city continuously increased. Nonetheless, the revenue of the Group's snack category and Japanese-made products still had growth regardless of the gradually saturated market. In respect of the whole business, the weighting of snack category would further decrease as the import of food groceries and frozen foods from Europe and America greatly increased. For the period under review, the types of products sold were around 22,000 (2014: around 15,000), giving more product choices to customers, compared with last year. The weighting of snack category, of which its revenue took the greatest share in total revenue, decreased to only 31% (2014: 39%). The weighting of food groceries including rice, oil, noodles, seasonings and canned foods increased to 25% (2014: 13%), followed in descending order by drinks (including alcohols), frozen foods, personal care products, housewares and baby products. Our products were imported from 61 countries and regions (2014: 61). In terms of revenue, the region which took the greatest share was still Japan, though its weighting had dropped to about 39% (2014: 43%), followed by Europe, Korea, Southeast Asia, Taiwan, China, Americas and other regions.

The Group agreed that only with attractive salary packages could we recruit suitable staff from the market, which is essential to the development of our retail business. For the period under review, salaries and allowances for our frontline staff accounted for approximately 8.8% of segment revenue (2014: 7.7%), and an increase of 3.4% in average salary level per person when compared to the same period of last year. The number of frontline staff per branch on average in the same period stayed at very much the same level as last year, was 3.9 (2014: 3.9). Salaries and allowances for our back office and managerial staff for the period under review accounted for approximately 3.5% (2014: 3.6%) of segment revenue, achieving a lowering of 0.1 percentage point when compared to last year, thanks to the efforts of our staff at all levels who work in an efficient and effective manner to keep abreast of the pace of the business expansion.

Electronic components manufacturing business

The business first established by the Group is electronic component manufacture, of which its coil products are widely applied in electronic products and electrical appliances in various fields such as mobile communication equipment, lighting products, household appliances, computers and its peripheral products, power supply devices.

The Group has fully divested from its business of magnetic materials production in Nanjing last year. It also continued to progressively scale down the business and streamline the structure of Zhongshan main plant, while reallocating its resources and production capacity to provide services and support for its international electronic clients in partnership for years. For the period under review, manufacturing business recorded revenue of HK$100,255,000 (2014: HK$165,443,000), representing a decrease of 39.4% compared to the same period of last year. Nevertheless, with the step-up efforts on reducing costs and administrative expenses from its manufacturing business over the past few years, the Group attained segment gross profit margin amounting at 19.8% (2014: 18.4%), representing an increase of 1.4 percentage points over last year. Segment operating profit of HK$860,000 (2014: HK$1,657,000) was recorded. Regardless of the contribution level of manufacturing business to the Group's revenue has dropped below 10%, Zhongshan main plant and Gaozhou plant will continue its untiring efforts to ensure that quality coil products and service support are provided to our clients who had worked together for years.

Investment property

For the six months ended 31 October 2015, rental income of the Group amounted to HK$2,295,000 (2014: HK$1,454,000).

FINANCIAL REVIEW

Fund Surplus and Liabilities

As at 31 October 2015, the Group's bank balances and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK$119,641,000 (30 April 2015: HK$117,502,000). As at 31 October 2015, the Group had aggregate banking facilities (excluding that of foreign exchange derivative financial instrument) of HK$877,133,000 (30 April 2015: HK$922,518,000) for overdrafts, loans, trade financing, factoring of accounts receivable, etc. Unused facilities as at the same date amounted to approximately HK$227,810,000 (30 April 2015: HK$295,765,000). At 31 October 2015, the utilized banking facilities amounting to HK$649,323,000 were secured by charges on the Group's certain land and buildings, investment properties, pledges of the Group's accounts receivable, bank deposits and inventories. In addition, the Group is required to comply with certain restrictive financial covenants imposed by the major financing banks. As at 31 October 2015, the Group could comply with such financial covenants. The Group's working capital is mainly sourced from certain financing banks whom we had partnered with for years. The Group utilises its trade finance facilities in a rational manner to achieve high-turnover import and retail business. Over the years, the founder has committed himself in the allocation of working capital and utilisation of credit facilities, and maintained close communication with our major financing banks in a transparent and open way. He has engaged in the Group's business operations and development with his utmost accountability and responsibility. As a matter of fact, the major portion of the Group's funding requirement is resulted from the increase in revenue. The flow of goods from overseas to local branches and to customers is supported by the trade facilities provided by banks. Thus, our funding requirement is varied in line with the Group's revenue in the future. In the course of continual development, the management understands that there is only limited liquidity and we are not in the position to waste any capital. It is believed that the Group currently has no plan for financing from the capital market, so long as we maintain our flexibility as for managing a small and medium enterprise.

As at 31 October 2015, the Group borrowed HK$649,130,000 (30 April 2015: HK$623,011,000) from a number of banks, representing an increase of approximately 4.2%. As at 31 October 2015, the Group's gearing ratio* was 0.49 (30 April 2015: 0.48), which slightly increased from that of the last financial year end. In addition, the Group did not have any contingent liabilities on the same date (30 April 2015: 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 2015, the Group had total inventories of HK$328,325,000 (30 April 2015: HK$297,760,000). The balance increased by 10% compared to the last financial year end date, which aligned with the revenue growth of about 11%. The Group adopts its self-developed program in the course of purchasing procedures. During the period under review, deviations of some parameters (mainly included those for projecting gross profits and costs of goods sold) were detected. The management has rectified the system, reviewed and adjusted all parameters and recalibrated the formula in a timely manner, with a view to improving the accuracy of its inventory management, preventing any loss arising from cashflow lock-up and obsolescent inventories. Total prepayments, deposits and other receivables (including rental deposits of retail shops) of the Group as at 31 October 2015 also increased along with the expansion of 759 STORE retail network, reaching HK$147,150,000 (30 April 2015: HK$130,523,000).

For accounts receivables, given all incomes from retail business were settled by cash, Octopus card and credit card, net accounts receivables of the Group contributed by electronic components manufacturing business as at 31 October 2015 was HK$43,931,000 (30 April 2015: HK$49,020,000), decreasing by about 10% than last financial year end date and the fall was mainly attributed to shrinkage of manufacturing business. The Group shall austerely control the accounts receivables and will adopt a more prudent credit policy. The industrial manufacturing market was clouded by various uncertainties; the Group shall carefully examine customers' orders. Although adoption of a stern credit policy will inevitably result in the vanish of some orders, with the present electronic components profit margin, the first priority of manufacturing business is to lower business risk.

Interest expense

In light of our business growth and increase on borrowings, interest expense of the Group amounted to HK$10,925,000 for the six months ended 31 October 2015 (2014: HK$8,977,000), representing an increase of 21.7%

Financial resources and capital structure

For the six months ended 31 October 2015, the Group recorded net cash outflow of HK$6,847,000 (2014: inflow of HK$3,066,000). Net cash inflow from operating activities significantly improved from last year to HK$36,536,000 (2014: outflow of HK$5,460,000), which was mainly attributed to the increase of inventory of HK$30,565,000 during the first six months of the year in response to the business expansion being far lower than the HK$67,592,000 recorded in the same period of last year, reflecting the profound effect of inventory control on cashflow. Meanwhile, net cash outflow from investing activities was HK$35,705,000 (2014: HK$49,237,000). For the period under review, capital expenditures used for purchasing self-use properties decreased to HK$589,000 (2014: HK$13,625,000) and total capital expenditures decreased to HK$36,087,000 (2014: HK$53,028,000) from last year. Capital expenditures incurred by our retail business amounted to approximately HK$33,549,000 (2014: HK$ 38,184,000), which was mainly related to shop renovations and purchases of shop and logistics equipment. Capital expenditures incurred by our manufacturing business over the period continued to reduce to an extremely low level at approximately HK$427,000 (2014: HK$500,000). For the period under review, net cash outflow from financing activities was HK$7,678,000 (2014: inflow of HK$57,763,000), principally due to the fact that the Group did not have any new term loans from banks.

Cash Flow Summary	**For the six months ended 31 October**	
	2015	2014
	HK$'000	*HK$'000*
Net cash inflow/(outflow) from operating activities	**36,536**	(5,460)
Net cash outflow from investing activities	**(35,705)**	(49,237)
Net cash (outflow)/inflow from financing activities	**(7,678)**	57,763
(Decrease)/Increase in cash and cash equivalents	**(6,847)**	3,066

As at 31 October 2015, the Group's net current liabilities was HK$223,742,000 (30 April 2015: HK$219,682,000) and current ratio was 0.72 (30 April 2015: 0.70). The amount included a pledged bank loan of approximately HK$136,832,000 (HK$41,215,000 repayable within one year; HK$95,617,000 repayable after one year). Such loans due for repayment after one year but contain a repayment on demand clause amounting to approximately HK$95,617,000 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". The Board expects that, in the foreseeable future, there will be no plan for material investment that needs to significantly increase its budgeted capital expenditures. After taking the existing available banking facilities into account, the Group currently has sufficient working capital to meet its need for business development.

Charges on Assets

As at 31 October 2015, certain assets of the Group with an aggregate carrying value of approximately HK$435,692,000 (30 April 2015: HK$448,844,000) 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 the exchange rates of Japanese Yen and Euro go up significantly, it will greatly impact the Group's competitiveness. Because of this, the Group will pay vigilant attention to the fluctuation of Japanese Yen and Euro.

EMPLOYEES

As at 31 October 2015, the Group employed approximately 2,900 staff (2014: 3,100). 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.

Social Responsibilities

The Group is proactive in carrying out the responsibilities of a corporate citizen. By participating in various kinds of charitable, volunteer, and recreational activities, 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 made donation to charitable organizations and educational institutions and have endeavored to participate in social welfare activities.

FUTURE OUTLOOK

Retail business

The Group expected that structural adjustments would continue to emerge in retail market. According to the figure of local retail industry in recent months, the downward trend had formed. It was hard to predict at this moment when the fluctuation cycle would change. Apart from the demand for supermarket category products that would remain relatively stable, the demand for most of local retail item category products would continue to decrease. The Group fully understood that, under this unfavorable market condition, all retailers would be much keener to fight for every inch of land in the market so that market competition in future would be much intense. The Group would absolutely not "stay still to await doom". The Group would actively develop our importing and retailing business for categories other than snacks. The management took snack, as food of leisure and of which its demand would be very much likely to go down if economic condition turned bad further. In this connection, the Group had put more effort to introduce much more people's necessities such as food groceries, chilled and frozen foods, housewares and personal care products, among which the weighting of food groceries had reached 25% in the whole business. In the first half of the year, the amount of "rice" sold in 759 STORE had reached 6,000 tones. In this moment, the founder was actively doing his best to seek for the shop sites that were allowed to sell rice and food groceries, from 759 STORE's biggest landlord, LINK, so as to provide much more room for the business to develop. The Group would further develop much more sources to obtain "rice", "cooking oil", "noodle", so as to introduce much more choices of people's necessities for local Hong Kong residents. In addition to that, for chilled and frozen foods, 759 STORE was mainly selling seafood, lamb, beef and poultry products from worldwide. The Group would try to introduce frozen pork products from Europe, so as to provide much more supply for food ingredients of high quality and reasonable price. Besides, Sourcing worldwide the necessities such as housewares, kitchenwares, cleansing products and personal care products would be an important direction for our procurement team. To facilitate and so enhance the ability to introduce food groceries and all kinds of fast-moving products, the Group had decided to make additional use of professional warehouse of 76,800 sq ft in January 2016, on the base of the existing warehouse of 140,000 sq ft. This professional warehouse was a non-multi-storey warehouse of one storey only, of which its main function was not for storage, but for "cross-docking" in logistics term. It mean, the goods which directly imported by containers "flowed" straightly from the goods receiving stage to the goods' shop delivering stage, passing through the warehouse, operating with minimum carrying and storaging, shortening the time spent between goods receiving and goods' shop delivering, and so reducing the space taken for storage in warehouse on whole.

For shops, the Group would adopt an idea of "competing keenly, taking what others do not want", searching in districts for shop sites suitable to carry business. Setting residential area as target, the Group tried its best to seek for the operating scopes of higher flexibility, from LINK and the Housing Authority that managed the biggest residential shopping malls, so as to open relatively bigger 759 STORE shops, which not only could display much more categories of products the Group imported by itself, but also keep strengthening the existing sales network in residential district, consolidating the business scale in future. Besides, the Group would review its current shop network distribution and conduct a thorough assessment of shops, of which the leases were about to expire. Underperforming branches will be closed upon lease expiry. For those specialty shops other than 759 STORE, according to the review of the operation experience gathered for near 2 years, in respect of "759 KAWAII/KAWAIILAND", the actual business performance and the customer popularity of solitary speciality shops were not good as those of the built-in shops, known as "shop-in-shop" where "759 KAWAII" was built in a big-sized "759 STORE". In this connection, the Group would temporarily stop opening new solitary "759 KAWAII" shop. On the other hand, the other speciality shops would keep taking their important role in future to assess the demands of new products. Once the demands of any new products had been confirmed, those new products would be introduced into other "759 STORE" shops to expand their coverage. In the same way, for the period under review, those "759 STORE" and "759 STORE SUPERMARKET" shops of refrigerators able to display and so sell frozen food products had gone more than 150 shops, even though no new "759 STORE FROZEN MARKET" was opened. Besides, the Group had once again planned to conduct renovation in 20 to 30 shops of relatively smaller area and much people to come across, in which convenient store products would be mainly displayed, with reference to convenient store model in 80s-90s, to meet customers' immediate needs. These shops would start to run from January 2016 in opening hour from 7 AM to 11 PM, not overnight, mainly selling all kinds of convenient store foods and products, with no overlapping on the existing items in other 759 STORE shops. This plan aimed to find new direction and chance for the existing small sized shops.

For "759 ONLINE" online retail business, the founder had once put his concern on its expected high transportation cost and set the business idle for quite a while. In August of the period under review, a group of the members in "Youth Training Program" launched "759 ONLINE". Beyond the original expectation, the business made its way through by their enthusiasm and passion. Even though its scale was only similar to a "759 STORE" in midstream, it had already put a small step towards success. The experience gained in various aspects such as web design, promotion, marketing, choice of product on shelf, order-following and delivery was quite a lot that, the Group had considered online business to be "worth to run" and continue to develop "step by step" by the members of "Youth Training Program".

In the year, the Group launched a "Youth Training Program" and recruited a number of university graduates to take up "759 ONLINE" as their first project. Its members worked hard to develop business in the way of "one-man business", and in the same time gradually understood and became part of the whole retail business system. The whole team was guided by the founder personally, in good hope that these youngsters would be trained into management personnel of retail business. The founder would plan to not only continue and also expand the program, preparing to recruit new graduates.

In the meantime while the retail business developed, the Group had made attempts to the production business of some food product and fast-moving consumables. Xiamen plants, in which a sour plum and a series of teabag products were now produced for 759 STORE, had planned to increase its production capacity. The plastics production department in Zhongshan plant had planned to produce a series of plastic products, such as cups, plates, food containers in the brand of "759 KAGUYA" to make use of the strong existing production capacity and mold-making ability. On the other hand, Zhongshan plant had planned a purified water production project, expecting to install a production line in 4th quarter of the year and to start production in 1st quarter of next year, producing self-produced bottled purified water under "759 STORE" brand for 759 STORE shops to sell. The Group ran 3 bakery shops "759 BAKERY" in this moment. Apart from making fresh bread in the same bakery shops, the shops had taken trial production of pre-packed bakery products for 759 STORE shop nearby to sell. Since the market response was quite good, the management had studied to use a self-owned Hong Kong unit to invest a central bakery workshop, so as to produce pre-packed bakery products for all "759 STORE" shops to sell.

The Group welcomes the Competition Ordinance which came into force on 14 December this year. 759 STORE always believed that fair competition in free market could maximize market efficiency. 759 STORE basically set its prices by cost formula and see customers' shopping data as procurement policy. Retail prices of other market players were only taken as reference for price negotiation in product procurement. To avoid human factor, retail prices for all products were set by formula in fixed profit margin. Apart from setting price by formula, sometimes when our procurement team wrongly over-estimated the demand of certain products and their stock levels became too high, especially for those food products with expiry dates, the stock clearance mechanism would be switched on, selling certain products at "clearance prices" with lower profit margin instead. The Group had never put any competitor as target to set prices. After the implementation of the Competition Ordinance, 759 still would continue to adopt its existing effective formula pricing mechanism.

After years of expansion, structural adjustments emerged in local retail industry market. The founder considered that, these structural adjustments were natural market adjustment which would change the business environment in Hong Kong, bringing us much more positive business chances. What 759 STORE did was business of local residents. What 759 STORE sell was people's necessities. To gain the continuous support from customers, 759 STORE had to price its products fairly, actively search for much more shopping choices for customers and seriously do its best to improve the quality of shopping experience it provided. "Low margin, high volume" policy was undoubtedly the reason why our profit level could long be maintained since the inception of retail business. It also was the reason why "759 STORE" could find a slit to stand on firmly in short few years, in retail market where its competition had already been keen. Looking into the future, the founder considered that acquiring greater market share still stay as our major development direction. Whether the business could be sustainable depended on whether the Group could keep its momentum on exploration, building much solid business with good cost control and operating efficiency. By making decision decisively with mobility, all members of the Group would always stay alert, comprehensively in real time obtain and use the business data, market information, local and foreign economic information, so as to make the retail business continue to develop steadily.

Manufacturing business

After the Nanjing plant closed last year, the Group's manufacturing business had been concentrated at Zhongshan main plant and Gaozhou plant in Guangdong province, at which the steady contractionary policy would continue to implement, and put its target on maintaining segment profit margin positive while gradually shrinking its business. On the other hand, certain Chinese staff members had joined the procurement team of retail business, exploring products across China for "759 STORE", so as to provide more product choices for customers. The founder would do his best to think and identify the demand in current retail market, studying the development of manufacturing business for food products and fast-moving consumables.

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 2015. 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 2015.

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 2015, 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 25 September 2015 (the "2015 AGM") due to illness at the material time. Ms. Tang Fung Kwan, the executive director of the Company, who took the chair of 2015 AGM, and all 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 2015 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, namely Mr. Chan Chiu Ying (chairman of the Audit Committee), Mr. Au Son Yiu and Mr. Goh Gen Cheung. The Audit Committee has reviewed the accounting principles and practices adopted by the Group, the internal control of the Group and the interim results of the Group for the six months ended 31 October 2015.

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 2015. 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 2015. 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 2015 will be despatched to the shareholders of the Company on or before 31 January 2016 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, 21 December 2015

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*